

United States
of America



THE UNITED STATES OFFICE
of PERSONNEL MANAGEMENT

FISCAL YEAR 2006
PERFORMANCE & ACCOUNTABILITY REPORT



A MESSAGE *from the* DIRECTOR

I am pleased to present the U.S. Office of Personnel Management (OPM) Fiscal Year (FY) 2006 Performance and Accountability Report, which fully describes OPM's financial and program performance during FY 2006. OPM's mission is to ensure the Federal Government has an effective civilian workforce. To fulfill this mission, OPM helps Federal agencies clear, hire, train, develop, retain and retire a workforce of almost two million hard-working men and women. From the initial security clearance investigation to the administration of health, retirement, and life insurance benefits, OPM touches all Federal employees, and, in many cases, their family members as well.

The U.S. workforce, in both the public and private sectors, is experiencing a retirement wave. In the Federal workforce, a full 60 percent of current employees will be eligible to retire, and two-thirds of those will actually leave their jobs over the next 10 years. As thousands of highly experienced and knowledgeable employees exit the Federal workforce, it is up to OPM to ensure qualified workers are available to fill the key positions that keep the Government not just functioning, but excelling. Attracting qualified applicants to Federal jobs will likely be the single largest task this agency faces in the years ahead.

OPM is responding to this expected retirement wave by implementing several different initiatives. For example, through the new Career Patterns initiative and guide, OPM is working with agencies to present positions in the Federal Government with a 21st Century mindset. The Career Patterns approach to recruiting, markets not only the position description, but also the range of available employer-employee arrangements and the supporting work environment that enables success. OPM is also reaching out to the next generation of Federal workers through means, mechanisms, and media that directly target them.

For the first time ever, OPM is highlighting the diverse and exciting work of the Federal Government through television advertisements airing during prime time in major markets across the United States. Tens of thousands of incremental "hits" on the on-line hiring system, USAJOBS, prove these efforts to raise awareness and provide a simple and straight-forward way into the Federal workforce are paying off.

OPM is also assisting and educating Federal supervisors and managers on the many hiring tools and information available to them with the rollout of a new "hiring toolkit" website. The site—which addresses the recruitment, retention, development and management of talent—is expected to further enhance and expedite the Federal hiring process. Additionally, OPM is co-sponsoring Federal Career Days in an effort to showcase the thousands of career opportunities available in the Federal Government. OPM continues to work with agencies to assess the risk—and prepare for the loss—of experienced personnel, design and implement overall human resource plans that address retention provisions, state-of-the-art training programs, and flexible compensation arrangements. Taken together, these efforts attest to this agency's commitment for not only attracting, but also retaining a strong and efficient workforce.

As Director of OPM, my top priority continues to be improving the administration of the Federal Retirement Program. To illustrate, when people work for 20, 30, or 40 years for the United States Government, they deserve to get their retirement pension benefit calculated and paid expeditiously. Before FY 2006, Federal retirees were waiting four to six months to begin receiving

A MESSAGE *from the* DIRECTOR

Continued

their full monthly retirement payments. To remedy this situation, OPM established and completed operational goals that identified exactly how this critical function would be improved. A special initiative was launched that, by the end of the fiscal year, resulted in 90 percent of new retirement claims being processed within 30 days of being received at OPM offices. OPM is building on these improvements and efficiencies by creating a new automated retirement administration system. During FY 2006, OPM took the first steps of identifying the technology and awarding the contract requirements for the system, and identified the change management process and awarded the contract to help manage that change. Very importantly, OPM also awarded a contract to deal with the massive data conversion effort to convert hundreds of thousands of files, starting first with the current retiree group so those cases can be managed more effectively.

During FY 2006, OPM made noteworthy enhancements to the Federal Employees Health Benefits Program (FEHBP), serving nearly nine million participants in the executive, legislative, and judiciary branches, including retirees and families. A breakthrough addition of access to provider cost information will help to improve program transparency and contain spiraling expenses. Other major improvements in the FEHBP include implementation of new dental and vision benefits and piloting the FSAFeds, a Flexible Spending Account (FSA) program so participants save money and have choices in paying for health and dependent care expenses.

This past year also saw substantial accomplishments in OPM's continued successful leadership of President Bush's Strategic Management of Human Capital Initiative. For instance, new regulations to Schedule A were issued, providing guidance for hiring people with disabilities. OPM also instituted and supported agency beta sites to provide training and feedback for effective performance management systems. Additionally, OPM began customizing its training programs, tailoring them to the specific needs of its clients, as well as attracting and graduating classes of highly successful future leaders in the executive Candidate Development Program.

In FY 2006, OPM launched an ambitious initiative to reduce both the backlog of pending security clearances and the time it takes to get them done. OPM performs a total of over 1.75 million investigations each year. For the new initial clearance investigations received for FY 2007, OPM will have adequate capacity to complete at least 80% of these in 90 calendar days or less by the end of calendar 2006. The key to accomplishing this is not only increasing the number of people, but also working with national, state, and local record providers to ensure they have adequate capacity to respond to the demand for their records.

OPM is continuing to increase the efficiency of its services as a growing business, providing for recruitment, and keeping pace with change as a model of performance for all Federal agencies. During FY 2006, the agency embarked on a new era of achievement and accountability in responsible leadership. This commitment is apparent in OPM's new Strategic and Operational Plan, which was rolled out in the beginning of March 2006. This concise plan describes seven overarching strategic objectives laid out over the next several years. Each strategic objective is supported by specific operational goals with targeted timeframes for accomplishment. Each goal is assigned to, and included in, the annual performance agreements of all OPM Senior Executive Service personnel

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A MESSAGE *from the* DIRECTOR

Continued

and managers, and linked to all OPM employee performance plans. These goals, and the progress and success in meeting them, are transparent and available for viewing on the OPM website. I personally track the agency's progress toward achieving these operational goals, and I am pleased to report that we have completed every single goal to date—and many ahead of schedule.

I am proud of the men and women of OPM who are balancing our external and internal challenges, and I am committed to responsive leadership. Open dialogue through forums such as My Ideas, nationwide webcasts, brown bag lunches with the Director, field visits, and OPMomentum have helped me and the agency's managers better listen to our employees. To foster a culture of trust, we have implemented new delegations of authority to remove bureaucratic layers and improve customer response time. To enhance efficiencies, we provided new equipment for field agents. To improve the safety and efficiency of the workplace, we incorporated new designs and space renovations and security enhancements. To promote team spirit, we put new and revised awards programs in place. Building on these achievements, and monitoring and measuring our performance, we will continue to create breakthrough results in human capital for the entire Federal workforce in the 21st century.

I am particularly appreciative of the insights provided to me by the Office of the Inspector General (OIG) regarding those areas requiring the most attention. I agree with the OIG's assessments of these management challenges. In the course of this report, you will find that many of them are already being addressed.

I am pleased to report OPM received an unqualified audit opinion on its FY 2006 consolidated financial statements by the independent public accounting firm of KPMG LLP. OPM now has achieved this important milestone for seven years in a row. As you can see in the independent auditor's report, OPM has no material weakness in internal control over financial reporting was reported for FY 2006. Additionally, OPM received an unqualified audit opinion from the independent auditor on the individual financial statements of the Retirement, Health Benefits and Life Insurance Programs.

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. There are no internal control weaknesses regarding this data.

In closing, I would like to express my enthusiasm about OPM's role as the leader of human resource management within the Federal Government. This agency, and the level of service we provide to all our customers, will only become more essential and critical in the future. With that in mind, we will remain committed to the vital role as our Government's central and independent leader for supporting the men and women of the Federal workforce.

Sincerely,



Linda M. Springer
Director

November 14, 2006

PART A—MANAGEMENT DISCUSSION AND ANALYSIS

(Unaudited—See accompanying Independent Auditors’ Report)

Performance and Accountability Report Overview

INTRODUCTION

The 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 civilian workforce. To carry out this mission, OPM provides human capital advice and leadership to Federal agencies, supports these with human resources policies, and holds agencies accountable for their human capital practices and the merit system principles. In addition, OPM delivers human resources products and services to agencies on a reimbursable basis, including but not limited to personnel investigations, leadership

development and training, examining, staffing and 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 carries out these responsibilities through the programs described below and by implementing the operational goals described in its new Strategic and Operational Plan 2006–2010.

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 4,800 employees in D.C., its field presence in 16 locations across the country, and operating centers in Pittsburgh and Boyers, Pennsylvania; Ft. Meade, Maryland; and Macon, Georgia. OPM’s website is www.opm.gov.

TABLE 1—OPM PROGRAMS AND PROGRAM PURPOSES

Program Name	Purpose
Federal Employees Retirement	To provide federal employees with retirement benefits and retirement planning services for them and their families’ financial future as an important component of employee compensation in the support of federal agencies’ recruitment and retention of quality employees, and to provide annuities or cash payments for retirement, disability or death for the Federal workforce and their beneficiaries.
Federal Employees Health Benefits	To provide federal employees and retirees with health insurance benefits to meet their individual and family health needs as an important component of the federal government’s compensation package and the federal government’s ability to recruit and retain quality employees.
Federal Employees’ Group Life Insurance	To offer Federal employees, retirees and their families access to life insurance benefits coverage to help meet their individual and family insurance needs and enable the Government to remain competitive with the private sector for highly qualified workers.
Center for Talent Services	To provide 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.
Merit System Compliance	To ensure executive agencies exercise their delegated personnel management authorities in accordance with Merit System Principles, civil service laws and regulations, and OPM standards.
Human Capital	To promote an efficient and effective merit-based Federal civil service.
Center for Leadership Capacity Services	To provide Government leaders with the knowledge and tools to help organizations meet their leadership, management development, and succession planning needs.
Federal Investigative Services	To carry out high-quality, timely background investigations that will be used by Federal agencies to determine individuals’ suitability for Federal civilian, military or Federal contract employment, and to determine individuals’ eligibility for access to classified national security information.

OVERVIEW

The *Fiscal Year (FY) 2006 Performance and Accountability Report* reflects OPM's new mission, operational goals and achievements, meeting a variety of reporting requirements. It consists of four parts plus three appendices, which together provide an accurate and thorough accounting of OPM's accomplishments during FY 2006 in fulfilling its mission.

OPM has made improvements in this year's report by incorporating changes in accordance with OMB Circulars A-11, A-123, and A-136, and in response to feedback from the Mercatus Center and the Association of Government Accountants Certificate of Excellence in Accountability Reporting program.

Part A: Management Discussion and Analysis (MD&A) begins with a brief history and description of the agency and its role within the executive branch of the Federal Government, and provides a high-level overview of the OPM's financial and program performance during FY 2006. The MD&A is designed to meet the various statutory, regulatory, and other requirements governing Federal agency financial and performance reporting. It outlines OPM's strategic objectives, and summarizes the agency's progress toward achieving them based on key performance data. It also provides a review of OPM's plans for the future. Additionally, the MD&A analyzes OPM's financial statements for FY 2006 and discusses the agency's compliance with legal and regulatory requirements, including the Federal Managers' Financial Integrity Act, Federal Financial Management Improvement Act, Inspector General Act Amendments, and Prompt Payment, Debt Collection, and Improper Payment Information Acts.

Part B: FY 2006 Performance Information presents OPM's performance results in comprehensive detail. It expands on the key performance information highlighted in the MD&A, and reports on all of OPM's operational goals pertinent to FY 2006 and goals for FY 2007 achieved ahead of schedule. The Performance Information section is organized by the strategic objectives described in OPM's Strategic and Operational Plan 2006–2010. This level of detail is useful to members and staff in Congress; resource management offices at the Office of Management and Budget; analysts in OPM's Office of the Inspector General;

the Government Accountability Office; and interested citizens, customers, and other stakeholders. Lastly, this section includes a comprehensive 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 C: FY 2006 Financial Information, along with Part D, will interest anyone who is concerned with OPM's financial performance. This part contains the agency's consolidated financial statements, footnotes and other required supplementary information. It includes the independent auditor's report which contains an assessment of OPM's consolidated financial statements, and individual financial statements for the Retirement, Health Benefits and Life Insurance Programs, by an independent certified public accounting firm, KPMG LLP. The audit's objective is to determine whether the financial statements are free of misstatement and whether serious weaknesses exist in the agency's financial systems, policies and procedures.

Part D: Other Accompanying Information contains an assessment of OPM's consolidated financial statements by an independent certified public accounting firm, KPMG LLP. The auditors report on their examination of the evidence supporting 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 internal controls over financial reporting, and tests of OPM's compliance with certain provisions of applicable laws, regulations, and contracts. The Other Accompanying Information section also includes the Top Management Challenges: 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. Finally, this section includes OPM's detailed report regarding the agency's compliance with the Improper Payment Information Act.

The *Appendices* provide an analysis of the sources from which OPM collects its performance data, performance results for all Program Assessment and Rating Tool performance measures, a comparison of planned activities against actual results, and an

explanation of why performance exceeded or fell short of plans. The appendices also provide information concerning the disposition of the FY 2006/2007 annual goals and performance indicators, 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 herein. 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 Chris Brown, U.S. Office of Personnel Management, Center for Budget and Performance, Room 5447B, 1900 E Street, NW, Washington, D.C., 20415.

OPM's Mission and Strategic Objectives

As required by the Government Performance and Results Act, OPM updated its strategic plan since three years had passed since it was last updated. OPM assessed its external and internal challenges, and reassessed the agency's mission, guiding principles, and priorities with an eye toward creating a more transparent and

accountable agency. The result is OPM's new Strategic and Operational Plan 2006–2010, which begins with a concise mission statement and continues with seven strategic objectives (see Table 2), each of which is supported by a series of operational goals.

OPM's newly stated mission is simple and direct: to ensure the Federal Government has an effective civilian workforce. This mission is accomplished by achieving seven strategic objectives. Objectives A and B focus on the outcomes OPM seeks 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 what OPM should accomplish internally.

The driving force of OPM's new Strategic and Operational Plan is the 83 operational goals extending from the strategic objectives. The operational goals are straightforward, readily identifiable, and action-oriented. Each operational goal has a date by which it must be accomplished and is assigned to an executive "owner" within OPM. Each owner's operational goals are included in his or her Senior Executive performance agreement so that, under the new Senior Executive Service (SES) performance-based pay system, executive compensation is directly linked to successful execution of the operational goals. Finally, the status of the operational goals is available to OPM's customers, stakeholders and the public via the agency's website at www.opm.gov/strategicplan/goals.asp. Thus, performance results are subject to the highest level of management attention to ensure

TABLE 2—OPM MISSION AND STRATEGIC OBJECTIVES

OPM's Mission	
<i>Our mission is to ensure the Federal Government has an effective civilian workforce.</i>	
Strategic Objective A	The Federal civilian workforce will be focused on achieving agency goals.
Strategic Objective B	The Federal civilian workforce will have opportunities, benefits, and services that compete successfully with those of 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 management 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.

achievement. The Strategic Plan and Operational Plan 2006–2010 is available on the OPM Website at www.opm.gov/strategicplan.

Relationship of the Strategic Plan, Annual Performance Budgets, and Performance and Accountability Reports

The Strategic and Operational Plan sets the framework for, and is the key driver of, all of OPM's performance planning and reporting documents, including the annual Congressional Budget Justifications/Performance Budgets, Human Capital Plans, and Performance and Accountability Reports (PARs).

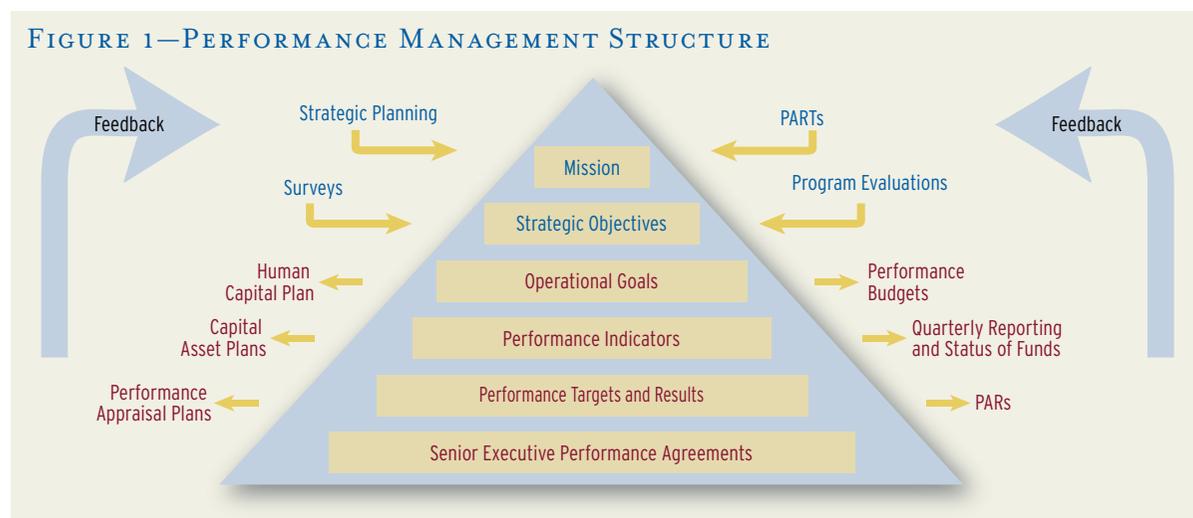
Complementing the Strategic and Operational Plan is the application of the Program Assessment and Reporting Tool (PART) to assess OPM programs. The PARTs have enabled OPM to more clearly define its programs, articulate the outcomes for these programs and establish performance measures that support a determination of whether OPM is achieving these outcomes efficiently and effectively. The operational goals have replaced OPM's annual performance goals as the key performance targets and milestones that OPM strives to achieve in a given fiscal year. The operational goals form the basis for the accomplishments being reported in this PAR, as well as the resources requested in annual performance budgets beginning with the request for FY 2008.

The agency's mission, operational goals, and PART measures are reflected in manager and employee annual performance appraisal plans; monitored through OPM's internal quarterly reporting process; and reported to the President, Congress, and the public in Performance and Accountability Reports. Together, these documents form OPM's Performance Management Structure (see figure 1).

Organizational Structure

OPM's organizational structure reflects the primary business lines through which OPM carries out its programs and implements its strategic objectives and operational goals: 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 unprecedented new responsibilities and higher profile the agency has been given. As shown in Figure 2, OPM comprises the following organizational components.

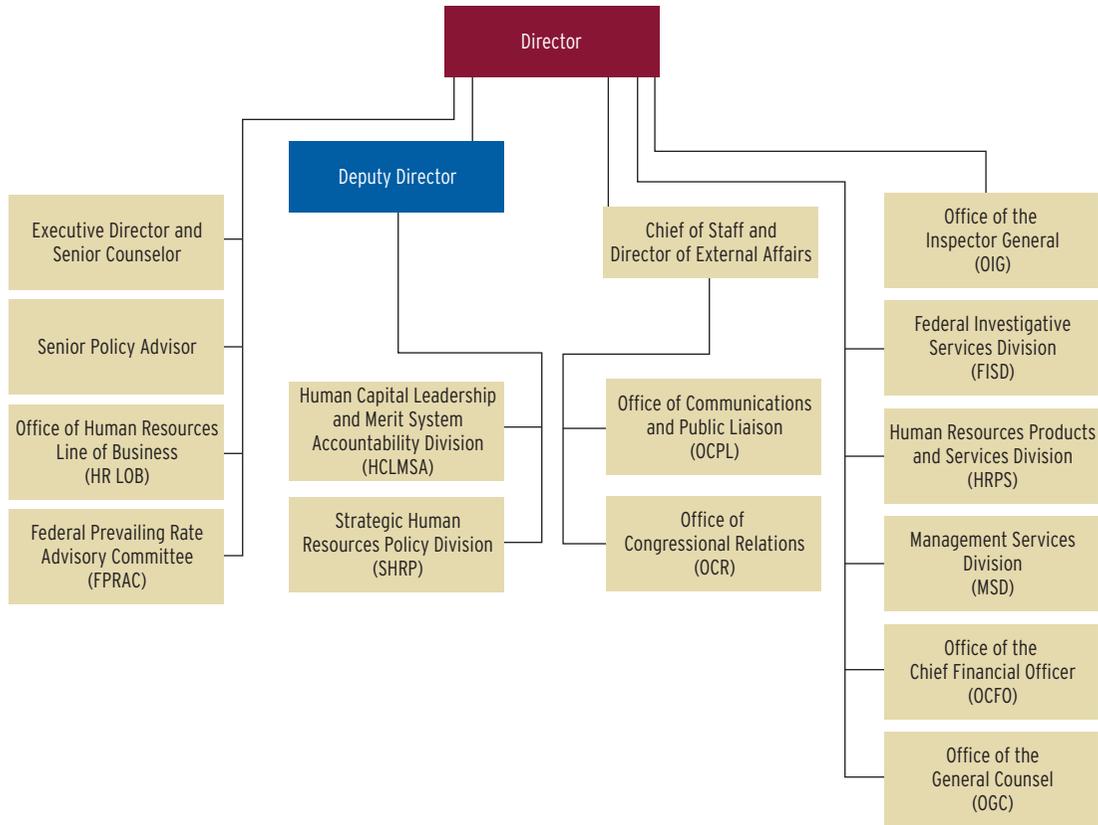
- The *Executive Director and Senior Counselor to the Director* focuses on internal agency matters, including strategic planning and the budgeting process.
- The *Chief of Staff and Director of External Affairs* is responsible for advising the Director on issues affecting the agency and the Federal workforce, and



for coordinating implementation of the Director's decisions throughout the agency.

- The *Senior Policy Advisor and the chair of the Federal Prevailing Rate Advisory Committee* report to the Director on matters concerning their respective specific programs.
- The *Human Capital Leadership and Merit System Accountability Division* (HCLMSA) reports through the Deputy Director and 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 reports through the Deputy Director and 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 *Strategic Human Resources Policy Division* (SHRP) reports through the Deputy Director and 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. SHRP's activities support the Human Capital Program, and the division also provides policy leadership for the employee benefit programs (retirement, health benefits, and other insurance).
- The *Office of Communications and Public Liaison* reports through the Chief of Staff and 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, agency customers, and pertinent stakeholders with accurate information to aid in their planning and decision making.
- The *Office of Congressional Relations* reports through the Chief of Staff and 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 Human Resources Line of Business* (HRLOB) is responsible for the development of world-class, secure, modern, cross-agency, human resources solutions so that Federal agencies can build successful, high-performing organizations. The initiative is modernizing HR business processes and establishing both Federal and private sector providers of shared common solutions. The solutions will provide more efficient management of the automated information systems that support human resource activities thus allowing Federal agencies to transform their internal human resource focus from an emphasis on administrative processing to strategic planning support for agency leadership and improved customer service.
- 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 agency programs and operations, and the necessity for corrective action.
- 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 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

FIGURE 2—OPM ORGANIZATIONAL STRUCTURE



Services Program; develops and maintains a 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 *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, information technology, and security and emergency services. These services enable OPM to build mission capacity and maintain a high-quality and diverse workforce.
- The *Office of the Chief Financial Officer (OCFO)* is responsible for implementing the President’s

Management Agenda (PMA) within the agency and 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 *Office of the General Counsel* provides legal services to OPM’s Director, Deputy Director, and divisions. It also advises Government agencies in understanding and carrying out their civil service responsibilities and meeting the Merit System Principles. The office provides civil-service-related legal assistance to members of the public, as needed, to serve the American people fairly and professionally.

TABLE 3—STATUS OF OPERATIONAL AND ANNUAL PERFORMANCE GOALS BY STRATEGIC OBJECTIVE

Strategic Objective	FY 2006 Operational Goals	Total Goals Met	Total Goals Not Met	Budgetary Resources Used
Strategic Objective A: The Federal civilian workforce will be focused on achieving agency goals.	2	3	0	\$5.944M FTE: 41.9
Strategic Objective B: The Federal civilian workforce will have opportunities, benefits, and service delivery that compete favorably with those of other employers.	8	9	0	\$199.456M FTE: 1,062.0
Strategic Objective C: Federal agencies will be employers of choice.	6	7	0	\$169.022M FTE: 623.7
Strategic Objective D: Federal agencies will be recognized as leaders in having exemplary human resources management practices.	6	6	0	\$64.065M FTE: 220.7
Strategic Objective E: OPM will be a model of performance for other Federal agencies.	23	24	0	\$804.969M FTE: 2,537.5
Strategic Objective F: OPM will be a leader in the human resources professional community and have positive name recognition outside the Federal Government.	2	2	0	\$0.097M FTE: 1.1
Strategic Objective G: OPM will have constructive and productive relationships with external stakeholders.	6	7	0	\$3.169M FTE: 23.6
FY 2006 Totals	53	58	0	\$1,246.722M FTE: 4,510.5

The budgetary resources included in this chart represent the total resources of operating the agency, not only those incremental resources associated with each operational goal. Included in the total resources are indirect and overhead resources which were necessarily allocated to specific strategic objectives.

FTE = full-time equivalent.

Analysis of Program Performance

PERFORMANCE HIGHLIGHTS

The operational goals scheduled for completion during FY 2006 are the primary focus of this report. In addition to the operational goals, results for additional performance measures established through PART assessments are discussed in Appendix A. The operational goals supersede the annual performance goals and non-PART related performance indicators described in OPM's Congressional Budget Justifications for FY 2006 and FY 2007.

Fifty-three of the 83 operational goals described in OPM's Strategic and Operational Plan were scheduled for FY 2006. OPM achieved all of these

goals. In addition, OPM achieved five operational goals that were not scheduled for completion until early in FY 2007, making 58 the total number of operational goals successfully completed, as shown in Table 3.

KEY PERFORMANCE MEASURES

The key performance measures reported below were selected from among OPM's operational goals and are broad and meaningful indicators of performance that clearly represent the extent to which OPM is achieving its strategic objectives and/or program outcomes. A summary discussion of the results achieved for these key measures is provided below. More detailed reporting is provided in Part B: FY 2006 Performance Information.

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

In FY 2006, HCLMSA reviewed 36 agencies' SES performance appraisal systems to ensure SES performance agreements were focused on achieving their agencies' goals. By the end of FY 2006, five appraisal systems had been fully certified. OPM conducted a rigorous review of all requests for certification of senior employee appraisal systems for calendar year 2006. Agencies were required to submit information on employees' summary performance ratings, pay, and awards showing the improvements the agency made.

Key Operational Goals/Performance Measures	FY 04 Results	FY 05 Results	FY06 Target	FY06 Results
(A1): Review and assist, where needed, agencies in ensuring performance appraisal systems focus on goal achievement by October 1, 2006	n/a	n/a	Complete review by 10/01/2006	Review completed 09/29/2006

n/a—No performance is available or applicable because this operational goal is new in FY 2006 and OPM has no historical data from which to develop prior year results.

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

In order to successfully compete with other employers in the civilian workforce, one of OPM's FY 2006 operational goals (B-2, shown below) was to evaluate the educational curricula provided through OPM's Management Development Centers and the Federal Executive Institute for relevance and effectiveness for today's market. These training sites provide a curriculum of interagency residential seminars and agency specific programs that support public sector organizations in developing leadership to improve organizational performance. OPM has updated the curricula for these executive training sites to make sure that the focus of the training provided at these facilities met the standards established under the Human Capital Assessment and Accountability Framework. Also, OPM issued a catalogue of development opportunities available to Federal employees.

OPM established operational goal B-3 because the Retirement System Modernization (RSM) project is the agency's primary strategy for achieving the long-term service delivery and financial goals of the retirement program. In FY 2006, OPM ensured the project will move into its next phase by awarding contracts as scheduled for RSM's Defined Benefit Technology Solution and the Business Transformation/Information Technology Services.

OPM also recognizes the need to improve retirement claims processing immediately, while RSM is being implemented. Operational goal B-4 highlights this need by setting a challenging new performance standard for processing initial annuity claims. During FY 2006, OPM achieved this goal by temporarily redirecting resources into initial claims processing and away from lower priority activities.

Key Operational Goals/Performance Measures	FY 04 Results	FY 05 Results	FY06 Target	FY06 Results
Evaluate/update OPM educational curricula for relevance and effectiveness in the current human resources environment by October 1, 2006 (B-2)	n/a	n/a	Evaluate/update OPM educational curricula by 10/01/2006	Evaluation completed by 09/14/2006
Award RSM contracts and begin implementation of Defined Benefit Technology Solution by May 1, 2006 and Business Transformation/Information Technology Service by June 1, 2006 (B-3)	n/a	n/a	Award Defined Benefit contract by 05/01/2006; Award Business Transformation contract by 06/01/2006	Awarded DBTS contract 04/28/2006; Awarded Business Transformation 05/23/2006
Make final 90% of initial retirement benefits in 30 days by October 1, 2006 (B-4)	n/a	n/a	90% within 30 days	91% within 30 days

n/a—No performance is available or applicable because this operational goal is new in FY 2006 and OPM has no historical data from which to develop prior year results.

Strategic Objective C: Federal agencies will be employers of choice.

To be employers of choice, Federal agencies must understand the needs of the future workforce, and identify recruiting opportunities and develop hiring processes tailored to those needs. To help agencies understand these needs, OPM identified workforce career patterns and began working with agencies to incorporate this information into their human capital plans and workforce analyses. Also, OPM launched a resource center on its website featuring a Career Patterns guide, and worked with Federal agencies to categorize their positions using career patterns.

OPM is proud to report that agencies are decreasing hiring decision timeframes to within 45 days from announcement closing to job offer. By September 15, 2006, 67 percent of agency hire offers were being made within the 45-day timeframe. OPM is partnering with agencies to increase this rate to 90 percent within 45 days by 2010.

Key Operational Goals/Performance Measures	FY 04 Results	FY 05 Results	FY06 Target	FY06 Results
Identify Federal Government Workforce Career Patterns for the future with accompanying requirements/impact by June 1, 2006 (C-1)	n/a	n/a	Identify new career patterns by 06/01/2006	Career patterns identified by 05/26/2006
Decrease hiring decisions timeframes to 45 days from the closing date of job announcements to date of offer for 50 percent of hires by the end of 2006 (C-8)	n/a	n/a	50% hired within 45 day timeframe by 10/01/2006	67% hired within 45 day timeframe by 09/15/2006

n/a—No performance is available or applicable because this operational goal is new in FY 2006 and OPM has no historical data from which to develop prior year results.

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

To be recognized as leaders in having exemplary human resources practices Federal agencies must use these practices as described in the human capital scorecard under the President’s Management Agenda (PMA) initiative for the Strategic Management of Human Capital. These best practices include linking organizational mission, vision, goals and objectives to human capital strategies to ensure the workforce understands and is accountable for achieving mission outcomes. The concept of the Beta site, described in operational goal D-1, is that agencies demonstrate, through an organizational unit within the agency, the linking of performance-related outcomes and accountability down through all levels of that unit. OPM helped 25 agencies establish operational beta sites, well above the target of 18.

During FY 2006, 23 agencies implemented an OPM-approved human capital accountability system (operational goal D-6), well above the target of 8 agencies. Human capital accountability provides an agency’s leadership with a consistent means to monitor and analyze agency performance on all aspects of human capital management policies, programs, and activities, which must themselves support mission accomplishment and be efficient, effective, and in compliance with Merit System Principles.

A key component of ensuring agencies have efficient human capital systems is being achieved by OPM’s Human Resources Line of Business through the migration to shared service centers for human resources services. During FY 2006, five agencies migrated to shared service centers. These centers provide technology solutions to support multiple agencies with HR management and back office activities, allowing the agencies to benefit from economies of scale, standardized approaches, and maximized automation of processes.

Key Operational Goals/Performance Measures	FY 04 Results	FY 05 Results	FY06 Target	FY06 Results
Develop and operate Beta sites at 18 CHCO agencies by October 1, 2006. (D-1)	n/a	n/a	18 Beta sites operational by 10/01/2006	25 Beta sites operational by 10/01/2006
Implement a human capital accountability system, including compliance with Merit System Principles, laws, rules and regulations in accordance with OPM standards at eight CHCO agencies by October 1, 2006. (D-6)	n/a	n/a	8	23
Obtain commitment from three agencies for migration to the HR LOB Shared Service Centers by October 1, 2006 (D-8)	n/a	n/a	3	5

n/a—No performance is available or applicable because this operational goal is new in FY 2006 and OPM has no historical data from which to develop prior year results.

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

As a model of performance for other Federal agencies, OPM challenged itself with 24 operational goals under Objective E during FY 2006, and achieved all of them. For instance as shown in the table below, OPM continued to meet the performance standards embodied in the Prompt Pay Act, making nearly all vendor payments on time. In addition, the agency received its seventh consecutive unqualified audit opinion on its consolidated financial statements for FY 2006, and reported no material weaknesses in internal controls.

OPM’s Revolving Fund Programs achieved full cost recovery in FY 2006, as envisioned in operational goal E-21, as cumulative retained earnings allowed the revolving fund overall to report a positive net position at the end of the year. In addition, OPM restructured its revolving fund business lines to improve processes, address skill imbalances, enhance the quality of products and services provided, and strategically align the organization with market demand. The benefits of this restructuring will begin to appear in FY 2007.

The Investigations Program is striving to meet mandated performance requirements from the Intelligence and Terrorism Prevention Act of 2004 Section 3001(g) relating to timeliness and quality of Federal personnel investigations. These requirements will ensure the program is meeting its purpose of providing high-quality and timely investigations to the Federal agency community. Timely background investigations are essential for Federal agencies to determine individuals’ suitability for Federal, military or Federal contract employment, and to determine individuals’ eligibility for access to classified national security information.

Key Operational Goals/Performance Measures	FY 04 Results	FY 05 Results	FY06 Target	FY06 Results
Maintain agency prompt pay performance at 98 percent; improve divisional performance (non-FISD) 10% by October 1, 2006 (E-8)	83	99	98	99.8
Receive an unqualified audit opinion and report no material weaknesses every year (E-16)	Unqualified audit opinion; one material weakness	Unqualified audit opinion; no material weaknesses	Unqualified audit opinion; no material weaknesses	Unqualified audit opinion; no material weaknesses
Achieve full cost recovery annually for each Revolving Fund Program (E-21)	Yes	Yes	Yes	Yes
Achieve rate of no more than one percent of completed investigations returned as deficient from agency security/adjudication offices each year (E-26).	0.06%	0.03%	<1% by 10/01/2006	0.13% by 10/01/2006

Strategic Objective F: OPM will be a leader in the human resources professional community and have positive name recognition outside the Federal Government.

OPM has achieved leadership positions in three professional organizations in FY 2006—the International Public Management Association (Human Resources), the Federal Executive Board, and the Human Resources Planning Society. This ensures that the agency stays on top of current thinking in fields relating to human capital issues and introduces initiatives in the private sector and State and local governments into the Federal Government.

Key Operational Goals/Performance Measures	FY 04 Results	FY 05 Results	FY06 Target	FY06 Results
Identify two national professional organizations focusing on human resources policy, benefits, and employee development, and achieve leadership positions in them during FY 2006 (F4).	n/a	n/a	Two professional organizations identified and joined	Three professional organizations identified and joined

n/a—No performance is available or applicable because this operational goal is new in FY 2006 and OPM has no historical data from which to develop prior year results.

Strategic Objective G: OPM will have constructive and productive relationships with entities external to the executive branch of Government.

Constructive relationships with OPM’s stakeholders and customers are seated in responsiveness. Operational goal G-1 (see table below) embodies one aspect of this as it commits the agency to a high standard of responsiveness when OPM is contacted by Members of Congress through the thousands of written inquiries, and telephone and personal contacts from members or their staff. As of May 16, 2006, OPM improved its inquiry tracking system to ensure the agency could acknowledge receipt of such inquiries within 24 hours.

Key Operational Goals/Performance Measures	FY 04 Results	FY 05 Results	FY06 Target	FY06 Results
Acknowledge receipt of all Congressional inquiries within 24 hours by July 1, 2006. (G-1)	n/a	n/a	95% of responses within 24 hours by July 1, 2006	95% of responses within 24 hours as of May 16, 2006

n/a—No performance is available or applicable because this operational goal is new in FY 2006 and OPM has no historical data from which to develop prior year results.

QUALITY OF PERFORMANCE DATA

In accordance with the requirements of the Government Performance and Results Act, OPM ensures the information in its PAR accurately reflects its FY 2006 performance and is based on reasonably complete, accurate, and reliable data.

In FY 2006, OPM further improved controls over the collection and reporting of its performance information. For instance, each OPM program office documented its data collection, reporting, and verification procedures to establish a control environment based on data quality standards established by the agency’s Chief Financial Officer. More importantly, performance information pertinent to OPM’s operational goals is

validated with evidence by the Executive Director and submitted to OPM’s Director for approval to record the goal achieved and completed. These procedures are facilitated by internal quarterly financial and performance reviews conducted by the OPM Director with each program office during the year. Through these reviews, data collection issues are identified and resolved well before the PAR is due, and strategies for achieving performance targets and goals can be adjusted if necessary. The agency thus has uniform procedures for measuring success in achieving targets and documenting this success for use in the PAR.

In addition to these internal controls, OPM uses findings from traditional reviews and audits by the OIG, the Government Accountability Office (GAO),

independent auditors, and other outside groups which may offer comment and recommendations to identify issues in performance measurement and reporting. These reviews have informed OPM about opportunities for improving policies and procedures in the preparation of performance budgets and reports, collecting and reporting performance information, and where controls can be strengthened. They have also pointed out instances in which reported results did not completely address pertinent performance indicators. OPM has accepted all of the recommendations made by these reviewers and auditors.

KEY ADMINISTRATION MANAGEMENT INITIATIVES—THE PRESIDENT’S MANAGEMENT AGENDA

Background

The PMA is an aggressive Administration strategy for improving the management of the Federal Government. The PMA establishes the goals of creating a government in which citizen resources are well managed and wisely used, and holds Federal agencies accountable for allocating resources efficiently and effectively to the most critical programs to benefit citizens. It focuses

on six initiatives to improve Federal management and deliver results that matter to the American people. These initiatives are:

1. Strategic Management of Human Capital,
2. Competitive Sourcing,
3. Improving Financial Performance,
4. Expanding Electronic Government (e-Gov),
5. Budget and Performance Integration, and
6. Eliminating Improper Payments.

For each initiative, Standards of Success have been defined and communicated to all Federal agencies. The Office of Management and Budget (OMB) oversees the PMA on behalf of the President and uses a traffic light scorecard to track how well agencies are achieving the six PMA initiatives. OMB assesses agencies against the Standards of Success at the end of each fiscal quarter and awards a “green” score when an agency meets all standards and related deliverables, a “yellow” score when an agency meets certain key standards and deliverables, and a “red” score when the agency’s performance is considered insufficient for a “yellow” or “green” score. A complete description of the PMA, the six initiatives, their respective standards of success, and OMB scoring can be found at www.whitehouse.gov/results/index.html.

TABLE 4—OPM PMA SCORECARD RESULTS FOR FY 2006

Initiative		Beginning of Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Human Capital	Status	G	G	G	G	G
	Progress	G	G	G	G	G
Competitive Sourcing	Status	G	G	G	G	G
	Progress	G	G	G	G	G
Financial Performance	Status	R	Y	Y	Y	Y
	Progress	G	G	G	G	G
Expanding Electronic Government	Status	Y	Y	R	R	R
	Progress	G	G	G	Y	R
Budget and Performance Integration	Status	Y	Y	Y	Y	Y
	Progress	G	G	G	G	G
Eliminating Improper Payments	Status	Y	Y	Y	Y	Y
	Progress	G	Y	G	G	G

G = Green, Y = Yellow, R = Red

FY 2006 PMA Results

OPM was challenged during FY 2006 to maintain the progress it had made in previous years and saw its status score for the Financial Performance initiative begin the year with a red status. Table 4 shows OPM PMA scorecard results for FY 2006. OPM regained a yellow status during the first quarter of FY 2006 as no material weaknesses were reported by its independent auditors for FY 2005. OPM maintained its yellow status through the year. OPM has communicated its green plan with current examples of key programs using financial decision making, goals in expanding further usage throughout the agency, and resolving issues to meet scrutiny evaluations that resources are allocated to support results. Modernization continues in playing an integral part in OPM's approaches to integrating financial and performance management systems supporting day-to-day operations. Implementing the right fit for financial management accounting and transaction standards will propel achievements for a green status.

Expanding the e-Gov declined to red status in the second quarter, where it remained for the rest of the fiscal year. This was due primarily to Congressional prohibitions on funding transfers to non-OPM e-Gov programs.

Budget and Performance Integration and Eliminating Improper Payments initiatives remained consistent throughout the year with yellow in status. During FY 2006, OPM completed PART assessments on its Human Capital, Federal Investigative Services, and Leadership Capacity Services programs to complete the first cycle of these assessments on all OPM programs. To achieve green status for Budget and Performance Integration, OPM needs to demonstrate its ability to estimate the full and marginal costs of achieving or changing program goals. For Eliminating Improper Payments, OPM developed and began implementing a plan to achieve green status for this initiative and began improving its methods for estimating improper payments in two of its major program.

As OPM improves through the six PMA initiatives, the services it provides its agency customers will also improve, and the American taxpayers and public will benefit.

Strategic Management of Human Capital

Over the past year, OPM took a number of steps to become a model of performance for other Federal agencies and a leader in the human resources professional community. For instance, OPM released its new Strategic and Operational Plan, which links the agency's mission, strategic and operational goals to OPM Senior Executives' performance agreements so that executive compensation is directly linked to execution of the plan's goals.

The agency also implemented a new employee recognition program and established a performance appraisal beta site wherein all employee performance plans were revised and linked directly to the strategic plan. The new plans show alignment with organizational and individual goals, focus on results, contain credible measures, show distinctions in performance levels, and allow for the recognition of top performers and addressing poor performance.

OPM also continued its success in decreasing hiring decision timeframes to 45 days from closing date of job announcement to date of offer for 63 percent of hires.

To improve customer satisfaction and timeliness to Federal agencies, employees, retirees and the public, OPM is completing all routine OPM clearances in seven business days, operating under a fully implemented set of delegated authorities and clearance protocols, using an agency-wide document management system, and making OPM's functional organizational directory accessible to all employees.

Competitive Sourcing

OPM's competitive sourcing program establishes a rigorous approach to ensure each commercial activity is accountable in terms of the cost and effectiveness of the services it provides. Since FY 2002, OPM's Commercial Activity Review has identified 19 activities involving 663 full-time equivalents (FTE) that were appropriate for competitive sourcing studies. So far, competitive reviews on all of these activities have been completed, which has resulted in millions of dollars in savings and improvements in work processes.

In March 2005, OPM made a performance selection decision on its A-76 standard competition of 163 clerical, technical, and administrative support positions

located in Washington, DC; Philadelphia and Boyers, Pennsylvania; Dallas, Texas; and San Francisco, California. The private sector contractor Transtecs Corporation, a small disadvantaged business located in Wichita, Kansas, won the competition. Through the first two quarters of FY 2006, OPM has realized savings of \$1.4 million through contractor performance of this activity.

During FY 2006, OPM's employees won a streamlined competition of agency performance and career development services. As a result of this competition, involving 15 FTE, OPM employees implemented the most efficient organization, which resulted in a savings to OPM of \$703,036 over the five-year performance period in performing these activities.

Also during FY 2006, the private sector won a streamlined competition, involving 10 FTE, performing agency building operations. A subsequent competitive procurement resulted in the award of a contract which reduced the cost of performing these services by \$608,372 over the five-year performance period.

Improving Financial Performance

OPM is progressing toward achieving accurate and timely financial information to manage costs in support of the Improving Financial Performance Initiative. Measurable steps were taken to ensure the best use of financial resources by improving monthly financial reporting, issuing new internal control guidelines, and improving internal control reporting. An unqualified audit opinion on the agency's annual FY 2006 consolidated financial statements again was achieved.

OPM developed a new common services methodology in FY 2006 and standards that will be implemented in early FY 2007. This ensures the full cost of a program rightfully includes a share of the overall costs of the organization for full cost recovery of providing those services. Concurrently, OPM released a new Financial Management Manual, which provides formal guidelines for all offices regarding our financial management practices providing consistency to increase accuracy and reliability of information. Also, a Capital Investment Committee was established to review and approve major capital expenditures to ensure compliance and optimization of the capital budgeting process.

OPM continues with the Financial Modernization Project and in FY 2006 revalidated requirements for the financial system. Modernizing OPM's financial systems and reengineering business processes is critical in supporting the Improving Financial Performance initiative. As labor and cost accounting requirements are identified, OPM will improve the usefulness of its internal financial reporting.

Expanding Electronic Government

OPM is helping to lead the Expanding Electronic Government initiative across the Federal Government, strengthening agencies' management of their information technology (IT) and their use of the Internet to simplify and enhance service delivery.

Human Resources Line of Business (HR LOB). OPM is leading the HR LOB initiative. The objective of HR LOB is to create a framework for Governmentwide, modern, cost-effective, standardized, and interoperable human resources solutions that provide common core functionality and maximize the automation of processes to support the Strategic Management of Human Capital. These solutions will achieve or increase operational efficiencies in the acquisition, development, implementation, and operation of human resources management systems; achieve or increase cost savings/avoidance from human resources solution activities; and improve customer service. To achieve this goal, the HR LOB has established Governmentwide shared service centers to provide business and technology solutions to support multiple agencies. At present, 85 percent of the Federal workforce of almost 2 million people is receiving service from these shared service centers.

Enterprise Human Resources Integration (EHRI).

Today, agencies can access a central data repository with over 34 years of personnel actions for Federal employees for the purpose of workforce analysis, planning and forecasting, and employee record lookup. Human resources departments across Government will be given the tools to instantly create customized reports and analyses of their agencies' workforces. For the first time, agency payroll and training data will be combined with employee data for workforce analysis. EHRI is also implementing an electronic Official Personnel Folder

(eOPF) application across the Government that will replace the current paper personnel folder. eOPF, in conjunction with the EHRI data warehouse, will enable employee information to be transferred electronically across Government, including to the retirement system. It also will provide the capability for security clearance investigators to view personnel file records online rather than having to travel to various locations to view paper folders, thus saving time and money in the clearance process. EHRI has over 355,000 eOPFs on-line, 55,000 over its FY 2006 target, and it is expected that there will be over 305,000 on-line by the end of the fiscal year.

USAJOBS (formerly Recruitment One-Stop). Since late 2001, the Recruitment One-Stop initiative has transformed the USAJOBS Federal Employment Information System (FEIS) from a legacy in-house system and service delivery support model to a fully outsourced operation, leveraging industry best practices and state-of-the-art technology. The USAJOBS FEIS has moved from the initiative stage through the project stage and is now a viable and successful program that is fully operational. Since migrating to the new technology platform, the USAJOBS program has increased customer satisfaction to 77, six points above the legacy average score of 71. Additionally, USAJOBS users have logged more than 210 million visits, and over two million new jobseeker resumes have been created. Implementation of resume database mining technology, combined with increased usage, has helped agencies quickly locate high-potential candidates and save money previously used for paid advertising or other recruiting expenses. Enhancements to the Search capability, upgraded security with the e-Authentication module, Application status tracking, and responsive customer service have been instrumental in sustaining above-average customer satisfaction ratings for this site. Future enhancements will ensure broad customer appeal and continued satisfaction as we endeavor to provide a state-of-the-industry employment information system.

e-Payroll. Before the startup of the e-Payroll initiative, 26 executive branch agencies each provided varying levels of payroll services, and most agencies provided service only for their own employees. As a result, these employees received inconsistent treatment in payroll administration. Today, over 85 percent of executive branch employees are

receiving payroll services from four cross-servicing payroll providers. Those agencies not serviced by an e-Payroll provider will complete their migrations by the end of 2008.

e-Training. The e-Training Initiative provides strategic and programmatic support for both the Federal Learning and Development community and the USALearning.gov site. The Initiative engages this community and human capital professionals to improve how training programs are developed and delivered to the Federal workforce, and promotes agency adoption of enterprise-wide e-Learning solutions to reduce redundancies and foster resource sharing. More than 120 agency components participate in the program and account for more than 844,269 registered users who have completed nearly 2,024,132 courses.

Investigative Services (e-Clearance). Since the deployment of the electronic questionnaire investigations processing (e-QIP) system in 2001 and improving the quality of applicant data, the e-Clearance initiative has reduced the amount of time needed by customers to schedule background investigations by as much as five working days. The initiative has also launched the Clearance Verification System, which allows authorized users within agencies to quickly verify the status of clearances in the Federal Government. The Department of Homeland Security used this system to evaluate the backgrounds of 160,000 people who moved into DHS from 22 agencies. OPM also has worked with the security community to develop common procedures and file transfer standards for sharing investigative data among the 17 or more investigative service providers. OPM began imaging its own closed investigative case files in October 2004 and expects to automate the information-sharing process in the coming fiscal year.

Information Technology (IT) Management. OPM has strengthened key strategic management processes during FY 2006. For example, it has established a strong IT security initiative, achieving a rating of A+ for its implementation of the Federal Information Security Management Act (FISMA) for FY 2005 from the House Committee on Government Reform. OPM has also strengthened its use of the Federal Enterprise Architecture by establishing and strengthening an OPM IT architecture that it uses in conjunction with IT

Capital Planning and Investment Control processes to ensure the alignment of IT with OPM's mission needs. The agency also broadened its monitoring and review of major IT investments by implementing an Earned Value Management System (EVMS) which establishes rigor in the review of cost and schedule performance of such investments. OPM provides project performance data through EVMS to an executive-level IT Investment Review Board that advises the OPM Director about investment status. The Office of Management and Budget (OMB) recognized the agency's successful implementation and use of EVMS in FY 2006 through reviews conducted through the PMA scorecard process.

In 2004, the President initiated a ten year objective to promote and adopt the use of Health Information Technology (HIT) so that all Americans would have access to electronic medical records. The Department of Health and Human Services (HHS) is the lead agency for this initiative and is coordinating the effort through a broad coalition of public/private sector employers, providers, consumers and other interested parties. The Secretary of HHS established two distinguished Federal organizations and charged them with addressing the significant issues necessary to implement HIT. The American Health Information Community (AHIC), a Federally-chartered commission, is responsible for developing recommendations for HHS on adoption of health information technology. The Interagency Health IT Policy Council is responsible for coordinating federal health information technology policy decisions across Federal Departments and agencies. OPM Director Springer serves as a member of the American Health Information Community (AHIC) and has chaired one of its subcommittees, the Consumer Empowerment Workgroup. OPM staff is also represented as a member of another AHIC subcommittee, the Quality Workgroup.

On August 22, the President issued an Executive Order on Healthcare Cost Transparency, Quality of Care, and Information Technology. To support the Executive Order, OPM has been instrumental in establishing short term and longer term objectives for FEHBP contractors, including transparency in

healthcare pricing and quality, adopting effective health IT standards for interoperability as they are developed and certified, developing consumer awareness of the value of health IT and personal health records, and ensuring compliance with Federal requirements related to the privacy and security of individually identifiable health information.

Budget and Performance Integration

OPM is using the PART to articulate clear and specific program outcomes and to develop both long-term and annual performance measures focused on these outcomes. During FY 2006, OPM completed the last round of new PARTs so that the tool has now been applied to all external programs. As a result, the agency now has a meaningful and stable array of performance measures for all of its programs. These measures enable OPM to demonstrate to customers, stakeholders, and the public the efficiency and effectiveness with which it is achieving the strategic objectives and operational goals described in the new Strategic and Operational Plan.

Efficiency Measures. Efficiency measures are being developed in all programs to allow program managers and executives to identify the desirability of achieving certain program outcomes based on the cost/benefit of attaining these outcomes.

Regular Program Assessment. OPM's annual budgets include funding for program evaluation, research, and performance measurement development and refinement stemming from PART assessments, congressional mandates, and other OPM program needs. These research and evaluation projects inform OPM as to whether its programs are achieving their intended outcomes (as stated in OPM's Strategic Plans, PARTs, and budget justifications), whether these outcomes are being achieved at a reasonable cost, and in what areas they are lacking. The cumulative effect of all these evaluations is to create the capacity to focus on program outcomes, performance measurement, and a broad range of current and emerging initiatives in human resources policy. Additional information regarding the evaluations currently underway is provided in Part B Performance Information.

Eliminating Improper Payments

OPM has long understood the need to ensure the benefits due Federal retirees, annuitants, and their families are accurate and timely. Thus, it has identified the Retirement, Health Benefits, and Life Insurance Programs as being at risk for the occurrence of improper payments. The reduction and prevention of improper payments in these programs has been an OPM priority long before the enactment of the Improper Payments Improvement Act. The data the agency has regarding improper payments in these programs indicates that the improper payment rates have been very low. As a consequence of OPM's efforts to date, it has met all "yellow" Standards for Success on the PMA in the area of eliminating improper payments. To ensure its customers receive accurate payments on their retirement, health, and life insurance benefits, OPM has:

- Developed an OMB-approved corrective action plan to develop more comprehensive data on improper payments in the retirement, health benefits, and life insurance programs;
- Established aggressive improper payment reduction targets;
- Complied with all improper payments reporting requirements for FY 2006; and
- Developed a pilot program for eliminating interim retirement payments—a cause of improper payments in the retirement program—and identified four agency participants in the pilot program.

Addressing Demands, Risks, and Uncertainties

The Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standard No. 15 requires Federal agencies to discuss in the PAR significant existing, currently known demands, risks, uncertainties, events, conditions, and trends. Table 5 presents the most significant issues facing OPM and their immediate impact on its resources and operations, and possible impact on the Federal Government and the public. These issues are identified in the annual risk assessments conducted by the agency's Center for Internal Control and Risk Management.

TABLE 5—SUMMARY OF OPM RISK AREAS

Area of Risk/Assessment	Description	Impact	
		On OPM	On Government or Public
Department of Homeland Security initiative <i>2003 OIG management challenges; 2005 GAO report</i>	In spite of progress to date, considerable work is required to fully institute the DHS human resources system, implement departmental processes and procedures, and demonstrate application to other Federal agencies and departments.	Significant resources will continue to be focused on this initiative.	Morale and effectiveness of DHS employees and the agency's ability to carry out its mission could be affected.
OPM Response	OPM has mitigated the risks through several activities, including extensive collaboration with the unions leading up to draft regulations, regular contact with key stakeholders, publication of proposed and final regulations, and the assignment of a senior executive to act as active liaison to DHS. OPM will continue to mitigate the risks through the work of various OPM divisions.		
Department of Defense initiative <i>2005 OIG management challenges; 2005 GAO reports</i>	Despite considerable progress, more work is required to fully implement the National Defense Authorization Act of FY 2004.	Significant resources will continue to be focused on this initiative.	Morale and effectiveness of DoD employees and DoD's ability to carry out its mission could be affected.
OPM Response	OPM has mitigated the risks through several activities, including extensive collaboration with the unions, encouraging a change in program management strategy, regular contact with key stakeholders, publication of proposed and final regulations, and the assignment of a senior executive to act as active liaison to DOD. OPM will continue to mitigate the risks through the work of various OPM divisions.		
Retirement Systems Modernization (RSM) <i>2001 OIG management challenges; 2005 GAO report; 2005 HRPS Self-Assessment</i>	<p>A February 2005 GAO report cites numerous challenges with RSM development and management. OPM has completed 3 of the 9 recommendations and projects completing all 9 recommendations in January 2007.</p> <p>The OIG continues to list the project on its management challenges report due to the size and complexity of the program. Significant ongoing investments are needed to complete the project.</p>	OPM must obtain needed resources to develop and implement the RSM solution. Without RSM, OPM will need to make significant investments in claims processing staff to handle the workload's increasing volume and complexity.	The timeliness and cost of processing Federal retirement claims may be affected, which could undermine the financial well being of retirees and their families
OPM Response	Awarded the contract for the Defined Benefits Technology Solution to Hewitt Associates on May 1, 2006. HRPS awarded the Business Transformation/Information Technology contract to Accenture on May 23, 2006. RSM conducted an Integrated Baseline Review (IBR) on-site at Hewitt on September 12-13, 2006 to create a performance measurement baseline (PMB). The PMB defines the scope, schedule and cost of authorized Hewitt work and planning packages. RSM is planning to conduct an IBR with Accenture for first quarter FY 2007 to define Accenture's PMB.		
Expanded Background Investigations <i>2004 OIG management challenges; 2005 GAO reports; 2005 FISD Self-Assessment</i>	Additional work resulting from the DSS transfer and transition will make background investigation products and services more difficult to deliver.	The capacity of several OPM internal systems had to increase significantly, including personnel, payroll, purchasing, contracting, and investigations workload tracking and reporting.	Federal hiring timeliness and quality of newly hired Federal employees could ultimately affect agency/ Government performance and service to the public.

TABLE 5—SUMMARY OF OPM RISK AREAS (continued)

Area of Risk/Assessment	Description	Impact	
		On OPM	On Government or Public
OPM Response	FISD has entered into long term contracts with five investigative companies as well as additional contracts to support investigative processes and review completed casework. FISD also continues to move forward in support of e-Gov with the Electronic Questionnaires for Investigations Processing (e-QIP) system, a web application that automates and facilitates processing of security questionnaires. e-QIP and additional resources will allow FISD to meet the goal of completing 80% of initial clearance cases within 90 days.		
Implementing e-Government projects <i>2002 OIG management challenges</i>	The six interrelated systems face significant technical and business complications. In addition, all e-government projects must demonstrate cost savings. The OPM e-Gov solutions must continue to evolve as the Federal Human Resources environment and agency needs change and as technology advances. Funding these projects while they are being developed is a challenge, making it hard to show progress and improved results.	If cost, schedule, and performance success is not achieved, progress toward line-of-business activities and self-financing operations is jeopardized and OPM will not realize the savings the projects will eventually bring about.	Governmentwide cost savings and process efficiencies in a wide range of human resources activities and retirement services will not be achieved if OPM's e-Gov projects are not successful.
OPM Response	HR LOB has (1) established a robust governance structure; (2) integrated a risk management process to identify, analyze, track, update, and mitigate a variety of project risks; and (3) manages the scope, schedule and cost of the project using earned value management.		
Financial Systems Modernization <i>2005 OIG/KPMG Audit Report; FY 2004 PAR; 2005 OCFO Self-Assessment</i>	Significant effort is required to improve OPM's financial management system including information system software, business processes and procedures, outsourcing support, and internal controls. OCFO has developed a Capital Asset Plan on modernizing the current system.	Financial Systems Modernization will enhance OPM's financial stewardship; generate complete, accurate, reliable, and timely financial information for its managers and for external reporting; and implement recent Joint Financial Management Improvement Program certified enhancements.	Public confidence that OPM is properly managing and accounting for its assets, which include the hundreds of billions of dollars in the employee benefit Trust Funds.
OPM Response	FSM project office is currently analyzing OPM's reimbursable agreement business processes with the program offices. The ability to handle these processes is a key requirement of OPM's financial solution. FSM is also in the early stages of planning a Proof of Concept (PoC). The PoC will allow us to understand the extent to which Oracle Projects will address our reimbursable agreement needs.		

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 the agency, which include agency operations as well as the individual financial statements of the Retirement, Health Benefits, and Life Insurance Programs. These statements are then audited by an independent certified public accountant, KPMG LLP. For the seventh consecutive year, OPM has received an unqualified audit report on its consolidated financial statements and on the individual financial statements of the Retirement, Health Benefits, and Life Insurance Programs. OPM’s principal financial statements are the:

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

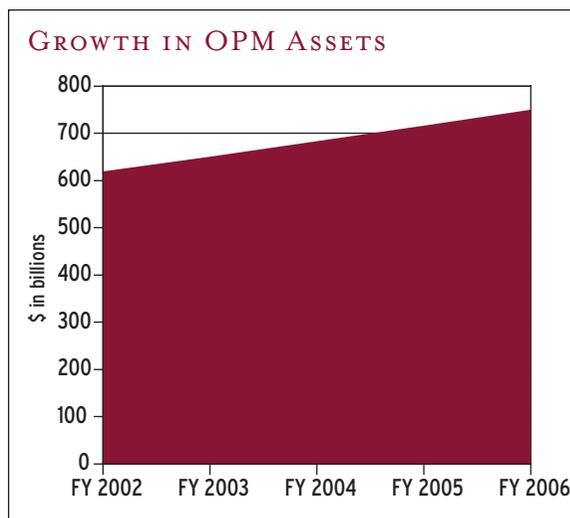
BALANCE SHEET

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 that it owes that will require payment from these resources (*Liabilities*); and the difference between them (*Net Position*).

Assets

At the end of FY 2006, OPM held \$749.7 billion in assets, an increase of 4.7 percent from \$716.4 billion at the end of FY 2005. 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.

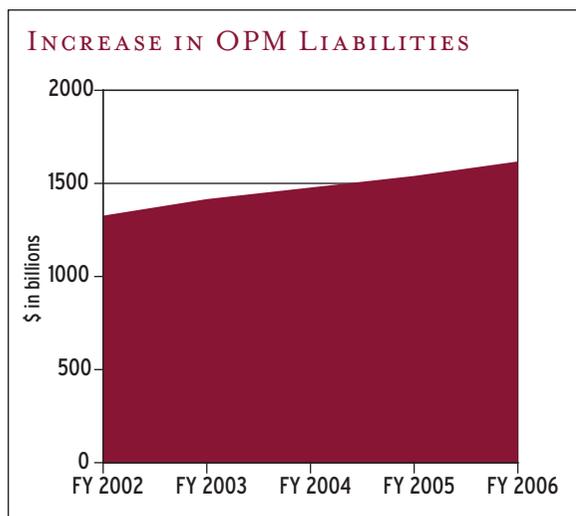
The largest category of assets is investments \$745.3 billion, which represents 99.4 percent of all OPM assets. OPM invests all Retirement, Health Benefits, and Life Insurance Program collections not needed immediately for payment in special securities issued by the U.S. Treasury. As OPM routinely collects more money than it pays out, its investment portfolio (and consequently,



its total assets) continues to grow. In FY 2006, the investment portfolio grew by 6.0 percent. The largest increase for investments occurred in the Retirement Program; in FY 2006, the Total Earned Revenue was greater than the applicable Cost applied to the Pension Liability by \$0.9 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 \$28.0 billion for FY 2006, which resulted in an increase in the investment portfolio of more than \$29.0 billion for FY 2006 over FY 2005.

Liabilities

At the end of FY 2006, OPM’s total liabilities were \$1,616.9 billion, an increase of 5.1 percent from \$1,539.0 billion at the end of FY 2005. Three line items—the Pension, Postretirement Health Benefits, and the Actuarial Life Insurance Liabilities—account for 99.4 percent of OPM’s liabilities. These liabilities reflect estimates by professional actuaries of the future cost, expressed in today’s dollars, of providing benefits to participants in the future. The Retirement Program’s economic assumptions increased for the Rate of Inflation and the Rate of Increase in Salary by 7.7 percent and 6.3 percent, respectively, in FY 2006 compared to FY 2005. The Health Benefits effect of assumptions changed by one percentage point in the per capita cost of covered benefits in fiscal years 2006 and



2005. In FY 2006, the Retirement and Health Benefits Program changes in assumptions reflect an increase in actuarial liabilities by more than \$76.4 billion from FY 2005. 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 FERS benefits to current employees and annuitants, is \$1,286.6 billion at the end of FY 2006, an increase of over \$71.7 billion, or 5.9 percent from the end of the previous year. [See discussion of the Net Cost to Provide CSRS and FERS Benefits below].

The **Postretirement Health Benefits Liability**, which represents the future cost to provide health benefits to active employees after they retire, is \$286.3 billion at the end of FY 2006. This reflects an increase of approximately \$4.7 billion from the amount at the end of FY 2005, or 1.7 percent. [See discussion of the Net Cost to Provide Health Benefits below].

The **Actuarial Life Insurance Liability** is different from the Pension and Postretirement Health Benefits Liabilities. Whereas the other two are liabilities for “post-retirement” benefits only, the Actuarial Life Insurance Liability is an estimate of the future cost of life insurance benefits for both deceased annuitants and for employees who die in service. The Actuarial Life Insurance Liability increased by approximately \$1.3 billion in FY 2006 to \$33.6 billion, or 3.9 percent from

the end of the previous year. [See discussion of the Net Cost to Provide Life Insurance Benefits below].

ACTUARIAL GAINS AND LOSSES

Due to actuarial gains and losses, OPM’s Net Cost to Provide Retirement, Health Benefits, and Life Insurance Benefits can vary widely from year to year. Actuarial gains decrease OPM’s Net Cost, while actuarial losses increase it. What are actuarial gains and losses?

In computing the Pension, Postretirement 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 return on investments be better than the actuary assumed, there will be an actuarial gain.

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) 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. Beginning in FY 2006, OMB Circular A-136, “*Financial Reporting Requirements*,” requires a new columnar display for the Statement of Changes In Net Position—one column for earmarked funds and another column for all other funds. OPM’s total liabilities exceeded its total assets at the end of FY 2006 by \$867.3 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 that there will be sufficient assets available to pay benefits well into the future. Table 6—Net Assets Available for Benefits shows that OPM’s net assets available to pay benefits have increased by over \$32.9 billion in FY 2006 to over \$739 billion.

TABLE 6—NET ASSETS AVAILABLE FOR BENEFITS

(\$ in Billions)	2006	2005	Change
Total Assets	\$749.7	\$716.4	\$33.3
Less “Non-Actuarial” Liabilities	10.6	10.2	0.4
Net Assets Available to Pay Benefits	\$739.1	\$706.2	\$32.9

STATEMENT OF NET COST

The Statement of Net Cost is similar to a private-sector income statement. 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: CSRS, 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 2006 Net Cost of Operations was \$81.4 billion, as compared with \$63.6 billion in FY 2005.

Net Cost to Provide CSRS Benefits

As presented in Table 7, OPM incurred a Pension Expense for the CSRS Benefits of \$93.3 billion compared with \$68.5, an increase of \$24.8 billion from FY 2005. The primary component for the increase is the actuarial losses from actual experience in FY 2006 Cost of Living Allowance (COLA) and general salary increases were different from what had been assumed for FY 2006. The actual COLA was 4.1 percent for CSRS, while 3.25 percent had been assumed and the actual general salary increase was 3.1 percent, while 4 percent had been

assumed. The change in assumptions increased Gross Cost because the real interest rate decreased. 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 2006 by \$0.5 billion from FY 2005 and OPM’s earnings on CSRS investments declined by \$0.3 billion from FY 2005.

TABLE 7—NET COST TO PROVIDE CSRS BENEFITS

(\$ in Billions)	2006	2005	Change
Gross Cost	\$93.3	\$68.5	\$24.8
Associated Revenues	30.7	31.5	(0.8)
Net Cost	\$62.6	\$37.0	\$25.6

Due to accounting and actuarial 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 \$54.9 billion, as compared to the \$52.2 billion in FY 2005. 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 8, the Net Cost to Provide FERS Benefits in FY 2006 increased by \$8.1 billion from FY 2005. 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 new Actuarial assumptions, the real interest rate, that is the difference between the interest rate and the rate of inflation, decreased which caused the Gross Cost to increase.

The Pension Expense for the FERS is the amount of future benefits earned by participants during the

current fiscal year. For FY 2006, OPM incurred a Pension Expense for the FERS of \$36.3 billion, as compared with \$26.6 billion in FY 2005. This increase in the Pension Expense for FERS in FY 2006 is due primarily to the actuarial losses from the changes in economic and demographic assumptions for the evaluation that were done in FY2006 and the increasing number of FERS participants (the CSRS is closed and all new employees participate in FERS.)

Contributions by and for FERS participants increased by \$0.9 billion, or 6.3 percent from FY 2005, also due to the increasing number of FERS participants.

TABLE 8—NET COST TO PROVIDE FERS BENEFITS

(\$ in Billions)	2006	2005	Change
Gross Cost	\$36.3	\$26.6	\$9.7
Associated Revenues	28.0	26.4	1.6
Net Cost	\$8.3	\$0.2	\$8.1

Due to accounting and actuarial standards, current pension benefits paid are applied to the Pension Liability, and therefore do not appear on the Statement of Net Cost. In FY 2006, OPM paid FERS benefits of \$3.0 billion, compared with \$2.5 billion in FY 2005. 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 2006 decreased by \$15.6 billion from that in FY 2005. There are three prime determinants of OPM's net cost to provide Health Benefits: two cost categories (the actuarially-computed Postretirement Health Benefits Expense and Current Benefits and Premiums) and one earned revenue category (contributions by and for participants).

The Postretirement Health Benefits Expense (PRHB) is the amount of future benefits earned by participants during the current fiscal year. For FY 2006, OPM incurred a PRHB expense of \$15.8 billion, as compared with \$30.6 billion in FY 2005, due primarily to the recognition of a larger actuarial gain in FY 2006 than in FY 2005. The actual PRHB associated expense

decreased from a gain of \$12.6 billion compared to a loss of \$3.0 billion in FY 2005. There was a reduction (actuarial gain) in the post retirement medical liability estimated, as of September 2005, because the starting population covered by insurance has gone down, health insurance claims are modestly less than expected, and new demographic rates used in the projections, reflecting such things as rates of retirement, death, and withdrawal from Federal service have been revised to reflect more recent experience. Despite these gains, the liability for September 2006 is expected to be higher because there will be an increase in the cost of health care.

Current Benefits and Premiums increased \$0.9 billion from FY 2005, due mainly to the increase in health insurance premium rates indicative of the economy as a whole. The contributions (for and by participants) increased by \$1.4 billion from FY 2005, for much the same reason. OPM's earnings on Health Benefits investments increased minimally from FY 2005, as a larger Health Benefits investment portfolio offset the effect of lower returns.

TABLE 9—NET COST TO PROVIDE HEALTH BENEFITS

(\$ in Billions)	2006	2005	Change
Gross Cost	\$35.9	\$49.8	(\$13.9)
Associated Revenues	25.3	23.6	1.7
Net Cost	\$10.6	\$26.2	(\$15.6)

Due to accounting and actuarial 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 10.

TABLE 10—DISCLOSED AND APPLIED COSTS TO PROVIDE HEALTH BENEFITS

(\$ in Billions)	Disclosed	Applied to PRHB	Total 2006	Total 2005
Claims	\$15.3	\$8.1	\$23.4	\$22.2
Premiums	4.0	2.2	6.2	5.8
Administrative and other	\$0.8	\$0.8	\$1.6	\$1.6

Net Cost to Provide Life Insurance Benefits

As can be seen in Table 11, the Net Cost to Provide Life Insurance Benefits decreased from \$27.0 million in FY 2005 to (\$215.0) million in FY 2006. Gross cost decreased \$70.0 million due to decreases in Future Life Insurance Benefits (FLIB) of \$140.0 million and an increase of \$69.0 million paid to the principal carrier. Associated revenues increased \$172.0 million due mainly to an increase in employee and employer contributions, due to higher claims experience. The actuarial liability decreased primarily due to a change in assumptions. Improved mortality and other revisions to demographic assumptions resulted in a decrease in both the liability and the cost. The decrease is only partly offset by an increase in the future salary increase assumption. The increase in payments to our principal carrier represents an historical increase due to higher claims experience. Associated revenues increased \$172.0 million due mainly to an increase in employee and employer contributions from higher salaries largely due from the annual general pay increase.

TABLE 11—NET COST TO PROVIDE LIFE INSURANCE BENEFITS

(\$ in Millions)	2006	2005	Change
Gross Cost	\$3,515	\$3,585	(\$70)
Associated Revenues	3,730	3,558	172
Net Cost (Excess of Revenue)	(\$215)	\$27	(\$242)

STATEMENT OF BUDGETARY RESOURCES

In accordance with Federal statutes and implementing regulations, OPM may incur obligations and make payments to the extent that it has budgetary resources to cover them. 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 \$173.2 billion in budgetary resources was available to OPM for FY 2006. OPM’s budgetary resources in FY 2006 include \$39.3 billion carried over from FY 2005, plus three major additional sources:

- Appropriations Received = \$36.7 billion
- Trust Fund receipts of \$87.2 billion, less \$28.9 billion* not available = \$58.3 billion
- Spending authority from offsetting collections (SAOC) = \$38.9 billion.

*Total budgetary resources do not include \$28.9 billion of receipts not needed for the Retirement obligations 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. This feeder was not included as an appropriation in FY 2005 (see note 13).

Sources of Budgetary Resources		
	FY 2006	FY 2005
Trust Fund Receipts	33.7 %	40.8 %
FY2004 Balance Brought Forward	–	26.7 %
FY2005 Balance Brought Forward	22.6 %	–
SAOC	22.5 %	26.6 %
Appropriations	21.2 %	5.9 %

Trust Fund Receipts are Retirement Program contributions and withholdings from participants, and interest on investments. *Spending Authority from Offsetting Collections* include 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 2006	FY 2005
Retirement Benefits	57.4 %	57.4 %
Health Benefits	38.9 %	39.3 %
Life Insurance Benefits	2.2 %	2.3 %
Other	1.5 %	1.0 %

From the \$173.2 billion in budgetary resources OPM had available during FY 2006, it incurred obligations

of \$129.7 billion less the \$28.2 billion Retirement feeder, mainly for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs. Most of the excess of budgetary resources OPM had available in FY 2006 over the obligations it incurred against those resources is classified as being “unavailable” for obligation at year-end.

STATEMENT OF FINANCING

The Statement of Financing reconciles obligations incurred to net costs. The FY 2006 obligations incurred of \$129.7 billion include \$28.2 billion in transfers from the Treasury general fund (see note 13), and were offset by \$38.9 billion in spending authority from offsetting collections and \$87.2 billion in appropriated trust fund receipts. Resources used to finance activities were a negative \$24.6 billion as the feeder monies were not used to pay benefits. The \$77.7 billion increase in actuarial liabilities is the dominant factor in the \$81.4 billion net cost of operations.

MANAGEMENT ASSURANCES

Analysis of OPM’s Systems, Controls, and Legal Compliance

This section provides information on OPM’s compliance with the following legislative mandates:

- Federal Financial Management Improvement Act (FFMIA) of 1996
- OPM Director’s Federal Managers’ Financial Integrity Act Assurance Statement
- Federal Managers’ Financial Integrity Act (FMFIA) revised December 2004
- Prompt Payment Act (PPA) revised 1988
- Debt Collection Improvement Act (DCIA) of 1996
- Inspector General Act, as amended
- Civil Monetary Penalty Act
- Improper Payment Improvement Act (IPIA) of 2002 Summary
- Federal Information Security Management Act (FISMA) of 2002

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 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 that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2006, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

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, 2006, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

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 use USSGL at the transaction level. Based on my review of the auditors’ report and other relevant information, I have determined that for FY 2006, OPM and the Retirement, Health Benefits, and Life Insurance Programs substantially comply with all FFMIA requirements. OPM did note other matters when systems were not consistent with FFMIA for the Revolving Fund and the Salaries and Expenses accounts. When taken as a whole, I have determined that OPM complies substantially with the requirements of the FFMIA for FY 2006.



Linda M. Springer
Director

November 6, 2006

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 2006, OPM substantially complies with all FFMIA requirements regarding financial management systems, financial accounting standards, and application of the USSGL at the transaction level. OPM also determined that there were other matters where the Revolving Fund Programs and the Salaries and Expenses fund system were not consistent, specifically, the applicable Federal accounting standards and the application of the USSGL.

As part of the financial statement audit process, auditors must report on whether the agency substantially complies with the FFMIA requirements. In accordance with the Act, KPMG LLP, for FY 2006, reported that the financial management systems of OPM substantially comply with FFMIA. KPMG reported other matters where the financial management system used to administer the Revolving Fund and Salaries and Expenses accounts is not consistent with all of the requirements of the FFMIA related to the application of Federal accounting standards and its application of the USSGL. OPM has established a corrective action plan in consultation with OMB to resolve these and other matters related to the Revolving Fund Programs and to the Salaries and Expenses Funds.

FFMIA Remediation Activities. The OPM's FY 2006 assessment of its Revolving and Salaries and Expenses Funds disclosed that it was not consistent with FFMIA. Specifically, the system was not consistent with Federal accounting standards and does not support the requirement that transactions be posted in accordance with the USSGL. The OPM has devoted a great deal of time and resources to resolving this inconsistency, having analyzed abnormal and illogical account balances and related financial transactions to identify problems and take corrective actions. As a result, OPM strengthened internal controls over

transaction processing and entry into the core financial system, including automated interfaces with pertinent "feeder"/program systems. Also, OPM modified the core financial system to correct erroneous general ledger postings and to ensure that resulting transactions are consistent with Federal requirements. OPM will continue to strengthen its budgetary accounting controls to be consistent with FFMIA requirements. OPM expects to implement by March 2009 a new core financial system that will provide financial and procurement functions including: general ledger, accounts payable, disbursing, accounts receivable, budget execution, acquisition/procurement, and financial reporting (internal and external).

In preparation of financial statements, and related disclosures along with other financial information OPM is consistent with Federal accounting standards. In accordance with the Chief Financial Officers (CFO) Act of 1990, OCFO has developed policies and procedures to prepare financial statements and related disclosures, budget reports, or other financial information for agency management decision-making purposes that are consistent with Federal accounting standards. A financial manual was developed and maintained to provide OPM offices with a comprehensive text of definitive source for financial policies, accounting standards, and requirements for general-purpose financial activities.

Enhance Financial Management Systems.

Notwithstanding efforts to upgrade its financial system's 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 Agency's Administrative Funds accounts. To oversee and direct the initiative, OPM established a Financial Modernization Project Office. The Office will conduct a public-private competition, in accordance with the FMLoB Migration Guidance, to acquire software, integration, hosting and application management for the new financial management and procurement systems. The solicitation will be published by the end of the second quarter of FY 2007. OPM expects to

implement a new core financial system for the Agency's administrative funds accounts by March 2009.

Compliance with the Federal Managers' Financial Integrity Act

Internal Control over Financial Reporting. Internal control is an integral component of an organization's management that provides reasonable assurance of effective and efficient operations, reliable financial reporting, and compliance with laws and regulations. The FMFIA 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.

The OMB Circular A-123, *Management's Responsibility for Internal Control*, provides the implementation guidance for FMFIA. OMB issued a revised Circular A-123 on December 21, 2004, effective beginning in FY 2006. In order to ensure compliance with OMB Circular A-123, Appendix A, *Internal Control over Financial Reporting*, OPM's OCFO implemented a number of steps commencing in FY 2005. Early in FY 2005, the Center for Internal Control and Risk Management (CICRM) was established and staffed with audit, evaluation, and internal control professionals to facilitate the Agency's overall internal control and risk management activities, focusing on Appendix A compliance. During FY 2005, CICRM established several internal systems and documented controls to govern its operation. On July 28, 2005, the Director approved the Charter of OPM's Senior Assessment Board for Internal Control over Financial Reporting (Board). The Board and its supporting Assessment Support Team have operated continuously since FY 2005 to provide guidance and oversight of the Agency's Appendix A processes.

On August 31, 2006, OPM submitted its Appendix A *Implementation Plan* to the OMB. As a result, OPM was one of only eight Federal agencies to receive an OMB scorecard rating of GREEN. The *Implementation Plan* was revised and updated on February 13, 2006, and submitted with a summary of key OPM decisions and determinations concerning Appendix A planning to OMB. On March 28, 2006, OPM implemented its Appendix A, *Evaluation and Test Plan for Internal*

Control over Financial Reporting and submitted the plan to OMB. In addition, OCFO's CICRM developed Chapter 22, *Internal Control Program* and Chapter 24, *Audit Follow-Up* of OPM's Financial Management Manual. Both chapters were approved and issued by the CFO on April 14, 2006. The entire Manual was issued on June 30, 2006.

In their totality, these processes and controls provide the basis for effective oversight of the Agency's internal control over financial reporting and will provide the basis for continuing compliance with Circular A-123, Appendix A.

Consistent with the revised OMB Circular A-123, OPM developed a new internal control program and guidance that went into effect in FY 2006. Each division and office within the Agency must fully document their control objectives, risks, and control activities, and then provide assurance to the Chief Financial Officer (CFO) on the effectiveness of their system of internal control. In formulating the overall assurance statement for the Director, the CFO also considers the results of GAO and OIG audits and evaluations of OPM programs, internal control reviews performed by the Agency's Center for Internal Control and Risk Management, the agency's assessment of internal control over financial reporting, and other relevant internal control matters that arise. For purpose of the FMFIA, OPM defines a material weakness as a reportable condition that is a deficiency or combination of control deficiencies that in management's judgment represent significant deficiencies in the design or operation of internal control that could adversely affect the organization's ability to meet its internal control objectives. A reportable condition that the Director determines to be significant enough to be reported outside the agency shall be considered a material weakness and included in the annual Director's FMFIA assurance statement and reported in the agency's PAR.

Prior Year Administrative Material Weakness. For FY 2005, OPM reported an administrative (non-financial) material weakness on its compliance with the Fair Labor Standards Act (FLSA). Specifically, the Agency did not have adequate controls in place to classify positions properly as exempt or non-exempt from FLSA, and that additional training and controls were

needed to improve compliance. Based on a follow-up review conducted by the CICRM, the Agency believes that progress has been made in improving FLSA determination controls and that decisions on classifying positions for FLSA purposes are adequately supported. Therefore, OPM is no longer reporting FLSA compliance as a material weakness under FMFIA.

Strengthening Financial Reporting. The revised OMB Circular A-123 strengthened the requirements for management's assessment of internal control over financial reporting (ICFR). Specifically, Appendix A of OMB Circular A-123 set forth requirements for agencies to assess, document, and report on those controls as of June 30 each year and to provide a separate assurance statement on ICFR.

OPM conducted its assessment of the effectiveness of the Agency's ICFR in accordance with OMB Circular A-123, Appendix A and other relevant guidance. OPM formed a Senior Assessment Board for ICFR that guided the assessment including the documentation of financial controls, evaluation and testing of those controls, and documentation of the assessment. Testing was conducted, under the Board's guidance by the OCFO's CICRM. Based upon the assessment, the Director reported reasonable assurance that OPM's ICFR as of June 30, 2006, was operating effectively and no material weaknesses were found in the design or operation of the ICFR.

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 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 Act for any

given period is measured by the percentage of payments paid within the specified timeframes out of all payments subject to the Act's provisions. For FY 2006, OPM reported that over 99 percent of its payments were made in accordance with specified Prompt Payment Act timeframes. OPM's FY 2006 performance objective was to continue to achieve the 99 percent performance metric. As of September 30, 2006, OPM's performance was 99.8 percent in terms of payment actions and 85.4 percent in terms of payment dollars. OPM pursued a focus on prompt payment that uncovered prior year unpaid vouchers, which had the effect of causing a one-time reduction in our percentage of timely non-Investigations vendor payment dollars from 90.6 percent in FY 2005 to 85.4 percent in FY 2006.

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 partial payments (i.e., advances for investigative services to be performed) and final payments for each of the thousands of personnel investigations requested by agencies. OPM daily consolidates all of the individual amounts owed—both advances and final payments—to investigative contractors and makes a single payment to each contractor that represents the total amount currently owed. OPM, in computing its FY 2006 prompt payment metrics, did not include advance payments to investigative contractors since such payments are not subject to the Prompt Payment Act provisions. Per the table below, only final payments to the contractors are included in the calculations. Table 12 summarizes OPM's FY 2006 prompt payment metrics by investigative services contractors and non-investigative services vendors.

TABLE 12—FY 2006 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 (final payments)	2,281.9	2,281.9	100.0%	\$361.1	\$361.1	100.0%
Non-investigative service vendors	31.2	26.2	84.0%	\$301.8	\$205.3	68.0%
Totals	2,313.1	2,308.1	99.8%	\$662.9	\$566.4	85.4%

During the year, OPM paid \$207,716 in interest penalties related to late payments.

COMPLIANCE WITH THE DEBT COLLECTION IMPROVEMENT ACT

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 the Act was to strengthen overall controls over collections due the Government from private parties, including Federal employees. The Act has had a major impact on the way OPM makes its payments and collects the monies owed to it. Table 13 summarizes OPM's debt management activity for FY 2006 and FY 2005. OPM complies with the DCIA in the following ways:

Cross-Servicing

Under the Act, 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. Accordingly, OPM has referred 13,289 debts totaling more than \$4.5 million to FMS for collection.

TABLE 13—DEBT MANAGEMENT ACTIVITY

Retirement Program (\$ in Millions)		
	2006	2005
Total receivables at beginning of year	\$174.8	\$168.6
New receivables and accruals	179.0	147.2
Less collections, adjustments, and amounts written-off	169.1	141.0
Total receivables at end of year	\$184.7	\$174.8
Total delinquent	\$37.0	\$40.9
Percent delinquent of total receivables	20.0%	23.4%

Health Benefits Program (\$ in Millions)		
	2006	2005
Receivables at beginning of year	\$46.4	\$32.3
New receivables and accruals	59.6	58.6
Less collections and adjustments	66.7	44.6
Receivables at the end of year	\$39.3	\$46.4
Less management decisions in appeal	8.7	9.8
Currently available for collection	\$30.6	\$36.6

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 2006, OPM’s data-matching activities identified more than \$117.0 million in overpayments and prevented an additional \$89.3 million from being overpaid.

Electronic Payments

As can be seen in Table 14, OPM has a high rate of payments made electronically, including almost 95 percent of OPM’s 2.5 million monthly Retirement Benefit Program payments via electronic funds transfer (EFT).

TABLE 14—ELECTRONIC PAYMENTS

Payment Type	Percentage(%) 2006	Percentage(%) 2005
Retirement benefits	94.9%	94.5%
Salary	98.8%	95.2%
Health Benefits and Life Insurance Carrier Programs	100.0%	100.0%
Other vendors	99.8%	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 15 and 16 compare OPM’s percentages that are 61 or more days old to Governmentwide rates.

TABLE 15—TRAVEL CARD USAGE

(\$ in Thousands)	FY 2006	FY 2005
Outstanding Balance	\$664.1	\$561.0
Outstanding more than 61 days	\$15.0	\$25.2
% outstanding more than 61 days (OPM)	2.3%	4.5%
% outstanding more than 61 days (Governmentwide)	2.9%	3.6%

TABLE 16—PURCHASE CARDS

(\$ in Thousands)	FY 2006	FY 2005
Outstanding Balance	\$727.8	\$562.4
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)	.44%	1.80%

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, 2005 through September 30, 2006. Table 17—Inspector General Audit Findings provides a summary of OIG’s audit findings and actions taken in response by OPM management during this period.

TABLE 17—INSPECTOR GENERAL AUDIT FINDINGS

	Number of Reports	Questioned Costs (\$ in Millions)
Reports with no management decision on October 1, 2005	14	\$36.1
New reports requiring management decisions	33	64.5
Management decisions made during the year	41	78.1
Costs disallowed	–	59.3
Costs not disallowed	–	18.8
Reports with no management decision on September 30, 2006	6	\$22.5

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 2006.

COMPLIANCE WITH THE IMPROPER PAYMENTS INFORMATION ACT SUMMARY

The Improper Payments Information Act of 2002 (Public Law 107-300) 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.

Due to their size, OMB has deemed that OPM's three benefit programs—Retirement, Health Benefits, and Life Insurance—are, by definition, susceptible to significant improper payments. OPM has an approved Improper Payment 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 plans to assess in FY 2007 whether any other agency payment streams are subject to improper payments and should be included in its improper payment plan. A description of the payments in each follows.

To reduce improper payments in the Retirement Program, OPM currently takes several actions. OPM surveys benefit recipients annually to verify that they continue to meet eligibility requirements and administer active data-matching programs with other Federal agencies. OPM is also exploring alternate methods to learn in a timelier manner when eligibility for benefits has changed. For instance, OPM is piloting a process with the National Funeral Home Directors Association (NFDA), whereby funeral homes will provide notifications of death so that additional posthumous payments of benefits may be avoided. OPM has recently signed a memorandum of understanding with the

NFDA. In addition, OPM will continue to pursue cost-effective methods to inform the recipients of benefits of the events that have the potential to affect the amount of their retirement benefits.

To reduce further improper payments in the Program, OPM must modernize its information systems and reengineer its business processes. The Retirement Systems Modernization (RSM) project is OPM's effort to reengineer the procedures used to administer the Retirement Program. OPM expects RSM to change fundamentally the way OPM does business—and to afford even more accurate payments. More specifically, RSM will allow OPM to reduce improper payments by establishing automated interfaces with:

- Federal personnel offices and payroll providers to collect the employment records and other documentation needed to adjudicate benefits;
- the Department of the Treasury for annuity payment delivery; and
- the Social Security Administration and the Defense Finance and Accounting Service and other private and public entities for coordination of benefits.

Two types of Health Benefit carriers participate in the Program. To reduce improper benefit payments, OPM's OIG is conducting audits that are more frequent and has already begun audits targeting coordination of benefits 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. OPM is working with a statistician to develop a methodology to capture and aggregate information from the Health Benefit Carrier IPAs to derive a statistically valid annual improper benefit payment rate. The information will be available in FY 2007.

Most Life Insurance Program improper payments result from incorrect life insurance certifications. OPM has implemented a new, automated method to certify life insurance for deceased annuitants that has reduced improper payments significantly. This Automated Certification of Life Insurance (AutoCert) process has taken the place of hard-copy certification for most deceased annuitants.

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. This was the first full year for which the AutoCert system replaced the manual process for certifying Federal Employees Group Life Insurance (FEGLI) payments. AutoCert has dramatically reduced annuitant Improper Payments due to human error in processing claims. FEGLI payments to annuitants were 99.9 percent accurate through the fiscal year third quarter. Also, OPM has fully implemented review of a very specialized error type. All appropriate errors are now being captured.

To represent more fully the FEGLI disbursement in its entirety, OPM expanded its analysis to include non-annuitants, and developed a match for this group of payments comparable to the annuitant paid-claims match. In FY 2006, this match was piloted and substantially implemented; comparing Central Personnel Data File (CPDF) data against MetLife payment files. While significant progress has been made toward adding non-annuitant payments to OPM's improper payment review, the agency has encountered several challenges using the existing CPDF as its primary data source to validate FEGLI coverage. The non-annuitant match requires subsequent labor-intensive reconciliations, which OPM has concluded may remain until agencies' conversion to e-OPF (Official Personnel File) has been completed and full FEGLI coverage data is available for both Executive and Postal employees. Until that time, reported results may be based on a combination of actuals, error sampling and projections performed using raw output from the non-annuitant match.

Recovery Auditing

For agencies with contracts with a total value of more than \$500 million in a fiscal year, OMB requires recovery audits as part of its system internal control. A recovery audit is a review of an agency's books and other information supporting its payments to identify

overpayments to contractors. OPM's OIG performs comprehensive audits of its contracts with the Health Benefits and Life Insurance Program carriers, which, if excluded, reduce the annual value of OPM's contracts to well below \$500 million. The OIG's audits have proven to be highly effective in detecting and recovering improper payments. 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.

Reduce Improper Payments

OPM is committed to reducing improper payments in accordance with the Improper Payments Information Act of 2002. For all programs where the risk of erroneous payments is significant, agencies must estimate the annual amount of erroneous payments, and report the estimates to the President and Congress with a progress report on actions to reduce erroneous payments.

Although the estimated improper payment rates in OPM programs has been very low, the agency recognizes the importance of maintaining adequate internal controls to ensure proper payments, and its commitment to continuous improvement in the disbursement management process remains very strong. OPM believes it can enhance our current process and will identify and implement additional procedures to prevent and detect erroneous payments.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT

The Federal Information Security Management Act (FISMA) of 2002 requires agencies to conduct an annual self-assessment review of their information security programs and practices. It provides a comprehensive framework for establishing and ensuring the effectiveness of security controls for information and information systems that support Federal operations and assets. Agencies must report annually to the Office of Management and Budget (OMB) on the effectiveness of their information security programs, which includes an independent evaluation by the Office of Inspector General (OIG). Agencies also report quarterly to OMB on the status of remediation of weaknesses found.

OPM's FISMA Report for FY 2006, dated September 29, 2006, highlights the results of the agency's annual information security program review, and was completed by OPM's CIO, senior agency program officials, and the OIG. The agency's FISMA report indicates 100 percent certification and accreditation (C&A) of all major IT systems, and completion of annual self-assessments and contingency plan tests. The CIO will direct future efforts on strengthening program office accountability and enhancement of information security policies and procedures.

The OIG's FISMA Report for FY 2006 reflects OPM's continued efforts to strengthen its information security program. OPM is clearly committed to developing and maintaining strong IT security controls and working with agency program offices to enhance OPM's overall IT security environment. In addition, OPM has implemented a comprehensive C&A process, which includes oversight security reviews by the IT Security Officer that focuses on the quality of the C&A process and monitoring of mitigation of weaknesses identified on Plan of Action and Milestone (POA&M) reports. The OIG's report also identified opportunities where the agency could further improve or enhance its information security program.

The agency's senior management remains committed to improving the information security program, and will work collaboratively with agency program offices to ensure that the agency's information and information systems are adequately protected.

FINANCIAL MANAGEMENT SYSTEMS

Financial Management Systems Framework

The OPM utilizes two core financial systems that are based upon commercial off-the-shelf packages supplied by CGI-AMS. The two systems are:

- The Government Financial Information System (GFIS), which was implemented using Momentum software package developed by CGI-AMS, which serves as OPM's core financial management system for its administrative funds accounts. GFIS was designed and implemented based on the Momentum software package developed by CGI-AMS. The system includes a general ledger, budget/funds

management, revenue/ receipts management, procurement/payment management, and financial management reporting modules.

- The general ledger of the Employees Benefits System (EBS), which was implemented using Federal Financial System software and is used in administering the Retirement, Health Benefits and Life Insurance Programs. The EBS, which is based on CGI-AMS's Federal Financial Systems Software, complies with all Federal financial management systems requirements, Federal accounting standards, and the USSGL at the transaction level. The EBS has various subsidiary feeder systems that reside on the mainframe which, with the exception of the Annuity Roll, are interfaced.

These systems and applications support unique management and accounting functions of the agency and its specific programs. A major component of effective financial performance and reporting is sound financial management systems.

Goals and Strategies

As stated previously, improved financial performance is one of the five initiatives sponsored by the PMA and is an aggressive strategy for improving the management of financial systems and resources across the Federal Government (*see page 16 in Part A: Management Discussion and Analysis for a full discussion OPM's progress in implementing the PMA*). As of September 30, 2006, OPM had achieved the following "yellow standards of success" for the improved financial performance initiative:

- Receives an unqualified audit opinion on its annual financial statements; Meets financial statement reporting deadlines;
- Reports in its audited annual financial statements that its systems are in compliance with the Federal Financial Management Improvement Act;
- Has no chronic or significant Anti-Deficiency Act Violations;
- Has no material auditor-reported internal control weaknesses; Has no material non-compliance with laws or regulations, and;

- Has no material weaknesses or non-conformances reported under Section 2 and Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems

OPM is firmly committed to achieving the "green standards for success" for this initiative, and to do so must demonstrate the following:

- Currently produces accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operations, and
- Is implementing a plan to continuously expand the scope of its routine data use to inform management decision-making in additional areas of operations

During the past several years, in cooperation with OMB, OPM has developed and implemented methods to integrate financial and performance information and use such information for day-to-day management. OPM has instilled management discipline to help ensure accurate, timely and effective formulation and execution of budgets. OPM has developed and begun routinely providing status of funds and other financial statements and reports to financial and program managers. OPM has fully supported as well the efforts of the CFO Council to implement enhanced financial management systems and processes.

OPM established and is following the strategy below to achieve the goals of the PMA for improved financial management performance:

- Work with the agency's internal organizations to expand the scope of its routine data use to inform management decision-making in additional areas of operations;

- Improve internal controls over financial reporting through systems and processes, while meeting all internal and external financial reporting deadlines;
- Re-affirm processes, controls, and procedures to ensure that unqualified audit opinions continued to be received on the annual financial statements;
- Resolve the existing non-compliances with laws and regulations revealed by the FY 2006 financial audit, and avoid future material weaknesses, reportable conditions and non-compliances with laws and regulations;
- Enhance the core financial management information system and implement a single integrated financial infrastructure for the agency;
- Strengthen stewardship, accountability, and internal controls over financial reporting, as stipulated by revised OMB Circular A-123; and
- 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 U.S.C. 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.

