United States Office of Personnel Management

Agency Financial Report

Fiscal Year 2008

Working for America

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The United States Office *of* Personnel Management

Fiscal Year 2008 Agency Financial Report

Message *from the* Acting Director

I am pleased to present the U. S. Office of Personnel Management (OPM) Fiscal Year (FY) 2008 Agency Financial Report (AFR). This year, OPM has chosen to produce this AFR as an alternative to the consolidated Performance and Accountability Report and to participate in the Office of Management and Budget's (OMB) FY 2008 pilot pursuant to OMB Circular A-136. This AFR is one in a series of reports to convey our budget, performance, and financial information in a way that we hope is more useful to our constituents. The AFR for FY 2008 provides an overview of OPM's financial performance and results to help the President, Congress, and the public assess our stewardship over the financial resources entrusted to us. Under separate covers, OPM will submit our Annual Performance Report prior to the submission of the President's FY 2010 Budget to Congress, and a 25-page Citizen's Report, designed to be an executive summary highlighting both financial and performance results. We believe this approach will improve our reporting by making the information more meaningful and transparent to the public and will provide a more succinct and easily understood reporting of OPM's accountability over its resources.

After coming to OPM in mid-August, I convened our senior management team to review the risks and challenges we face going forward. I advised them that we were not going to shy away from the tough issues, but instead face challenges head-on. I also encouraged them to take a fresh look at our personnel policies in order to find creative ways to recruit, hire, develop, retain, and provide retirement benefits for a workforce of almost two million hard-working men and women and 2.4 million retirees and their families. While we have made significant progress over the past year in leading the strategic management of human capital across the Federal Government, challenges remain as we enhance the efficiency of the Federal hiring process through our new End to End Hiring Roadmap and restructure our retirement systems modernization program known as RetireEZ. I also discussed the extensive use of performance metrics to track progress, set aggressive performance targets, and create a consistent means to communicate goals and timetables with all OPM employees.

Ensuring Merit System Accountability

Maintaining compliance with the Merit System Principles, veterans' preference, and protecting the Federal workforce against prohibited personnel practices are the most basic aspects of OPM's mission. In FY 2008, OPM continued to implement human capital accountability systems in agencies and to carry out statutory oversight responsibility through targeted audits of agency Human Resources operations and delegated examining units, and the classification appeals program. All President's Management Agenda (PMA) agencies have now implemented a system of internal compliance with Merit System Principles and laws, rules and regulations in accordance with OPM standards, which will help reduce veterans' preference violations in the future.

A Message *from the* Acting Director

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Enterprise Human Resources Integration (EHRI) Initiative

EHRI is a comprehensive, electronic personnel recordkeeping and analysis system that supports human resources management across the Federal Government. This system spans the careers of 1.8 million Federal employees—from hiring to retiring—and provides employees, managers, and human resource professionals with desktop access to personnel records. The EHRI tool set and central data repository provides comprehensive knowledge management, workforce analysis, forecasting, and reporting Governmentwide in support of the strategic management of human capital. When fully implemented, EHRI will replace the current Official Personnel Folder with an electronic employee record, or "e-OPF" for all Executive branch employees. By the end of FY 2008, 65 percent of Federal agencies were using e-OPFs, compared to 46 percent just one year ago. In addition, 999,710 OPFs have been converted from paper to electronic format, covering 55.5 percent of Federal employees. Agencies also may provide e-OPF access to special investigators, helping to speed the investigation process and save agency resources.

Recruiting and Hiring a New Generation of Federal Employees

In the next five years, the Federal Government will lose a significant portion of its valued workforce through attrition, primarily due to retirement. The Government's ability to replace this loss of skills and experience with new talent will depend on our capability to efficiently and effectively recruit, hire, and retain high-performing employees.

There is broad agreement that the current competitive hiring process must be improved. Applicants regularly report confusion about differences among agencies' application processes, complex application requirements that are difficult to meet, and lack of communications from the agencies as to the hiring process and the applicant's status. Human Resources (HR) professionals and Federal Government managers complain that HR policies and procedures are overly bureaucratic and non-responsive to their needs.

Past attempts to improve hiring processes have taken a component-by-component (or stovepiped) approach and have not yielded the desired results. OPM, in partnership with the Chief Human Capital Officers Council (CHCO), developed a new approach that looked at the entire hiring process, from end-to-end. On September 10, 2008, we unveiled our new End-to-End Hiring Roadmap (the Roadmap) that integrates five key components of the hiring process, including Workforce Planning; Recruitment; Hiring; Security and Suitability; and, Orientation. When fully implemented, the entire hiring process—from the date a hiring manager signs a request to fill a position to the date the employee reports for duty is 80 calendar (55 business) days. To ease the process for job applicants, the Roadmap calls for shorter job announcements that are written in plain language, and the elimination of the cumbersome Knowledge, Skills, and Abilities (KSA) narratives typically required with a resume. For agencies, the Roadmap will assist in planning for mission requirements; posting jobs quicker; ensuring recruitment initiatives are targeting the right people; increasing the timeliness of security background investigations; and, orientating new employees once hired.

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A Message *from the* Acting Director

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RetireEZ

The goal of RetireEZ is to provide retired Federal employees accurate and timely annuity payments. Under the current paper-based system, 88 percent of retirees receive interim pension payments that have averaged 20 percent less than what they are entitled to. Recent steps have been taken to increase the average to over 90 percent of the payment due. During FY 2008, the average time to fully process a case was 42 days from the time OPM received the records from the employing agency. Since FY 2006, three significant contracts have been awarded for this effort: one for an automated pension calculator, a second for business transformation and information technology, and a third for hard-copy records conversion. Because of problems with the pension calculator, OPM terminated the contract with the vendor responsible. Our contracts for the other phases of the program—business transformation and information technology, and the hard copy records conversion—will continue as we assess our next steps to develop a fully functioning pension calculator. I am committed to minimizing the schedule delay and delivering a product that will meet the needs of our Federal employees.

Providing Investigative Services

Conducting background investigations continues to be an integral part of the Federal staffing and security compliance process. OPM performs 90 percent of all background investigation services for the Federal Government—some 1.8 million investigations per year. The timeliness goals for initial clearances set forth by the Intelligence Reform and Terrorism Prevention Act (IRTPA) of 2004 continued to be met and exceeded in FY 2008. I also want to point out the timeliness goals are being met without impacting the quality of the investigations themselves. OPM is now working diligently to position itself to meet the new IRTPA goal of completing 90 percent of initial clearance cases in an average of 40 days. This new timeliness target will be effective in FY 2010.

Federal Executive Boards

During FY 2008, OPM took steps to significantly strengthen the Federal Executive Board (FEB) program. The FEBs are mechanisms for interagency collaboration and coordination in 28 U.S. locations with high federal populations. Increasingly, FEBs are recognized as vital resources for effective emergency preparedness and human capital management of agencies' field operations—where 88 percent of federal employees work and live. To assure the FEBs are positioned to fulfill their key role in supporting federal agencies and employees in the field, OPM completed four major initiatives: (1) created a model for assuring all FEBs have stable funding; (2) designed, tested and implemented a consistent performance management system for all staff across the FEB network; (3) helped all 28 FEBs conduct tabletop exercises for emergency preparedness; and (4) created a common set of program measures based on the FEB network's Strategic Plan, and trained all FEB staff on data collection and analysis of program results.

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A Message *from the* Acting Director

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Financial Management

I am pleased to report OPM received an unqualified audit opinion on its FY 2008 consolidated financial statements by the independent public accounting (IPA) firm of KPMG LLP. As reported in the independent auditor's report, OPM had no material weakness in internal control over financial reporting for FY 2008 and received an unqualified audit opinion on the FY 2008 individual combined financial statements of the Retirement, Health Benefits and Life Insurance Programs.

Operations

OPM also conducted a FY 2008 review of internal control over operations. The review included an analysis of Division and Office heads' assurances and required supporting documentation. Based on an audit by the Office of Inspector General and the Management Services Division's internal evaluation, the lack of updated information technology security policies and procedures was deemed an operational material weakness. We will ensure the appropriate management attention is applied to the weakness so that it is quickly resolved.

We also have worked aggressively to resolve significant management challenges as they arise. A summary of our actions taken to resolve current management challenges, as well as our future plans, can be found in the "Other Accompanying Information" (OAI) section of this report.

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

Conclusion

In my short time at OPM, I have been pleased to find dedicated and talented employees working to meet the human capital challenges of the Federal Government. I am certain OPM will continue energetically in the years ahead to fulfill our vital mission of ensuring the Federal Government has an effective civilian workforce—for Federal employees, agency partners, and most importantly the American people whom we serve.

Sincerely,

Michael W. Hager
Acting Director
November 17, 2008

Section 1—Management's Discussion and Analysis

(Unaudited—See accompanying Independent Auditors' Report)

Agency Financial Report Overview

Introduction

The U.S. Office of Personnel Management (OPM) is the central human resources agency for the Federal Government. OPM's mission is to ensure the Federal Government has an effective 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 upholding the merit system principles. In addition, OPM delivers human resources products and services to agencies on a reimbursable basis, including personnel investigations, leadership development and training, examining, staffing, recruiting, organizational assessments, and training and management assistance. OPM also delivers services directly to Federal employees, those seeking Federal employment, and Federal retirees and their beneficiaries.

OPM operates from its headquarters in the Theodore Roosevelt Federal Office Building at 1900 E Street, NW, Washington, D.C., 20415. OPM delivers a variety of products and services with the help of approximately 5,000 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*.

About This Report

This year, OPM has chosen to produce this Agency Financial Report (AFR) as an alternative to the consolidated Performance and Accountability Report, and elected to participate in the Office of Management and Budget's (OMB) fiscal year (FY) 2008 pilot, pursuant to OMB Circular A-136. This AFR is one in a series of reports to convey OPM's budget, performance, and financial information in a way that is more useful to our constituents. The AFR for FY 2008 provides an overview of OPM's financial performance and results to help Congress, the President, and the public assess OPM's stewardship over the financial resources entrusted to us. Under separate covers, unlike past practice, OPM will submit an Annual Performance Report (APR) prior to the submission of the President's FY 2010 Budget to Congress, and a 25-page Citizen's Report (CR), designed to be an executive summary highlighting both financial and performance results. Both the APR and the CR will be published on January 15, 2009. OPM believes this approach will improve reporting by making the information more meaningful and transparent to the public, and by providing a more succinct and easily understood reporting of OPM's accountability over its resources.

The *FY 2008 Agency Financial Report* meets a variety of reporting requirements stemming from numerous laws focusing on improved accountability among Federal agencies and guidance described in OMB Circulars A-11, A-123, and A-136. This AFR provides an accurate and thorough accounting of OPM's operational accomplishments during FY 2008 in fulfilling its mission.

OPM employees prepared this AFR. 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*.

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

Office of Personnel Management
Center for Budget and Performance
1900 E Street NW, Room 5416
Washington, D.C. 20415

OPM's Mission and Strategic Objectives

OPM's Strategic and Operational Plan 2006–2010[1] is the starting point for performance accountability. The Strategic Plan begins with a concise mission statement and describes the seven strategic objectives (see Table 1) the agency achieves in fulfilling this mission. Strategic objectives are supported by a series of operational goals, and in most cases, performance measures. OPM reviews its operational goals and performance measures as a part of its annual budget planning. This ensures that both internal and external stakeholders understand the level of program performance expected for the resources received.

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

The driving force of OPM's Strategic and Operational Plan are the operational goals extending from the strategic objectives. Operational goals are performance drivers—the specific actions OPM will undertake and the deliverables it will produce to improve program performance, achieve program

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

Table 1—OPM Mission and Strategic Objectives

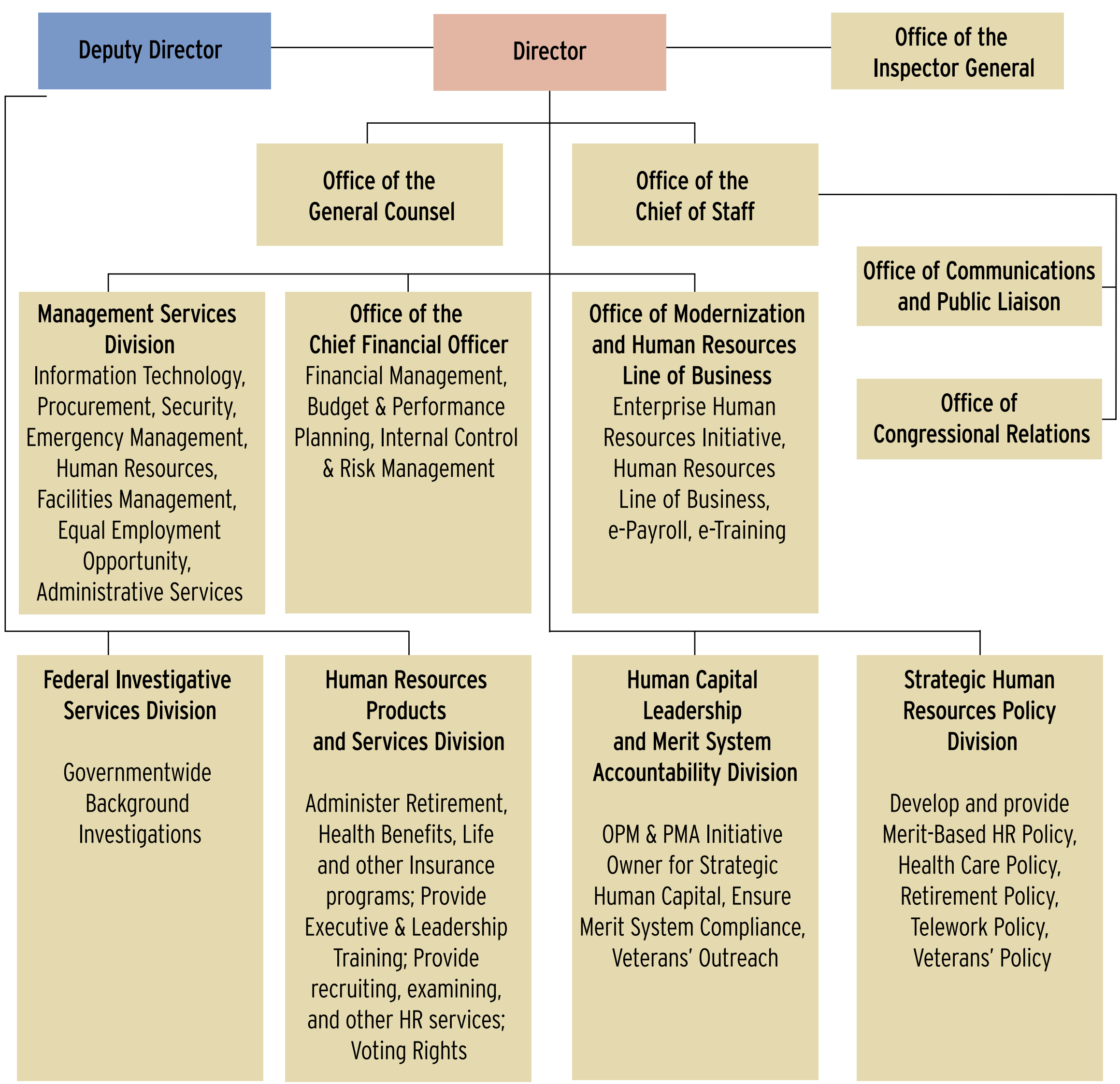
OPM's Mission *Our mission is to ensure the Federal Government has an effective civilian workforce.*	
Strategic Objective A	The Federal civilian workforce will be focused on achieving agency goals
Strategic Objective B	The Federal civilian workforce will have career opportunities, benefits and service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

outcomes, and enable OPM to meet its strategic objectives and fulfill its mission. 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 SES performance-based pay system, executive compensation is directly linked to successful execution of the operational goals. If OPM successfully completes its operational goals, program performance will improve and the evidence of this improvement will be reflected in the measures used to assess and monitor program performance.

Organizational Structure

OPM's organizational structure reflects the primary business lines through which OPM carries out its programs and implements its strategic objectives: developing Federal human resources management policy; supporting agencies in the implementation

Figure 1—OPM Organizational Structure



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

Specific Officials on the Director's Core Management Team

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

Executive Offices

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

Program Divisions

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

supports the Human Capital Program by leading the transformation of human capital management across Government by proactively engaging agencies in the implementation of the Human Capital Standards for Success and providing them with technical advice and assistance. HCLMSA also supports the Merit System Compliance Program by assessing and reporting agencies' adherence to the Merit System Principles, veterans' preference, and other Governmentwide standards.

- The *Human Resources Products and Services Division* (HRPS) provides high-quality, cost-effective products and services that help OPM customers recruit and retain the best talent through the Talent Services Program; maintains independent administration of the Voting Rights Progam, as required by the Voting Rights Act; develops and maintains results-oriented leadership through the Leadership Capacity Services Program; and, delivers benefits services to Federal employees, annuitants, and, their families through the employee benefit programs.
- The *Management Services Division* (MSD) provides OPM offices with the full range of administrative services, including human capital and equal employment opportunity management, contracting and administrative management, facilities management, property management, information technology, and security and emergency services. These services enable OPM to build mission capacity and maintain a high-quality and diverse workforce.
- The *Office of the Chief Financial Officer* (OCFO) is responsible for implementing the President's Management Agenda (PMA) within OPM 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 *Strategic Human Resources Policy Division* (SHRP) designs, develops, and leads the implementation of innovative, flexible, merit-based human resources policies and strategies that enable Federal agencies to meet their missions and achieve their goals. Most of SHRP's activities support the Human Capital Program, but the division also provides policy leadership to the employee benefit programs (retirement, health benefits, and life and other insurance).

Program Performance Summary

OPM's Strategic Management Process

OPM's strategic management process draws from two sources:

- The *Strategic and Operational Plan 2006–2010* and subsequent Addendums to it
- Program assessments using the Program Assessment Rating Tool (PART)

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

Figure 2—Strategic Management Framework

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

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

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

FY 2008 Performance Highlights

OPM is implementing several performance reporting best practices in the preparation of this year's AFR and APR. One example is that the number of performance measures reported has decreased by over 50 percent as compared to FY 2007. Both OMB and recognized practitioners in the performance reporting field have stressed the importance of reporting on only the most critical measures that track an organization's mission and related accomplishments. OPM's overall performance summary and highlights by strategic objective follow.

FY 2008 Overall Performance Summary

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

As shown in the summary pie charts, the percentage of performance targets met decreased from 83 percent in FY 2007 to 59 percent in FY 2008. These percentages, however, reflect a significant difference in the number of performance measures reported in each fiscal year. In FY 2007, 69 measures were reported, while in FY 2008, only 27 measures were reported. In reducing this number, OPM selected the most critical and most outcome-oriented measures to report in FY 2008. Often, the most critical and outcome-oriented measures are the most difficult to achieve. When comparing the same 27 measures between FY 2007 and FY 2008, OPM met 22 of 27 performance targets in FY 2007, as compared to 18 of 27 in FY 2008. The corresponding percentages for FY 2007 and FY 2008 were 81 percent and 67 percent, respectively. Issues contributing to the decrease between 2007 and 2008 include continued difficulties in processing retirement claims within the 30-day target, a slight decrease in the number of customers satisfied with overall retirement services, and a decrease in the number of agencies that met the requirements for an effective strategic alignment system.

The results for all 27 performance measures will be discussed in detail in OPM's *FY 2008 Annual Performance Report* scheduled for publication on January 15, 2009.

Figure 3—FY 2008 Overall Performance Summary

Percentage of Reported Targets Met/Not Met

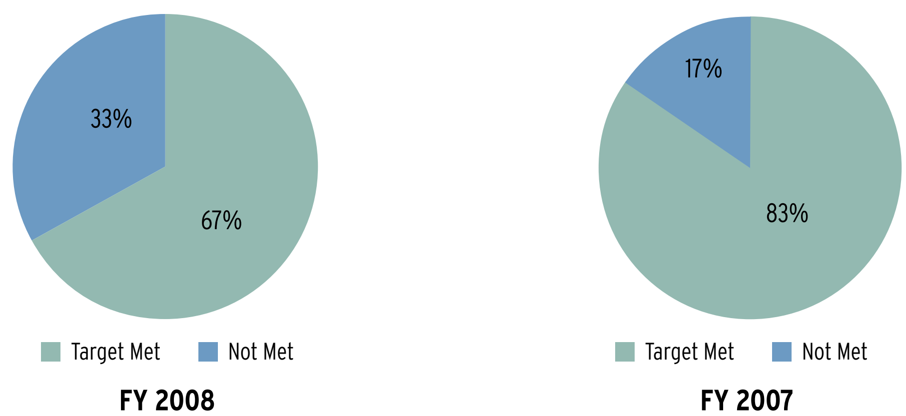


Table 3—FY 2008 Performance Summary by Strategic Objective

Strategic Objective	Performance Targets		Budgetary Resources/FTEs*
	# Reported	# Met	
Strategic Objective A: The Federal civilian workforce will be focused on achieving agency goals.	2	2	$8.6 Million FTE: 69.9
Strategic Objective B: The Federal civilian workforce will have career opportunities, benefits and service delivery that compete successfully with other employers.	12	7	$210.0 Million FTE: 1,003.7
Strategic Objective C: Federal agencies will be employers of choice.	6	4	$218.1 Million FTE: 688.8
Strategic Objective D: Federal agencies will be recognized as leaders in having exemplary human resources practices.	4	2	$716.7 Million FTE: 2,541.4
Strategic Objective E: OPM will be a model of performance for other Federal agencies.	3	3	$95.0 Million FTE: 482.7
Strategic Objective F: OPM will be a leader in the human resources professional community and have positive name recognition outside the Federal Government.	0	0	$ 5.2 Million FTE: 32.0
Strategic Objective G: OPM will have constructive and productive relationships with external stakeholders.	0	0	$2.8 Million FTE: 24.1
FY 2008 Totals	**27**	**18**	**$1,256.7 Million FTE: 4,842.6**

* Budgetary resources expressed as millions of dollars and include all funding sources, e.g., General Funds, Trust Funds, and Revolving Funds
FTE = full-time equivalent.

Performance Highlights by Strategic Objective

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

The Federal Government can be fully effective only if employees at all levels, including agency senior executives, are focused on and accountable for achieving results. In an effort to have agencies improve their executive performance management system, OPM is utilizing the Performance Appraisal Assessment Tool (PATT). The PAAT evaluates various aspects of an agency's appraisal system and considers employee feedback gained from OPM's bi-annual Human Capital Survey. PAAT results provide insight as to how far along a Department or agency has progressed in developing a results-oriented performance culture, which is critical to successfully achieving organizational goals and objectives. At the end of FY 2008, 33 percent of systems evaluated (47 out of 142) using the PATT achieved a passing score, exceeding the target of 25 percent. This indicates these systems meet the 10 critical performance-management criteria upon which OPM evaluates.

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

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

There were 283 plan choices including Fee-for-Service, Health Maintenance Organizations, Point of Service plans, Consumer Driven plans and High Deductible Health plans in the Federal Employees Health Benefits Program in FY 2007. Each year OPM establishes an open season to allow qualified individuals to make changes to their current enrollment or select a different insurance plan. OPM also offers an optional dental and vision insurance program, known as Federal Employees Dental and Vision Insurance Program (FEDVIP). There are approximately 1.6 million lives covered by the dental, vision or both plans. There are currently seven dental programs and three vision programs. Employees are eligible to receive the medical, dental and vision benefits on a pre-tax basis. OPM is aware of the crucial responsibility to timely process claims to allow participants to quickly determine the dollar amount that the insurance benefits cover and the portion they will be responsible for paying. In FY 2008, health benefits claims processing timeliness exceeded its target by processing 99 percent of claims within 30 days.

Strategic Objective C: Federal agencies will be employers of choice

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

The Center for Talent Services (CTS) program provides Federal agencies with relevant, cost-effective, reimbursable human-capital products and services, based upon merit system principles, needed to build a high-quality workforce and become high-performance organizations. The satisfaction of CTS's customers can be attributed to the alignment of service offerings with those of the *Human Resources Line of Business Reference Model*. In 2008, CTS signed over 4,200 agreements with various Federal agencies including the Departments of Defense, Homeland Security, Transportation, Interior, the Social Security Administration and the Central Intelligence Agency. CTS regularly solicited feedback from its customers throughout the year. This year, CTS again met its overall customer satisfaction [American Customer Satisfaction Index (ACSI) Equivalent Index] target with a rating of 84. Remarkably, CTS's ACSI Equivalent Index score is consistently higher than the combined public and private sector industry standard of 75.

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

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

The purpose of the merit system compliance program is to ensure that executive agencies exercise their delegated personnel management authorities effectively and in accordance with merit system principles, Civil Service laws and regulations, and OPM standards. The compliance program ensures that agencies comply with laws, regulations, and merit system principles by identifying violations and other problems and requiring or recommending corrections. At the end of FY 2008, all 25 of the agencies represented on the President's Management Council had fully implemented a system of internal compliance with Merit System Principles and laws, rules and regulations in accordance with OPM standards. The goal associated with this measure was achieved significantly ahead of schedule.

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

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

At the end of FY 2008, OPM was able to complete 80 percent of initial clearance investigations in an average of 53 days, exceeding the target of completing 80 percent in an average of 90 days. Completing 80 percent of initial clearance investigations in an average of 90 days is a key element in the Intelligence Reform and Terrorism Prevention Act of 2004 which mandates OPM reduce the average time it takes to conduct initial clearance background investigations.

The OPM investigations program had several major achievements during FY 2008. OPM continues to perform approximately 90 percent of all Federal background investigations, and completed over 2.2 million investigations in FY 2008. OPM officially eliminated the backlog of pending cases in its inventory and now has the lowest inventory of pending cases in several years.

Quality of Performance Data

In accordance with the requirements of the Government Performance and Results Act, OPM ensures the information in its AFR, as well as APR accurately reflects its FY 2008 performance and is based on reasonably complete, accurate, and reliable data.

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

Additional information on OPM's performance data quality will be available with the publication of OPM's FY 2008 APR scheduled for publication on January 15, 2009.

The President's Management Agenda

The PMA, in its seventh year of implementation, is the Administration's strategy to improve the management and performance of the Federal Government by holding agencies accountable for delivering results and allocating resources efficiently and effectively to serve the American people. OPM is participating in the following seven PMA initiatives:

1. Strategic Management of Human Capital
2. Commercial Services
3. Improving Financial Performance
4. Expanding Electronic Government
5. Performance Improvement
6. Eliminating Improper Payments
7. Health Information Technology (IT)

The OMB oversees the PMA, and each fiscal quarter releases an executive scorecard that rates agencies' progress and overall status on PMA initiatives. OMB uses a traffic light scoring approach, wherein a "green" score represent success, "yellow" denotes mixed results, and "red" indicates unsatisfactory. A complete description of the PMA, the initiatives, their respective standards of success, and OMB scoring can be found at *www.whitehouse.gov/results/.*

As shown in Table 4, all seven PMA initiatives are green in progress, showing advancements toward the standards for these initiatives. Five of seven PMA initiatives are green in status. OPM continues to work to achieve the green standard for Electronic Government and Improper Payments.

Table 4—OPM's 2008 Progress on the President's Management Agenda

Initiative	Status	Progress	Purpose
Human Capital	🟢	🟢	Workforce planning and restructuring will be defined in terms of each agency's mission, goals, and objectives.
Commercial Services	🟢	🟢	Competition between public and private sources becomes a standard management tool to promote innovation, efficiency, and effectiveness.
Financial Performance	🟢	🟢	Financial services support strategic decision making by Federal program managers and appropriate use of Federal financial resources.
Electronic Government	🟡	🟢	Expand the Federal Government's use of electronic technologies to provide better services at a lower cost that are easier for citizens to obtain.
Performance Improvement	🟢	🟢	Integrate more completely information about cost and program performance to provide a greater focus on performance, better control over resources used, and accountability for results by program managers.
Improper Payments	🟡	🟢	Reduce the incidence of improper payments in the Federal employee earned benefit programs (retirement and insurance).
Health IT	🟢	🟢	Ensure that health care programs administered or sponsored by the Federal Government promote quality and efficient delivery of health care through the use of health information technology (IT).

Analysis of OPM's Financial Statements

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

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

Balance Sheet

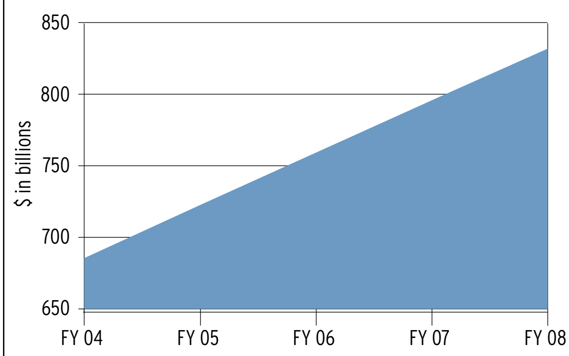
The Balance Sheet is a representation of OPM's financial condition at the end of the fiscal year. It shows the resources OPM holds to meet its statutory requirements (*Assets*); the amounts it owes that will require payment from these resources (*Liabilities*); and, the difference between them (*Net Position*).

Assets

At the end of FY 2008, OPM held $826.4 billion in assets, an increase of 4.6 percent from $790.1 billion at the end of FY 2007. The majority of OPM's assets are intragovernmental, representing claims against other Federal entities. The Balance Sheet separately identifies intragovernmental assets from all other assets.

The largest category of assets is investments at $820.9 billion, which represents 99.3 percent of all OPM assets. OPM invests all Retirement, Health

Growth in OPM Assets



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 2008, the investment portfolio grew by 4.5 percent, with the largest increase for investments occurring in the Retirement Program. In FY 2008, the Total Earned Revenue was less than the applicable Cost applied to the Pension Liability by $3.2 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 $30.9 billion for FY 2008, which resulted in an increase in the investment portfolio of more than $27.2 billion for FY 2008 over FY 2007.

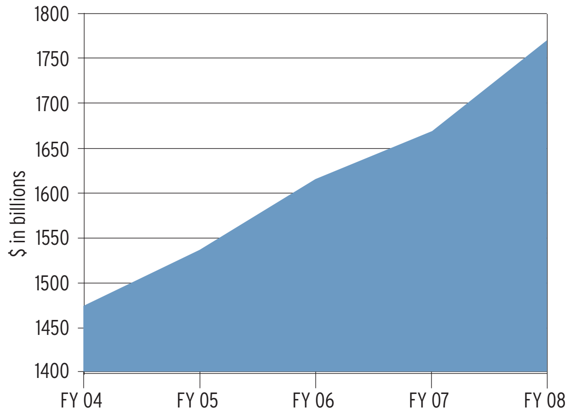
Liabilities

At the end of FY 2008, OPM's total liabilities were $1,767.1 billion, an increase of 5.9 percent from $1,668.4 billion at the end of FY 2007. Three line items—the Pension, Post-Retirement Health Benefits, and the Actuarial Life Insurance Liabilities—account for 99.3 percent of OPM's liabilities. These liabilities reflect estimates by professional actuaries of the future cost, expressed in today's dollars, of providing benefits to participants in the future. The Retirement Program's economic assumptions for the Rate of Inflation and the Rate of Increase in Salary were unchanged compared to FY 2007. The Health Benefits economic assumptions remain the same for the increase point in the per capita cost of covered benefits in FY 2007 and FY 2008. In FY 2008, the Retirement and Health Benefits Program assumptions reflect an increase in actuarial liabilities by more than $96.7 billion from FY 2007. 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 $1,387.2 billion at the end of FY 2008, an increase of over $67.3 billion, or 5.1 percent from the end of the previous year. [See discussion of the Net Cost to Provide CSRS and FERS Benefits below].

The *Post-Retirement Health Benefits Liability*, which represents the future cost to provide health benefits to active employees after they retire, is $331.4 billion at the end of FY 2008. This reflects an increase of approximately $29.3 billion from the amount at the end of FY 2007, or 9.7 percent. [See discussion of the Net Cost to Provide Health Benefits below].

Increase in OPM Liabilities



The *Actuarial Life Insurance Liability* is different from the Pension and Post-Retirement Health Benefits Liabilities. Whereas the other two are liabilities for "post-retirement" benefits only, the Actuarial Life Insurance Liability is an estimate of the future cost of life insurance benefits for both deceased annuitants and for employees who die in service. The Actuarial Life Insurance Liability increased by approximately $1.6 billion in FY 2008 to $36.8 billion, or 4.5 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, Post-Retirement Health Benefits, and Actuarial Life Insurance Liabilities, OPM's actuaries must make assumptions about the future. When the actual experience of the Retirement, Health Benefits, and Life Insurance Programs differs from these assumptions, as it always will, actuarial gains and/or losses will occur. For example, should the 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. OPM's total liabilities exceeded its total assets at the end of FY 2008 by $940.7 billion, primarily due to the large actuarial liabilities. It is important to note that the Retirement, Health Benefits, and Life Insurance Programs are funded in a manner that ensures there will be sufficient assets available to pay benefits well into the future. Table 5—Net Assets Available for Benefits shows that OPM's net assets available to pay benefits have increased by over $35.7 billion in FY 2008 to $814.6 billion.

Table 5—Net Assets Available for Benefits

($ in Billions)	FY 2008	FY 2007	Change
Total Assets	$826.4	$790.1	$36.3
Less "Non-Actuarial" Liabilities	11.8	11.2	.6
Net Assets Available to Pay Benefits	$814.6	$778.9	$35.7

Statement of Net Cost

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

OPM's Statement of Net Cost presents its cost of providing four major categories of benefits and services: Civil Service Retirement and Disability Benefits (CSRS and FERS), Health Benefits, and Life Insurance Benefits, as well as Human Resources Services. OPM derives its Net Cost by subtracting the revenues it earned from the gross costs it incurred in providing each of these benefits and services. OPM's total FY 2008 Net Cost of Operations was $102.4 billion, as compared with $50.9 billion in FY 2007. The primary reason for the increase is due to changes in the actuarial estimates, as further discussed below.

Net Cost to Provide CSRS Benefits

As presented in Table 6, OPM incurred a Pension Expense for the CSRS Benefits of $88.7 billion compared with $64.7 billion, an increase of $24.0 billion from FY 2007. The primary reason for the increase in CSRS pension expense from FY 2007 to FY 2008 is that there was a total actuarial gain of $8.4 billion in FY 2007 which was followed by a total actuarial loss of $15.8 billion in 2008. The combined effect of the gain and loss results in an increase in pension expense from FY 2007 to FY 2008 by $24.3 billion. Both the gain in 2007 and the loss in 2008 are primarily due to changes in assumptions and/or methodology. In FY 2007, we changed the methodology for determining the initial population which resulted in a one-time actuarial gain of $5.2 billion. In 2008, the Board of Actuaries decided to incorporate an assumption for future expected mortality improvement, mainly because private-sector plans had also been required to do this starting in 2007. This change in the mortality assumptions means employees and annuitants are expected to live longer, which increased the actuarial liabilities and caused a one-time actuarial loss of $20.6 billion. In FY 2007 and FY 2008, there were experience gains because the actual pay raise and COLA in the first year of the valuation are different than what had been assumed. We assume annual, general pay increases of 4.25 percent, and COLAs of 3.5 percent. In FY 2007, the actual, general pay increase was 2.2 percent, and the actual COLA was 3.3 percent. In FY 2008, the actual, general pay increase was 3.5 percent, and the COLA was 2.8 percent. The experience gains due to the actual increases being different from what had been assumed amounted to $9.9 billion in FY 2007, and to $6.4 billion in FY 2008, the combined effect of which is to increase the pension expense from FY 2007 to FY 2008 by $3.5 billion.

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 2008 by $0.2 billion from FY 2007 and OPM's earnings on CSRS investments declined by approximately $1.5 billion from FY 2007.

Table 6—Net Cost to Provide CSRS Benefits

($ in Billions)	FY 2008	FY 2007	Change
Gross Cost	$88.7	$64.7	$24.0
Associated Revenues	26.3	28.1	(1.8)
Net Cost	$62.4	$36.6	$25.8

Due to accounting standards, current pension benefits paid are applied to the Pension Liability and, therefore, do not appear on the Statement of Net Cost. OPM paid CSRS benefits of $59.4 billion, as compared to the $57.4 billion in FY 2007. 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 7, the Net Cost to Provide FERS Benefits in FY 2008 increased by $9.3 billion from FY 2007. As with the CSRS, there are three prime determinants of OPM's net cost to provide FERS benefits: one cost category (the actuarially computed Pension Expense) and two categories of earned revenue (contributions by and for participants, and earnings on FERS investments). Under the actuarial assumptions, the real interest rate—that is the difference between the interest rate and the rate of inflation—increase caused the Gross Cost to decrease.

The Pension Expense for FERS is the amount of future benefits earned by participants during the current fiscal year. For FY 2008, OPM incurred a Pension Expense for FERS of $42.1 billion, as compared with $29.6 billion in FY 2007. The primary reason for the increase in FERS pension expense from FY 2007 to FY 2008 is that there was a total actuarial gain of $2.336 billion in FY 2007, which was followed by a total actuarial loss of $7.132 billion in 2008. The combined effect of both of these was to increase the pension expense from FY 2007 to FY 2008 by $9.468 billion. In addition, both the gain in FY 2007 and the loss in FY 2008 were due primarily to changes in assumptions and/or methodology. In FY 2007, we changed the methodology for determining the initial population, which resulted in a one-time actuarial gain of $0.6 billion. In 2008, the Board of Actuaries decided to incorporate an assumption for future expected mortality improvement, mainly because private sector plans also had been required to do this starting in 2007. This change in the mortality assumptions means that employees and annuitants are expected to live longer, which increased the actuarial liabilities and caused a one-time actuarial loss of $4.7 billion. In FY 2007 and FY 2008, there were experienced gains because the actual pay raise and COLA in the first year of the valuation were different than what had been assumed. We assumed annual, general pay increases of 4.25 percent and FERS COLAs of 2.8 percent. In FY 2007, the actual, general pay increase was 2.2 percent, and the actual FERS COLA was 2.3 percent. In FY 2008, the actual, general pay increase was 3.5 percent, and the FERS COLA was 2.0 percent. The experience gains due to the actual increases being different from what had been assumed amounted to $3.7 billion in FY 2007 and to $1.7 billion in FY 2008, the combined effect of which was to increase the pension expense from FY 2007 to FY 2008 by $2.0 billion.

Contributions by and for FERS participants increased by $1.7 billion, or 10.5 percent from FY 2007, also due to the increasing number of FERS participants.

Table 7—Net Cost to Provide FERS Benefits

($ in Billions)	FY 2008	FY 2007	Change
Gross Cost	$42.1	$29.6	$12.5
Associated Revenues	33.5	30.3	3.2
Net Cost	$8.6	($0.7)	$9.3

Due to accounting standards, current pension benefits paid are applied to the Pension Liability and, therefore, do not appear on the Statement of Net Cost. In FY 2008, OPM paid FERS benefits of $4.0 billion, compared with $3.6 billion in FY 2007. 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 2008 increased by $16.6 billion from that in FY 2007 (Table 8). There are three prime determinants of OPM's net cost to provide Health Benefits: two cost categories (the actuarially computed Post-Retirement Health Benefits Expense, and Current Benefits and Premiums) and one earned revenue category (contributions by and for participants).

Table 8—Net Cost to Provide Health Benefits

($ in Billions)	FY 2008	FY 2007	Change
Gross Cost	$65.2	$49.7	$15.5
Associated Revenues	33.7	34.8	(1.1)
Net Cost	$31.5	$14.9	$ 16.6

The Post-Retirement Health Benefits Expense (PRHB) is the amount of future benefits earned by participants during the current fiscal year. For FY 2008, OPM incurred a PRHB expense of $41.7 billion, as compared with $27.4 billion in FY 2007, due primarily to the recognition of a large actuarial loss in FY

2008, as opposed to an actuarial gain in FY 2007. There was an actuarial loss of $10.4 billion. This was a result of the following: approximately $1billion due to population change, approximately $1.4 billion due to slightly higher trend than assumed 7 percent, and about $7.9 billion due to a change in the mortality rates (an assumed improvement). There was a small increase (actuarial loss) in the post-retirement medical liability estimated, as of September 2008, because the starting population covered by health insurance changed and included more retirees and health insurance claims, net of retiree contributions which were slightly more than expected. The larger increase was due to a change in the mortality rate assumptions. The assumed mortality improvement leads to longer life spans and hence higher future health costs.

Current Benefits and Premiums increased $0.9 billion from FY 2007, due mainly to the increase in health insurance premium rates indicative of the economy as a whole.

The contributions (for and by participants) decreased by ($1.9) billion from FY 2007, due to the one time transfer in FY 2007 of $2.9 billion receipts from the Postal Service Retiree Health Benefits Fund (PSRHB Fund) inflating FY 2007 contributions. The exclusion of the PSRHB Fund receipts would have resulted in an increase of $1.0 billion from FY 2007, due to the aforementioned increased premium rates. OPM's earnings on health benefits investments increased of over $0.8 billion from FY 2007, as a larger health benefits investment portfolio offset the effect of lower returns.

Due to accounting standards, a portion of the costs to provide health benefits is netted against the PRBH Liability and not fully disclosed on the statement of Net Cost. The actual costs to provide health benefits are presented in Table 9.

Table 9—Disclosed and Applied Costs to Provide Health Benefits

($ in Billions)	Disclosed	Applied to PRHB	Total FY 2008	Total FY 2007
Claims	$18.6	$9.0	$27.6	$26.0
Premiums	3.9	2.6	6.5	6.4
Administrative and other	0.9	0.8	1.7	1.7

Net Cost to Provide Life Insurance Benefits

As seen in Table 10, the Net Cost (Excess of Revenue) to Provide Life Insurance Benefits decreased from $96.0 million in FY 2007 to ($53.0) million in FY 2008. Gross cost increased $107.0 million due to an increase primarily in current benefits paid to our principal carrier from $2,410 in FY 2007 to $2,532 in FY 2008. And the increase in payments represents a higher claims experience. Associated revenues increased $256.0 million due to an increase in employee and employer contributions from higher claims experience, higher salaries largely due from the annual general pay increase, and an increase on earnings from a larger investment portfolio.

Table 10—Net Cost to Provide Life Insurance Benefits

($ in Millions)	FY 2008	FY 2007	Change
Gross Cost	$4,128	$4,021	$107
Associated Revenues	4,181	3,925	256
Net Cost (Excess of Revenue)	($53)	$ 96	($149)

Statement of Budgetary Resources

In accordance with Federal statutes and implementing regulations, OPM may incur obligations and make payments to the extent it has budgetary resources to cover such items. The Statement of Budgetary Resources presents the sources of OPM's budgetary resources, their status at the end of the year, and the relationship between its budgetary resources and the outlays it made against them.

As presented in the Statement of Budgetary Resources, a total of $191.1 billion in budgetary resources was available to OPM for FY 2008. OPM's budgetary resources in FY 2008 include $46.1 billion (24.1 percent) carried over from FY 2007, plus three major additional sources:

- Appropriations Received = $39.8 billion (20.8 percent)
- Trust Fund receipts of $97.7 billion, less $33.8 billion* not available = $63.9 billion (33.4 percent)
- Spending authority from offsetting collections (SAOC) = $41.3 billion (21.6 percent).

*Total budgetary resources do not include $27.0 billion of Trust Fund receipts for the Retirement obligations pursuant to public law. In addition, in accordance with Public Law 109-435, contributions for the Postal Service Retirement Health Benefits (PSRHB) Fund of the Health Benefits Program are precluded from obligations totaling $6.8 billion and therefore temporarily not available.

Appropriations are funding sources resulting from specified Acts of Congress that authorize Federal agencies to incur obligations and to make payments for specified purposes. OPM's appropriations partially offset the increase in the Pension Liability in the Retirement Program, and fund contributions for retirees and survivors who participate in the Health Benefits and Life Insurance Programs.

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

Sources of Budgetary Resources

	FY 2008	FY 2007
Trust Fund Receipts	33.4%	38.9%
FY2006 Balance Brought Forward	-	21.5%
FY2007 Balance Brought Forward	24.1%	-
SAOC	21.6%	19.9%
Appropriations	20.8%	19.7%

From the $191.1 billion in budgetary resources OPM had available during FY 2008, it incurred obligations of $143.9 billion less the $27.0 billion transferred from the Treasury's General Fund (see Note 1.G) for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs. The $6.8 billion in the PSRHB Fund of the Health Benefits Program is precluded from obligations. Most of the excess of budgetary resources OPM had available in FY 2008 over the obligations it incurred against those resources is classified as being "unavailable" for obligation at year-end.

Obligations Incurred by Category

	FY 2008	FY 2007
Retirement Benefits	65.9%	67.9%
Health Benefits	31.1%	29.5%
Life Insurance Benefits	1.7%	1.8%
Other	1.3%	0.8%

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

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

- Federal Managers' Financial Integrity Act Assurance Statement
- Federal Financial Management Improvement Act (FFMIA) of 1996
- Federal Managers' Financial Integrity Act (FMFIA)
- Prompt Payment Act (PPA), revised 1988
- Debt Collection Improvement Act (DCIA) of 1996
- Inspector General Act, as amended
- Civil Monetary Penalty Act
- Financial Management Systems
- Federal Information Security Management Act (FISMA) of 2002

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 2008, OPM substantially complies with FFMIA requirements regarding financial management systems, financial accounting standards, and application of the USSGL at the transaction level. OPM also determined there were other matters where the Revolving Fund (RF) Programs and the Salaries and Expenses (S&E) fund system were not consistent, specifically, the application of the USSGL at the transactional level.

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

FFMIA Remediation Activities. OPM's FY 2008 assessment of the Government Financial Information System (GFIS) disclosed that it does not comply with all pertinent requirements mandated by FFMIA. Specifically, the system does not support the requirement that transactions be posted in accordance with the USSGL. OPM has devoted a great deal of time and resources to resolving this deficiency. Center for Financial Services (CFS) staff analyzed abnormal and unusual account balances and related financial transactions to identify problems and take corrective actions. As a result, the Office of the Chief Financial Officer (OCFO) strengthened internal controls over transaction processing and entry into the core financial system, including automated interfaces with pertinent "feeder"/program systems. Also, CFS staff modified the core financial system to correct erroneous general ledger postings and to ensure that resulting transactions are consistent with Federal requirements. As discussed previously, OPM expects to implement by the beginning of FY 2010 a new core financial system that will provide financial and procurement functions for S&E Fund and RF Programs.

OPM recently acquired the services of a commercial vendor with demonstrated experience in implementing and maintaining Financial Systems Integration Office certified commercial off-the-shelf (COTS) financial systems to assist OPM in addressing FFMIA non-compliance issues. Accenture National Security Services will provide software, integration, hosting and operational support services for the Financial Systems Modernization Project (FSM Project) under a 10-year Blanket Purchasing Agreement. The FSM Project will integrate and standardize administrative funds, trust funds, and procurement business processes to address regulatory and compliance deficiencies and implement in two phases. Phase One will address OPM's S&E

Fund and RF Program and Phase Two will address OPM's Trust Fund accounts.

In preparation of financial statements and related disclosures, along with other financial information, OPM is consistent with Federal Accounting Standards. In accordance with the Chief Financial Officers (CFO) Act of 1990, OCFO implemented policies and procedures to prepare financial statements and related disclosures, budget reports, and other financial information for agency management decision-making consistent with Federal accounting standards. A financial manual was developed and maintained to provide OPM offices with comprehensive policies and procedures

Management Assurances

FMFIA and FFMIA Assurance Statement

OPM is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). OPM conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, OPM can provide reasonable assurance, with the exception of the one operational material weakness described in this report regarding the need to update IT security policies and procedures, that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations and financial management systems, as of September 30, 2008, was operating effectively. Corrective action to address the operational material weakness on IT policies and procedures will be a high priority for OPM in FY 2009.

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, 2008, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. No matters came to our attention between July 1, 2008, and September 30, 2008, that would change our unqualified assurance on financial reporting.

The *Federal Financial Management Improvement Act* (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 the *United States Standard General Ledger* (USSGL) at the transaction level. Based on my review of the auditors' report and other relevant information, I have determined that for FY 2008, OPM can provide reasonable assurance that its financial systems substantially comply with FFMIA requirements.

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

Michael W. Hager November 13, 2008

for financial activities. The OPM plans to refine and update these procedures in FY 2009 in preparation for the implementation of the new accounting system in FY 2010.

Enhance Financial Management Systems. Notwithstanding efforts to upgrade GFIS' capabilities and controls, OPM management determined that the financial system was based on outdated architecture and technology and should be replaced. During FY 2005, OPM launched a financial management modernization initiative to implement a new, core financial system for OPM's S&E and RF accounts. To oversee and direct the initiative, OPM established a Financial Modernization Project Office. OPM expects to implement a new, core financial system for the Agency's S&E and RF accounts by the beginning of FY 2010.

Compliance with the Federal Managers' Financial Integrity Act

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

OPM evaluated its systems of internal control, to ensure compliance with OMB Circular A-123, Management's Responsibility for Internal Control. OPM conducted an assessment of its internal control over OPM operations and compliance with applicable laws and regulations. As part of the assessment, the CFO required office heads to submit an assurance statement and supporting documentation to report to the CFO if their internal control systems met the requirements of the FMFIA. The CFO also reviewed applicable Government Accountability Office (GAO) and OPM Office of Inspector General (OIG) reports to determine if they contained material weaknesses that needed to be reported. Based on the results of these assessments, OPM can provide reasonable assurance that its systems of internal control over the effectiveness and efficiency of operations and compliance with laws and regulations as of September 30, 2008, were operating effectively with the exception of one operational material weakness detailed below.

The OIG reported an operational material weakness on information technology (IT) security policies and procedures as part of its annual reporting under the Federal Information Security Management Act (FISMA). OIG noted the majority of OPM's IT security policies and procedures had not been updated in the past few years, and reported this area as a material weakness. OPM's Management Services Division (MSD), which oversees OPM's Center for Information Services (CIS), agreed with OIG's designation of an operational material weakness in its annual FMFIA assurance memo for the CFO. The Associate Director, MSD, noted that updates are planned for FY 2009 and will have a high priority.

Internal Control over Financial Reporting. In addition to its overall FMFIA assessment, OPM conducted an assessment of the effectiveness of internal control over financial reporting (ICFR) to ensure compliance with Appendix A of OMB Circular A-123. Appendix A requires Federal agencies provide additional assurance on financial controls through testing and evaluation of entity, process and transaction-level controls under the auspices of a senior assessment team.

OPM's A-123 Appendix A Evaluation and Test Plan was updated for FY 2008 in accordance with the Circular and with the Chief Financial Officer's Council (CFOC) Implementation Guide for A-123 Appendix A. The update included a move to rotational testing of controls as suggested by OMB and the CFOC. As with the prior two years' assessments, FY 2008 Appendix A planning, testing, evaluation and reporting for internal control over financial reporting were done under the direction of OPM's Senior Assessment Board (Board) for Internal Control over Financial Reporting. The Board is chaired by the Chief Financial Officer and includes senior representatives from OPM's major organizations. Testing and evaluation activities were conducted, under the Board's oversight, by the Office of the Chief Financial Officer's Policy and Internal Control Group (PICG).

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

Compliance with the Prompt Payment Act

The Prompt Payment Act (Public Law 100-496), as amended, requires Federal agencies to pay vendors transacting business with them in a timely manner. With certain exceptions, the 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 2008, OPM reported that over 99.9 percent of its payments were made in accordance with specified Prompt Payment Act timeframes. OPM's FY 2008 performance objective was to continue to achieve the 98 percent performance metric. As of September 30, 2008, OPM's performance was 99.9 percent in terms of payment actions and 97.8 percent in terms of payment dollars.

OPM's highly successful performance under the Prompt Payment Act is achieved as a result of the large number and dollar magnitude of payments it makes to its investigative services contractors. Based on requests from Federal agencies, OPM processes several hundred thousand transactions per month for a variety of personnel background investigations that require payments to contractors. In accordance with payment provisions of OPM's contracts with its investigative services contractors, OPM annually remits tens of millions of dollars representing final payments for each of the thousands of personnel investigations requested by agencies. OPM daily consolidates all of the individual amounts owed to investigative contractors and makes a single payment to each contractor that represents the total amount currently owed. Table 11 summarizes OPM's FY 2008 prompt payment metrics by investigative services contractors and non-investigative services vendors. During the year, OPM paid $65,363 in interest penalties related to late payments.

TABLE 11—FY 2008 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	5,239.2	5,239.2	100.0%	$452.6	$452.6	100.0%
Non-investigative service vendors	28.6	27.7	96.7%	$503.0	$482.1	95.8%
Totals	5,267.8	5,266.9	99.9%	$955.6	$934.7	97.8%

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 12 summarizes OPM's debt management activity for FY 2008 and FY 2007. OPM complies with the DCIA in the following ways:

TABLE 12—DEBT MANAGEMENT ACTIVITY

Retirement Program ($ in Millions)		
	FY 2008	FY 2007
Total receivables at beginning of year	$227.5	$184.7
New receivables and accruals	198.3	208.9
Less collections, adjustments, and amounts written-off	165.9	166.1
Total receivables at end of year	$259.9	$227.5
Total delinquent	$36.9	$36.6
Percent delinquent of total receivables	14.2%	16.1%

Health Benefits Program ($ in Millions)		
	FY 2008	FY 2007
Receivables at beginning of year	$32.2	$39.3
New receivables and accruals	80.1	70.9
Less collections and adjustments	72.4	78.0
Receivables at the end of year	$39.9	$32.2
Less management decisions in appeal	4.9	2.1
Currently available for collection	$35.0	$30.1

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. To date, OPM has collected more than $6.3 million via FMS cross servicing.

Computer Data-Matching

OPM maintains an aggressive and active program integrity function to prevent waste, fraud, and abuse of Retirement Program benefits 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 benefits-paying agencies to identify individuals who have died or are otherwise no longer eligible for benefits. In FY 2008, OPM's death data-matching activities identified more than $82 million in overpayments and prevented a calculated additional $62 million from being overpaid.

Electronic Payments

As can be seen in Table 13, OPM continues to increase its rate of payments made electronically, including over 95 percent of OPM's 2.5 million monthly Retirement Benefits Program payments via electronic funds transfer.

Table 13—Electronic Payments

Payment Type	Percentage FY 2008	Percentage FY 2007
Retirement benefits	95.6%	95.3%
Salary	96.0%	96.1%
Health Benefits and Life Insurance Carrier Programs	100.0%	100.0%
Other vendors	99.9%	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 61or more days old. Tables 14 and 15 compare OPM's percentages that are 61 or more days old to Governmentwide rates.

Table 14—Travel Card Usage

($ in Thousands)	FY 2008	FY 2007
Outstanding Balance	$463.1	$734.8
Outstanding more than 61 days	$7.9	$6.9
% outstanding more than 61 days (OPM)	1.23%	0.94%
% outstanding more than 61 days (Governmentwide)	3.00%	2.46%

Table 15—Purchase Cards

($ in Thousands)	FY 2008	FY 2007
Outstanding Balance	$1,826.6	$1,158.6
Outstanding more than 61 days	$0.0	$0.0
% outstanding more than 61 days (OPM)	0.0%	0.0%
% outstanding more than 61 days (Governmentwide)	.81%	1.08%

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, 2006, through September 30, 2008. Table 16—provides a summary of Office of Inspector General (OIG's audit findings and actions taken in response by OPM management during this period.

Table 16—Inspector General Audit Findings

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

FY 2007	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1,	6	$22.8
New reports requiring management decisions	38	70.8
Management decisions made during the year	28	69.3
Costs disallowed	–	61.1
Costs not disallowed	–	8.2
Reports with no management decision on September 30,	16	$24.0

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 2008.

Financial Management Systems

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

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

OPM conducted a public/private competition and procures a software, integration and application hosting services for a new financial management system. First Phase of implementation of this new Oracle based system is expected October 1, 2009, for FY 2010 for S&E and RF programs.

Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) requires the Chief Information Officer (CIO) to conduct an annual agency-security program review in coordination with agency program officials.

During FY 2008, OPM continued to make significant progress in strengthening its IT security and privacy policies. Specifically, OPM successfully conducted a comprehensive gap analysis of IT security and privacy policies in FY 2008 and developed a prioritized action plan for addressing the gaps. For example, OPM is reviewing its OPM Information Security and Privacy Policy (ISPP) and is working to revise it according to new Federal law and guidance, along with the development and revision of clear and current supporting guidance. In addition, OPM has increased oversight and programmatic scrutiny on the completion of Certification and Accreditation (C&A) packages and Plan of Action and Milestones (POA&M) activities. OPM also anticipates the implementation of the Trusted Agent tool to provide enhanced visibility and tracking for OPM's security initiatives, and to ensure compliance with program policy and guidance.

In addition, in FY 2008 OPM successfully implemented an automated process for conducting mandatory training for all employees. This training included OPM policy and instructions for reporting data breaches and guidance for the use of personally identifiable information (PII). The training was completed by more than 96 percent of OPM's approximately 12,000 employees and contractors. OPM will continue to track the status of compliance with required annual training to ensure its employee populations are aware of IT security policies and processes.

The priorities for OPM's IT security efforts in FY 2009 are clear. OPM will continue to strengthen its security and privacy policy and supplemental guidance and address the operational material weakness identified by the OIG. OPM will focus on improving the quality of its C&As and POA&Ms by maturing current processes. Finally, OPM will focus on the development of specific role-based training and awareness activities so that its security and privacy personnel fully understand and implement these security and privacy policies and processes. To fulfill its mission for the Federal workforce, OPM understands the need to remain committed to strong and effective IT security and privacy programs for protecting OPM's critical data assets.

Goals and Strategies

Improved financial performance is an initiative sponsored by the PMA and a strategy for improving the management of financial systems and resources across the Federal Government. During FY 2008, OPM achieved "green" standards for seven major measures, including receiving an unqualified audit opinion for the agency's financial status.

OPM is firmly committed to maintaining these standards, and to do so has developed a plan to implement cost-accounting standards across the agency. Currently, OPM routinely provides status of funds and other financial statements and reports to financial and program managers. Also, OPM has integrated financial and performance information and uses such information to formulate its annual budget requests and for day-to-day management. OPM has instilled management discipline to help ensure accurate, timely, and effective formulation and execution of budgets.

OPM established and has followed the strategy below to achieve the goals of the PMA for improved financial-management performance:

- Ensure that critical financial performance indicators are objective, understandable, meaningful, fair and fully measurable

- Improve internal controls over financial reporting through improved systems and processes
- Re-affirm processes, controls and procedures to ensure that continuing IPA unqualified audit opinions will be received on the annual financial statements
- Implement a new integrated financial management system fully compliant with Federal standards producing sound, effective support to all customers
- Strengthen stewardship, accountability and internal controls over financial reporting, as stipulated by revised OMB Circular A-123
- Reduce improper payments to target levels

Limitations of the Consolidated Financial Statements

- The principal financial statements have been prepared to report OPM's financial position and results of operations, pursuant to the requirements of 31 United States Code 3515(b).
- The statements have been prepared from OPM's books and records in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by the OMB. They are in addition to the financial reports used to monitor and control OPM's budgetary resources, which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of the United States, a sovereign entity.

Section 2—FY 2008 Financial Information

A Message from the Chief Financial Officer

This year, the U.S. Office of Personnel Management (OPM) enrolled in the Performance and Accountability Pilot Program which was introduced by the Office of Management and Budget (OMB) to improve readability of Performance and Accountability Reports. Under this Program, Federal agencies produce their Agency Financial Report (AFR) which provides exhaustive and complete details on relevant financial data within 45 days of the accounting closing period. Under separate covers, unlike past practice, agencies will submit on or before January 15, 2009, the Annual Performance Report prior to the submission of the President's Fiscal Year (FY) 2010 Budget to Congress, a 25-page Citizen's report and the two-page Budget, Performance and Financial snapshot, which provides a more concise summary of the past years' outcomes. This approach offers more transparent conveyance to the public with improved quality and utility for management.

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

OPM also issued an unqualified assurance statement in accordance with the requirements of the revised OMB Circular A-123, Management's Responsibility for Internal Control. The Improper Payments Information Act (IPIA) review was expanded to include the Salaries and Expenses (S&E) and the Revolving Funds (RF). The related reviews required the timely completion of rigorous assessments, documentation and testing of our procedures and controls over financial reporting.

OPM celebrated achieving, for the second consecutive year, "green" status on the President's Management Agenda for improved financial performance. We will continue to improve our financial management and work with our partners to modernize the current financial systems. Considerable progress was made this year to replace the OPM's accounting systems with Oracle Federal Financials. We selected a vendor and began the implementation and modernization process. Our goal is to implement a new, integrated S&E, RF, and trust fund accounting system by FY 2012.

We carry out our responsibilities over the $775 billion dollars in the Federal employees earned-benefit trust funds with pride, and are honored to safeguard these assets on behalf of Federal employees, retirees, their survivors and families against waste, fraud and abuse. It is with great pleasure that I, on behalf of our staff, provide you with the FY 2008 AFR maintaining OPM's conservative stewardship over Federal employees' retirement, health and life insurance funds documented by an unqualified audit opinion.

Sincerely,

Mark Reger

Mark Reger
Chief Financial Officer

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

November 14, 2008

Report No. 4A-CF-00-08-025

MEMORANDUM FOR HOWARD WEIZMANN
Deputy Director

FROM: PATRICK E. McFARLAND
Inspector General

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year 2008 Consolidated Financial Statements

This memorandum transmits KPMG LLP's (KPMG) report on its financial statement audit of the Office of Personnel Management's (OPM) Fiscal Year 2008 Consolidated Financial Statements and the results of the Office of the Inspector General's (OIG) oversight of the audit and review of that report. OPM's consolidated financial statements include the Retirement Program, Health Benefits Program, Life Insurance Program, Revolving Fund Programs (RF) and Salaries & Expenses funds (S&E).

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

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires OPM's Inspector General or an independent external auditor, as determined by the Inspector General, to audit the agency's financial statements in accordance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States. We contracted with the independent certified public accounting firm KPMG LLP to audit OPM's consolidated financial statements as of September 30, 2008 and for the fiscal year then ended. The contract requires that the audit be performed in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) bulletin number 07-04, *Audit Requirements for Federal Financial Statements*.

KPMG's audit report for Fiscal Year 2008 includes: (1) opinions on the consolidated financial statements and the individual statements for the three benefit programs, (2) a

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

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

- There were no material weaknesses identified in the internal controls. A material weakness is a condition in which the design or operation of an internal control does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period.

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

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

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

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

OIG Evaluation of KPMG's Audit Performance

In connection with the audit contract, we reviewed KPMG's report and related documentation and made inquiries of its representatives regarding the audit. To fulfill our audit responsibilities under the CFO Act for ensuring the quality of the audit work performed, we conducted a review of KPMG's audit of OPM's Fiscal Year 2008 Consolidated Financial Statements in accordance with GAS. Specifically, we:

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

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Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls or on whether OPM's financial management systems substantially complied with FFMIA or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated November 14, 2008, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with the generally accepted GAS.

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

In closing, we would like to congratulate OPM's financial management staff for once again issuing the consolidated financial statements by the November 15 due date. Their professionalism, courtesy, and cooperation allowed us to overcome the many challenges encountered during OPM's preparation, KPMG's audit, and the OIG's oversight of the financial statement audit this year. If you have any questions about KPMG's audit or our oversight, please contact me or have a member of your staff contact Michael R. Esser, Assistant Inspector General for Audits, at 606-2143.

cc: Mark Reger
Chief Financial Officer

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the United States (U.S.) Office of Personnel Management (OPM) as of September 30, 2008 and 2007, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements"), for the years then ended. We have also audited the individual balance sheets of the Retirement, Health Benefits, and Life Insurance Programs (hereinafter referred to as the "Programs") as of September 30, 2008 and 2007, and the related individual statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as the Programs' "individual financial statements"), for the years then ended.

The objective of our audits was to express an opinion on the fair presentation of these consolidated and individual financial statements. In connection with our fiscal year 2008 audit, we also considered OPM's and the Programs' internal controls over financial reporting and tested OPM's and the Programs' compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated and individual financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that OPM's consolidated financial statements and the Programs' individual financial statements as of and for the years ended September 30, 2008 and 2007, as presented in OPM's *Fiscal Year 2008 Agency Financial Report*, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 17 to the financial statements, OPM changed its method of accounting for presenting distributed offsetting receipts related to the Postal Service Retiree Health Benefits Fund in fiscal year 2008.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

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

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

However, none of the significant deficiencies are believed to be material weaknesses.

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

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

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Office of Personnel Management as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years then ended. We have also audited the individual balance sheets of the Programs as of September 30, 2008 and 2007, and the related individual statements of net cost, changes in net position, and budgetary resources for the years then ended. The Programs' individual financial statements are included in the consolidating financial statements presented in the Consolidating Financial Statements section of OPM's *Fiscal Year 2008 Agency Financial Report*.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OPM and the financial position of each of the Programs as of September 30, 2008 and 2007, and the consolidated and individual Programs' net costs, changes in net position, and budgetary resources, for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 17 to the financial statements, OPM changed its method of accounting for presenting distributed offsetting receipts related to the Postal Service Retiree Health Benefits Fund in fiscal year 2008.

The information in the Management Discussion and Analysis and Required Supplementary Information sections of OPM's *Fiscal Year 2008 Agency Financial Report* is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of OPM taken as a whole and on the Programs' individual financial statements. The individual financial statements of the RF Program and S&E Fund included in the Consolidating Financial Statements section of OPM's *Fiscal Year 2008 Agency Financial Report* (Schedules 1 through 4) are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, and budgetary resources of the individual RF Program and S&E Fund. The financial statements of the RF Program and S&E Fund have been subjected to the auditing procedures applied in the audit of the consolidated financial statements of OPM and, in our opinion, are fairly stated in all material aspects in relation to OPM's consolidated statements taken as a whole.

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

The information in the Other Accompanying Information, and Appendix A, included in OPM's *Fiscal Year 2008 Agency Financial Report*, are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects OPM's or the Programs' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of OPM's consolidated financial statements or the Programs' individual financial statements that is more than inconsequential will not be prevented or detected by OPM's or the Programs' internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by OPM's or the Programs' internal control.

In our fiscal year 2008 audit, we consider the deficiencies described in Items 1 and 2 below to be significant deficiencies in internal control over financial reporting. However, we believe that none of the significant deficiencies described below are material weaknesses. Exhibit I presents the status of prior year significant deficiencies.

1. Information systems general control environment

The Office of the Chief Information Officer (OCIO) has made progress in addressing information system general control deficiencies identified in previous years. However, some deficiencies have not been fully addressed and consequently are not in full compliance with authoritative guidance. Specifically, security policies and procedures have not been updated to incorporate current authoritative guidance and the procedures performed to certify and accredit certain financial systems were not complete. In addition, we noted that application access permissions have not been fully documented to describe the functional duties the access provides to assist management in reviewing the appropriateness of system access. Also, we noted instances where background investigations and security awareness training was not completed prior to access being granted.

Recommendation

The OCIO should continue to update and implement entity-wide security policies and procedures and provide more direction and oversight to Program Offices for completing certification and accreditation requirements. In addition, documentation on application access permissions should be enhanced and linked with functional duties and procedures for granting logical access need to be refined to ensure access is granted only to authorized individuals.

Management Response

OPM concurs with these findings and recommendations. The Center for Information Services is updating the Information Security and Privacy Policy, approved September 28, 2007, and intends to take such additional actions as the following:

- Clarifying roles and responsibilities in the certification and accreditation of systems;
- Training the OPM's designated security officers in conducting certification and accreditation of systems and in the handling of plans of action and milestones ;

KPMG

- Reviewing and revising as necessary OPM's process for establishing new user access accounts;
- Investigating tools that can be used to mask personally identifiable information in production use;
- Documenting and implementing change control monitoring procedures for data base administrator activities; and
- Beginning discussions with the staff of the OPM's Chief Financial Officer on how to establish and maintain functional descriptions.

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

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

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

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

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

Further, because of system limitations, a number of correcting journal entries are processed. Adequate supporting documentation is not always readily available for correcting journal entries and there were instances where internal controls over processing and approving of such entries were not consistently applied.

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

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

Recommendation

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

1. OPM implement a new accounting system or modify the existing accounting system as appropriate to ensure that all financial information is properly captured and is

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properly configured to produce useful financial reports that provide accurate information regarding related intra-governmental activities and balances.

2. OPM continue to identify and correct existing differences between OPM's internal data and the information reported by Treasury. At such a time when no additional reductions can be identified, OPM should, in conjunction with appropriate oversight agencies, write down the remaining amount to clear the remaining FBWT balance.
3. OPM CFO management actively enforce procedures regarding the documentation of Salaries and Expense Fund reconciliations in accordance with guidelines outlined in the "Treasury Financial Manual" and OPM's "Cash Management Policy and Procedures."
4. OPM retain appropriate supporting documentation for correcting journal entries and emphasis be made on the need to follow existing internal control policies and procedures.

Management Response

OPM acknowledges deficiencies in the GFIS system used for the RF program and S&E Fund accounts and concurs with KPMG's recommendations. While OPM has developed and applies controls over journal voucher entries, the availability of supporting documentation can be improved. OPM recently selected a new system integrator and software solution, and has begun working toward implementation of the new OPM accounting system. The new system will support the capture and reporting of all financial information regarding related intra-governmental activities and balances. Additionally, OPM continues to reconcile, identify and correct differences between OPM's internal data and Treasury balances. The process and complete reconciliation has not been completed but when the process is complete an adjusting entry will be processed to write-down the remaining amount to clear the fund balance with Treasury balance. OPM OCFO management will continue to enforce procedures to document timely reconciliations compliant with the *Treasury Financial Manual* and OPM's *Cash Management Policy and Procedures*.

COMPLIANCE AND OTHER MATTERS

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

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

KPMG

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

a. United States Standard General Ledger at the Transaction Level –

In accordance with OMB Circular A-127, *Financial Management Systems*, as amended, OPM is to record financial events consistent with the applicable definitions, attributes, and processing rules defined in the USSGL at the transaction level. While improvements have been made, the OCFO does not consistently record RF Program and S&E Fund transactions at the USSGL level to support the RF Program and S&E Fund financial statements at the transaction level.

Recommendation

We recommend that the OCFO should continue implementation of its corrective action plan over the GFIS system and related processes and procedures to enable the OCFO to account for the RF Program and S&E Fund's transactions in accordance with the USSGL at the transaction level.

Management Response

OPM concurs with the recommendation. The GFIS financial system cannot be reconfigured to meet fully the requirements of FFMIA. OPM recently selected a new system integrator and software solution, and has begun working toward implementation of the new OPM accounting system. The new system will support the capture and reporting of all financial information regarding related intra-governmental activities and balances. OPM will ensure that the implementation of the financial system requirements are in compliance with FFMIA.

* * * * *

RESPONSIBILITIES

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

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2008 and 2007 consolidated financial statements of OPM and the individual financial statements of the Programs based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OPM's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the overall consolidated and Programs' individual financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated and Programs' individual financial statement presentation.

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

In planning and performing our fiscal year 2008 audit, we considered OPM's internal control over financial reporting by obtaining an understanding of OPM's and the Programs' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements of OPM and the individual financial statements of the Programs. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of OPM's or the Programs' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OPM's or the Programs' internal control over financial reporting.

As part of obtaining reasonable assurance about whether OPM's fiscal year 2008 consolidated and the Programs' fiscal year 2008 individual financial statements are free of material misstatement, we performed tests of OPM's and the Programs' compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to OPM and the Programs. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

We noted certain additional matters that we have reported to management of OPM in a separate letter dated November 14, 2008.

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

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

KPMG LLP

November 14, 2008

Exhibit I

No.	Title of Finding from FY07 Report	Program/ Fund	Prior Year Status	Current Year Status	Factors Affecting Current Year Status
1	Information Systems General Control Environment	All[1]	Significant Deficiency	Significant Deficiency – See FY 2008, Condition No. 1	OPM has made continual annual improvements to Information Systems General Control Environment, however, deficiencies still exist.
2	Financial Management Reporting Processes of the Office of the Chief Financial Officer (OCFO)	S&E; RF	Significant Deficiency	Significant Deficiency - See FY 2008, Condition No. 2	OPM has made improvements, however, deficiencies still exist because of system limitations.

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

Consolidated Financial Statements

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED BALANCE SHEET
As of September 30, 2008 and 2007
(In Millions)

	2008	2007
ASSETS		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	$1,731	$1,471
Investments [Note 3]	820,907	785,396
Accounts Receivable [Note 4]	1,747	1,383
Total Intragovernmental	824,385	788,250
Accounts Receivable from the Public, Net [Note 4]	1,170	1,037
General Property and Equipment, Net	10	11
Other [Note 1L]	814	811
TOTAL ASSETS	$826,379	$790,109
LIABILITIES		
Intragovernmental	$702	$679
Federal Employee Benefits:		
Benefits Due and Payable	9,903	9,357
Pension Liability [Note 5A]	1,387,200	1,319,900
Post-retirement Health Benefits Liability [Note 5B]	331,417	302,114
Actuarial Life Insurance Liability [Note 5C]	36,757	35,164
Total Federal Employee Benefits	1,765,277	1,666,535
Other [Notes 6 and 11]	1,167	1,138
Total Liabilities	1,767,146	1,668,352
NET POSITION		
Unexpended Appropriations — Other Funds	75	84
Cumulative Results of Operations — Earmarked Funds [Note 12]	(941,122)	(878,479)
Cumulative Results of Operations — Other Funds	280	152
Total Net Position	(940,767)	(878,243)
TOTAL LIABILITIES AND NET POSITION	$826,379	$790,109

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2008 and 2007
(In Millions)

		2008	2007
Provide CSRS Benefits	Gross Costs	$88,681	$64,665
	Less: Earned Revenue	26,320	28,106
	Net Cost [Notes 10 and 14]	$62,361	$36,559
Provide FERS Benefits	Gross Costs	$42,122	$29,594
	Less: Earned Revenue	33,509	30,324
	Net Cost [Notes 10 and 14]	$8,613	($730)
Provide Health Benefits	Gross Costs	$65,198	$49,708
	Less: Earned Revenue	33,718	34,781
	Net Cost [Notes 10 and 14]	$31,480	$14,927
Provide Life Insurance Benefits	Gross Costs	$4,128	$4,021
	Less: Earned Revenue	4,181	3,925
	Net Cost [Notes 10 and 14]	($53)	$96
Provide Human Resource Services	Gross Costs	$1,457	$1,102
	Less: Earned Revenue	1,440	1,086
	Net Cost [Notes 10 and 14]	$17	$16
Total Net Cost of Operations	Gross Costs	$201,586	$149,090
	Less: Earned Revenue	99,168	98,222
	Net Cost [Notes 10 and 14]	$102,418	$50,868

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2008 and 2007

(In Millions)

	2008			2007		
	Earmarked Funds	All Other Funds	Consolidated Total	Earmarked Funds	All Other Funds	Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balances	($878,479)	$152	($878,327)	($867,285)	$20	($867,265)
Budgetary Financing Sources:						
Appropriations Used	39,716	112	39,828	39,620	115	39,735
Other	38	-	38	38	—	38
Other Financing Sources	4	33	37	—	33	33
Total Financing Sources	39,758	145	39,903	39,658	148	39,806
Net Cost of Operations	102,401	17	102,418	50,852	16	50,868
Net Change	(62,643)	128	(62,515)	(11,194)	132	(11,062)
Cumulative Results of Operations — Ending Balance	($941,122)	$280	($940,842)	($878,479)	$152	($878,327)
UNEXPENDED APPROPRIATIONS						
Beginning Balance	—	$84	$84	—	$85	$85
Budgetary Financing Sources:						
Appropriations Received	$40,138	103	40,241	$39,655	115	39,770
Appropriations Used	(39,716)	(112)	(39,828)	(39,620)	(115)	(39,735)
Other Budgetary Financing Sources	(422)	-	(422)	(35)	(1)	(36)
Total Budgetary Financing Sources	—	(9)	(9)	—	(1)	(1)
Total Unexpended Appropriations — Ending Balance	—	75	75	—	84	84
Net Position	($941,122)	$355	($940,767)	($878,479)	$236	($878,243)

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2008 and 2007
(In Millions)

	2008	2007
BUDGETARY RESOURCES		
Unobligated Balance — Brought Forward, October 1:	$46,063	$43,478
Recoveries of Prior—Year Unpaid Obligations	46	18
Budget Authority:		
Appropriations:		
Received	40,241	39,770
Other	(422)	(35)
Trust Fund Receipts:		
Appropriated	97,694	115,350
Spending Authority from Offsetting Collections:		
Collected	40,978	40,105
Change in Receivables from Federal Sources and Unfilled Customer Orders	300	9
Subtotal	41,278	40,114
Temporarily Not Available Pursuant to Public Law	(33,781)	(36,882)
Permanently Not Available	-	(3)
Total Budgetary Resources	$191,119	$201,810
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred: [Note 9]		
Direct	$142,398	$154,739
Reimbursable	1,492	1,008
Subtotal	143,890	155,747
Unobligated Balance:		
Apportioned	464	260
Unobligated Balance Not Available	46,765	45,803
Total Status of Budgetary Resources	$191,119	$201,810
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	$11,460	$10,818
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	2,387	2,376
Total Unpaid Obligated Balance, Net	9,073	8,442
Obligations Incurred, Net	143,890	155,747
Less: Gross Outlays	143,133	155,089
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	46	18
Change in Uncollected Customer Payments from Federal Sources	300	9
Obligated Balance, Net, End of Period		
Unpaid Obligations	12,170	11,460
Less: Uncollected Customer Payments from Federal Sources	2,686	2,387
Total Unpaid Obligated Balance, Net, End of Period	9,484	9,073
NET OUTLAYS		
Net Outlays:		
Gross Outlays	143,133	155,089
Less: Offsetting Collections	40,978	40,105
Less: Distributed Offsetting Receipts [Note 17]	37,778	31,034
Net Outlays	$64,377	$83,950

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

Notes to Financial Statements

September 30, 2008 and 2007
[$ in millions]

Note 1—Summary of Significant Accounting Policies

A. Reporting Entity

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

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

The financial statements comprise the following major programs administered by OPM. The funds related to the operation of the Retirement Program, the Health Benefits Program, and the Life Insurance Program are "earmarked funds," as defined by *Statement of Federal Financial Accounting Standards Number (SFFAS No.) 27, Identifying and Reporting Earmarked Funds*. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. For additional information on Earmarked Funds, please see Note 12 of Notes to Financial Statements.

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

Health Benefits Program. The Program provides hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. The Program, implemented in 1960, is operated through two trust revolving funds: the Employees Health Benefits Fund and the Retired Employees Health Benefits Fund. Title 5, United States Code, Chapter 89 provides a complete description of the funds' provisions. To provide benefits, OPM contracts with two types of health benefits carriers: *fee-for-service*, whose participants or their health-care providers are reimbursed for the cost of services, and *health maintenance organizations* (HMO), which provide or arrange for services on a prepaid basis through designated providers. Most of the contracts with carriers that provide fee-for-service benefits are *experience-rated*, with the amount contributed by and for participants affected by, among other things, the number and size of claims. Most HMO contracts are *community-rated*, so that the amount paid by and for participants is essentially the same as that paid by and for participants in similarly-sized subscriber groups.

On December 20, 2006, President Bush signed into law the Postal Accountability and Enhancement Act (the Postal Act) P.L. 109-435. Title VIII of the Act made significant changes in the laws dealing with CSRS benefits and the funding of retiree health benefits for employees of the U.S. Postal Service (USPS), including the requirement for the USPS to make scheduled payments to the new Postal Service Retiree Health Benefits (PSRHB) Fund. The PSRHB Fund is included in the Health Benefits Program.

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

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

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

B. Basis of Accounting and Presentation

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

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

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

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

C. Use of Management's Estimates

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

D. Financial Statement Classifications

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

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

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

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

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

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

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

E. Net Cost of Operations

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

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

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

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

F. Program Funding

Retirement Program. Service-cost represents an estimate of the amount of contributions which, if accumulated and invested over the careers of participants, will be sufficient to fully fund their future CSRS or FERS benefits. For fiscal years 2008 and 2007, the service-cost for most or "regular" CSRS participants is 25.2 and 25.0 percent of pay, respectively; for most or "regular" FERS participants, 12.0 percent of pay. Federal accounting standards require that employing agencies recognize an imputed cost for the difference between the amount contributed by and for their participating employees and the service cost of the CSRS and FERS.

> ***CSRS.*** Both CSRS participants and their employing agencies, with the exception of USPS, are required by statute to make contributions to CSRS coverage. Regular CSRS participants and their employers each contributed 7.0 percent of pay in both fiscal years 2008 and 2007. The combined 14.0 percent of pay does not cover the service cost of a CSRS benefit. To lessen the shortfall, the Treasury was required by statute to transfer an amount annually from the General Fund of the United States to the CSRDF [See Note 1G.]; for fiscal years 2008 and 2007, this amount was $30.9 and $31.0 billion, respectively.
>
> The Postal Accountability and Enhancement Act, P.L. 109-435 eliminated the requirement for the USPS to make contributions to CSRS and canceled the Postal Normal-Cost payments to the CSRS, retroactively to October 1, 2006.
>
> ***FERS.*** Both FERS participants and their employing agencies are required by statute to make contributions for FERS coverage. The FERS participant contribution rate is equal to the CSRS participant contribution rate less the prevailing Old Age Survivor and Disability Insurance deduction rate (0.8 percent for most participants for fiscal years 2008 and 2007). The employer contribution rate is equal to the FERS service-cost, less the participant contribution rate (11.2 percent of pay in fiscal years 2008 and 2007 for most participants). The total contributions by and for FERS participants (12.0 percent), therefore, fully funded the FERS service-cost in both fiscal years 2008 and 2007.

Health Benefits Program. The Program (with the exception of the PSRHB Fund) is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions on approximately a one-quarter to three-quarters basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation). The Program continues to provide benefits to active employees (or their survivors) after they retire (post-retirement benefits). With the exception of the USPS, agencies are not required to make contributions for the post-retirement coverage of their active employees. These agencies, therefore, must recognize the service-cost of providing post-retirement health benefits for active employees ($5,220 and $5,572 per participant for fiscal years 2008 and 2007, respectively) as an imputed cost.

P.L. 109-435 requires the USPS to make scheduled payment contributions to the new PSRHB Fund ranging from approximately $5.4 to $5.8 billion per year from fiscal year 2007 through fiscal year 2016 according to the legislation. Thereafter, the USPS will make annual payments of the sum of the normal-cost payment.

Life Insurance Program. The Program is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation). The Program is funded using the "level premium" method, where contributions paid by and for participants remain fixed until age 65, but overcharge during early years of coverage to compensate for higher rates of expected outflows at later years. A portion of post-retirement life insurance coverage (0.02 percent of the pay of participating employees in fiscal years 2008 and 2007) is not funded. Employing agencies must recognize this amount as an imputed cost.

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

G. Financing Sources Other Than Earned Revenue

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

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

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

H. Budgetary Resources

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

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

Trust Fund Receipts. The amounts collected by OPM and credited to the CSRDF generate budgetary resources in the form of trust fund receipts. Trust fund receipts are considered to be immediately appropriated and available to cover the valid obligations of the Retirement Program as they are incurred. At the end of each fiscal year, the amount by which OPM's collections have exceeded its incurred obligations are temporarily precluded from obligation and added to OPM's trust fund balance. The amounts collected by OPM in the PSRHB Fund are precluded from obligation until 2017 when the funds will be available to pay annual premium costs for the USPS post-1971 current annuitants [See Note 7].

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

I. Fund Balance with Treasury

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

J. Investments

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

The Retirement Program also carries, but does not routinely invest in, securities issued by the Federal Financing Bank (FFB) and a small amount of other securities.

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

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

K. Accounts Receivable, Net

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

L. Other Assets

This represents the balance of assets held by the experience-rated carriers participating in the Health Benefits Program and by the Life Insurance Program carrier, pending disposition on behalf of OPM. Due to recent economic conditions, these balances reflect unrealized but permanent losses resulting from a reduction in the market value of assets held by our life insurance carrier.

M. General Property and Equipment

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

N. Benefits Due and Payable

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

O. Actuarial Liabilities and Associated Expenses

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

P. Cumulative Results of Operations

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

Q. Tax Status

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

Note 2—Fund Balance with Treasury

Fund Balances. OPM's FBWT balances by account type at the end of fiscal years 2008 and 2007 are:

September 30, 2008 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Trust Fund	$20	-	-	-	$20
Revolving Fund	-	-	-	$695	695
General Funds	-	$894	$5	75	974
Trust Revolving Funds	-	37	5	-	42
Total	**$20**	**$931**	**$10**	**$770**	**$1,731**
September 30, 2007 ($ in millions)					
Trust Fund	$1	-	-	-	$1
Revolving Fund	-	-	-	$495	495
General Funds	-	$870	$5	90	965
Trust Revolving Funds	-	5	5	-	10
Total	**$1**	**$875**	**$10**	**$585**	**$1,471**

Status of Unexpended Balances. OPM's unexpended balances are comprised of its FBWT and its investments (at par, net of original discount). The following table presents the portions of OPM's unexpended balances that are obligated, unobligated and precluded from obligation at the end of FYs 2008 and 2007:

September 30, 2008 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$20	$931	$10	$770	$1,731
Investments	728,849	47,758	33,862	–	810,469
Total, Unexpended Balance	**$728,869**	**$48,689**	**$33,872**	**$770**	**$812,200**
STATUS OF UNEXPENDED BALANCES					
Unobligated:					
Available	–	–	–	$464	$464
Unavailable	-	$12,859	$33,491	415	46,765
Obligated not yet Disbursed	$5,675	3,537	381	(109)	9,484
Precluded (See Note 7)	723,194	32,293	–	–	755,487
Total, Status of Unexpended Balances	**$728,869**	**$48,689**	**$33,872**	**$770**	**$812,200**

September 30, 2007 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$1	$875	$10	$585	$1,471
Investments	701,664	41,292	32,418	-	775,374
Total, Unexpended Balance	**$701,665**	**$42,167**	**$32,428**	**$585**	**$776,845**
STATUS OF UNEXPENDED BALANCES					
Unobligated:					
Available	-	-	-	$260	$260
Unavailable	-	$13,297	$32,064	442	45,803
Obligated not yet Disbursed	$5,450	3,379	364	(120)	9,073
Precluded (See Note 7)	696,215	25,491	-	-	721,706
Permanently not Available	-	-	-	3	3
Total, Status of Unexpended Balances	**$701,665**	**$42,167**	**$32,428**	**$585**	**$776,845**

Note 3—Investments

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

The cash receipts collected from the public for earmarked funds are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to OPM as evidence of its receipts. Treasury securities are an asset to OPM and a liability to the U. S. Treasury. Because OPM and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. They are eliminated in consolidation for the U.S. Government-wide financial statements.

Treasury securities provide OPM with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When OPM requires redemption of these Treasury securities to make expenditures, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. This is the same way the Government finances all other expenditures. When a security is redeemed and not carried to maturity, there is a risk that the fund could receive less value in return for the security it gave up. The Health Benefit and Life Insurance funds had approximately $83 billion invested as of September 30, 2008. Approximately $50 billion are market-based and have some market value risk.

The following tables summarize OPM's investments by Program (all earmarked funds) at the end of fiscal years 2008 and 2007.

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

As of September 30, 2007 ($ in millions)	Cost	Amortized Discount/(Premium)	Interest Receivable	Investments, Net	Unamortized Discount/(Premium)	Market Value
Intragovernmental:						
Retirement Program:						
(1) Marketable: FFB Securities	$14,000	-	$164	$14,164	-	$14,000
(2) Non-Marketable: (PAR)						
Par-value GAS securities	655,086	-	8,952	664,038	-	655,086
Certificates of Indebtedness	32,578	-	11	32,589	-	32,578
Total Retirement Program	**$701,664**	**-**	**$9,127**	**$710,791**	**-**	**$701,664**
Health Benefits Program:						
Non-Marketable: (Market-based) Market-Based GAS Securities	15,871	($13)	75	15,933	($34)	15,876
Non-Marketable: (PAR) Certificates of Indebtedness	25,491	-	255	25,746	-	25,491
Total Health Benefits Program	**$41,362**	**($13)**	**$330**	**$41,679**	**($34)**	**$41,367**
Life Insurance Program						
Non-Marketable: (Market-based) Market-Based GAS securities	32,491	74	361	32,926	(400)	32,782
Total Life Insurance Program	**$32,491**	**$74**	**$361**	**$32,926**	**($400)**	**$32,782**
Total Investments	***$775,517***	**$61**	***$9,818***	***$785,396***	***($434)***	***$775,813***

Note 4—Accounts Receivable, Net

Intragovernmental. The balances comprising OPM's intragovernmental accounts receivable as of September 30, 2008 and 2007 are:

September 30, 2008 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	$934	$688	$22	-	$1,644
Other	-	-	-	$103	103
Total	**$934**	**$688**	**$22**	**$103**	**$1,747**
September 30, 2007 ($ in millions)					
Employer contributions receivable	$717	$551	$17	-	$1,285
Other	-	-	-	$98	98
Total	**$717**	**$551**	**$17**	**$98**	**$1,383**

From the Public. The balances comprising the accounts receivable OPM classifies as "from the public" at September 30, 2008 and 2007 are presented, in the following table. See Note 1J for the methodology used to determine the allowance.

September 30, 2008 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	$172	$645	$140	–	$957
Overpayment of benefits [net of allowance of $74]	186	–	–	–	186
Due from carriers [net of allowance of $13]	–	27	–	–	27
Total	**$358**	**$672**	**$140**	**–**	**$1,170**
September 30, 2007 ($ in millions)					
Participant contributions receivable	$146	$578	$118	–	$842
Overpayment of benefits [net of allowance of $64]	163	–	–	–	163
Due from carriers [net of allowance of $1]	–	31	–	–	31
Other	–	–	–	$1	1
Total	**$309**	**$609**	**$118**	**$1**	**$1,037**

Note 5–Federal Employee Benefits

A. Pensions

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

Economic Assumptions. The economic assumptions used to calculate the Pension Liability and related expense remained unchanged from FY 2007. The following presents the significant economic assumptions used to compute the Pension Liability in fiscal years 2008 and 2007:

	2008	2007
Interest rate	6.25%	6.25%
Rate of inflation	3.50%	3.50%
Rate of increases in salary	4.25%	4.25%

Pension Expense. The following tables present Pension Expense by cost component for fiscal years 2008 and 2007:

FY 2008 ($ in millions)	CSRS	FERS	TOTAL
Service cost	$9,111	$17,376	$26,487
Interest cost	63,723	17,614	81,337
Actuarial loss	15,847	7,132	22,979
Pension Expense	**$88,681**	**$42,122**	**$130,803**
FY 2007 ($ in millions)			
Service cost	$9,731	$15,968	$25,699
Interest cost	63,349	15,962	79,311
Actuarial gain	(8,415)	(2,336)	(10,751)
Pension Expense	**$64,665**	**$29,594**	**$94,259**

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

FY 2008 ($ in millions)	CSRS	FERS	TOTAL
Pension Liability at October 1, 2007	$1,044,700	$275,200	$1,319,900
Plus: Pension Expense	88,681	42,122	130,803
Less: Costs applied to Pension Liability	59,381	4,122	63,503
Pension Liability at September 30, 2008	**$1,074,000**	**$313,200**	**$1,387,200**
FY 2007 ($ in millions)			
Pension Liability at October 1, 2006	$1,037,400	$249,200	$1,286,600
Plus: Pension Expense	64,665	29,594	94,259
Less: Costs applied to Pension Liability	57,365	3,594	60,959
Pension Liability at September 30, 2007	**$1,044,700**	**$275,200**	**$1,319,900**

Costs Applied to the Pension Liability. In accordance with Federal accounting standards, the Pension Liability is reduced by the total operating costs of the Retirement Program. The following table presents the costs applied to the Pension Liability in fiscal years 2008 and 2007:

FY 2008 ($ in millions)	CSRS	FERS	TOTAL
Annuities	$59,071	$3,954	$63,025
Refunds of contributions	189	109	298
Administrative and other expenses	121	59	180
Costs applied to the Pension Liability	**$59,381**	**$4,122**	**$63,503**
FY 2007 ($ in millions)			
Annuities	$57,046	$3,374	$60,420
Refunds of contributions	182	112	294
Administrative and other expenses	137	108	245
Costs applied to the Pension Liability	**$57,365**	**$3,594**	**$60,959**

B. Post-retirement Health Benefits

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

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

	FY 2008	FY 2007
Interest rate	6.25%	6.25%
Increase in per capita cost of covered benefits	7.00%	7.00%

PRHB Expense. The following presents the PRHB Expense by cost component for fiscal years 2008 and 2007:

($ in millions)	FY 2008	FY 2007
Service cost	$11,866	$10,806
Interest cost	19,529	17,814
Actuarial (gain)/loss	10,354	(1,246)
PRHB Expense	**$41,749**	**$27,374**

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

($ in millions)	FY 2008	FY 2007
PRHB Liability at the beginning of the year	$302,114	$286,279
Plus: PRHB Expense	41,749	27,374
Less: Costs applied to the PRHB Liability	12,446	11,539
PRHB Liability at the end of the year	**$331,417**	**$302,114**

Costs Applied to PRHB Liability. In accordance with Federal accounting standards, OPM reduces the PRHB Liability by applying certain Program costs. The following table presents the costs applied to the PRHB Liability in fiscal years 2008 and 2007:

($ in millions)	FY 2008	FY 2007
Current benefits	$9,035	$8,461
Premiums	2,573	2,258
Administrative and other expenses	838	820
Total costs applied to the PRHB Liability	**$12,446**	**$11,539**

Effect of Assumptions. The increase in the per capita cost of covered benefits assumed by OPM's actuaries (7.0 percent in fiscal years 2008 and 2007) has a significant effect on the amounts reported as the PRHB Liability and associated expense. A one percentage point change in the per capita cost of covered benefits assumption would have the following effects in fiscal years 2008 and 2007:

($ in millions)	FY 2008		FY 2007	
	8.0% [One Percent Increase]	6.0% [One Percent Decrease]	8.0% [One Percent Increase]	6.0% [One Percent Decrease]
Interest cost component	$22,136	$17,304	$20,229	$15,782
Service cost component	15,039	9,319	13,765	8,473
PRHB Liability	$378,821	$291,128	$346,041	$265,302

C. Life Insurance

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

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

($ in millions)	FY 2008	FY 2007
EPV of future benefits	$76,602	$73,945
EPV of future contributions by participants	(39,845)	(38,781)
ALIL	**$36,757**	**$35,164**

Life Insurance Expense. The following presents the Life Insurance Expense by cost component for fiscal years 2008 and 2007:

($ in millions)	FY 2008	FY 2007
New Entrant Expense	$ 263	$ 268
Interest cost	2,190	2,089
Actuarial gain	(339)	(213)
Life Insurance Expense	**$2,114**	**$2,144**

Future Life Insurance Benefits Expense. The Future Life Insurance Benefits Expense for fiscal years 2008 and 2007 is:

($ in millions)	FY 2008	FY 2007
Life Insurance Expense	$2,114	$2,144
Less: Net Costs applied to Life liability	521	536
Future Life Insurance Benefits Expense	**$1,593**	**$1,608**

Note 6—Other Liabilities

The following liabilities, all current and "with the public," are classified as "other" on the Balance Sheet as of September 30, 2008 and 2007:

September 30, 2008 ($ in millions)	Withheld from benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued Administrative expenses	Contingencies	Total
Retirement Program	$617	-	-	-	$617
Health Benefits Program	-	$359	-	$8	367
Revolving Fund Program	-	-	$138	-	138
Salaries and Expenses	-	-	42	3	45
Total Other Liabilities	**$617**	**$359**	**$180**	**$11**	**$1,167**
September 30, 2007 ($ in millions)					
Retirement Program	$589	-	-	-	$589
Health Benefits Program	-	$364	-	$11	375
Revolving Fund Program	-	-	$134	-	134
Salaries and Expenses	-	-	37	3	40
Total Other Liabilities	**$589**	**$364**	**$171**	**$14**	**$1,138**

Note 7–Availability of Unobligated Balances

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

The following table presents the unobligated balance of the CSRDF that is included in the Retirement Program that is temporarily precluded from obligation as of September 30, 2008 and 2007:

September 30, ($ in millions)	2008	2007
Temporarily precluded from obligation at the beginning of the year	$696,215	$684,824
Plus: Trust fund receipts during the year	90,892	89,859
Plus: Appropriations Received	30,938	30,996
Less: Obligations incurred during the year	94,851	109,464
Excess of trust fund receipts over obligations incurred during the year	26,979	11,391
Temporarily Precluded from Obligation at the End of the Year	**$723,194**	**$696,215**

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

During fiscal years 2008 and 2007, receipts to the PSRHB Fund included USPS scheduled payment contributions of $5.6 billion and $5.4 billion, respectively. Also, FY 2008 receipts also included interest income and during FY 2007, the USPS transferred $2.9 billion held in escrow and $17.1 billion from the CSRDF was transferred to the PSRHB fund. The following table presents the unobligated balance of the PSRHB Fund included in the Health Benefits Program that is temporarily precluded from obligation as of September 30, 2008 and 2007:

September 30, ($ in millions)	2008	2007
Temporarily precluded from obligation at the beginning of the year	$25,491	$ –
Plus: Special Fund receipts during the year	6,802	25,491
Excess of Special Fund receipts over obligations incurred during the year	6,802	25,491
Temporarily Precluded from Obligation at the End of the Year	**$32,293**	**$25,491**

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

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

Note 8—Health Benefits/Life Insurance Program Concentrations

During fiscal years 2008 and 2007, over half of the Health Benefits Program's benefits were administered by the Blue Cross and Blue Shield Association, a fee-for-service carrier that provides experience-rated benefits. For the Life Insurance Program, virtually all of the benefits were administered by the Metropolitan Life Insurance Company.

Note 9—Apportionment Categories of Incurred Obligations

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

The following chart details the direct and reimbursable obligations that have been incurred against each apportionment category during fiscal years 2008 and 2007:

FY 2008 Program/Fund ($ in millions)	Category	Direct	Reimbursable	Total
Retirement Program	B	$63,913	–	**$63,913**
Retirement Program	C	30,938	–	**30,938**
Subtotal		$94,851		**$94,851**
Health Benefits Program	B	44,659	–	**44,659**
Life Insurance Program	B	2,572	–	**2,572**
Revolving Fund Program	A	–	$1,445	**1,445**
Salaries and Expenses	A	316	47	**363**
Total		**$142, 398**	**$1,492**	**$143,890**
FY 2007 Program/Fund ($ in millions)	**Category**	**Direct**	**Reimbursable**	**Total**
Retirement Program	B	$78,468	–	**$78,468**
Retirement Program	C	30,996	–	**30,996**
Subtotal		$109,464		**$109,464**
Health Benefits Program	B	42,505	–	**42,505**
Life Insurance Program	B	2,496	–	**2,496**
Revolving Fund Program	A	–	$934	**934**
Salaries and Expenses	A	274	74	**348**
Total		**$154,739**	**$1,008**	**$155,747**

Note 10—Intragovernmental Gross Costs And Earned Revenue

The following table presents the portion of OPM's gross costs and earned revenue that was classified as intragovernmental and "with the public" in fiscal years 2008 and 2007:

	GROSS COSTS			EARNED REVENUE		
	Intragovern-mental	With the Public	Total	Intragovern-mental	With the Public	Total
FY 2008 ($ in millions)						
Provide CSRS Benefits	–	$88,681	$88,681	$23,770	$2,550	$26,320
Provide FERS Benefits	–	42,122	42,122	32,308	1,201	33,509
Provide Health Benefits	–	65,198	65,198	23,858	9,860	33,718
Provide Life Insurance Benefits	–	4,128	4,128	1,817	2,364	4,181
Provide Human Resources Services	$142	1,315	1,457	1,438	2	1,440
Total	**$142**	**$201,444**	**$201,586**	**$83,191**	**$15,977**	**$99,168**
FY 2007 ($ in millions)						
Provide CSRS Benefits	–	$64,665	$64,665	$25,383	$2,723	$28,106
Provide FERS Benefits	–	29,594	29,594	29,219	1,105	30,324
Provide Health Benefits	–	49,708	49,708	25,317	9,464	34,781
Provide Life Insurance Benefits	–	4,021	4,021	1,713	2,212	3,925
Provide Human Resources Services	$82	1,020	1,102	1,084	2	1,086
Total	**$82**	**$149,008**	**$149,090**	**$82,716**	**$15,506**	**$98,222**

Note 11–Contingencies

Health Benefits Program Carriers. OPM is a party to litigation in which three community-rated Health Benefits Program Carriers are seeking relief from a regulation incorporated into their contracts. In addition, there is litigation in which the FEHB contingency reserve would be chargeable. OPM has recorded a liability of $8 million and $11 million at September 30, 2008 and 2007, respectively, for the estimated amount of losses it will probably incur from this litigation. In addition, OPM has determined that, at September 30, 2008, it is reasonably possible that an additional $3.5 million in losses will result. All losses involving this litigation will be paid from the Treasury Judgment Fund (TJF); OPM, however, does not have the budgetary resources to and is precluded by law from reimbursing the TJF. Although it is impossible to ascertain the ultimate legal liability with respect to contingent liabilities, OPM believes the outcome of this litigation, either pending or known to be threatened, will not have a material adverse effect on OPM's financial position or results of operations.

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

Other Litigation. OPM is often involved in other legal and administrative proceedings that arise in the ordinary course of business. OPM has recorded a liability of $3 million in Salaries and Expenses at September 30, 2008 and 2007 for the estimated amount of losses it will probably incur from this litigation. In addition, OPM has determined, at September 30, 2008, it is reasonably possible that an additional $11.2 million to $16.3 million will result in losses. OPM management, based upon the opinion of its General Counsel, believes the combined outcome of all such proceedings, either pending or known to be threatened, will have no material adverse effect on OPM's financial position or results of operations.

Note 12—Earmarked Funds

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

A condensed version of the Earmarked Funds Balance Sheet as of September 30, 2008 and September 30, 2007 follows:

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

September 30, 2007 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
ASSETS				
Fund Balance with Treasury	$1	$875	$10	**$886**
Investments	710,791	41,679	32,926	**785,396**
Accounts Receivable	1,026	1,160	135	**2,321**
Other Assets	-	112	630	**742**
Total Assets	**$711,818**	**$43,826**	**$33,701**	**$789,345**
LIABILITIES and NET POSITION				
Intragovernmental	$68	$257	-	**$325**
Benefits Due and Payable	4,798	3,818	$741	**9,357**
Pension Liability	1,319,900	-	-	**1,319,900**
Post-retirement Health Benefits Liability	-	302,114	-	**302,114**
Actuarial Life Insurance Liability	-	-	35,164	**35,164**
Other Liabilities	589	375	-	**964**
Total Liabilities	**$1,325,355**	**$306,564**	**$35,905**	**$1,667,824**
Cumulative Results of Operations	(613,537)	(262,738)	(2,204)	**(878,479)**
Total Liabilities and Net Position	**$711,818**	**$43,826**	**$33,701**	**$789,345**

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

The Health Benefits Program (with the exception of the PSRHB Fund) is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions on approximately a one-quarter to three-quarters basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation). P.L. 109-435 requires the USPS to make scheduled payment contributions to the new PSRHB Fund ranging from approximately $5.4 to $5.8 billion per year from fiscal year 2007 through fiscal year 2016 in accordance with the legislation. Thereafter, the USPS will make annual payments of the sum of the normal cost payment.

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

A condensed version of the Earmarked Funds' Statement of Net Cost for FY 2008 and FY 2007 follows:

FY 2008 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Gross Program Costs	$130,803	$65,198	$4,128	$200,129
Less Earned Revenues	59,829	33,718	4,181	97,728
Net Cost of Operations	**$70,974**	**$31,480**	**($53)**	**$102,401**
FY 2007 ($ in millions)				
Gross Program Costs	$94,259	$49,708	$4,021	$147,988
Less Earned Revenues	58,430	34,781	3,925	97,136
Net Cost of Operations	**$35,829**	**$14,927**	**$96**	**$50,852**

A condensed version of the Earmarked Funds' Statement of Changes in Net Position for FY 2008 and FY 2007 follows:

FY 2008 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Net Position Beginning of Period	($613,537)	($262,738)	($2,204)	**($878,479)**
Budgetary Financing Sources	30,976	8,738	44	**39,758**
Net Cost of Operations	$70,974	$31,480	($53)	**$102,401**
Change in Net Position	($39,998)	($22,742)	$97	**($62,643)**
Net Position End of Period	**($653,535)**	**($285,480)**	**($2,107)**	**($941,122)**
FY 2007 ($ in millions)				
Net Position Beginning of Period	($591,642)	($273,492)	($2,151)	**($867,285)**
Budgetary Financing Sources	13,934	25,681	43	**39,658**
Net Cost of Operations	$35,829	$14,927	$96	**$50,852**
Change in Net Position	($21,895)	$10,754	($53)	**($11,194)**
Net Position End of Period	**($613,537)**	**($262,738)**	**($2,204)**	**($878,479)**

Note 13—Reconciliation of Net Cost of Operations to Budget

SFFAS No. 7 requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. The FY 2008 reconciliation and comparative FY 2007 reconciliation are as follows:

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

FY 2007 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2007
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$109,464	$42,505	$2,496	$934	$348	$155,747
Less: Spending Authority from Offsetting Collections and Recoveries	–	34,689	4,068	1,160	215	40,132
Less: Appropriated Trust Fund Receipts	89,859	25,491	–	–	–	115,350
Obligations Net of Offsetting Collections and Recoveries	19,605	(17,675)	(1,572)	(226)	133	265
Less: Offsetting Receipts	31,034	–	–	–	–	31,034
Net Obligations	**($11,429)**	**($17,675)**	**($1,572)**	**($226)**	**$133**	**($30,769)**
Other Resources	–	–	–	21	12	33
Total Resources Used to Finance Activities	**($11,429)**	**($17,675)**	**($1,572)**	**($205)**	**$145**	**($30,736)**
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$30,996	–	–	–	–	$30,996
Other Transfer In (Out) without Reimbursement	(17,100)	$17,100	–	–	–	–
Other	76	(328)	$68	$181	($26)	(29)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**13,972**	**16,772**	**68**	**181**	**(26)**	**30,967**
Total Resources Used to Finance the Net Cost of Operations	**$2,543**	**($903)**	**($1,504)**	**($24)**	**$119**	**$231**
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in Future Periods:						
Increase in Actuarial Liabilities	$33,300	$15,835	$1,608	–	–	$50,743
Exchange Revenue Not in the Budget	18	(20)	(8)	$1	–	(9)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Period	33,318	15,815	1,600	1	–	50,734
Components Not Requiring or Generating Resources						
Other	(32)	15	–	(13)	($67)	(97)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	(32)	15	–	(13)	(67)	(97)
Total Components of Net Cost of Operations that Will Not Require or Generate Resource in the Current Period	$33,286	$15,830	$1,600	($12)	($67)	$50,637
NET COST OF OPERATIONS	**$35,829**	**$14,927**	**$96**	**($36)**	**$52**	**$50,868**

Note 14—Net Cost By Strategic Objectives

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

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

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

Strategic Objectives 2008 ($ in millions)		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
Objective A:	Total program cost	–	–	–	–	$18	**$18**
	Less earned revenue	–	–	–	–	11	**11**
	Net program cost	–	–	–	–	$7	**$7**
Objective B:	Total program cost	$72,149	$34,270	$53,044	$3,358	$112	**$162,933**
	Less earned revenue	21,413	27,262	27,432	3,402	115	**79,624**
	Net program cost	$50,736	$7,008	$25,612	($44)	($3)	**$83,309**
Objective C:	Total program cost	–	–	–	–	$273	**$273**
	Less earned revenue	–	–	–	–	279	**279**
	Net program cost	–	–	–	–	($6)	**($6)**
Objective D:	Total program cost	–	–	–	–	$860	**$860**
	Less earned revenue	–	–	–	–	913	**913**
	Net program cost	–	–	–	–	($53)	**($53)**
Objective E:	Total program cost	$16,532	$7,852	$12,154	$770	$177	**$37,485**
	Less earned revenue	4,907	6,247	6,286	779	111	**18,329**
	Net program cost	$11,625	$1,605	$5,868	($9)	$66	**$19,155**
Objective F:	Total program cost	–	–	–	–	$11	**$11**
	Less earned revenue	–	–	–	–	$7	**$7**
	Net program cost	–	–	–	–	$4	**$4**
Objective G:	Total program cost	–	–	–	–	$6	**$6**
	Less earned revenue	–	–	–	–	$4	**$4**
	Net program cost	–	–	–	–	$2	**$2**
Total	**Total program cost**	**$88,681**	**$42,122**	**$65,198**	**$ 4,128**	**$1,457**	**$201,586**
	Less earned revenue	**26,320**	**33,509**	**33,718**	**4,181**	**$1,440**	**99,168**
	Net program cost	**$62,361**	**$8,613**	**$31,480**	**($53)**	**$17**	**$102,418**

The following table presents a cross-walk of OPM's net cost by responsibility-segment to its net cost by strategic objective for fiscal year 2007. Total costs for this table were allocated based on the distribution of budgetary resources.

Strategic Objectives 2007 ($ in millions)		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
Objective A:	Total program cost	–	–	–	–	$20	**$20**
	Less earned revenue	–	–	–	–	17	**17**
	Net program cost	–	–	–	–	$3	**$3**
Objective B:	Total program cost	$51,851	$23,749	$39,832	$3,224	$68	**$118,724**
	Less earned revenue	22,536	24,315	27,889	3,147	68	**77,955**
	Net program cost	$29,315	($566)	$11,943	$77	–	**$40,769**
Objective C:	Total program cost	–	–	–	–	$179	**$179**
	Less earned revenue	–	–	–	–	180	**180**
	Net program cost	–	–	–	–	($1)	**($1)**
Objective D:	Total program cost	–	–	–	–	$60	**$60**
	Less earned revenue	–	–	–	–	51	**51**
	Net program cost	–	–	–	–	$9	**$9**
Objective E:	Total program cost	$12,814	$5,845	$9,876	$797	$763	**$30,095**
	Less earned revenue	5,570	6,009	6,892	778	759	**20,008**
	Net program cost	$7,244	($164)	$2,984	$19	$4	**$10,087**
Objective F:	Total program cost	–	–	–	–	$10	**$10**
	Less earned revenue	–	–	–	–	$9	**$9**
	Net program cost	–	–	–	–	$1	**$1**
Objective G:	Total program cost	–	–	–	–	$2	**$2**
	Less earned revenue	–	–	–	–	$2	**$2**
	Net program cost	–	–	–	–	–	**–**
Total	**Total program cost**	**$64,665**	**$29,594**	**$49,708**	**$ 4,021**	**$1,102**	**$149,090**
	Less earned revenue	**28,106**	**30,324**	**34,781**	**3,925**	**$1,086**	**98,222**
	Net program cost	**$36,559**	**($730)**	**$14,927**	**$96**	**$16**	**$50,868**

Note 15—Comparison Of Combined Statements Of Budgetary Resources To The President's Budget

OPM reports information about budgetary resources in the Combined Statements of Budgetary Resources and for presentation in the "President's Budget." The President's Budget for FY 2010, which will contain budgetary resources information for fiscal year 2008, will be published in February 2009 and will be available on the OMB website at http://www.whitehouse.gov/omb/. The President's Budget for fiscal year 2009, which contains budgetary resource information for fiscal year 2007, was released on February 4, 2008.

There are no material differences between the Statement of Budgetary Resources and the SF-133 Report on Budgetary Execution for FY 2008 and FY 2007. Additionally, there are no material differences between the actual amounts for fiscal year 2007 published in the President's Budget and those reported in the accompanying FY 2007 Combined Statement of Budgetary Resources.

Note 16—Undelivered Orders At The End Of The Period

The amounts of budgetary resources obligated for undelivered orders at the end of FY 2008 and FY 2007 are as follows:

Undelivered Orders ($ in millions)	Revolving Fund Programs	Salaries & Expenses	Total
FY 2008	$359	$77	**$436**
FY 2007	$243	$90	**$333**

Note 17—Change In Accounting Principle—Distributed Offsetting Receipts

In January 2008, OPM received guidance from the Office of Management and Budget and the Treasury Financial Management Service (FMS) related to a change in accounting to a more preferred method, whereby beginning in FY 2008, OPM would record receipts related to the PSRHB Fund as a reduction to net outlays by presenting such receipts as distributed offsetting receipts. As such, $6,802 billion of receipts received from the USPS are recorded in the Health Benefits Program as a distributed offsetting receipt on the Statement of Budgetary Resources.

Consolidating Financial Statements

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

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

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

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2008
LIABILITIES							
Intragovernmental	$53	$260	$1	$448	$3	($63)	$702
Federal Employee Benefits:							
Benefits Due and Payable	5,010	4,114	779	–	–	–	9,903
Pension Liability [Note 5A]	1,387,200	–	–	–	–	–	1,387,200
Post-retirement Health Benefits Liability [Note 5B]	–	331,417	–	–	–	–	331,417
Actuarial Life Insurance Liability [Note 5C]	–	–	36,757	–	–	–	36,757
Total Federal Employee Benefits	1,392,210	335,531	37,536	–	–	–	1,765,277
Other [Notes 6 and 11]	617	367	–	138	45	–	1,167
Total Liabilities	1,392,880	336,158	37,537	586	48	(63)	1,767,146
NET POSITION							
Unexpended Appropriations - Other Funds	–	–	–	3	72	–	75
Cumulative Results of Operations - Earmarked Funds [Note 12]	(653,535)	(285,480)	(2,107)	–	–	–	(941,122)
Cumulative Results of Operations - Other Funds	–	–	–	263	17	–	280
Total Net Position	(653,535)	(285,480)	(2,107)	266	89	–	(940,767)
TOTAL LIABILITIES AND NET POSITION	$739,345	$50,678	$35,430	$852	$137	($63)	$826,379

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2007
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2007
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$1	$875	$10	$495	$90	–	$1,471
Investments [Note 3]	710,791	41,679	32,926	–	–	–	785,396
Accounts Receivable [Note 4]	717	551	17	99	74	($75)	1,383
Total Intragovernmental	711,509	43,105	32,953	594	164	(75)	788,250
Accounts Receivable from the Public, Net [Note 4]	309	609	118	–	1	–	1,037
General Property and Equipment, Net	–	–	–	10	1	–	11
Other [Note 1L]	–	112	630	69	–	–	811
TOTAL ASSETS	$711,818	$43,826	$33,701	$673	$166	($75)	$790,109

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2007
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2007
LIABILITIES							
Intragovernmental	$68	$257	–	$425	$4	($75)	$679
Federal Employee Benefits:							
Benefits Due and Payable	4,798	3,818	$741	–	–	–	9,357
Pension Liability [Note 5A]	1,319,900	–	–	–	–	–	1,319,900
Post-retirement Health Benefits Liability [Note 5B]	–	302,114	–	–	–	–	302,114
Actuarial Life Insurance Liability [Note 5C]	–	–	35,164	–	–	–	35,164
Total Federal Employee Benefits	1,324,698	305,932	35,905	–	–	–	1,666,535
Other [Notes 6 and 11]	589	375	–	134	40	–	1,138
Total Liabilities	1,325,355	306,564	35,905	559	44	(75)	1,668,352
NET POSITION							
Unexpended Appropriations—Other Funds	–	–	–	3	81	–	84
Cumulative Results of Operations—Earmarked Funds [Note 12]	(613,537)	(262,738)	(2,204)	–	–	–	(878,479)
Cumulative Results of Operations—Other Funds	–	–	–	111	41	–	152
Total Net Position	(613,537)	(262,738)	(2,204)	114	122	–	(878,243)
TOTAL LIABILITIES AND NET POSITION	$711,818	$43,826	$33,701	$673	$166	($75)	$790,109

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

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

	Retirement Program								
	CSRS	FERS	Total	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2008
GROSS COSTS									
Intragovernmental	–	–	–	–	–	$209	$218	($285)	$142
With the Public:									
Pension Expense [Note 5A]	$88,681	$42,122	$130,803	–	–	–	–	–	130,803
Post-retirement Health Benefits [Note 5B]	–	–	–	$41,749	–	–	–	–	41,749
Future Life Insurance Benefits [Note 5C]	–	–	–	–	$1,593	–	–	–	1,593
Current Benefits and Premiums	–	–	–	22,542	2,532	–	–	–	25,074
Other	–	–	–	907	3	1,158	157	–	2,225
Total Gross Costs with the Public	88,681	42,122	130,803	65,198	4,128	1,158	157	–	201,444
Total Gross Costs [Notes 10 and 14]	88,681	42,122	130,803	65,198	4,128	1,367	375	(285)	201,586
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	2,045	16,742	18,787	22,006	471	–	–	–	41,264
Earnings on Investments	21,725	15,566	37,291	1,852	1,346	–	–	–	40,489
Other	–	–	–	–	–	1,495	228	(285)	1,438
Total Intragovernmental Earned Revenue	23,770	32,308	56,078	23,858	1,817	1,495	228	(285)	83,191
With the Public:									
Participant Contributions	2,550	1,201	3,751	9,852	2,362	–	–	–	15,965
Other	–	–	–	8	2	2	–	–	12
Total Earned Revenue with the Public	2,550	1,201	3,751	9,860	2,364	2	–	–	15,977
Total Earned Revenue [Notes 10 and 14]	26,320	33,509	59,829	33,718	4,181	1,497	228	(285)	99,168
Net Cost of Operations [Notes 10 and 14]	$62,361	$8,613	$70,974	$31,480	($53)	($130)	$147	–	$102,418

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2007
(In Millions)

	Retirement Program CSRS	Retirement Program FERS	Retirement Program Total	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2007
GROSS COSTS									
Intragovernmental	–	–	–	–	–	$215	$227	($360)	$82
With the Public:									
Pension Expense [Note 5A]	$64,665	$29,594	$94,259	–	–	–	–	–	94,259
Post-retirement Health Benefits [Note 5B]	–	–	–	$27,374	–	–	–	–	27,374
Future Life Insurance Benefits [Note 5C]	–	–	–	–	$1,608	–	–	–	1,608
Current Benefits and Premiums	–	–	–	21,472	2,410	–	–	–	23,882
Other	–	–	–	862	3	899	121	–	1,885
Total Gross Costs with the Public	64,665	29,594	94,259	49,708	4,021	899	121	–	149,008
Total Gross Costs [Notes 10 and 14]	64,665	29,594	94,259	49,708	4,021	1,114	348	(360)	149,090
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	2,232	15,139	17,371	24,311	448	–	–	–	42,130
Earnings on Investments	23,151	14,080	37,231	1,006	1,265	–	–	–	39,502
Other	–	–	–	–	–	1,148	296	(360)	1,084
Total Intragovernmental Earned Revenue	25,383	29,219	54,602	25,317	1,713	1,148	296	(360)	82,716
With the Public:									
Participant Contributions	2,723	1,105	3,828	9,464	2,211	–	–	–	15,503
Other	–	–	–	–	1	2	–	–	3
Total Earned Revenue with the Public	2,723	1,105	3,828	9,464	2,212	2	–	–	15,506
Total Earned Revenue [Notes 10 and 14]	28,106	30,324	58,430	34,781	3,925	1,150	296	(360)	98,222
Net Cost of Operations [Note 14]	$36,559	($730)	$35,829	$14,927	$96	($36)	$52	–	$50,868

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

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

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

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2007
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Total Earmarked Funds	Revolving Fund Programs	Salaries and Expenses	Total All Other Funds	2007
CUMULATIVE RESULTS OF OPERATIONS								
Beginning Balance	($591,642)	($273,492)	($2,151)	($867,285)	$54	($34)	$20	($867,265)
Budgetary Financing Sources:								
Appropriations Used	30,996	8,581	43	39,620	–	115	115	39,735
Transfers-in (out) Without Reimbursement	(17,100)	17,100	–	–	–	–	–	–
Other	38	–	–	38	–	–	–	38
Other Financing Sources	–	–	–	–	21	12	33	33
Total Financing Sources	13,934	25,681	43	39,658	21	127	148	39,806
Net Cost of Operations	35,829	14,927	96	50,852	(36)	52	16	50,868
Net Change	(21,895)	10,754	(53)	(11,194)	57	75	132	(11,062)
Cumulative Results of Operations—Ending Balance	($613,537)	($262,738)	($2,204)	($878,479)	$111	$41	$152	($878,327)
UNEXPENDED APPROPRIATIONS								
Beginning Balance	–	–	–	–	$3	$82	$85	$85
Budgetary Financing Sources:								
Appropriations Received	$30,996	$8,615	$44	$39,655	–	115	115	39,770
Appropriations Used	(30,996)	(8,581)	(43)	(39,620)	–	(115)	(115)	(39,735)
Other Budgetary Financing Sources	–	(34)	(1)	(35)	–	(1)	(1)	(36)
Total Budgetary Financing Sources	–	–	–	–	–	(1)	(1)	(1)
Total Unexpended Appropriations—Ending Balance	–	–	–	–	$3	$81	$84	$84
NET POSITION	($613,537)	($262,738)	($2,204)	($878,479)	$114	$122	$236	($878,243)

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

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

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

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

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2008
CHANGE IN OBLIGATED BALANCE						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	$5,450	$4,875	$747	$279	$109	$11,460
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	–	1,496	383	417	91	2,387
Total Unpaid Obligated Balance, Net	5,450	3,379	364	(138)	18	9,073
Obligations Incurred, Net	94,851	44,659	2,572	1,445	363	143,890
Less: Gross Outlays	94,626	44,334	2,534	1,274	365	143,133
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	–	–	–	44	2	46
Changes in Uncollected Customer Payments from Federal Sources	–	167	21	119	(7)	300
Obligated Balance, Net, End of the Period						
Unpaid Obligations	5,675	5,200	785	406	104	12,170
Less: Uncollected customer payments from Federal Sources	–	1,663	404	536	83	2,686
Total Unpaid Obligated Balance, Net, End of Period	5,675	3,537	381	(130)	21	9,484
NET OUTLAYS						
Net Outlays:						
Gross Outlays	94,626	44,334	2,534	1,274	365	143,133
Less: Offsetting Collections	–	35,320	3,934	1,474	250	40,978
Less: Distributed Offsetting Receipts [Note 17]	30,976	6,802	–	–	–	37,778
Net Outlays	$63,650	$2,212	($1,400)	($200)	$115	$64,377

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2007
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2007
BUDGETARY RESOURCES						
Unobligated Balance—Brought Forward, October 1	–	$12,532	$30,449	$407	$90	$43,478
Recoveries of Prior-Year Unpaid Obligations	–	–	–	17	1	18
Budgetary Authority:						
Appropriations:						
Received	$30,996	8,615	44	–	115	39,770
Other	–	(34)	(1)	–	–	(35)
Trust Fund Receipts:						
Appropriated	89,859	25,491	–	–	–	115,350
Spending Authority from Offsetting Collections:						
Collected	–	34,628	4,035	1,216	226	40,105
Changes in Receivables from Federal Sources and Unfilled Customer Orders	–	61	33	(73)	(12)	9
Subtotal	–	34,689	4,068	1,143	214	40,114
Temporarily not Available Pursuant to Public Law	(11,391)	(25,491)	–	–	–	(36,882)
Permanently not Available	–	–	–	–	(3)	(3)
Total Budgetary Resources	$109,464	$55,802	$34,560	$1,567	$417	$201,810
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred: [Note 9]						
Direct	$109,464	$42,505	$2,496	–	$274	$154,739
Reimbursable	–	–	–	$934	74	1,008
Subtotal	109,464	42,505	2,496	934	348	155,747
Unobligated Balance:						
Apportioned	–	–	–	230	30	260
Unobligated Balance Not Available	–	13,297	32,064	403	39	45,803
Total Status of Budgetary Resources	$109,464	$55,802	$34,560	$1,567	$417	$201,810

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2007
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2007
CHANGE IN OBLIGATED BALANCE						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	$5,129	$4,524	$691	$378	$96	$10,818
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	–	1,435	350	490	101	2,376
Total Unpaid Obligated Balance, Net	5,129	3,089	341	(112)	(5)	8,442
Obligations Incurred, Net	109,464	42,505	2,496	934	348	155,747
Less: Gross Outlays	109,143	42,154	2,440	1,016	336	155,089
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	–	–	–	17	1	18
Changes in Uncollected Customer Payments from Federal Sources	–	61	33	(73)	(12)	9
Obligated Balance, Net, End of the Period						
Unpaid Obligations	5,450	4,875	747	279	109	11,460
Less: Uncollected customer payments from Federal Sources	–	1,496	383	417	91	2,387
Total Unpaid Obligated Balance, Net, End of Period	5,450	3,379	364	(138)	18	9,073
NET OUTLAYS						
Net Outlays:						
Gross Outlays	109,143	42,154	2,440	1,016	336	155,089
Less: Offsetting Collections	–	34,628	4,035	1,216	226	40,105
Less: Distributed Offsetting Receipts	31,034	–	–	–	–	31,034
Net Outlays	$78,109	$7,526	($1,595)	($200)	$110	$83,950

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

Required Supplemental Information

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

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

LEGEND:

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

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

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

LEGEND:

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2007
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2007
BUDGETARY RESOURCES							
Unobligated Balance—Brought Forward, October 1	–	$12,532	$30,449	$407	$90	–	$43,478
Recoveries of Prior-Year Unpaid Obligations	–	–	–	17	1	–	18
Budgetary Authority:							
Appropriations:							
Received	–	–	–	–	115	$39,655	39,770
Other	–	–	–	–	–	(35)	(35)
Appropriated Trust Fund Receipts	$89,859	25,491	–	–	–	–	115,350
Spending Authority from Offsetting Collections: Collected	–	34,628	4,035	1,216	226	–	40,105
Changes in Receivables from Federal Sources and Unfilled Customer Orders	–	61	33	(73)	(12)	–	9
Subtotal	–	34,689	4,068	1,143	214	–	40,114
Temporarily not Available Pursuant to Public Law	(11,391)	(25,491)	–	–	–	–	(36,882)
Permanently not Available	–	–	–	–	(3)	–	(3)
Total Budgetary Resources	$78,468	$47,221	$34,517	$1,567	$417	$39,620	$201,810
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	$78,468	$33,924	$2,453	–	$274	$39,620	$154,739
Reimbursable	–	–	–	$934	74	–	1,008
Subtotal	78,468	33,924	2,453	934	348	39,620	155,747
Unobligated Balance:							
Apportioned	–	–	–	230	30	–	260
Unobligated Balance Not Available	–	13,297	32,064	403	39	–	45,803
Total Status of Budgetary Resources	$78,468	$47,221	$34,517	$1,567	$417	$39,620	$201,810

LEGEND:

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

Required Supplemental Information

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2007 (Continued)
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2007
CHANGE IN OBLIGATED BALANCE							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward, October 1	$5,129	$3,677	$686	$378	$96	$852	$10,818
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	–	1,435	350	490	101	–	2,376
Total Unpaid Obligated Balance, Net	5,129	2,242	336	(112)	(5)	852	8,442
Obligations Incurred, Net	78,468	33,924	2,453	934	348	39,620	155,747
Less: Gross Outlays	78,147	33,596	2,397	1,016	336	39,597	155,089
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	–	–	–	17	1	–	18
Changes in Uncollected Customer Payments from Federal Sources	–	61	33	(73)	(12)	–	9
Obligated Balance, Net, End of the Period							
Unpaid Obligations	5,450	4,005	742	279	109	875	11,460
Less: Uncollected customer payments from Federal Sources	–	1,496	383	417	91	–	2,387
Total Unpaid Obligated Balance, Net, End of Period	5,450	2,509	359	(138)	18	875	9,073
NET OUTLAYS							
Net Outlays:							
Gross Outlays	78,147	33,596	2,397	1,016	336	39,597	155,089
Less: Offsetting Collections	–	34,628	4,035	1,216	226	–	40,105
Less: Distributed Offsetting Receipts	31,034	–	–	–	–	–	31,034
Net Outlays	$47,113	($1,032)	($1,638)	($200)	$110	$39,597	$83,950

LEGEND:

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

Required Supplemental Information

Section 3—Other Accompanying Information

(Unaudited—See accompanying Independent Auditors' Report)

Management Challenges

As required by the Reports Consolidation Act of 2000, on October 29, 2008 OPM's Office of the Inspector General identified and reported to the Director the most serious management challenges facing the agency. OIG's report highlighted the key challenges facing OPM management going into FY 2009, as well as noting areas of improvement. A copy of OIG's letter and discussion of each management challenge begins on the next page.

October 29, 2008

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1100

OFFICE OF
THE INSPECTOR GENERAL

MEMORANDUM FOR MICHAEL W. HAGER
Acting Director

FROM: PATRICK E. McFARLAND
Inspector General

SUBJECT: Top Management Challenges

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

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

The internal challenges arise from issues that have minimal outside influence, and that once resolved will likely no longer be a challenge to OPM. The two listed internal challenges both result from the need to replace aging or inadequate systems.

It should be made clear that inclusion as a top challenge does not mean we consider these items to be material weaknesses. In fact, none of this year's challenges are currently material weaknesses – they are simply issues which demand significant attention, effort, and skill from OPM in order to be successfully addressed. In many cases, OPM has made great progress in doing so. However, there is always the possibility that they could become material weaknesses and have a negative impact on OPM's performance if they are not handled appropriately by OPM management.

www.opm.gov www.usajobs.gov

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

Environmental Challenges

- Strategic Human Capital;
- Federal Employees Health Benefits Program;
- Background Investigations; and,
- Information Technology (IT) Security
  - Protection of Personally Identifiable Information; and,
  - Homeland Security Presidential Directive 12-Personal Identification Verification II.

Internal Challenges

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

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

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

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

Michael W. Hager 3

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

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

Attachment

FISCAL YEAR 2008 TOP MANAGEMENT CHALLENGES
U.S. OFFICE OF PERSONNEL MANAGEMENT

ENVIRONMENTAL CHALLENGES

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

For example, we believe that OPM has done exceedingly well over the last few years in managing the challenges in the administration of the Federal Employees Health Benefits Program (FEHBP). Health care costs that seem to grow exponentially, the desire for new or better benefits, and the recent Health Information Technology initiatives are examples of issues that OPM has been faced with recently and has either succeeded in addressing or has a plan in place.

1. STRATEGIC HUMAN CAPITAL

The Government Accountability Office (GAO) first designated the strategic management of human capital as a high risk area in fiscal year (FY) 2001 for all of Government and it remains on GAO's high risk list as of March 2008. OPM is the Federal human resource management agency, and is charged with ensuring the Federal workforce is managed effectively and efficiently. Government-wide, about one-third of the Federal workforce will be eligible to retire under the new administration in 2012. As experienced employees retire, they leave behind critical gaps in leadership and institutional knowledge, which could adversely affect the Government's ability to carry out its diverse responsibilities. It is essential that OPM, in its human capital leadership role, ensure that agencies are aware of the personnel flexibilities available so that they have the right people in the right jobs at the right time to meet the challenges they face. It will be essential for OPM to ensure that the Federal Government can effectively recruit and retain talented people. OPM is addressing the human capital challenges as described.

To build agencies' sustainable institutional capacity for effective human capital management, OPM worked throughout FY 2008 to strengthen agency human capital accountability programs. In FY 2008, for the first time, all agencies scored with the President's Management Agenda (PMA) were required to submit Human Capital Management Reports (HCMRs) to fulfill the regulatory requirement of Title 5 part 250, Personnel Management in Agencies. Through this reporting process, OPM analyzed agencies' human capital plans, results and improvement strategies, and provided written feedback to agencies. OPM's HCMR analysis formed the basis for Human Capital Officers' ongoing engagement with agencies to transform the management of their workforce.

In FY 2008, OPM's Division for Human Capital Leadership and Merit System Accountability (HCLMSA) promoted the use of flexibilities through ongoing engagement by

Human Capital Officers and through interagency training and information-sharing sessions. OPM tracked the use of hiring flexibilities by agencies scored through the PMA Human Capital Initiative. In addition, OPM continues to work through the Federal Executive Boards to disseminate important human resources flexibilities information to agency leaders in field offices.

OPM has provided a web-based tool, called the Federal Competency Assessment Tool, for managers and human resources professionals to assess competencies against desired proficiency levels to identify gaps. A valuable part of this tool is the inclusion of validated performance management competencies.

In FY 2008, OPM launched a major initiative that took a comprehensive, integrated look at the "End-to-End (E2E)" Hiring Process. The resulting E2E Roadmap is the product of a strong partnership between the OPM and the CHCO (Chief Human Capital Officers) Council Subcommittee for Hiring and Succession Planning. This new approach to Federal hiring is designed to focus on the applicant: his or her expectations, needs and interests. The working group ensured their efforts reflected the following principles:

- A user-friendly application process that is not unduly burdensome or time consuming.
- Clear, understandable job announcements and instructions for applying.
- Timely and informed responses to questions about the requirements and the process.
- Prompt acknowledgement that their application has been received.
- Regular updates on the status of their applications as significant decisions are reached.
- A timely decision-making process.

Past attempts to address hiring processes have taken a component-by-component approach. Based on these previous experiences and agencies' current hiring needs, OPM decided to take a new, comprehensive and integrated approach to Federal hiring. In FY 2008, OPM launched four initiatives, all designed to honor the Federal Government's "Pledge to Applicants" by transforming the hiring experience for applicants, managers and HR. These initiatives are:

- Streamlined job opportunity announcement. In early April 2008, OPM created a new job announcement template for Government-wide entry-level accounting and secretarial vacancies. Since April, OPM has collaborated with the Federal Acquisition Institute, along with the Chief Information Officer Council, and Patent and Trade Office, and the Chief Financial Officer Council (to name a few) in developing additional streamlined job announcements for the acquisition, information technology, patent and trademark, and law enforcement communities. The new templates reduce the length and complexity of traditional announcements. OPM's model is now approximately four pages in length and written in plain language. It eliminates the additional requirement, beyond the resume, for further explaining the applicants' knowledge, skills and abilities.

- Centralized repository of qualified applicants for the acquisition community. OPM brokered an agreement across major agencies and organizations involved in recruitment for the Government-wide mission critical occupations (for example, Contract Specialist). The agreement creates a centralized repository of qualified applicants for entry-level acquisition positions. Participating agencies will be able to draw from this central repository for immediate placement of individuals who have already been certified as qualified for these positions. Currently, participants include the Department of Defense, the Federal Acquisition Institute, OPM and others.

- End-to-End (E2E) Hiring Initiative. OPM joined with the Chief Human Capital Officers Council Subcommittee for Hiring and Succession Planning to transform Federal hiring by strategically integrating and reengineering its five components: workforce planning, recruitment, hiring process, security and suitability and orientation.

OPM disseminated a draft of the E2E Roadmap to all the CHCO Council agencies on July 2, including additional representatives from the small agency community. Thirteen agencies responded with constructive feedback including specific suggestions for changes to the document. Based on this feedback, the Roadmap was revised and reviewed with the interagency working group. The final version was shared with the CHCO Council's Hiring and Succession Planning Subcommittee for approval prior to its Government-wide dissemination on September 1, 2008. In FY 2009, OPM will collect baselines against the Government-wide metrics established in the E2E Roadmap, and will help Government agencies set and meet aggressive targets for improving their hiring against the Government-wide standard.

OPM also undertook a major hiring initiative at the Senior Executive Service (SES) level. The SES Selection Pilot was launched on June 1 to test new approaches to recruiting and assessing potential senior executives. The objective is to enhance the quality of executive selections through a less burdensome application process and more targeted candidate assessment. Less paperwork for applicants should translate into a larger, more qualified applicant pool. OPM's Qualifications Review Board (QRB) process has also been streamlined under the pilot. For the first time, OPM is conducting "virtual QRBs" that do not require board members to meet in person. Response to the pilot has been overwhelmingly positive, with 10 agencies volunteering to participate. Over 40 SES vacancies have been announced to date using one of the 2 pilot application methods, Accomplishment Record or Resume Only. The project is scheduled for completion in early FY 2009. Based on lessons learned from the formal project evaluation, OPM will prepare and disseminate SES selection guidance, which is expected to be available to agencies during the latter half of the year.

As larger numbers of the older Federal workforce retire in the years ahead, critical gaps in leadership and institutional knowledge may result, thereby limiting the government's ability to carry out its various missions and goals. OPM is challenged to continue to ensure that Federal agencies are equipped to acquire, develop, motivate, and retain talent.

2. FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

OPM continues to face challenges it must address in order to ensure the Federal Employees Health Benefits Program (FEHBP) contracts with insurance carriers that offer comprehensive health care benefits at a fair price. As the administrator of the FEHBP, OPM has responsibility for negotiating contracts with insurance carriers covering the benefits provided and premium rates charged for approximately eight million Federal employees, annuitants, and their families. There are several key factors that affect the program's performance, such as an aging population; increases in the use of prescription drugs and medical services; advances in medical technology; and, the overall inflation rate related to general health care and prescription drug services.

These factors have also contributed to ever increasing premium rates for health plans nationwide. For calendar year 2009, OPM officials stated that the overall weighted average FEHBP premium increase is 7.0 percent. While this is higher than the previous two years, health care industry consultants project employee sponsored health care premium rate increases of between 8.5 percent and 10.6 percent in 2009 depending on the specific industry and type of health plan. Controlling these costs is an area of great concern to the Government (which is responsible for approximately 70 percent of the total premium), FEHBP enrollees, and OPM management. However, OPM is often limited in how much it can control premium cost increases without also cutting desired benefits.

In an on-going effort to ensure that Federal employees, retirees and their dependents have viable opportunities within the FEHBP to obtain health benefits coverage, OPM recently issued a request for proposals to acquire a health benefits carrier to offer a nationwide Indemnity Benefit Plan under the FEHBP beginning in January 2010. The primary purpose of adding the Indemnity Benefit Plan is to mitigate the risk should any carrier with a sizeable share of the market leave the FEHBP for any reason. In addition, the new plan will offer eligible Federal subscribers with another option for comprehensive health benefit coverage. This increased competition should also serve as a mechanism to control costs.

Increases in drug costs have been a major contributor to the rapid growth in health care costs over the last few years, with drugs now accounting for about 29 percent of all FEHBP costs. Of particular concern to our office are the pharmacy benefit managers (PBMs), who administer drug benefits for FEHBP health plans. Because the FEHBP carriers, not OPM, negotiate the pricing of these pharmacy benefits, oversight of the PBMs is limited. This year, per our recommendations, OPM established a working group this year to develop steps to strengthen the controls and oversight of the FEHBP pharmacy benefits. To help formulate a better understanding of this area, the group has completed or planned the following activities:

- Conducted a literature search on best practices in managing drug programs;
- Meeting with officials that run pharmacy programs for other large Government sponsored health care programs (i.e., TRICARE, Centers for Medicare and Medicaid Services (CMS), and U.S. Department of Veterans Affairs) to understand the controls that they have established; and,

- Obtaining a consulting contract with industry experts on drug pricing and PBM contract management/oversight to review FEHB carriers PBM contracts.

The long-term goal is to develop options for future enhancements of FEHBP pharmacy programs based on the results of the literature search, CMS/TRICARE benchmark evaluations, and recommendations from the expert consultant.

Further, OPM will have responsibilities and challenges as insurance carriers begin to implement Health Information Technology (HIT) initiatives. HIT (or e-health) covers a broad range of initiatives including electronic personal health records, e-Prescriptions, and disease management programs. It is hoped that these initiatives will reduce health care costs and improve the quality of care; the thinking is that manual tasks and unnecessary procedures will be avoided, and medical errors from incomplete information will be reduced. OPM will have at least some responsibility in each of these areas as the concept matures.

In August 2007, President Bush signed an Executive Order related to HIT that commits proposed Federal healthcare programs to four "cornerstone" goals:

- standards for connecting health information technology;
- quality care reporting;
- transparency of health services costs; and,
- providing incentives for quality care at competitive prices.

FEHBP Carrier Letter 2007-07 states that OPM expects all FEHBP carriers to be committed to these four cornerstones. The Program Carrier Letter reiterates OPM's commitment to the cornerstones and to promoting state-of-the-art health information technology. In 2008, OPM issued a second carrier letter (2008-06) in which it restated the expectation that all FEHBP carriers need to continue their important efforts to make fundamental information about health care quality and costs available to consumers. The competitive market for health care can only function efficiently when enrollees can make informed choices to obtain the highest quality care at the most affordable price.

Furthermore, OPM expects proposals for increased health care cost and quality transparency, as well as those promoting the increased use of state-of-the-art HIT. The proposals should demonstrate how the carriers are:

- promoting the use of personal health records (PHR);
- increasing the number of members accessing PHRs;
- expanding information available to members on provider costs and quality; and,
- educating members about the value of HIT and transparency.

Making the FEHBP e-health initiatives a reality will continue to present challenges in the 2009 contract year. First, there are serious unresolved concerns related to security and privacy of e-health systems. A study by the E-Health Vulnerability Reporting Program showed that it was too easy for hackers to access systems and modify e-health records using low-level hacking skills. These issues are of concern to some members of Congress.

Second, the costs and technical challenges for carriers to implement e-health systems are likely to be considerable. In addition, e-prescribing provides additional challenges that include having to buy and install the systems, learning how to use them, and keeping them updated. OPM will clearly face ongoing challenges associated with implementing e-health and e-prescribing in the FEHBP.

3. BACKGROUND INVESTIGATIONS

OPM's Federal Investigative Services Division (FISD), headquartered in Boyers, Pennsylvania, conducts background investigations on Federal applicants, employees, military members, and contractor personnel for suitability and security purposes. FISD conducts approximately 90 percent of all personnel background investigations for the Federal Government. With a staff of over 9,200 Federal and contract employees, FISD processed 2.1 million investigations in FY 2008 and will likely process at least that many in FY 2009.

With the enactment of the Intelligence Reform and Terrorism Prevention Act of 2004 (IRTPA), the Administration has taken steps to improve the security clearance process. Executive Order (EO) 13381 assigns the Office of Management and Budget (OMB) the responsibility for improving the security clearance process. On June 28, 2007, EO 13381 was further amended by EO 13436 and extended through July 1, 2008, reinforcing the Administration's commitment to improving the security clearance process. On June 30, 2008, President Bush signed EO 13467 to ensure the reform efforts currently underway continue beyond his administration.

OPM and the adjudicative agencies have made significant progress in the overall timeliness of the security clearance and investigations program. Data reported for the third quarter of FY 2008 showed 80% of initial security investigations were completed within an average of 54 days and 80% were adjudicated within an average of 20 days. FISD also monitors end-to-end timeliness, which measures the time from the signature date on the security form to the adjudication date for those cases adjudicated. The end-to-end timeliness shows that 80 percent of initial security clearances were completed in 106 days, 14 days ahead of the 120 day target goal.

A number of initiatives and events have contributed to the timeliness improvements.

- Agency use of the electronic Questionnaires for Investigations Processing (e-QIP) for submitting initial security investigations increased from 70 percent at the end of FY 2007 to 89 percent in the third quarter of FY 2008.
- In August 2007, OPM implemented electronic agency delivery, providing total end-to-end electronic processing for agencies with the capability to use these methods. As of September 3, 2008, over 305,000 completed background investigations were sent electronically to five participating agencies, including the Department of the Army, Department of Transportation, and Department of Energy. FISD is working closely with other interested agencies.

- FISD has expanded its use of centralized law enforcement checks through statewide law systems to 15 states, representing approximately 34.5% of FISD's annual law checks. FISD recently approved the transfer of six additional states for centralized processing which will increase the percentage to almost 46%. These centralized law enforcement checks save both time and money, permitting investigative resources to be used more effectively.

More recently, OPM implemented the revised Standard Form (SF) 86 on September 23, 2008 after months of intense work and coordination by dozens of employees from FISD and the Office of the Chief Information Officer. The new form, unveiled in July 2008, is expected to enhance the efficiency and timeliness of the investigations process by including complementary updates to e-QIP. The July 2008 edition of the SF 86 was updated to align with national security guidelines implemented under Executive Order 12968.

Challenges Remain

By the end of 2009, the IRTPA requires 90 percent of initial security clearances to be completed within an average of 60 days (40 days for the investigation phase and 20 days for the adjudication phase). In light of these goals, FISD is continuing to optimize the current process by maintaining adequate staffing; building partnerships with information suppliers; and through greater use of information technology. In addition, FISD's continuing efforts to work closely with national, state, and local record providers should improve the processes for obtaining required information.

FISD is partnering with the Office of the Director of National Intelligence and the Department of Defense for more significant reforms to the overall security clearance processes. This reform effort is challenging traditional processing from application through adjudication. The ultimate outcome of this effort will be a Government-wide system that continues to protect national security for the Federal workforce through more modern processes that are secure, dependable, scalable, and time and cost efficient.

IT SECURITY

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

It is the responsibility of all governmental agencies, as well as private industry, to exercise due care and due diligence to protect information and information systems from unauthorized access, use, disclosure, destruction, modification, or disruption. The never-ending process of information security involves ongoing training, assessment, protection, monitoring and detection, incident response and repair, documentation, and review.

As highlighted by the GAO report, we believe that information technology (IT) security represents a continuous environmental challenge that encompasses a wide variety of issues. Some of these issues have been identified through an OMB memorandum to Federal agencies and a Presidential Directive which require all Federal agencies to develop a set of specific IT security controls. The implementation of these controls will strengthen OPM's overall IT security environment. When these are implemented, these specific components of the IT security challenge will be dropped. However, with this ever-growing threat, it is safe to say that IT security will remain an on-going challenge to OPM, as well as all of the Federal Government and private industry.

A. PROTECTION OF PERSONALLY IDENTIFIABLE INFORMATION

Sensitive, personally identifiable information (PII) is defined by OMB as "any information about an individual maintained by an agency, including, but not limited to, education, financial transactions, medical history, and criminal or employment history and information which can be used to distinguish or trace an individual's identity, such as their name, social security number, date and place of birth, mother's maiden name, biometric records, etc., including any other personal information which is linked or linkable to an individual."

Various laws, regulations, and OPM policy have also addressed the need to protect sensitive information, including the Federal Information Security Management Act (FISMA), the E-Government Act of 2002, the Privacy Act of 1974, and OMB Circular A-130, *Management of Federal Information Resources*. FISMA requires agencies to have a security program and controls for systems to protect their sensitive information.

On May 22, 2007, OMB issued memorandum M-07-16 in an effort to ensure that all Federal agencies are taking the appropriate actions to safeguard PII. The memorandum required agencies to:

- develop a "breach notification policy";
- evaluate compliance with Privacy Act requirements; and
- evaluate compliance with various PII security requirements including those outlined in OMB memorandum M-06-16, which requires that agencies enforce security measures that safeguard the integrity and availability of sensitive agency information, specifically information that is accessed remotely and stored off-site.

In an effort to meet the requirements of OMB Memorandum M-07-16, OPM developed an "Information Security and Privacy Policy" that contains breach notification procedures. The policy identifies the internal and external entities that must be notified when a security breach occurs. Although the Information Security and Privacy policy received final approval from OPM's senior management in September 2007, it was not distributed to agency users until September 2008.

OPM has taken several additional steps to ensure its compliance with privacy-related requirements. A "PII Questionnaire" was issued to each of the agency's program offices to evaluate their current holdings of PII. OPM is also working to reduce the use of social security numbers (SSN) in its systems and programs.

OPM has further implemented several technical security controls to ensure the protection of sensitive data in accordance with OMB M-06-16. This includes ensuring that backup tapes sent to an off-site location are encrypted; that data residing on BlackBerry handheld devices is encrypted; that OPM employees manually encrypt sensitive data on mobile workstations using WinZip AES encryption technology; and that two-factor authentication is required to access agency systems containing PII. However, OPM has not implemented a process for automatically encrypting all data on mobile workstations containing PII or a process for logging and tracking extracts of PII to ensure that they are being appropriately erased after 90 days.

Although OPM has made significant progress toward improving its protection of sensitive data, several PII privacy and security requirements remain outstanding. We recommended in our FY 2008 FISMA audit report that OPM continue its efforts to make the "Information Security and Privacy Policy" available to all agency employees; fully eliminate the use of SSNs; implement a solution to automatically encrypt all data on mobile computers/devices carrying agency data; and develop a methodology for logging computer-readable data extracts.

B. HOMELAND SECURITY PRESIDENTIAL DIRECTIVE 12 – PERSONAL IDENTIFICATION VERIFICATION II

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

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

OMB Memorandum M-08-01 requires that agencies issue credentials to all Federal employees and contractors by October 27, 2008 (or the date mutually agreed upon by the agency and OMB in the agency implementation plan). The current OPM agency implementation plan has no provision for extending the deadline; therefore, OMB expects full compliance with HSPD-12, with all employees and contractors using a compliant card by the milestone date in the memo.

However, OPM officials estimate that, by this date, credentials will have been issued to only about 65 percent of the Federal employees and contractors who require them. We were told, but could not confirm, that OMB has recently revised this requirement from 100 percent to 75 percent. We also were told that OPM is working on a new agency implementation plan.

As of September 23, 2008, OPM has:

- Reviewed employee and contractor positions and determined those requiring PIV II credentials for Federal facility access as defined under HSPD-12 guidelines;
- Completed all necessary background investigations for current employees and contractors; and
- Activated and issued over 3,500 PIV II cards (about 30 percent of OPM's estimated 12,000 employees and contractors) through GSA/USAccess processing centers.

It appears that OPM will fall short of the October 27, 2008 milestone when full compliance is required by OMB Memorandum M-08-01. Completing the roll-out of PIV II credentials for all OPM employees and contractors who require cards will remain a significant management challenge for two main reasons. First, there are not enough GSA/USAccess processing centers to accommodate remote OPM employees and contractors. As a result, it takes longer to complete the PIV II card enrollment and final registration process. Second, OPM has a dynamic population of FISD contractors located throughout the country. Identifying these contractors and determining whether PIV II cards are required will be a major challenge, as will negotiating the necessary contract modifications.

To address concerns over the limited number of processing centers, OPM representatives recently attended a consortium of agencies tasked with developing a proposal calling for mobile processing centers to better serve Federal employees in remote locations. Funding sources are being examined to determine whether the proposal will proceed. Also, OPM is continuing to work with FISD to address issues relating to the contractor population.

INTERNAL CHALLENGES

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

RETIREMENT SYSTEMS MODERNIZATION

Processing retirements of Federal employees is a mission critical OPM program. The Retirement Systems Modernization (RSM) Program is a long-term initiative targeted at improving the efficiency and effectiveness of OPM's Retirement Program. RSM is critical for two reasons: 1) the workload of the Retirement Program staff has grown over the years and will continue to grow as up to 60 percent of the Federal workforce will become eligible to retire in the next 10 years; and 2) the Retirement Program's existing systems and paper-based processes cannot support the most fundamental needs of the program – providing timely and accurate benefit payments to more than 2.4 million annuitants and their families. Once implemented, RSM is expected to:

- Pay accurate retirement benefit payments on time with more efficient and flexible processes;
- Automate retirement processing with active employee data available through recurring electronic feeds from EHRI and agencies;
- Enhance customer service including single-call issue resolution made possible by changing from paper to electronic data;
- Provide modeling tools for Federal employees; and,
- Allow real-time automated and self-service processing.

The functions outlined above were all expected to be part of the Hewitt vendor Defined Benefit Technology Solution (DBTS). With the recent termination of Hewitt as the DBTS contractor, OPM must determine how best to proceed. While numerous accomplishments have been achieved over the past year by the RSM program staff, many more challenges lie ahead, particularly with respect to the automated solution that will calculate and process retirements and provide modeling capability to active Federal employees.

The RSM team must now focus on the new challenge of how to proceed in determining the best solution to obtain a calculation engine that will provide the desired functionality while continuing to remain focused on the following:

- ensuring that agency data received is accurate, complete, useable, and compatible with the technology solution;
- ensuring that the business rules are documented and validated to enable any future solution to correctly calculate annuities of retiring Federal employees;
- ensuring that the technology solution and other systems involved in RSM are secure and compliant with the FISMA;
- ensuring that the users are properly and adequately trained to use the technology solution in order to provide effective and efficient customer service; and,
- incorporating the post-adjudication processes into the new technology.

FINANCIAL MANAGEMENT SYSTEM AND INTERNAL CONTROLS: RELVOLING FUND AND SALARIES AND EXPENSES ACCOUNTS

During the audit of OPM's FY 2007 financial statements, KPMG noted that deficiencies in the operation of the Office of Chief Financial Officer's (OCFO) internal controls over financial management and reporting, affecting the accuracy of the Revolving Fund (RF) and Salaries and Expenses Accounts (S&E), continue to exist at OPM. A majority of these deficiencies are attributable to OPM's current accounting system, which cannot be effectively configured to capture essential financial information and generate useful and accurate financial reports related to intragovernmental activities and balances.

OPM recently acquired the services of a commercial vendor with demonstrated experience in implementing and maintaining a certified commercial off-the-shelf financial system. Accenture National Security Services will provide software, integration, hosting and operational support services for the Financial Systems Modernization Project (FSMP) under a 10-year Blanket Purchasing Agreement. The FSMP will be implemented in two phases and will integrate and standardize administrative funds, trust funds, and procurement business processes to address regulatory and compliance deficiencies. Phase one will address OPM's RF and S&E accounts. As the implementation process progresses, OPM must ensure adequate oversight of the implementation to include: requirements management, testing, data conversion, systems interfaces, change management, and effective earned value management.

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

Work instructions for reconciling the Government Financial Information System (GFIS) cash balance to the Fund Balance with Treasury for the RF were completed and implemented in FY 2007. They were revised in FY 2008 to include strict deadlines for the completion of monthly reconciliations. These work instructions have been instrumental and are being used to reconcile cash balances during FY 2008, and all reconciliations have been completed by the designated deadline. Additionally, the RF and S&E staff has taken action to resolve these differences, making correcting entries where necessary.

OPM mitigates the limited capabilities of the existing financial management system (GFIS) by taking additional control measures. These additional controls include the continuation of the engagement of an external service provider (initiated in FY 2007 and continued through FY 2008) to further improve business processes, facilitate data clean up, review access controls, and conduct a business process analysis to facilitate transition to the new financial management system. Another key control has been the establishment of new "issue and reconciliation" meetings between the Center for Financial Services' Revolving Fund Branch and its principal RF customers (FISD, HRLoB, and HRPS). In addition, under the oversight of the Center for Budget and Performance, OPM established a new five-year RF business planning model requiring the review and verification of existing RF accounting and data, and the projection of demand and market conditions into the future.

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the Chief Financial Officer

November 4, 2008

MEMORANDUM FOR PATRICK E. McFARLAND
Inspector General

FROM: MARK REGER
Chief Financial Officer

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

Management Challenges are issues that are not easily solved. In many cases, they require investments or upgrades to technology or substantial changes in long-standing procedures or program activities both within and outside OPM. Completely addressing many Management Challenges may take many years. In order to provide perspective on the Agency's progress, I have attached a table to this memorandum summarizing the actions taken this year, a synopsis of our next steps, and a self-assessment of our achievements toward resolving the challenges as currently defined. This self-assessment provides not only the Office of the Inspector General, but our other stakeholders, a sense of the Agency's significant progress in resolving many of the Management Challenges.

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

Attachment

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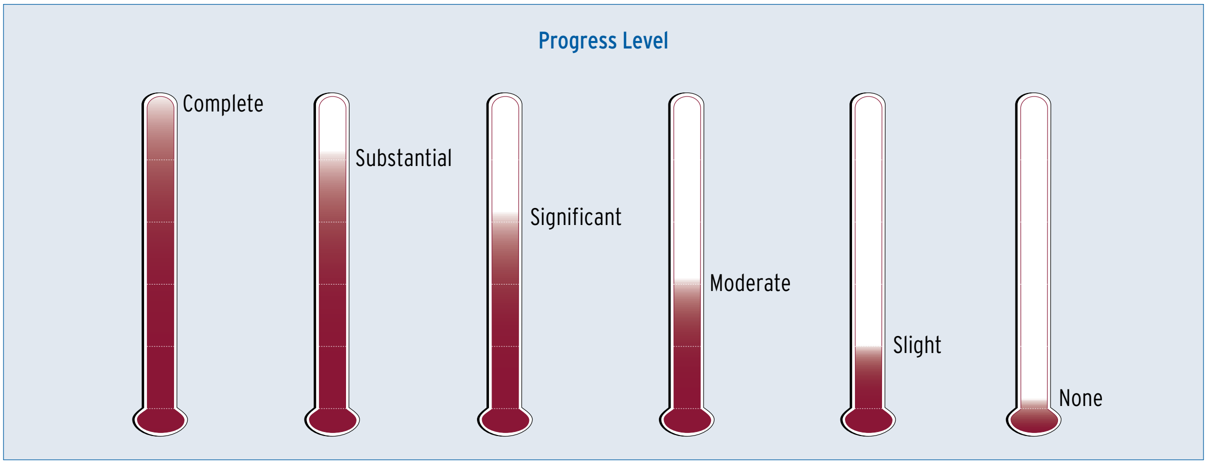
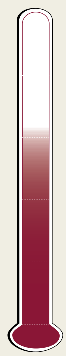
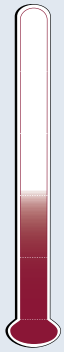
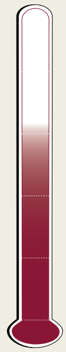
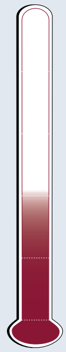
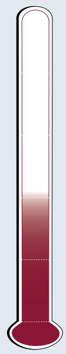


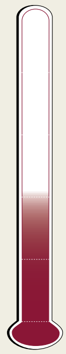
Challenge	Action	Progress	Next Steps
Strategic Human Capital	**Leadership and Education** OPM required all PMA-scored agencies to submit Human Capital Management Reports (HCMR). OPM analyzed agencies' human-capital plans, results and improvement strategies, and provided written feedback to agencies. OPM tracked the use of hiring flexibilities by agencies scored through the President's Management Agenda (PMA) Human Capital Initiative. OPM disseminated human-resources flexibilities information to agency leaders in field offices through the Federal Executive Boards. OPM provided a web-based tool, called the Federal Competency Assessment Tool (FCAT) for managers and human resources professionals to assess competencies against desired proficiency levels to identify gaps. A valuable part of this tool is the inclusion of validated performance-management competencies. OPM encouraged agencies to establish their own, agency-specific goals that meet their strategic priorities and demonstrate transformation of human-capital management.	Significant 	OPM is launching a Knowledge-Management initiative to build tools and resources for agency leadership committed to assuring effective knowledge-management throughout transition periods, including times of high staff turnover through retirements. OPM's Human Capital Officers will continue their ongoing engagement with agencies to transform the management of their workforce. OPM will continue to work through the Federal Executive Boards to disseminate important human resources flexibilities information to agency leaders in field offices. OPM also will conduct an evaluation of FEB Leadership Development Programs to assure their effectiveness.
	Performance Management Systems OPM certified Senior Executive Service (SES) appraisal systems and improved agency's pay for performance systems. At the end of FY 2008, 78 percent of applicant systems had full certification. Also, in 2008, 99 percent of executives were covered by certified appraisal systems.		OPM will continue to certify Senior Executive Service (SES) appraisal systems and to work with agencies to improve their pay for performance systems.

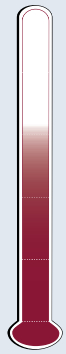
Challenge	Action	Progress	Next Steps
	Improving the Hiring Process In FY 2008, OPM improved the "End-to-End (E2E)" Hiring Process. The resulting E2E Roadmap is the product of a strong partnership between the OPM and the CHCO (Chief Human Capital Officers) Council Subcommittee for Hiring and Succession Planning. In 2008, OPM launched four initiatives, all designed to transform the hiring experience for applicants, managers and HR. • Streamlined job announcements • Centralized repository of qualified applicants for the acquisition community • End-to-End (E2E) Hiring Initiative: reengineering five process components: workforce planning, recruitment, hiring process, security and suitability and orientation • OPM disseminated the draft to all the CHCO Council agencies • Revised Roadmap with the interagency working group and shared the final version with the CHCO Council's Hiring and Succession Planning Subcommittee for approval prior to its government-wide dissemination on September 1, 2008.		In FY 2009, OPM will collect baselines against the government-wide metrics established in the E2E Roadmap, and will help agencies set and meet aggressive targets for improving their hiring against the government-wide standard. OPM also is developing tools, training and resources for agencies to use in implementing the E2E Roadmap.
	Improving the Executive Hiring Process OPM also undertook a major hiring initiative at the SES level; the SES Selection Pilot was launched June 1 to test new approaches to recruiting and assessing potential senior executives. OPM streamlined the Qualifications Review Board (QRB) process by conducting "virtual QRBs" that do not require board members to meet in person. Response to the pilot has been overwhelming, with 10 agencies volunteering to participate. Over 40 SES vacancies have been announced to date using one of the two pilot application methods: 1) accomplishment record, or 2) resume only.		Based on lessons learned from the formal project evaluation, OPM will then prepare and disseminate SES selection guidance. This resource will be available for all interested agencies to use by early 2009.

Challenge	Action	Progress	Next Steps
Federal Employees Health Benefits Program	OPM issued a request for proposal to acquire a health benefits carrier to offer a nationwide Indemnity Benefit Plan under the FEHBP beginning January 2010. The primary purpose of adding the Indemnity Benefit Plan is to mitigate the risk should any carrier with a sizeable share of the market leave the FEHBP for any reason. OPM established a working group to develop steps to strengthen the controls and oversight of the FEHBP pharmacy benefits. To help formulate a better understanding of this area, the group has completed or planned the following activities: • Conducted a literature search on best-practices in managing drug programs • Met with officials that run pharmacy programs for other large government sponsored health care programs (i.e., TRICARE, Centers for Medicare and Medicaid Services (CMS), and U.S. Department of Veterans Affairs) to understand the controls they have established • Obtained consulting contract with industry experts on drug pricing and Pharmaceutical Benefits Manager (PBM) contract management/oversight to review FEHB carriers PBM contracts.	Moderate 	The long-term goal is to develop options for future enhancements of FEHBP pharmacy programs based on the results for the literature search, CMS/TRICARE benchmark evaluations, and recommendations from the expert consultant. Further, OPM will have responsibilities and challenges as insurance carriers begin to implement Health Information Technology (HIT) initiatives. HIT (or e-health) covers a broad range of initiatives, including electronic personal health records, e-Prescriptions, and disease-management programs.
	OPM issued the Federal Employees Health Benefit (FEHB) Program Carrier Letter 2007-07 that states OPM expects all FEHB carriers to be committed to these four cornerstones: standards for information technology, quality care reporting, transparency of health services costs, and providing incentives for quality care at competitive prices. The Program Carrier Letter reiterates OPM's commitment to the cornerstones and to promoting state-of-the-art health information technology. In 2008, OPM issued a second carrier letter (2008-06) in which it restated the expectation that all FEHB carriers need to continue their important efforts to make fundamental information about health care quality and costs available to consumers.		OPM will continue working with insurance carriers to implement and improve upon HIT initiatives as well as with OMB on its related scorecard initiatives.

Challenge	Action	Progress	Next Steps
Background Investigations	OPM and the adjudicative agencies have made significant progress in the overall timeliness of the security clearance and investigations program. Data reported for the third quarter of FY 2008 showed 80 percent of initial security investigations were completed within an average of 54 days and 80 percent were adjudicated within an average of 20 days. FISD also monitors end-to-end timeliness which measures from the signature date on the security form to the adjudication date for those cases adjudicated. The end-to-end timeliness shows that 80 percent of initial security clearances were completed in 106 days. A number of initiatives and events have contributed to the timeliness improvements. • Agency use of the electronic Questionnaires for Investigations Processing (e-QIP) for submitting initial security investigations increased from 70 percent at the end of FY 2007 to 89 percent in the third quarter FY 2008. • In August 2007, OPM implemented electronic agency delivery providing total end-to-end electronic processing for agencies with the capability to use these methods. As of September 3, 2008, over 305,000 completed background investigations were sent electronically to five participating agencies, including the Department of the Army, Department of Transportation, and Department of Energy. • FISD expanded its use of centralized law checks through statewide law systems to 15 states representing approximately 34.5 percent of FISD's annual law checks. FISD recently approved the transfer of six additional states for centralized processing which will increase the percentage to almost 46 percent. These centralized law checks save both time and money, and permit investigative resources to be used more effectively.	Significant 	Continue to optimize the current process by maintaining adequate staffing, building partnerships with information suppliers, and through greater use of information technology. Continue to work closely with National, State, and local record providers to improve the processes for obtaining required information. By the end of 2009, the Intelligence Reform and Terrorism Prevention Act requires 90 percent of initial security clearances to be completed within an average of 60 days (40 days for the investigation phase and 20 days for the adjudication phase). Partner with the Office of the Director of National Intelligence and the Department of Defense for more significant reforms to the overall security clearance processes.

Challenge	Action	Progress	Next Steps
Information Technology (IT) Security	**Protection of Personally Identifiable Information** In an effort to meet the requirements of OMB Memorandum M-07-16, OPM developed an "Information Security and Privacy Policy" that contains breach notification procedures. OPM issued a "PII Questionnaire" to each of the agency's program offices to evaluate their current holdings of PII. OPM further implemented several technical security controls to ensure the protection of sensitive data in accordance with OMB M-06-16. This includes ensuring that backup tapes sent to an off-site location are encrypted, that data residing on BlackBerry handheld devices is encrypted, that OPM employees manually encrypt sensitive data on mobile workstations using WinZip AES encryption technology, and that two-factor authentication is required to access agency systems containing PII.	Moderate 	OPM will continue efforts to: make the "Information Security and Privacy Policy" available to all agency employees; fully eliminate the use of Social Security Numbers; implement a solution to automatically encrypt all data on mobile computers/devices carrying agency data; and develop a methodology for logging computer-readable data extracts. The agency is reviewing its OPM Information Security and Privacy Policy (ISPP) and will revise it according to new Federal law and guidance, along with the development and revision of clear and current supporting guidance. In addition, OPM has increased oversight and programmatic scrutiny on the completion of security-related certification and accreditation (C&A) packages and Plan of Action and Milestones (POA&M) activities, which will result in increasing the protection of Personally Identifiable Information (PII). OPM will continue to track the status of compliance with required annual training to ensure its employee population is aware of IT security and privacy policies and processes.
	Homeland Security Presidential Directive 12-Personal Identification Verification II OPM officials estimate that, by the OMB Memorandum M-08-01 due date of October 27 2008, credentials will have been issued to only about 65 percent of the Federal employees and contractors who require them. OMB has recently revised this requirement from 100 percent to 75 percent. As of September 23, 2008, OPM has: • Reviewed employee and contractor positions and determined those requiring Personal Identification Verification (PIV II) credentials for Federal facility access as defined under HSPD-12 guidelines • Completed all necessary background investigations for current employees and contractors • Activated and issued over 3,500 PIV II cards (about 30 percent of OPM's estimated 12,000 employees and contractors) through GSA/USAccess processing centers.	Moderate 	OPM will continue to work on a new agency implementation plan. To address concerns over the limited number of processing centers, OPM representatives recently attended a consortium of agencies tasked with developing a proposal calling for mobile processing centers to better-serve Federal employees in remote locations. Funding sources are being examined to determine whether the proposal will proceed. OPM will continue to issue and activate PIV II cards for its remaining employees and contractors.

Challenge	Action	Progress	Next Steps
RetireEZ	Processing retirements of Federal employees is a mission-critical OPM program. OPM began the RetireEZ Program, a long-term initiative targeted at improving the efficiency and effectiveness of OPM's Retirement Program. Once implemented, RetireEZ is expected to: • Pay accurate retirement benefit payments on time with more efficient and flexible processes • Automate retirement processing with active employee data available through recurring electronic feeds from EHRI and agencies • Enhance customer service including single-call issue resolution made possible by change from paper to electronic data • Provide modeling tools for Federal employees • Provide real-time automated and self-service processing In May 2008, a stop-work order was issued to the vendor developing the pension calculator. The calculator represents one-third of the entire RetireEZ effort and progress on process improvements and data integrity continues. In October 2008, the vendor developing the pension calculator was terminated. Contracts with the other phases of the program – business process and data integrity.	Moderate 	OPM will consider its options and assess the next steps to develop a fully functioning pension calculator. OPM will continue to oversee progress on the other phases of the program – business process and data integrity.

Challenge	Action	Progress	Next Steps
Financial Management System and Internal Controls for the Revolving Fund and Salaries and Expense Accounts.	OPM recently acquired the services of a commercial vendor to provide software, integration, hosting and operational support services for the Financial Systems Modernization Project (FSMP) under a 10-year Blanket Purchasing Agreement. The FSMP will be implemented in two phases and will integrate and standardize administrative funds, trust funds, and procurement business processes to address regulatory and compliance deficiencies. Phase one will address OPM's Salary and Expense (S&E) and Revolving Fund (RF) accounts. To further improve and modernize its accounting processes, OPM implemented revised instructions which will enable the reconciliation of cash balances to Treasury fund balances for the RF in FY 2007. The application managing this process is the Government Financial Information System (GFIS). OPM mitigates the limited capabilities of the existing GFIS further by: improving business processes, facilitating data clean-up, reviewing access controls, and conducting a business-process analysis to facilitate transition to the new financial management system. Additional control mechanisms implemented are the establishment of "issue and reconciliation" meetings between the Center for Financial Services' Revolving Fund Branch and its principal RF customers (FISD, HRLOB, and HRPS) and the establishment of a 5-year RF business planning model requiring the review and verification of existing RF accounting and data, and the projection of demand and market conditions into the future.	Significant 	OPM will continue the Financial Systems Modernization Project (FSMP). The "go-live" date for Phase 1 is anticipated to be October 2009. During Phase 2, beginning in FY 2010, OPM's Benefits Financial Management System will be replaced by moving trust fund management and accounting to the new system implemented in Phase 1, resulting in a single integrated system that supports the General Funds, the revolving fund, reimbursable agreements, and the Trust Funds.

Summary of Financial Statement Audit and Management Assurances

OPM's Summary of Financial Statement Audit and Management Assurances are shown in Table 17 and 18, respectively.

Table 17—Summary of Financial Statement Audit

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

Table 18—Summary of Management Assurances

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

Improper Payment Information Act Reporting Details

An improper payment is any payment that should not have been made or was made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements. Additionally, the Office of Management and Budget (OMB) has specified that improper payments include payments where the agency's review cannot discern whether a payment was proper as a result of insufficient or lack of documentation. The President has made the development of management controls to detect and prevent improper payments a major focus of his Management Agenda. The Congress followed the President's lead by enacting the Improper Payments Information Act of 2002 (Public Law 107-300). The Act requires agencies to review annually all programs and activities to identify those susceptible to significant improper payments; estimate the annual improper payments in the susceptible programs and activities; and report the results of their improper payment reduction plans and activities. In Appendix C to OMB Circular A-123, a program was defined as being susceptible to significant improper payments if it has improper payments that exceed both 2.5 percent and $10 million of program spending. The Office of Personnel Management's (OPM) improper payments for FY 2008 are $245.9 million in retirement benefits, $83.7 million in health benefits, and $0.46 million in life insurance benefits, for a total of $330.06 million dollars.

Program Descriptions

OPM's three earned benefit programs—Retirement, Health Benefits and Life Insurance—are, by definition, susceptible to potential improper payments. OPM has an approved Improper Payment 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.

As required by OMB Circular A-123, Appendix C, OPM completed its risk assessment of other OPM programs funded by the Revolving Fund (RF) and Salaries and Expenses (S&E) appropriations accounts. Based on the results of the risk assessment, OPM found that automated payments under the Background Investigations program also are susceptible to erroneous payments. The rates and projected improper payment amounts for other RF and S&E payment types did not exceed OMB's thresholds and therefore will not be included in future improper payments reporting. Nevertheless, OPM will develop corrective actions to improve those payment processes and will continue evaluation and testing of those payments under OMB Circular A-123, Appendix A, Internal Control over Financial Reporting.

Retirement Program

The Retirement Program (RP) pays over $63,025 million per year in defined pension benefits to Federal retirees, their survivors, and families. The RP is comprised of the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). In addition, when covered employees leave the Federal service before they are eligible for benefits, their retirement contributions, if so requested, will be returned to them in a lump-sum refund payment.

Health Benefits Program

The Health Benefits Program (HBP) is administered through contracts with participating carriers that provide hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. Two types of carriers participate in the Program: experience-rated carriers (ERCs) and community-rated carriers (CRCs). ERCs maintain separate accounting for the HBP contract and, hence, must disclose their expenses. CRCs, on the other hand, do not maintain separate accounting and receive a premium based on the average revenue needed to provide benefits to their members. ERCs incur benefit and administrative expenses of more than $28,894.4 million on behalf of the HBP and the HBP paid $6,429.1 million in premiums to CRCs.

Life Insurance Program

The Federal Employees' Group Life Insurance Program (FEGLI) provided life insurance benefits of $2,487.7 million in FY 2008 to more than 92,029 claimants of Federal employees and annuitants. FEGLI is administered through a contract with the Metropolitan Life Insurance Company (MetLife), which oversees the processing and payment of benefit claims. The FEGLI provides Basic life insurance coverage, as well as three life insurance options and living benefits.

Background Investigations Program

OPM conducts approximately 90 percent of the background investigations for the Federal government. The primary purpose of the investigations program is to conduct high-quality, timely background investigations which will be used by Federal agencies to determine individuals' suitability for federal civilian, military, or contractor employment. The completed background investigations also are used by agencies to determine individuals' eligibility for access to classified national security information. OPM processed nearly 2 million new requests for background investigations in FY 2007. OPM uses OPM employees to perform some background investigations, as well as resources from three contractors to conduct investigations. Total contractor payments for the baseline risk assessment period, calendar year 2007, were $316.3 million.

Improper Payment Sampling

Retirement Program

In FY 2007, OPM consolidated its retirement adjudication and extended-benefits test approaches to leverage monthly sampling across newly added retirements and survivors under each of the two distinct retirement systems (CSRS and FERS). The contract statistician stratified the sample to adequately assess each type for Improper Payments and Civil Service Retirement and Disability Fund (CSRSDF) impact. OPM reviewed retirement and survivor cases using statistically valid samples across each month of the fiscal year leading up to the audit itself. In FY 2008, a total of seven months' worth of audited claims calculations were used to determine the RP's IP rate. The ability to use results from several months increases the reliability of the results and tightens the Improper Payments estimate ranges inherent in sampling large disbursements. The new methodology helps to minimize variability and potential errors correlated to anomalies within sample months selected, since several months are represented.

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

Health Benefits Program

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

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

Life Insurance Program

OPM has had a process in place for many years to determine the improper payments made by MetLife to the beneficiaries of deceased annuitants. Using a data-match analysis, OPM compares the eligibility and coverage data of virtually all covered annuitants who died during the fiscal year against the dollar amount of benefits paid to their beneficiaries by MetLife. In May 2006, OPM implemented a new, automated method to certify life insurance for deceased annuitants, which further reduced improper payments. This Automated Certification of Life Insurance (Auto Cert) process has taken the place of hard-copy certification for most deceased annuitants. This was the second full year since the Autocert system replaced the manual process for certifying FEGLI payments. Autocert has dramatically reduced annuitant Improper Payments due to human error in processing claims. FEGLI payments to annuitants were extremely accurate during FY 2008, with over 99.9 percent of accounts being accurately paid, and over 99.97 percent of dollars being accurately disbursed.

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

We have now conducted a match comparing CPDF data against MetLife payments for portions of FY 2006-2008. With this experience reviewing non-annuitant disbursements, we have concluded these disbursements are as accurate as the disbursements made on behalf of deceased annuitants. This makes considerable sense, as the records of current employees who decease were current and actively being maintained by the agencies for which they were employed.

Background Investigations Program

OPM used the statistical sampling guidance in OMB Circular A-123, Appendix C to sample and test investigation payments, as well as to obtain a baseline risk-assessment for other payment types under the RF and S&E accounts. Specifically, samples were selected randomly based on a 90 percent confidence level and a confidence interval plus or minus 2.5 percent. The calculated improper payment rate for background investigation payments was 4.3 percent and the estimated annual improper payments for 2007 were $22.2 million, exceeding OMB's thresholds. The improper payments were not overpayments or underpayments but rather transactions for which OPM could not provide adequate supporting documentation within a reasonable timeframe.

Causes of Improper Payments and Actions to Reduce Them

Retirement Program

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

- beneficiaries or family members delay reporting (or do not report at all) changes in status (death, marriage, recovery from disability, etc.) that result in a different (or no) benefit payment
- inaccurate and/or incomplete information provided by former employing agencies about a retiree's Federal service history
- individuals receive two types of Federal benefits (the law generally allows only one)
- adjudication errors by OPM employees comprise only a very small percentage of the total improper payments in the Program

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

To further reduce improper payments in the Program, OPM must modernize its information systems and re-engineer its business processes. The RetireEZ project is OPM's effort to reengineer the procedures used to administer the Retirement Program. While critical decisions on RetireEZ are currently pending, key components envisioned in the modernization effort will allow OPM to reduce improper payments. They include 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
- The SSA and the Defense Finance and Accounting Service and other private and public entities for coordination of benefits

Health Benefits Program

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

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

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

Life Insurance Program

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

Current Initiatives to Reduce Retirement, Health and Life Improper Payments

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

Proof of Life

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

Work in the Philippines is now under way. In FY 2008, two Retirement Services Program employees, working closely with SSA and US Embassy staffs, conducted proof-of-life fairs. Manila-area annuitants were sent instructions to attend the fairs and have with them proper identification for personal authentication. Additional data were collected for future use. Initial results were promising.

Current Results:

679 surveyed	**(100 percent)**
487 verified	**(72 percent)**
21 deceased	**(3 percent)**
14 investigations	**(2 percent)**
157 unverified	**(23 percent)**

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

The effort included other benefits. We:

- established a reputation that OPM will be checking on unreported deaths
- strengthened our relationship with SSA staff that does our work there at no cost to us and effectively no additional cost to the federal government
- converted 80 percent of surveyed check recipients to direct deposit (saving postage and replacement of lost check costs)
- corrected nearly 100 addresses
- resolved many representative payee issues

We will continue Proof of Life activities in FY 2009 including conducting fairs in Cuba and nearby islands. At the same time, we will set up a direct-deposit relationship with Japanese banks. This will include both a Proof of Life initiative, as well as converting paper checks to electronic transfers, resulting in decreased erroneous payments and direct savings to our administrative budget in the form of lower postal costs. The Proof of Life project has been very successful to date.

International Direct Deposit

OPM also is working to expand its International direct deposit program, known as International Treasury Services (ITS). We now service Canada, the United Kingdom, Ireland, Germany, Italy, France, Spain, and Panama and are working to add Japan and Greece to ITS. Currently we have two ways to send electronic payments to our international customers: via correspondence banking (i.e., forwarding funds to a U.S. bank that has an agreement with a foreign bank) or by sending payments by way of the Federal Reserve (ITS.gov). Not all countries have the ability to be paid by ITS, but for those that do, we intend to exploit this mechanism to the maximum extent possible. We currently pay about 70 percent of our overseas annuitants electronically, with approximately 40 percent of those payments through ITS. Last year we reduced foreign check payments by 10 percent and are working to further expand ITS.

Inspector General (IG) Workgroup

OPM's CRIS is committed to further strengthening internal controls to guard against waste, fraud, abuse and mismanagement of taxpayer resources. We look forward to an even closer working relationship with the Office of the Chief Financial Officer and the OPM/OIG in the area of retirement fraud.

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

- Initiating a match against Social Security's Master Death File to supplement the existing weekly consolidated match currently performed. In FY 2008, OPM's recurring death data-matching activities identified more than $62 million in overpayments and prevented an additional $82 million from being overpaid (calculated saving to OPM).
- Improving procedural documentation of, and automation to, our check reclamation process, further improving process and recovery efficiency.
- Recovering benefit payments made to abandoned bank accounts (e.g. Farm Bill) as well as those escheated to the respective state coffers.

Most Improper Payment (IP) detection activities are necessarily followed by labor intensive processes to confirm the IP, gather evidence, administer due process and collect overpayments. In this environment, oversight and audit activities compete with normal operations which explain, in part, the desire to collaboratively identify, analyze, prioritize and implement IP reduction activities.

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

Background Investigations Program

As noted previously, OPM's erroneous payments on the background investigations program were due to a lack of supporting documentation. OPM has formed an interdisciplinary team of financial, contract office, and program officials to further review the cause of improper payments and to develop specific corrective actions to reduce the rate of improper payments. Once the team completes its analysis, OPM will fully report to OMB during FY 2009 on the planned corrective actions as well as targets for future-year reductions.

Recovery Auditing

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

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

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

While the Retirement and Life Insurance programs have robust procedures in place for identifying and recovering erroneous payments through various means and at different payment thresholds, each has nominal contract costs and internal staff perform audit and recovery functions, also described in the agency's Improper Payments Plan. OMB Circular A-136, Table 19 provides information on recovery auditing data for the benefits programs.

Table 19 — Improper Payments (IP)

OPM Fund	FY 2008 Dollar Amount Subject to IP Review (in Millions)	FY 2008 IP Amount Received and Reported (in Millions)	FY 2008 IP Amount Identified for Recovery (in Millions)	FY 2008 IP Amounts Recovered (in Millions)	IP Amount Identified for Recovery in Prior Years (in Millions)	Amounts Recovered In Prior Years (in Millions)	Cumulative Amounts Identified in Prior Years + FY 2008** (in Millions)	Cumulative Amounts Recovered In Prior Years + FY 2008** (in Millions)
Retirement	$63,025.0	$198.3	$194.1	$165.9	$563.7	$430.9	$757.8	$596.8
FEHB	$35,323.5	$80.1	$75.2	$72.4	$154.5	$132.1	$229.7	$204.5
Life Insurance	$2,487.7	$5.02	*$5.03	$3.50	$7.4	$6.28	$12.43	$9.78

* Annuitant IP amounts through August 2008, projected through September; Non-annuitants (Executive only) through Q1 FY 2008

** Effective FY 2004

Number of extrapolated and subject to adjustment once OFEGLI FY 2008 audit is completed.

Accountability for Reducing and Recovering Improper Payments

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

Table 20 — Improper Payment Reduction Outlook

	2007 Outlays	2007 IPs	2007 IPs	2008 Outlays	2008 IPs**	2008 IPs	2009 Outlays	2009 IPs**	2009 IPs	2010 Outlays	2010 IPs**	2010 IPs	2011 Outlays	2011 IPs**	2011 IPs
	$ M	%	$ M	$ M	%	$ M	$ M	%	$ M	$ M	%	$ M	$ M	%	$ M
RETIREMENT															
Total Program	60,420.1	.42	253.5	63,025	.39	245.9	67,300	.38	254.6	70,700	.36	255.5	74,100	.34	253.1
Overpayments		0.35	208.9		0.31	198.3		.29	195.2		.28	198		.27	198
Under Payments[xx]		0.07	44.6		0.08	47.6		.09	59.4		.08	57.5		.07	55.1
HEALTH BENEFITS															
All carriers	33,477.4	0.504	168.7	35,323.5	.24	83.7	37,123.0	.236	87.7	38,923.0	.234	91.1	40,723.0	.232	94.6
Overpayments		.502	167.9		.23	80.1		.231	85.9		.229	89.3		.228	92.7
Under Payments		.002	.8		.01	3.6		.005	1.8		.005	1.8		.005	1.9
*CRCs total **				6,429.1	.90	58.1	7,053.4	.237	16.7	7,395.4	.234	17.3	7,737.4	.233	18
Overpayments					.90	58.1		.230	16.2		.227	16.8		.226	17.5
Under Payments					*00.	0.0		.008	.5		.007	0.5		.006	0.5
*ERCs total **				28,894.4	.088	25.6	30,069.6	.236	71	31,527.6	.234	73.8	32,985.6	.232	76.6
Overpayments					.076	22.0		.229	68.9		.227	71.6		.225	74.3
Under Payments					.012	3.6		.007	2.1		.007	2.2		.007	2.3
LIFE INSURANCE															
Total Program[@]	2,395.3	.07	.820	2,487.7	0.05	0.6	2.515.0	0.05	0.6	2,650.0	0.04	0.6	2,765.0	0.04	0.6
Non-Annuitant	870.0	.01	.130	844.3	0.02	0.2	905	0.02	0.2	950	0.02	0.2	975	0.02	0.2
Overpayments		.01	.080	N/A	0.02	0.2	N/A	0.02	0.2	N/A	0.02	0.2	N/A	0.02	0.2
Under Payments		.01	0.05	N/A	0.0	0.0	N/A	0.0	0.0	N/A	0.0	0.0	N/A	0.0	0.0
Annuitant only[+]	1,450.0	0.05	0.74	1,526.9	0.03	0.5	1,610	0.03	0.5	1,700	0.03	0.5	1,790	0.03	0.5
Overpayments	N/A	0.01	0.13	N/A	0.0	0.1	N/A	0.0	0.1	N/A	0.0	0.1	N/A	0.0	0.1
Under Payments		0.04	0.61		0.03	0.4		0.02	0.4		0.02	0.4		0.02	0.4

Notes: OPM will re-examine overpayments in the Retirement Program to identify the potential for further improvements in targets and performance results after clarification regarding the direction of RetireEZ beginning in FY 2009.

xx Underpayments are based on QAG Audit

+OPM began analyzing annuitant data in 3d Qtr FY 2006

*Health Benefits Program numbers began including this information in FY 2008

** Some IP Results are greater than zero, but less than 0.01%

@ IP $ and % for Non-Annuitant match for all years reflect results as of publication.

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

Annuitant IP actuals through August 2008, projected through September;. All IP FEGLI data less Option C. FEGLI disbursement includes Option C Coverage.

Beginning in FY 2008, the FEGLI IP rate includes consolidated results from the Deceased Annuitant Paid Claims match as well as findings from the FEGLI Non-annuitant match, which was piloted beginning in Q4 FY 2006. Results to date for the deceased employee (or non-annuitant) match show accuracy rates commensurate with or better than the Deceased Annuitant match. Due to data availability and reporting variances, addressed in OPM's Improper Payments Plan, results for both matches, particularly the Non-Annuitant match, are preliminary and may be updated throughout the ongoing reconciliation process. OPM continually reviews FEGLI payments and accuracy numbers can change during the year.

Barriers to Reducing Improper Payments

Retirement Program

Once OPM learns of the death of an annuitant, it requests that the Treasury reclaim all posthumously-issued payments from the deceased's bank account. When there is insufficient money in the account, OPM would like to seek to collect from the individual who last withdrew money from the account. Based on current law and Treasury's regulations, financial institutions are barred from providing OPM with the information necessary to recover these improper payments. The law (31 CFR Part 210) and regulations have specifically exempted the Social Security Administration, Railroad Retirement Board and Department of Veterans' Affairs from this prohibition by designating them as benefits paying agencies, but OPM did not receive this designation under this statute. This situation has a substantial impact on OPM's ability to prevent and recover improper payments. The Department of the Treasury has drafted legislative language to address this issue which designates OPM as a benefits paying agency. Treasury plans to publish a notice of proposed rulemaking to amend 31 CFR Part 210 prior to the end of 2008, and expects to publish a final rule in spring 2009.

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

Health Benefits

A pharmaceutical benefits manager (PBM) is a specialty managed-care entity that administers or manages prescription drug benefits. Pharmaceutical benefits represent approximately 10 percent of the total benefits paid by participating carriers. OPM's OIG and the program offices have begun initiatives to audit PBMs and to oversee and control rising drug costs.

Background Investigations Program

The current process for background investigations daily payments, as required under current contracts, is complicated and involves the program office's management information system, as well as a midware application designed to transmit information to OPM's Government Financial Information System (GFIS). The nature of the interfaces makes it difficult to trace and reconcile transactions between the three systems. OPM's planned new financial management system will replace both GFIS and the midware application and thus should alleviate some of the problems now associated with the background investigations payments. However, the new system will not be operational until FY 2010 and thus progress in reducing improper payments may be limited until that time.

Appendix A—Acronyms & Abbreviations

(Unaudited—See accompanying Independent Auditors' Report)

AFGE	American Federation of Government Employees
ALIL	Actuarial Life Insurance Liability
AFR	Agency Financial Report
ARPS	Annuity Roll Processing System
BPD	Bureau of Public Debt
C&A	Certification and accredition
CFS	Center for Financial Services
CFOC	Chief Financial Officer's Council
CFR	Code of Federal Regulations
CHCO	Chief Human Capital Officer
CIC	Capital Investment Committee
CIS	Center for Information Services
CLCS	Center for Leadership Capacity Services
COOP	Continuity of Operations Plan
COTS	Commerical Off-The-Shelf
CRC	Community-Rated Carrier
CRIS	Center for Retirement and Insurance Services
CSRS	Civil Service Retirement System
CTS	Center for Talent Services
CY	Calendar Year
DAD	Deputy Associate Director
DBTS	Define Benefit Technology Solution
DCIA	Debt Collection Improvement Act
DCCS	Document Case Control System
DEU	Delegated Examining Unit
DHS	Department of Homeland Security
DoD	Department of Defense
DSS	Defense Security Service
DVA	Department of Veterans' Affairs
EBS	Employees Benefits System
ECTS	Executive Correspondence Tracking System
EHRI	Enterprise Human Resources Integration
eOPF	Electronic Official Personnel Folder
EPV	Expected Present Value
eQIP	Electronic Questionnaire Investigations Processing
ERC	Experience-Rated Carrier
EVMS	Earned Value Management System
FBWT	Fund Balance With Treasury
FEDVIP	Federal Employee Dental and Vision Insurance Program
FEGLI	Federal Employee Group Life Insurance
FEHB	Federal Employee Health Benefits
FEHBP	Federal Employee Health Benefits Program
FEI	Federal Executive Institute
FERS	Federal Employee Retirement System
FFMIA	Federal Financial Management Improvement Act
FISD	Federal Investigative Services Division
FISMA	Federal Information Security Management Act
FLRA	Federal Labor Relations Authority
FLSA	Fair Labor Standards Act
FLTCIP	Federal Long Term Care Insurance Program
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
FPRAC	Federal Prevailing Rate Advisory Committee
FSA	Flexible Spending Account
FSM	Financial Systems Modernization
FTE	Full-time equivalent
FY	Fiscal Year
GAO	Government Accountability Office
GFIS	Government Financial Information System
GMRA	Government Management Reform Act of 1994
GS	General Schedule
GSA	General Services Administration
HB	Health Benefits
HC	Human Capital
HCAAF	Human Capital Assessment and Accountability Framework
HCLMSA	Human Capital Leadership and Merit Systems Accountability Division

HDHP	High Deductible Health Care Plan
HIT	Health Information Technology
HMO	Health Maintenance Organizations
HR	Human Resources
HRD	Human Resources Development
HR LOB	Human Resources Line of Business
HRPS	Human Resources Products and Services Division
HSPC	Human Resources Service Provider Consortium
HSA	Health Savings Account
ICFR	Internal Control over Financial Reporting
IP	Improper Payment
IPA	Independent Public Accounting (firm)
IRS	Internal Revenue Service
ISPP	Information Security and Privacy Policy
IT	Information Technology
LAIRS	Labor Agreement Information Retrieval System
LI	Life Insurance
MD&A	Management Discussion and Analysis
MDC	Management Development Center
MetLife	Metropolitan Life Insurance Company
MSD	Management Services Division
MSPB	Merit Systems Protection Board
n/a	Not applicable
NFR	Notice of Finding and Recommendation
NRC	Nuclear Regulatory Commission
NSPS	National Security Personnel System
OCFO	Office of the Chief Financial Officer
OCPL	Office of Communications and Public Liaison
OCR	Office of Congressional Relations
OD	Office of the Director
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OIO	Office of International Operations
OMB	U. S. Office of Management and Budget
O/P	Overpayment
OPM	U. S. Office of Personnel Management
PAAT	Performance Appraisal Assessment Tool
PAR	Performance and Accountability Report
PART	Program Assessment and Rating Tool
PBM	Pharmaceutical Benefits Manager
PMA	President's Management Agenda
PMF	Presidential Management Fellows
POA&M	Plan of Action & Milestones
PRHB	Postretirement Health Benefits
PY	Prior Year
RF	Revolving Fund
RSM	Retirement Systems Modernization
SAOC	Spending Authority from Offset Collections
SES	Senior Executive Service
S&E	Salaries and Expenses
SFFAS	Statement of Federal Financial Accounting Standards
SHRP	Strategic Human Resources Policy Division
SSA	Social Security Administration
TBD	To Be Determined
TJF	Treasury Judgement Fund
TMA	Training and Management Assistance
TOP	Treasury Offset Program
U/P	Underpayment
USC	United States Code
USPS	United States Postal Service
USSGL	United States Standard General Ledger
VA	Department of Veterans Affairs

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