Part 3: Management Discussion and Analysis

Agency Mission and Strategic Goals

OPM's Mission

It is OPM's job to build a high-quality and diverse Federal workforce, based on Merit System Principles, which America needs to guarantee freedom, promote prosperity, and ensure the security of this great Nation.

OPM's *Strategic Plan 2002–2007* describes OPM's mission and establishes the strategic goals and management strategy the agency is following to fulfill this mission. For each strategic goal, OPM also established objectives that clarify and specify milestones, or outcomes, intrinsic to achieving the strategic goal (see table 1). The Strategic Plan is available on the OPM Website at *www.opm.gov/gpra/opmgpra/sp2002*.

To achieve these strategic goals, OPM's management strategy establishes a standard of excellence for the agency's internal operations and programs. Included in its management strategy, OPM manages five e-Government initiatives that are transforming human resources processes and providing world-class, secure, modern, cross-agency, human resources solutions.

These goals and objectives were developed in consultation with OPM's key customers and stakeholders, and recognize OPM's responsibilities as described in statute, as well as the expectations of the President, Congress, other Federal agencies, and Federal employees and annuitants. The Strategic Plan holds OPM accountable for ensuring the American people are served and protected by a high-performing Federal workforce, and for the transformation of human capital in all Federal agencies based on Merit System Principles and other standards. These outcomes have an immediate impact on the security of the Nation and on the long-term strength and vitality of the civil service.

Organizational Structure

OPM's organizational structure reflects the goals articulated in the Strategic Plan and specific offices responsible for policy and coordination. Team OPM positions the agency to respond to and meet the unprecedented new responsibilities and higher profile the agency has been given. Team OPM (see figure 1) comprises the following organizational components.

Specific Officials on the Director's Core Management Team

- The *Chief of Staff and Director of External Affairs* is responsible for advising the Director on issues affecting the agency and the Federal workforce, and for coordinating implementation of the Director's decisions throughout the agency.
- The *Executive Director and Senior Counselor* focuses on internal agency matters, including strategic planning and the budgetary process.
- The *Senior Advisor on the Department of Defense, the Senior Policy Advisor,* and *the Federal Prevailing Rate Advisory Committee* report to the Director on matters concerning their specific programs.

Executive Offices

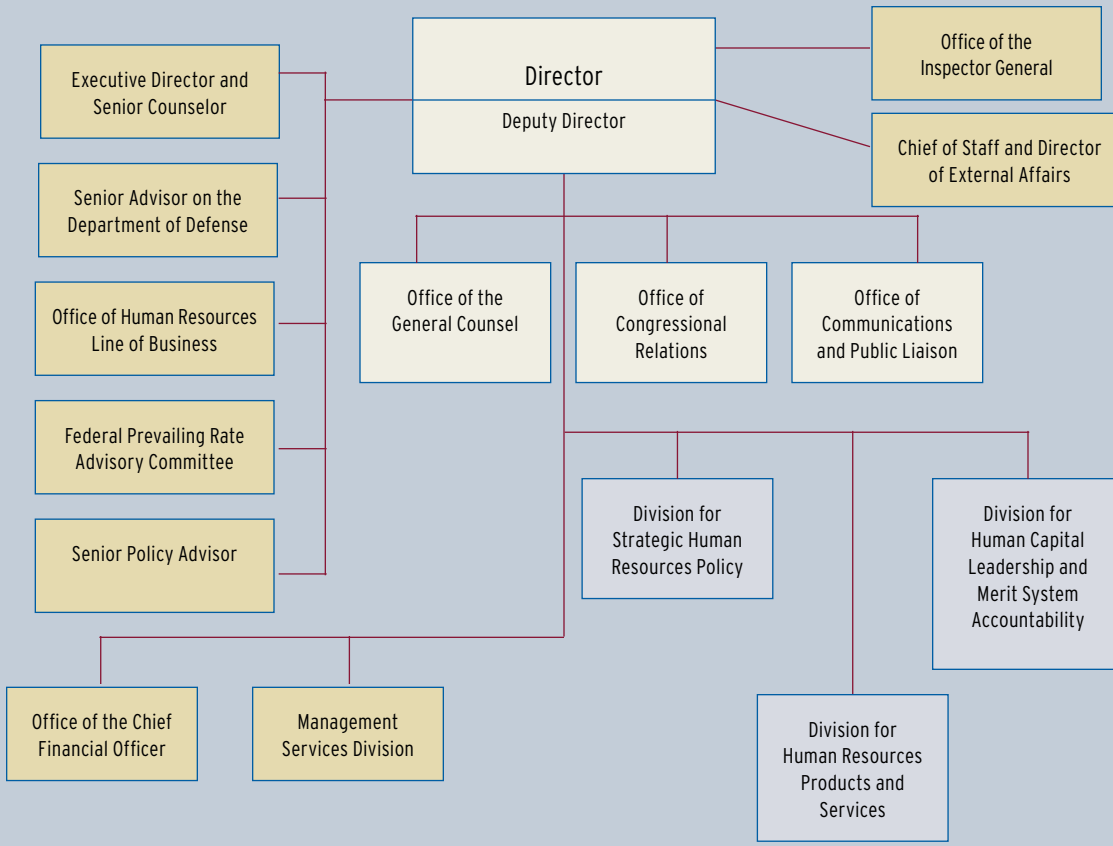
- The *Office of the Inspector General* conducts comprehensive and independent audits, investigations, and evaluations relating to OPM programs and operations. It is responsible for administrative actions against health care providers that commit sanctionable offenses with respect to the Federal Employees Health Benefits Program or other Federal programs. The

Table 1 – Strategic Goals and Objectives

Goals and Objectives	Resources Applied*
Strategic Goal I – Human Resources Policy Federal agencies adopt human resources management systems that improve their ability to build successful, high-performance organizations. **Strategic Objectives** • Agencies use OPM policy and guidance to develop and maintain the capacity of their workforce to continue to meet and improve their strategic performance targets. • Provide expert advice and assistance in establishing the Department of Homeland Security and ensure that human capital needs for the homeland security community are met. • Provide the Federal Government with a modern compensation system that is performance-oriented, market-sensitive, and used to assist Federal agencies in meeting their strategic goals. • Increase the effectiveness and efficiency of the Federal hiring process and make Federal employment attractive to high-quality applicants of diverse backgrounds.	Program Costs: $25.512 FTE: 196.0
Strategic Goal II – Human Capital Leadership and Merit System Accountability Federal agencies use effective merit-based human capital strategies to create a rewarding work environment that accomplishes the mission. **Strategic Objectives** • Provide advice to agencies and promote best practices on solutions, actions, and strategies to meet their human capital management needs. • Monitor and assess agencies' effectiveness in implementing merit-based strategies that support their mission.	Program Costs: $30.145 FTE: 259.0
Strategic Goal III – Human Resources Products and Services Meet the needs of Federal agencies, employees, and annuitants through the delivery of efficient and effective products and services. **Strategic Objectives** • Provide direct human capital products and services that are cost effective, relevant, and useful to agencies. • Facilitate retirement income security for Federal employees by making the transition from active employment to retirement seamless and expeditious. • Federal employees, annuitants, and their families can choose from among quality and fiscally responsible carriers to address their specific insurance needs.	Program Costs: $888.793 FTE: 2,817.0
Management Strategy Create an environment that fosters the delivery of services to our customers and employees through effective communication and management of human capital, technology, financial resources, and business processes.	Program Costs: $153.543 FTE: 782.0

*Program costs are expressed as millions of dollars and include direct program costs only. FTE = full-time equivalent.

Figure 1 – TEAM OPM Organizational Structure



OIG keeps the Director and Congress fully informed about problems and deficiencies in the administration of agency programs and operations, and the necessity for corrective action.

- The *Human Resources Line of Business (HR LOB)* is responsible for the development of world-class, secure, modern, cross-agency, human resources solutions so that Federal agencies can build successful, high-performing organizations. To accomplish this, OPM is providing a consolidated, portable, and secure on-demand human capital and talent management system for many essential human resources functions including payroll, training, security clearance, recruitment, and an enterprise human resources data warehouse.
- 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 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 the General Counsel* provides legal services to OPM's Director, Deputy Director, and divisions. It also advises Government agencies in understanding and carrying out their civil service

responsibilities and meeting the Merit System Principles. The office provides civil service-related legal assistance to members of the public, as needed, to serve the American people fairly and professionally.

Program Divisions

- The *Division for Strategic Human Resources Policy* (SHRP) is responsible for Strategic Goal I and its four supporting objectives. 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.
- The *Division for Human Capital Leadership and Merit System Accountability* (HCLMSA) leads the transformation of human capital management across Government by proactively engaging agencies in the implementation of the Human Capital Standards for Success; providing them with technical advice and assistance; and assessing and reporting their results and adherence to Merit System Principles, veterans' preference, and other Governmentwide standards. These responsibilities are covered by Strategic Goal II and its two objectives.
- The *Division for Human Resources Products and Services* (HRPS) has responsibility for Strategic Goal III and its three underlying objectives. HRPS provides high-quality, cost-effective products and services that help OPM customers recruit and retain the best talent; develop and maintain a results-oriented leadership capacity; and support Federal employees, annuitants, and their families.
- The *Management Services Division* (MSD) provides OPM offices with the full range of administrative services, including human capital and equal employment opportunity management, contracting and administrative management, information technology, and security and emergency services. These services enable OPM to build mission capacity and maintain a high-quality and diverse workforce.
- The *Office of the Chief Financial Officer* (OCFO) is responsible for implementing the PMA within the agency and providing OPM offices with the full range of financial management, strategic planning, and budget services. The office also performs OPM's oversight of internal controls and risk assessments.

Figure 2 – Performance Management Structure

Analysis of Program Performance

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

OPM's Strategic Plan sets the framework for virtually all of its other performance planning and reporting documents, including OPM's annual Congressional Budget Justification/Performance Budget, Human Capital Plan, and Capital Asset Plans. In its Strategic Plan, OPM sets forth its mission and the three strategic goals derived from it, their underlying objectives, and the corresponding long-term performance measures. OPM's annual performance goals and indicators (discussed in part 4) are derived from these strategic structures and provide the near-term operational road map for achieving them.

Additionally, since OPM began using the Program Assessment and Rating Tool (PART) in 2002, it has used the resulting assessments to inform not only program improvement and management but how it articulates its program outcomes and long-term performance measures, and thus how it states its mission and strategic goals.

Together, these constructs form OPM's Strategic Management Structure (see figure 2). OPM's strategic planning and PART process are the key drivers in articulating the agency's mission, strategic goals, and objectives. These, in turn, are the drivers for OPM's annual performance goals, performance indicators, and targets, which are described in budgets, and human capital and capital asset plans. The agency's mission, strategic and annual performance goals, performance indicators and targets are reflected in manager and employee annual performance appraisal plans; monitored through OPM's internal quarterly reporting process; and reported to the President, Congress, and the public in annual PARs.

Performance Highlights

During FY 2005, OPM achieved at least partial success in 26 of its 28 annual performance goals, fully meeting 20 and partially meeting 6, and not meeting the remaining 2 (see table 2). Detailed reports on all of OPM's annual performance goals can be found in Part 4 of this report.

OPM made significant progress in FY 2005 toward the outcomes articulated under Strategic Goal I and good progress toward the outcomes of Strategic Goal II. Under Strategic Goal I, OPM met or partially met all of its 16 human resources policy goals. Under Strategic Goal II, OPM fell short of some aggressive targets for the Compli-

Table 2 – Status of Annual Performance Goals by Strategic Goal and Objective

Strategic Goal and Objective	Number of Annual Performance Goals	Goals Fully Met	Goals Partially Met	Goals Not Met
Strategic Goal I: Federal agencies adopt human resources management systems that improve their ability to build successful, high-performance organizations.				
1. Agencies use OPM policy and guidance to develop and maintain the capacity of their workforce to continue to meet and improve their strategic performance targets.	5	5	0	0
2. Provide expert advice and assistance in establishing the DHS and ensure that human capital needs for the homeland security community are met.	1	0	1	0
3. Provide the Federal Government with a modern compensation system that is performance oriented and market sensitive, and assists Federal agencies in meeting their strategic goals.	6	4	2	0
4. Increase the effectiveness and efficiency of the Federal hiring process and make Federal employment attractive to high-quality applicants of diverse backgrounds.	4	4	0	0
Strategic Goal II: Federal agencies use effective merit-based human capital strategies to create a rewarding work environment that accomplishes the mission.				
1. Provide advice to agencies and promote best practices on solutions, actions, and strategies to meet their human capital management needs.	1	1	0	0
2. Monitor and assess agencies' effectiveness in implementing merit-based strategies that support their mission.	1	0	1	0
Strategic Goal III: Meet the needs of Federal agencies, employees, and annuitants through the delivery of efficient and effective products and services.				
1. Provide direct human capital products and services that are cost effective, relevant, and useful to agencies.	3	3	0	0
2. Facilitate retirement income security for Federal employees by making the transition from active employment to retirement seamless and expeditious.	1	0	0	1
3. Federal employees, annuitants, and their families can choose from among quality and fiscally responsible carriers to address their specific insurance needs.	1	1	0	0
Management Strategy: Create an environment that fosters the delivery of services to our customers and employees through effective communication and management of human capital, technology, financial resources, and business processes.				
Human Resources Line of Business	1	1	0	0
Management Services Division	1	1	0	0
Office of the Chief Financial Officer	1	0	1	0
Office of the Inspector General	2	0	1	1
FY 2005 Total	**28**	**20**	**6**	**2**

ance Program, partially meeting the goal. However, the Human Capital Leadership Program achieved significant improvements over FY 2004 as an increasing number of agencies are implementing best practices in human capital management.

FY 2005 results for Strategic Goal III were mixed: the Talent Services, Federal Investigative Services, and Leadership Capacity Services Programs achieved their performance targets, but important targets were not achieved in the Retirement Services Program. Results for OPM's Management Strategy were similarly mixed. OPM met its targets for hiring cycle time, contracting, and the auditors' opinion on the agency's annual financial statements. However, the cost-avoidance targets for OPM's Competitive Sourcing Program and the financially related PMA initiatives were not achieved.

Key Performance Indicators

To provide a quick read on whether it is progressing toward its strategic goals, OPM identifies and monitors key performance indicators that focus on the most mission-critical programs and outcomes embodied in the strategic goals. A brief assessment of these indicators for FY 2005 is shown for each strategic goal and OPM's management strategy in tables 3 through 6.

Strategic Goal I:

Federal agencies adopt human resources management systems that improve their ability to build successful, high-performance organizations.

To fulfill Strategic Goal I, SHRP develops and promulgates the full gamut of human resources policy. During FY 2005, OPM produced a wide range of human resources management policy packages, including legislative proposals, regulatory materials, and ongoing policy guidance to Federal agencies. In so doing, OPM met nearly all (93 percent) of the milestones it established for these deliverables, resulting in increased use of new recruiting and retention flexibilities, and the continued rollout of new personnel systems for DHS and DoD. In addition, OPM sustained existing human resources systems by issuing updates to Federal pay tables on time.

Table 3 – Key Performance Indicators: Strategic Goal I

Strategic Human Resources Policy					
Indicator	FY 2002 Results	FY 2003 Results	FY 2004 Results	FY 2005 Target	FY 2005 Results
Meeting key policy milestones	–	–	–	All milestones met	93% of milestones were met
Agency use of student loan repayment program	–	Baseline established	Increased use over previous year	Increased use over previous year	42% increase in population, 79% increase in agency participation
Agency use of recruiting and retention flexibilities	–	–	–	Increased use over previous year	Increased use over previous year
Timeliness of issuing new pay tables	Pay tables issued w/in 24 hrs of decision	Pay tables issued w/in 24 hrs of decision	Pay tables issued w/in 24 hrs of decision	Pay tables issued w/in 24 hrs of decision	Pay tables issued w/in 24 hrs of decision

– data not available.

Table 4 – Key Performance Indicators: Strategic Goal II

Indicator	FY 2002 Results	FY 2003 Results	FY 2004 Results	FY 2005 Target	FY 2005 Results
Human Capital Leadership Program					
Number of PMA agencies with significantly reduced skill gaps in mission-critical occupations	–	2	10	20	14
Number of PMA agencies with linked performance appraisal plans for 60% of their employees	–	4	14	20	20
Compliance Program					
Percent of agencies with severe problems in one or more Delegated Examining Units that demonstrate improvement within one year following completion of an audit	–	66	50	79	58
Number of agencies that fully implement an internal Merit System compliance system	–	–	–	2	2

– data not available.

Strategic Goal II:

Federal agencies use effective merit-based human capital strategies to create a rewarding work environment that accomplishes the mission.

Strategic Goal II encompasses the Governmentwide Strategic Management of Human Capital initiative (the Human Capital Leadership Program) and OPM's work to ensure that Federal agencies adhere to Merit System Principles and veterans' preference (the Compliance Program). Although OPM did not meet the target for one of its key performance indicators for the Compliance Program, significant progress was made in other areas. OPM either met one of the key performance indicators or improved over last years results in its Human Capital Leadership Program, increasing the number of agencies that are using human capital best practices in managing their Federal employees.

Strategic Goal III:

Meet the needs of Federal agencies, employees, and annuitants through the delivery of efficient and effective products and services.

OPM administers a variety of programs to deliver human resources products and services to Federal agencies, employees, and annuitants (retirees and survivor annuitants). Services to agencies include the Federal Investigative Services Program (comprising personnel investigations and suitability determinations), the Talent Services Program (support for recruitment, examining, training, and organizational assessment), and the Leadership Capacity Services Program (management and executive development training). Generally, these programs are delivered on a revolving fund basis, whereby OPM charges agencies for services, and — for Talent and Leadership Capacity Services — must compete in the marketplace to maintain its agency customer base.

Table 5 – Key Performance Indicators: Strategic Goal III

Indicator	FY 2002 Results	FY 2003 Results	FY 2004 Results	FY 2005 Target	FY 2005 Results
Federal Investigative Services Program					
Percent of background investigations closed within contract delivery date	45	25	17	40	27
Talent Services Program					
Agency acceptance rate of Training and Management Assistance project deliverables (%)	99.0	99.9	>95	>95	99
Leadership Capacity Services Program					
Level 2 evaluation ratings (scale of 1–5) for Management Development Center and Center for Excellence in Leadership	4.2	4.0	4.3	4.3	4.5
Level 2 evaluation ratings (scale of 1–5) for Federal Executive Institute and Leadership for Democratic Society	4.0	4.0	4.2	4.2	4.6
Insurance Services Program					
Percent of FEHBP carriers that meet or exceed industry standard for medical claims processing	–	–	95	>95	98
Life Insurance Program claims processing timeliness (days)	6.0	5.2	6.4	10.0	6.5
Retirement Services Program					
Retirement claims processing timeliness (days) – Civil Service Retirement System annuity	55	59	73	65	80
Retirement claims processing timeliness (days) – Federal Employee Retirement System annuity	70	83	97	89	93
Retirement claims processing timeliness (days) – CSRS survivor	31	30	28	29	29
Retirement customer calls handled	1,425,452	1,476,853	1,648,834	1,800,000	1,710,936

– data not available.

Table 6 – Key Performance Indicators: Management Strategy

Indicator	FY 2002 Results	FY 2003 Results	FY 2004 Results	FY 2005 Target	FY 2005 Results
Management Services					
Hiring cycle time from receipt of manager's request to hire (workdays)	–	81	36	<45	40
Estimated costs avoided resulting from job competitions ($)	–	2.1 million	2.1 million	2.2 million	0.5 million
Chief Financial Officer					
Audit opinions	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Number of material weaknesses in OPM financial systems	None	None	One	None	None

– data not available.

The key performance indicators for Strategic Goal III had mixed results during FY 2005. Targets were met in the Talent Services, Leadership Capacity Services, and Insurance Services (both health benefit and life insurance) programs. Thus, OPM continues to assist and support agencies with their recruitment and employee development efforts through the delivery of Talent Services, and employee benefits, and is developing a cadre of potential executives through the Center for Leadership Capacity Services.

OPM improved the key indicator for Investigative Services by 10 percentage points over its performance last year, though it did not meet its aggressive target of a 23-point improvement. OPM fell short of the claims processing targets for the retirement program in FY 2005. This program has developed an improvement plan and expects significant improvements during FY 2006.

Management Strategy:

Create an environment that fosters the delivery of services to our customers and employees through effective communication and management of human capital, technology, financial resources, and business processes.

OPM's management strategy is carried out by the agency's executive offices (Office of the Director, Office of Communications and Public Liaison, Office of Congressional Relations, and Office of the General Counsel), and by the Human Resources Line of Business office, the Management Services Division, the Office of the Chief Financial Officer, and the OIG. Together, these entities provide leadership, guidance, oversight, and support to OPM's program offices; promote OPM's programs; and ensure that OPM has the resources needed to achieve its strategic goals and fulfill its mission.

During FY 2005, OPM's management strategy organizations met three of their four key performance indicators, as shown in table 6. OPM received a sixth consecutive "unqualified" opinion in its FY 2005 consolidated financial statements and resolved the single material weakness identified in its financial systems. However, the annual goal was not fully achieved, as OPM's competitive sourcing initiative did not produce the targeted level of cost avoidance. In addition, as reported in Part 4, other financial measures were not met.

Finally, though OPM exceeded its target for internal hiring cycle time, this did not represent a performance improvement over FY 2004 since the 36-days achieved during FY 2004 was unexpectedly good and based on fewer recruitment actions than occurred in FY 2005. The 45-day target for this indicator is the Government-wide standard for non-executive hiring cycle times.

Progress on the President's Management Agenda

Background

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

Table 7 – OPM PMA Scorecard Results for FY 2005

Initiative		Beginning of Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Human Capital	Status	G	G	G	G	G
	Progress	G	G	G	G	G
Competitive Sourcing	Status	G	G	G	G	G
	Progress	Y	R	G	G	G
Financial Performance	Status	Y	R	R	R	R
	Progress	G	G	G	G	G
E-Gov	Status	G	G	G	Y	Y
	Progress	G	Y	G	G	G
Budget & Performance Integration	Status	Y	Y	Y	Y	Y
	Progress	Y	G	G	G	G
Eliminating Improper Payments	Status	Y	Y	Y	Y	Y
	Progress	n/a	n/a	G	G	G

n/a Not applicable, new initiative

R = Red; G = Green; Y =Yellow

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

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

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

OPM's Commitment to the PMA

As the leading manager of human resources in the Federal Government, OPM must be an exemplar of streamlined, innovative, and efficient management principles and practices. OPM sets such a standard in large part through its adoption of and commitment to the PMA's six initiatives as cornerstones of its internal management.

However, as shown in table 7, OPM was challenged to maintain the progress it had made in previous years and saw its status scores for Financial Performance and Expanding Electronic Government decline during FY 2005. Despite these declines, OPM made progress on its PMA initiatives and improved its internal management. As OPM improves through the six PMA initiatives, the services it provides its agency customers will also improve, and the American taxpayers and public will benefit.

Strategic Management of Human Capital

OPM's internal human capital initiative stayed on track during FY 2005, and both progress and status scores were maintained at "green" throughout the year. Addressing skill gaps became a key focus for OPM in FY 2005 when almost 1,600 DSS employees became part of OPM's Center for Federal Investigative Services. OPM invested considerable effort in the transition of these employees to the agency, which included both the challenges of incorporating this significant workforce into existing administrative structures and systems (e.g., ensuring seamless payroll and personnel processing), and of identifying and addressing employee competency requirements to ensure successful mission fulfillment within the OPM operating structure and requirements. The effort included training DSS personnel on the use of OPM's automated investigations support system prior to their assignment to OPM. This addressed many of the challenges created by such a substantial transfer.

OPM certified that 94.8 percent of employee performance plans are directly linked to the agency's Strategic Plan. To strengthen this linkage, OPM aligned its performance awards and recognition programs with mission accomplishment.

In addition, OPM implemented leadership succession strategies to ensure there are no competency gaps in its leadership talent pool. These strategies establish a mechanism for ensuring deliberate, systematic, and continuous action that helps support corporate goals and objectives for continuity of leadership. In addition to recruiting and selecting key leaders with critical competencies, there are a variety of activities that support ongoing in-house leadership succession and executive/leadership development.

Through leadership development programs, OPM has achieved a 2:1 ratio of "fully competent" candidates to projected corporate leadership position vacancies. This means that for every one job that may be vacated, the agency has developed at least two other leaders who can move into that job. In addition, OPM hired 50 percent of its Senior Executive Service candidates within a 30-day time frame, and 55 percent of its General Schedule (GS)-15 positions, within a 45-day time frame.

Competitive Sourcing

After slipping from "yellow" status to "red" early in the fiscal year, OPM's competitive sourcing initiative established a rigorous approach to ensure each commercial activity is accountable in terms of the cost and effectiveness of the services it provides. For competitions won by OPM employees, letters of obligation were established which contain specific performance measures and criteria. Quarterly reviews were conducted to ensure employees are performing services at the established quality levels and any anticipated cost savings resulting from the competition have been achieved. The OIG conducted reviews verifying that both cost savings and performance were at the prescribed levels. However, during FY 2005, the single competition that OPM workers lost resulted in immediate expenses that prevented the agency from meeting it cost savings and avoidance targets for FY 2005. OPM is confident the anticipated savings will be realized during FY 2006 and FY 2007. A detailed accounting of OPM's competitive sourcing initiative can be found in part 4 of this report.

Improving Financial Performance

OPM has steadily enhanced its financial management and accountability, consistently achieving progress ratings of "green" for its efforts in the Improving Financial Performance initiative. However, OPM's status scores slipped to "red" during the year. OPM is committed to making continued improvements in this area because top-notch fiscal responsibility must be the overriding concern for the guardian of the Government's retirement, health, and insurance trust funds. For example, even though OPM has received the most favorable (unqualified, or "clean") overall audit opinions on its consolidated financial statements for six consecutive years, the agency has diligently pursued the identification and resolution of financial management issues with

the Revolving Fund and Salaries and Expenses accounts — notwithstanding the fact that these two areas represent less than 1 percent of its total financial operations.

Additionally, OPM's OCFO has made significant progress in instituting financial management enhancements and reforms to resolve problems in Revolving Fund and Salaries and Expenses financial operations, and to ensure OPM's Trust Fund activities are well managed and continue to provide Federal retirees with the income and benefits they earned as employees in a timely and accurate manner. A detailed report on OPM's Improving Financial Management initiative can be found in the Financial Management Performance section of the report.

Expanding Electronic Government

OPM is helping to lead the Expanding Electronic Government initiative across the Federal Government, strengthening agencies' management of their information technology and their use of the Internet to simplify and enhance service delivery. To ensure this leadership, OPM has established the HR LOB and included an annual performance goal in its FY 2005 Congressional Budget Justification/Performance Budget.

During FY 2005 OPM's status slipped from "green" to "yellow" for e-Gov. OPM has set a target of the second quarter of FY 2006 to regain its "green" status on this initiative. An overview of OPM's specific e-Gov initiatives follows below. A detail report on the agency's performance in the Expanding e-Gov initiative can be found in part 4 of this report.

Human Resources Line of Business. The objective of HR LOB, which OPM leads as its managing partner, is to create a framework for Governmentwide, modern, cost-effective, standardized, and interoperable human resources solutions that provide common core functionality and maximize the automation of processes to support the Strategic Management of Human Capital. These solutions will achieve or increase operational efficiencies in the acquisition, development, implementation, and operation of human resources management systems; achieve or increase cost savings/avoidance from human resources solution activities; and improve customer service. To achieve this goal, the HR LOB is establishing Governmentwide shared service centers to provide business and technology solutions to support multiple agencies.

Enterprise Human Resources Integration. Today, agencies can access a central data repository with over 15 years of personnel actions for 1.8 million Executive Branch employees for the purpose of workforce analysis, planning and forecasting, and employee record lookup. Human resources departments across Government will be given the tools to instantly create customized reports and analyses of their agencies' workforces. For the first time, agency payroll and training data will be combined with employee data for workforce analysis. EHRI is also implementing an electronic Official Personnel Folder application across the Government that will replace the current paper personnel folder. In conjunction with the EHRI data warehouse, this application will enable employee information to be transferred electronically across Government, including to the retirement system. It also will provide the capability for security clearance investigators to view personnel files online rather than having to travel to various locations to view paper folders, thus saving time and money in the clearance process.

Recruitment One-Stop. Since late 2001, the Recruitment One-Stop initiative has transformed the USAJOBS Federal Employment Information System from a legacy in-house system and service delivery support model to a fully outsourced operation, leveraging industry best practices and state-of-the-art technology. USAJOBS continues to support the recruitment of highly qualified candidates to help agencies fill their mission-critical occupations. Customer satisfaction with USAJOBS has increased to 77, 6 points above the legacy score of 71. In addition, USAJOBS users have logged more than 177 million visits, and over 1.8 million new jobseeker resumes have been created. Implementation of resume database mining technology, combined with increased usage, has helped agencies quickly locate high-potential candidates and save money previously used for paid advertising or other recruiting expenses.

E-Payroll. Before the start-up of the e-Payroll project in 2002, 26 Executive Branch agencies each provided varying levels of payroll services, and most agencies provided service only for their own employees. As a result, employees received inconsistent treatment in payroll administration. Today, four cross-servicing payroll

providers operating in two partnerships are consolidating payroll servicing across the Executive Branch.

E-Training. The e-Training initiative continues to promote agency adoption of enterprise-wide e-Learning solutions to reduce redundancies and foster resource sharing. The initiative connects Federal employees to learning opportunities across the Federal Government and is focused on further developing standards through the Federal e-Learning community to make this happen. These solutions will continue to be acquired through contracting vehicles that take advantage of economies of scale, negotiating fees based on the buying power of the entire Federal Government. The Governmentwide e-Learning portal, to be unveiled as USALearning.gov, and solutions implemented by service providers now have more than 1 million registered users who have completed nearly 900,000 online courses. More than 70 agencies participate in the initiative through the Federal Service Provider Consortium.

E-Clearance. Since deploying the electronic questionnaire investigations processing system in 2001 and improving the quality of applicant data, the e-Clearance initiative has reduced the amount of time needed by customers to schedule background investigations by as much as five working days. The initiative has also launched the Clearance Verification System, which lets authorized users within agencies quickly verify the status of clearances in the Federal Government. OPM also has worked with the security community to develop common procedures and file transfer standards for sharing investigative data. OPM began imaging its own closed investigative case files in October 2004, making them suitable for electronic transfer.

Budget and Performance Integration

Impact of PARTs and PART Recommendations. OPM continued using the PART to articulate clear and specific outcomes for its programs and to develop both long-term and annual performance measures focused on these outcomes. This has resulted in a more stable array of measures for most programs and in annual goals derived from expected performance. During FY 2005, OPM began implementing the four recommendations stemming from the PARTs of the three benefits programs — Retirement, Federal Employees Health Benefits, and Federal Employees Group Life Insurance — that were included in the FY 2006 President's Budget. Additionally, OPM developed a plan to begin implementing the recommendations that come out of the FY 2007 budget cycle PARTs of the Compliance and Talent Services Programs. The recommendations for all of OPM's programs fall into the following areas:

Data collection and performance measurement: OPM is establishing ambitious targets for long-term goals and demonstrating adequate progress in achieving these performance goals. Additionally, it is modifying data collection methods to ensure accuracy in data collection and reporting.

Program evaluation: OPM is conducting independent program evaluations of its programs to demonstrate that the program is effective and achieving results.

Accounting: OPM is modifying its accounting structures and practices to ensure that it can accurately capture total costs at the activity level and hold managers and partners accountable for cost, schedule, and performance results.

Program improvement: OPM is exploring program improvements through collaboration with other agencies/stakeholders as appropriate, by effectively linking resources to program performance and results/outcomes, and by assessing organizational structure to ensure maximum efficiency.

Quantitative Performance Measures. In previous years, many of OPM's performance measures were descriptive in nature and often changed from year to year. OPM has replaced many of these descriptive measures with quantitative performance indicators based on outcomes (effectiveness indicators) and outputs (efficiency indicators). These quantitative measures will provide historic performance data that show whether and to what extent OPM is progressing toward program outcomes. For example, OPM now measures the extent to which Federal agencies are adopting best practices in human capital management by assessing and reporting on whether they are using new recruiting and hiring models, reducing skill gaps in mission-critical positions, linking employee performance plans with strategic goals, and developing and implementing leadership succession plans.

Regular Program Assessment. OPM's annual budgets now include funding for program evaluation, research, and performance measurement development and refinement stemming from PART assessments, congressional mandates, and other OPM program needs. These research and evaluation projects inform OPM, Congressional decision makers, and the public as to whether Federal human resources programs are achieving their intended outcomes. In so doing, these evaluations describe whether outcomes are being achieved at a reasonable cost and in what areas they are lacking. The cumulative effect of these evaluation efforts is to create the capacity to focus on program outcomes, performance measurement, and a broad range of current and emerging initiatives in human resources policy.

Eliminating Improper Payments

OPM has long understood the need to ensure the benefits due Federal retirees, annuitants, and their families are accurate and timely. The reduction and prevention of improper payments was an OPM priority long before the enactment of the Improper Payments Improvement Act. Over the years, the improper payment rates in the programs OPM administers have been very low. As a consequence of efforts to date, OPM has met all "yellow" Standards for Success in the area of eliminating improper payments. Specifically, OPM has developed an OMB-approved corrective action plan that includes aggressive improper payment reduction targets and improper payment recovery targets, and complied with all improper payments reporting requirements for FY 2004. Specific information regarding OPM's initiative to eliminate improper payments can be found in the Compliance with Laws and Regulations, Compliance with the Improper Payments Information Act section.

Quality of Performance Data

In accordance with the requirements of the Government Performance and Results Act, OPM ensures the information in its PAR accurately reflects its FY 2005 performance and is based on reasonably complete, accurate, and reliable data.

In FY 2005, OPM further improved controls over the collection and reporting of its performance information. For instance, each OPM program office documented its data collection, reporting, and verification procedures to establish a control environment based on data quality standards established by the agency's Chief Financial Officer. These procedures are facilitated by internal quarterly financial and performance reviews conducted by the OPM Director with each program office during the year. Through these reviews, data collection issues are identified and resolved well before the PAR is due, and performance targets and goals can be adjusted if necessary. The agency thus has uniform procedures for measuring success in achieving targets and documenting this success for use in the PAR.

In addition to these internal controls, OPM uses findings from traditional reviews and audits by the OIG, the Government Accountability Office, independent auditors, and other outside groups who may offer comment and recommendations to identify issues in performance measurement and reporting. These reviews have informed OPM about opportunities for improving policies and procedures in the preparation of performance budgets and reports and the collection and reporting of performance information, and have indicated where controls can be strengthened. They have also pointed out instances where reported results did not completely address pertinent performance indicators. OPM has accepted all of the recommendations made by these reviewers and auditors.

Addressing Demands, Risks, and Uncertainties

The Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standard No. 15 requires Federal agencies to discuss in the PAR the most significant existing, currently known demands, risks, uncertainties, events, conditions, and trends. Table 8 presents the most significant issues facing OPM and their immediate impact on its resources and operations, and possible impact on the Federal Government and the public. These issues are identified in risk assessments conducted by the agency's Center for Internal Control and Risk Management, as well as in OIG's management challenges and other audit reports.

Table 8 – Summary of OPM Risk Areas

Area of Risk/Assessment	Description	Impact	
		On OPM	On Government or Public
DHS initiative *OIG management challenges; GAO report*	In spite of progress to date, considerable work is required to fully institute the DHS human resources system, implement departmental processes and procedures, and demonstrate application to other Federal agencies and departments.	Significant resources will continue to be focused on this initiative.	Morale and effectiveness of DHS employees and the agency's ability to carry out its mission could be affected. Also, delays could negatively impact similar changes planned for the rest of the Federal Government.
DoD initiative *OIG management challenges; GAO reports*	Despite considerable progress, more work is required to fully implement the National Defense Authorization Act of FY 2004.	Significant resources will continue to be focused on this initiative.	Morale and effectiveness of DoD employees and DoD's ability to carry out its mission could be affected.
Retirement Systems Modernization *OIG management challenges; GAO report; HRPS Self-Assessment*	Recent GAO report cites challenges with RSM development and management. The OIG continues to list the project on its management challenges report. Significant ongoing investments are needed to complete the project.	OPM must obtain needed resources to complete this project. Without RSM, OPM will need to make significant investments in claims processing staff to handle the workload's increasing volume and complexity.	The timeliness and cost of processing Federal retirement claims may be affected, which could undermine the financial well-being of retirees and their families.
Expanded Background Investigations *OIG management challenges; GAO reports; HRPS Self-Assessment*	Additional work resulting from the DSS transfer and transition will make background investigation products and services more difficult to deliver.	Capacity of several OPM internal systems were increased significantly, including personnel, payroll, purchasing, contracting, and investigations workload tracking and reporting.	Federal hiring timeliness and quality of newly hired Federal employees could ultimately affect agency/Government performance and service to the public.
Implementing e-Government projects *OIG management challenges*	The six interrelated systems face significant technical and business complications.	If cost, schedule, and performance success is not achieved, progress toward line-of-business activities and self-financing operations is jeopardized and could adversely impact OPM's RSM project as well.	Governmentwide cost savings and process efficiencies in a wide range of human resources activities and retirement services will not be achieved if OPM's e-Gov projects are not successful.
Financial Systems Modernization *OIG/KPMG Audit Report; FY 2004 PAR; OCFO Self-Assessment*	Significant effort is required to improve OPM's financial management system including information system software, business processes and procedures, outsourcing support, and internal controls. OCFO has developed a Capital Asset Plan on modernizing the current system. The centerpiece of this Plan involves the selection of the Bureau of Public Debt's Administrative Resource Center to host OPM's core financial management and procurement systems.	Financial Systems Modernization will enhance OPM's financial stewardship; generate complete, accurate, reliable, and timely financial information for its managers and for external reporting; and implement recent Joint Financial Management Improvement Program certified enhancements.	Public confidence that OPM is properly managing and accounting for its assets, which include the hundreds of billions of dollars in the employee benefit Trust Funds, could be affected.

Analysis of OPM's Financial Statements

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

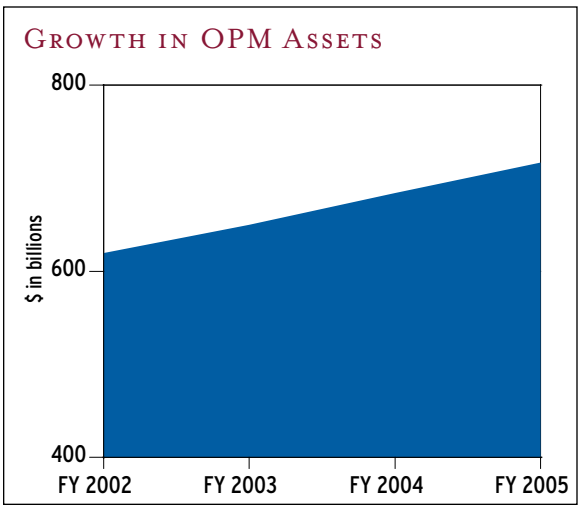
- Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position
- Statement of Budgetary Resources
- Statement of Financing

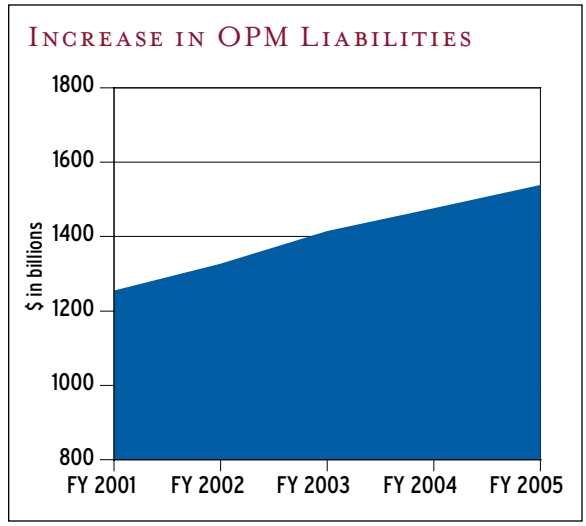
Balance Sheet

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

Assets. At the end of FY 2005, OPM held $716.4 billion in assets, an increase of 4.8 percent from $683.7 billion at the end of FY 2004. 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 of $702.7 billion, which represents 98.1 percent of all OPM assets. OPM invests all Retirement, Health Benefits, and Life Insurance Program collections not needed immediately for payment in special securities issued by the U.S. Treasury. As OPM routinely collects more money than it pays out, its investment portfolio (and consequently, its total assets) continues to grow. In FY 2005, the investment portfolio grew by 4.8 percent.





Liabilities. At the end of FY 2005, OPM's total liabilities were $1,539 billion, an increase of 4.2 percent from $1,476.5 billion at the end of FY 2004. Three line items — the Pension, Postretirement Health Benefits, and the Actuarial Life Insurance Liabilities — account for more than 99 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. 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 $1,215 billion at the end of FY 2005, an increase of over $40 billion, or 3.4 percent from the end of the previous year. [See

discussion of the Net Cost to Provide CSRS and FERS Benefits below].

The *Postretirement Health Benefits Liability*, which represents the future cost to provide health benefits to active employees after they retire, is $281.6 billion at the end of FY 2005. This reflects an increase of approximately $20 billion from the amount at the end of FY 2004, or 7.6 percent. [See discussion of the Net Cost to Provide Health Benefits below].

The *Actuarial Life Insurance Liability* is different from the Pension and Postretirement Health Benefits Liabilities. Whereas the other two are liabilities for "post-retirement" benefits only, the Actuarial Life Insurance Liability is an estimate of the future cost of life insurance benefits for both deceased annuitants and for employees who die in service. The Actuarial Life Insurance Liability increased by approximately $1.4 billion in FY 2005 to $32.3 billion, or 4.7 percent from the end of the previous year. [See discussion of the Net Cost to Provide Life Insurance Benefits below].

Actuarial Gains and Losses

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

In computing the Pension, Postretirement Health Benefits and Actuarial Life Insurance Liabilities, OPM's actuaries must make assumptions about the future. When the actual experience of the Retirement, Health Benefits and Life Insurance Programs differs from these assumptions, as it always will, actuarial gains and/or losses will occur. For example, should the return on investments be better than the actuary assumed, there will be an actuarial gain.

Net Position. OPM's total liabilities exceeded its total assets at the end of FY 2005 by $822.5 billion, primarily due to the large actuarial liabilities. It is important to note that the Retirement, Health Benefits, and Life Insurance Programs are funded in a manner that ensures that there will be sufficient assets available to pay benefits well into the future. Table 9 – Net Assets Available for Benefits shows that OPM's net assets available to pay benefits have increased by over $32.1 billion in FY 2005 to over $706 billion.

Table 9 — Net Assets Available for Benefits

($ in Billions)	2005	2004	Change
Total Assets	$716.4	$683.7	$32.7
Less "Non-Actuarial" Liabilities	10.2	9.6	(0.6)
Net Assets Available to Pay Benefits	$706.2	$674.1	$32.1

Statement of Net Cost

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

OPM's Statement of Net Cost presents its cost of providing four major categories of benefits and services: CSRS, FERS, Health Benefits, and Life Insurance Benefits, as well as Human Resources Services. OPM derives its Net Cost by subtracting the revenues it earned from the gross costs it incurred in providing each of these benefits and services. OPM's total FY 2005 Net Cost of Operations was $63.6 billion, as compared with $62.2 billion in FY 2004.

Net Cost to Provide CSRS Benefits. As presented in Table 10, OPM's Net Cost to Provide CSRS Benefits was $37.0 billion in FY 2005, $0.8 billion more than in FY 2004. 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. For FY 2005, OPM was almost identical to FY 2004.

Contributions by and for CSRS participants decreased in FY 2005 by $0.4 billion from FY 2004, and

OPM's earnings on CSRS investments declined by $0.5 billion from FY 2004.

Table 10 — Net Cost to Provide CSRS Benefits

($ in Billions)	2005	2004	Change
Gross Cost	$68.5	$68.6	($0.1)
Associated Revenues	31.5	32.4	(0.9)
Net Cost	$37.0	$36.2	$0.8

Due to accounting and actuarial standards, current pension benefits paid are applied to the Pension Liability, and therefore, do not appear on the Statement of Net Cost. OPM paid CSRS benefits of $52.2 billion, as compared to the $50.0 billion in FY 2004. 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 11, the Net Cost to Provide FERS Benefits in FY 2005 increased by over $2.1 billion from FY 2004. 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).

The Pension Expense for the FERS is the amount of future benefits earned by participants during the current fiscal year. For FY 2005, OPM incurred a Pension Expense for the FERS of $26.6 billion, as compared with $21.9 billion in FY 2004. This increase in the Pension Expense for FERS in FY 2005 is primarily due to the increasing number of FERS participants (the CSRS is closed and all new employees participate in FERS), which served to decrease the FERS Pension Expense.

Contributions by and for FERS participants increased by $1.6 billion, from FY 2004, due to the increasing number of FERS participants, and OPM's earnings on FERS investments increased by $1.0 billion.

Table 11 — Net Cost to Provide FERS Benefits

($ in Billions)	2005	2004	Change
Gross Cost	$26.6	$21.9	$4.7
Associated Revenues	26.4	23.8	2.6
Net Cost	$0.2	($1.9)	$2.1

Due to accounting and actuarial standards, current pension benefits paid are applied to the Pension Liability, and therefore, do not appear on the Statement of Net Cost. In FY 2005, OPM paid FERS benefits of $2.5 billion, compared with $2.1 billion in FY 2004.

Net Cost to Provide Health Benefits. The Net Cost to Provide Health Benefits in FY 2005 decreased by $1.4 billion from that in FY 2004. There are three prime determinants of OPM's net cost to provide Health Benefits: two cost categories (the actuarially-computed Postretirement Health Benefits Expense and Current Benefits and Premiums) and one earned revenue category (contributions by and for participants).

The Postretirement Health Benefits Expense is the amount of future benefits earned by participants during the current fiscal year. For FY 2005, OPM incurred a Postretirement Health Benefits Expense of $30.6 billion, as compared with $31.5 billion in FY 2004, due primarily to the recognition of a smaller actuarial loss in FY 2005 than in FY 2004.

Current Benefits and Premiums increased $1.2 billion from FY 2004, due mainly to the increase in health insurance premium rates indicative of the economy as a whole. The contributions (for and by participants) increased by $1.1 billion from FY 2004, for much the same reason. OPM's earnings on Health Benefits investments increased minimally from FY 2004, as a larger Health Benefits investment portfolio offset the effect of lower returns.

Table 12 — Net Cost to Provide Health Benefits

($ in Billions)	2005	2004	Change
Gross Cost	$49.8	$49.5	$.3
Associated Revenues	23.6	21.9	1.7
Net Cost	$26.2	$27.6	($1.4)

Due to accounting and actuarial standards, a portion of the costs to provide health benefits is netted against the PRBH Liability and not fully disclosed on the statement of Net Cost. The actual costs to provide health benefits are presented in Table 13.

Table 13 — Disclosed and Applied Costs to Provide Health Benefits

($ in Billions)	Dis closed	Applied to PRHB	Total 2005	Total 2004
Claims	$14.6	$7.7	$22.2	$20.5
Premiums	3.7	2.1	5.8	5.5
Administrative and other	0.8	0.8	1.6	1.4

Net Cost to Provide Life Insurance Benefits. As can be seen in Table 14, the Net Cost to Provide Life Insurance Benefits decreased from $189 million in FY 2004 to $27 million in FY 2005. Gross cost decreased $55 million primarily due to decreases in Future Life Insurance Benefits of $48 million and of $8 million paid to the principal carrier. Associated revenues increased $107 million due mainly to an increase in employee and employer contributions, due to higher claims experience.

Table 14 — Net Cost to Provide Life Insurance Benefits

($ in Billions)	2005	2004	Change
Gross Cost	$3,585	$3,640	($55)
Associated Revenues	3,558	3,451	107
Net Cost (Excess of Revenue)	$27	$189	($162)

Statement of Budgetary Resources

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

As presented in the Statement of Budgetary Resources, a total of $135.1 billion in budgetary resources was made available to OPM for FY 2005. OPM's budgetary resources in FY 2005 derive from those resources carried forward from FY 2004 ($36.1) billion as well as the three major sources of new budgetary resources:

- Appropriations Received = $8.0 billion
- Trust Fund receipts = $55.1 billion
- Spending authority from offsetting collections (SAOC) = $35.9 billion.

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 are intended to fund contributions for retirees and survivors who participate in the Health Benefits Program.

Sources of Budgetary Resources	
Trust Fund Receipts	40.8 %
FY2004 Balance Brought Forward	26.7 %
SAOC	26.6 %
Appropriations	5.9 %

Both *Trust Fund Receipts* and *Spending Authority from Offsetting Collections* generally derive from collections. Collections by the Retirement Program, such as earnings on investments and contributions made by and for those participating, are classified as Trust Fund Receipts. Collections by the Health Benefits and Life Insurance and Revolving Fund Programs are classified as Spending Authority from Offsetting Collections (SAOC).

Obligations Incurred by Category	
Retirement Benefits	57.4 %
Health Benefits	39.3 %
Life Insurance Benefits	2.3 %
Other	1.0 %

From the $135.1 billion in budgetary resources OPM had available during FY 2005, it incurred obligations of $95.8 billion, mainly for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs. Most of the excess of budgetary resources OPM had available in FY 2005 over the obligations it incurred against those resources is classified as being "unavailable" for obligation at year-end.

Compliance with Laws and Regulations

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

- Federal Managers' Financial Integrity Act
- Federal Financial Management Improvement Act
- Prompt Payment Act
- Debt Collection Improvement Act
- Improper Payments Information Act
- Inspector General Act, as amended
- Civil Monetary Penalty Act

Compliance with the Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982 (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 the systems of internal control in place during FY 2005. This evaluation included consideration of statements of internal control assurance from head of divisions and offices, audit reports from the Office of Inspector General (OIG) and external auditors, internal control reviews conducted by OPM's Center for Internal Control and Risk Management (CICRM), and other issues that came to the attention of OPM management officials.

OPM considers a deficiency in internal control to be material, if it:

- Substantially impairs the Agency's performance, mission, and strategic plan;
- Violates significant statutory or regulatory requirements;
- Substantially weakens safeguards against waste, abuse, loss, and misuse or misappropriation of funds and of other resources;
- Results in a conflict of interest;
- Creates adverse publicity or embarrassment that affects the Agency's credibility;
- Merits the attention of the Executive Office of the President and Congress;
- Exists as a condition in a majority of programs, administrative functions, or organizations, or
- Would reflect adversely on OPM's management integrity, if not reported.

New Material Weakness: Fair Labor Standards Act (FLSA) Compliance. OPM has not had adequate controls in place to properly classify positions as exempt or non-exempt from FLSA. Positions classified as non-exempt from FLSA require overtime payments when personnel are required to work extra hours. As a result of a grievance filed in 2004 by the American Federation of Government Employees and a 100-percent review of FLSA designations, it was determined that a significant number of positions throughout the agency were incorrectly designated. In November 2004, new procedures were developed and put into place to more carefully review FLSA determinations. However, a subsequent review indicated that, although efforts were made to improve the process, additional training and controls were still needed. OPM has prepared a corrective action plan to address this material weakness.

Table 15 — Number of Material Weaknesses in Management Controls

	Reported	Corrected	Pending
2005	0	1	0
2004	1	0	1
2003	0	0	0
2002	0	0	0
2001	0	4	0
2000	0	5	4

Prior Year Material Weakness Corrected: Financial Management and Reporting Processes for the Revolving Fund (RF) and Salaries and Expenses (S&E) accounts. In November 2004, the OIG and KPMG reported that the lack of effective controls adversely affected OPM's ability to record, process, summarize, and report financial data for the RF and S&E accounts. OPM has made a concert-

ed effort to improve its accounting for and reporting for RF and S&E, including training for staff and developing procedures for reconciliations and other control activities. These collective actions have reduced this material weakness to the level of a reportable condition.

Compliance with the Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act of 1996 (FFMIA) is intended to ensure that financial management systems provide reliable, consistent disclosure of financial data, and that they do so on a uniform basis across the Federal Government from year to year, consistently using professionally-accepted accounting standards. To fulfill the requirements of the FFMIA, Federal financial management systems must comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and apply the U.S. Government Standard General Ledger (SGL) at the transaction level.

As part of the financial statement audit process, auditors must report on whether the agency substantially complies with the three FFMIA requirements. In accordance with the Act, KPMG LLP has, for FY 2005, reported that the financial management system OPM uses to administer the Revolving Fund Programs and Salaries and Expenses does not substantially comply with the requirements of the FFMIA because of deficiencies in its adherence to Federal accounting standards and its application of the SGL.

As a whole, the Director has determined that OPM complies substantially with the requirements of the FFMIA for FY 2005.

In accordance with the Act, OPM has established a remediation plan, in consultation with OMB, to resolve the deficiencies that have resulted in the substantial noncompliance with regard to the Revolving Fund Programs and Salaries and Expenses. Although a remediation plan may allow three years for an agency to resolve such deficiencies, the Director has instructed that OPM's remediation plan provide for resolution by the end of FY 2006.

Compliance with the Prompt Pay 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 2004, OPM reported that over 99 percent of its payments were made in accordance with specified Prompt Payment Act timeframes. OPM's FY 2005 performance objective was to continue to achieve the 99 percent performance metric. As of September 30, 2005, OPM's performance was 99.9 percent.

OPM's highly successful performance under the Prompt Payment Act is achieved as a result of the large number and dollar magnitude of payments it makes to its investigative services contractors. Based on requests from Federal agencies, OPM processes several hundred thousand transactions per month for a variety of personnel background investigations that require payments to contractors. In accordance with payment provisions of OPM's contracts with its investigative services contractors, OPM annually remits tens of millions of dollars representing partial payments (i.e., advances for investigative services to be performed) and final payments for each of the thousands of personnel investigations requested by agencies. OPM daily consolidates all of the individual amounts owed – both advances and final payments – to investigative contractors and makes a single payment to each contractor that represents the total amount currently owed. OPM, in computing its FY 2005 prompt payment metrics, did not include advance payments to investigative contractors since such payments are not subject to the Prompt Payment Act provisions. Per the table below, only final payments to the contractors are included in the calculations.

During FY 2005, the OPM OIG conducted an audit of OPM's compliance with the Prompt Payment Act and identified a number of internal control deficiencies with payments to non-investigative services vendors (excluding payments to OPM's purchase and travel card institu-

Table 16 — FY 2005 Prompt Pay Act Metrics

	No. of Payments (Thousands)	Payments Made Timely (Thousands)	Percentage	Payments ($ Million)	Timely Payments ($ Million)	Percentage
Investigative services contractors (final payments)	1,851.2	1,851.2	100.0	$323.1	$323.1	100.0
Non-investigative service vendors	13.0	12.0	91.5	$256.2	$232.3	90.6
Totals	1,864.2	1,863.2	99.9	$579.3	$555.4	95.9

tion). While the OIG's audit revealed various weaknesses which are being addressed by OPM management, the magnitude of the "late payments" for the non-investigative services vendors was not sufficiently material to drastically alter OPM's overall compliance with the Act at the Agency level. Table 16 summarizes OPM's FY 2005 prompt payment metrics by investigative services contractors and non-investigative services vendors.

During the year, OPM paid $64,733 in interest penalties related to late payments.

Compliance with the Debt Collection Improvement Act

In response to a steady increase in the amount of delinquent debt owed to the United States, and concern that appropriate actions were not being taken to collect this delinquent debt, Congress passed the Debt Collection Improvement Act (DCIA) of 1996 (Public Law 104-134). The Act has had a major impact on the way OPM makes its payments and collects the monies owed to it. Table 17 summarizes OPM's debt management activity for FY 2005 and FY 2004. OPM complies with the DCIA in the following ways:

Cross-Servicing. Under the Act, all Federal agencies must refer past due, legally enforceable, non-tax debts that are more than 180 days delinquent to Treasury's Financial Management Service (FMS) for collection through the Treasury Offset Program (TOP). OPM has established an agreement with FMS to cross-service its debts, which allows FMS to refer automatically the debts to TOP as part of its collection effort. A debt is considered delinquent if it is 180 days past due and is legally enforceable. A debt is legally enforceable if there has been a final agency decision that the debt, in the amount stated, is due and there are no legal bars to collection action. Accordingly, OPM has referred 13,093 debts totaling more than $3.8 million to FMS for collection.

Data-Matching. OPM believes that it is important to prevent debts initially. Thus, OPM maintains an aggressive and active program integrity function to prevent waste, fraud, and abuse of Retirement Program benefit payments. One of the primary tools supporting this function is the use of database matching between Federal agencies. As such, OPM exchanges payment information with other benefit-paying agencies to identify individuals who have died or are otherwise no longer eligible for benefits. In FY 2005, OPM's data-matching activities identified more than $62 million in overpayments and prevented an additional $136.1 million from being overpaid.

Electronic Payments. As can be seen in Table 18, OPM excels in paying retirement benefits electronically. More than 94 percent of OPM's 2.5 million monthly Retirement Benefit Program payments are sent via electronic funds transfer, far exceeding that of any other Federal benefits-paying agency. To further increase the proportion of electronic payments, OPM now is focusing on its international recipients. OPM built on its success in expanding electronic payments to Italy in 2003 by beginning direct deposit of annuity payments to Panama in July 2005. Over 50 percent of OPM's overseas annuitants live in Panama, and the savings in postage and shipping checks incurred by OPM, as well as the man-hours expended by U.S. Consulate personnel in Panama to distribute checks to OPM's payees has been reduced dramatically. OPM has also expanded its overseas electronic payments to Spain, the United Kingdom, and Ireland and is looking to further expand direct deposit to other European countries, as well as Australia, in FY 2006.

Table 17 — Debt Management Activity

Retirement Program ($ in Millions)		
	2005	2004
Total receivables at beginning of year	$168.6	$164.4
New receivables and accruals	147.2	167.3
Less collections, adjustments, and amounts written-off	141.0	163.1
Total receivables at end of year	174.8	168.6
Total delinquent	40.9	43.1
Percent delinquent of total receivables	23.4%	25.5%
Health Benefits Program ($ in Millions)		
	2005	2004
Receivables at beginning of year	$32.3	$35.5
New receivables and accruals	58.6	91.1
Less collections and adjustments	44.6	94.3
Receivables at the end of year	46.4	32.3
Less management decisions in appeal	9.8	2.6
Currently available for collection	36.6	29.7

Table 18 — Electronic Payments

Payment Type	Percent
Retirement benefits	94.5
Salary	95.2
Health Benefits and Life Insurance Carrier Programs	100.0
Other vendors	99.9

Compliance with the Improper Payments Information Act

An improper payment is any payment that should not have been made or was made in an incorrect amount. 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 OMB Memorandum 03-13, 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.

Program Descriptions.

Due to their size, OMB has deemed that OPM's three earned benefit programs — Retirement, Health Benefits and Life Insurance — are, by definition, susceptible to significant improper payments. A description of the payments in each follows.

Retirement Program. The Retirement Program pays over $54.7 billion per year in defined pension benefits to most Federal retirees and their survivors and families. The Program 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 Program 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 Program contract and, hence, must disclose their expenses. CRCs, on the other hand, do not maintain separate accounting and receive a premium based on the average revenue needed to provide benefits to their members. ERCs incur benefit and administrative expenses of over $24 billion on behalf of the Program and the Program paid $5.8 billion in premiums to CRCs.

Life Insurance Program. The Program provides life insurance benefits of $2.2 billion per annum to the survivors of Federal employees and annuitants. It is administered through a contract with the Metropolitan Life Insurance Company (MetLife), which oversees the processing and payment of benefit claims. The Program provides basic life insurance coverage as well as three life insurance options and living benefits.

Causes of Improper Payments and Actions to Reduce Them.

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

- 70 percent of the improper payments occur because beneficiaries or family members delay reporting (or do not report at all) changes in status (death, mar-

riage, recovery from disability, etc.) that result in a different (or no) benefit payment.

- 19 percent result from inaccurate and/or incomplete information provided by former employing agencies about a retiree's Federal service history.
- 10 percent of the improper payments occur because 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 that they continue to meet eligibility requirements and administer an active data-matching program with the Internal Revenue Service, Department of Veterans Affairs (DVA), and the Social Security Administration (SSA). OPM is also exploring alternate methods to learn in a more timely manner when eligibility for benefits has changed. For instance, OPM has piloted a process whereby funeral homes will provide notifications of death so that additional posthumous payments of benefits can be avoided. In addition, OPM will continue to pursue cost-effective methods to inform the recipients of benefits of the events that have the potential to affect the amount of their retirement benefits.

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

- Federal personnel offices and payroll providers to collect the employment records and other documentation needed to adjudicate benefits.
- The Department of the Treasury for annuity payment delivery.
- 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 Program. The first type is community-rated carriers (CRC). The community-rated method is based on a "per enrollee per month" carrier premium rate. OPM negotiates adjustments to this base rate for a variety of reasons, including changes to the community-rated carrier's (CRC) standard benefits package, the demographics of the Federal group, and the utilization of benefits by the Federal group. CRCs are subject to audit by the OPM's Inspector General (OIG), which may find that a CRC has negotiated a defective community rate and/or that they have charged unallowable administrative expenses to its contract with OPM or benefit cost findings.

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

To reduce improper benefit payments, OPM's OIG is conducting more frequent audits and has already begun audits targeting coordination of benefits problems. Furthermore, the contracting official is taking a proactive approach by focusing on the most common causes of improper payments and charges of administrative expenses to reduce their frequency.

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. Most of the improper payments in the Program result from incorrect life insurance certifications. In addition, there are issues with regard to beneficiary designations that result in the payment of benefits to the wrong payee. OPM is implementing a new, automated method to certify life insurance for deceased annuitants

that should ultimately reduce improper payments significantly. This Automated Certification of Life Insurance (AutoCert) process will take the place of hard-copy certification for most deceased annuitants.

Improper Payment Sampling.

Retirement Program. OPM's approach towards displaying improper payments is two-pronged. For overpayments from the retirement fund, OPM calculates the improper payment rate based on receivables to the total outlay of dollars paid out. For underpayments, OPM uses sampling methodology instead of actual dollars. As is the usual practice, in FY 2005, OPM contracted with a statistician to analyze its payment of benefits. There are two distinct retirement systems (CSRS and FERS); as such, the statistician stratified the sample into two parts. OPM reviewed cases over a 36 year "cohort." Statistically valid samples were chosen disproportionately to the size of the population, because the statistician wanted to sample more of those cases that OPM believed contained a higher risk of being erroneously adjudicated and paid. Since CSRS cases were relatively free of error for the last four years, the statistician dropped the CSRS sample to 105 cases, which is a minimum for dual-purpose testing. The FERS sample was 275 cases.

Health Benefits Program. As is it did for FY 2004, OPM will use the results of audits performed by its OIG of the premiums paid by OPM to CRCs and the expenses paid on behalf of the Program by ERCs. These audits cover a very large proportion of the premiums payments to CRCs and ERC expenses; coverage, in fact, that exceeds the sample size required by OMB in Memorandum 03-13. Although this sample is judgmental and not random, it provides a reasonable estimate 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 2006, will continue to rely upon the audits conducted by the OIG 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. OPM is working with a statistician to develop a methodology to capture and aggregate information from the IPAs to derive a statistically valid annual improper benefit payment rate.

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. In fact, OPM compares the eligibility and coverage data of ALL covered annuitants who died during the year against the amount benefits paid to their beneficiaries by MetLife. OPM does not yet have a method to estimate improper payments made by MetLife to the beneficiaries of deceased employees, but is working with its statistician to develop a statistical sampling process for FY 2006. For FY 2005, though, OPM can report improper payments to the beneficiaries of deceased annuitants only.

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 and regulations have specifically exempted the Social Security Administration, Railroad Retirement Board and Department of Veterans' Affairs from this prohibition, but not OPM. This situation has a substantial impact on OPM's ability to prevent and recover improper payments. OPM has determined that the Act will need to be amended to overcome this prohibition. The Fiscal Assistant Secretary of the Treasury has advised OPM that the Financial Management Service is in the final stages of drafting legislative language to address this issue.

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

Health Benefits. A pharmaceutical benefits manager (PBM) is a specialty managed care entity that administers or manages prescription drug benefits. Pharmaceutical benefits represent approximately 25 percent of the total benefits paid by participating carriers. OPM's OIG has begun an initiative to audit PBMs. In some cases, however, OIG has only limited audit rights based on the carriers' contracts with their PBMs. To remedy this

Table 19 — Improper Payment Reduction Outlook

	2004 Outlays	2004 IPs	2004 IPs	2005 Outlays	2005 IPs	2005 IPs	2006 Outlays	2006 IPs	2006 IPs	2007 Outlays	2007 IPs	2007 IPs	i2008 Outlays	2008 IPs	2008 IPs
	$ B	%	$ M	$ B	%	$ M	$ B	%	$ M	$ B	%	$ M	$ B	%	$ M
RETIREMENT															
Total Program	52.3	0.37	197.7	54.8	0.28	152.2	56.6	0.28	158.5	58.4	0.28	163.5	60.3	0.28	168.8
O/Ps[1]		0.32	167.3		0.27	147.1		0.24	135.8		0.24	140.2		0.24	144.7
U/Ps		0.05	30.4		0.01	5.1		0.04	22.7		0.04	23.3		0.04	24.1
HEALTH BENEFITS															
All carriers[2]	27.2	0.32	86.1	29.4	0.67	196.5									
O/Ps		0.32	86.1		0.65	190.9									
U/Ps		n/a	n/a		0.02	5.6									
CRCs total							*	*	*	*	*	*	*	*	*
O/Ps								*	*		*	*		*	*
U/Ps								*	*		*	*		*	*
*ERCs total**							*	*	*	*	*	*	*	*	*
O/Ps								*	*		*	*		*	*
U/Ps								*	*		*	*		*	*
LIFE INSURANCE															
Total Program										*	*	*	*	*	*
O/Ps											*	*		*	*
U/Ps											*	*		*	*
Annuitant only[3]	0.96	0.22	2.1	1.2	0.17	2.0	1.4	0.25	3.5						
O/Ps		0.08	0.7		0.06	.07		0.09	1.3						
U/Ps		0.14	1.3		0.11	1.3		0.16	2.2						

* Will be provided, beginning in FY 2006.

[1] OPM will re-examine the potential for further improvements in targets and performance results after the implementation of the Retirement System Modernization initiative beginning in FY 2008

[2] For FY2004 and 2005, the chart above presents a combined CRC/ERC improper payment rate and amount. Beginning with FY2006, separate rates and amounts will be presented for CRCs and ERCs, using divergent estimation methodologies.

[3] LI Improper Payment data computation will change from "Annuitants Only," as reported in FY 2005, to a program derived computation in FY 2006.

situation, OPM is in the process of revising the Federal Employees Health Benefits Acquisition Regulations to require carriers to provide the OIG complete audit rights in all contracts entered into with PBMs.

Recovery Auditing

For agencies with contracts with a total value of more than $500 million in a fiscal year, OMB requires recovery audits as part of its system internal control. A recovery audit is a review of an agency's books and other information supporting its payments to identify overpayments to contractors. OPM's OIG performs comprehensive audits of its contracts with the Health Benefits and Life Insurance Program carriers, which, if excluded, reduce the annual value of OPM's contracts to well below $500 million. The OIG's audits have proven to be highly effective in detecting and recovering improper payments. Since the terms and conditions of all OPM's contracts with Health Benefits and Life Insurance Program carriers provide for adjustments based on the OIG's audits, OPM has excluded them from the requirement for recovery audits.

Accountability for Reducing and Recovering Improper Payments

The Director has designated OPM's Deputy Chief Financial Officer as the official responsible for establishing policies and procedures to assess agency and program risks of improper payments, taking actions to reduce those payments, and reporting the results of the actions.

Travel and Purchase Card Usage

OPM measures its effectiveness in travel and purchase card usage by monitoring the percentage of the total outstanding balances for each that is 61 or more days old. Tables 20 and 21 compare OPM's percentages that are 61 or more days old to Governmentwide rates.

Table 20 — Travel Card Usage

($ in Thousands)	FY 2005	FY 2004
Outstanding Balance	$561.0	$351.9
Outstanding more than 61 days	$25.2	$7.6
% outstanding more than 61 days (OPM)	4.49	2.00
% outstanding more than 61 days (Governmentwide)	3.55	3.33

Table 21 — Purchase Cards

($ in Thousands)	FY 2005	FY 2004
Outstanding Balance	$562.4	$516.8
Outstanding more than 61 days	0	0
% outstanding more than 61 days (OPM)	0	0
% outstanding more than 61 days (Governmentwide)	1.80	0.85

As shown in the above charts, OPM's percentage of travel and purchase card outstanding balances that are 61 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 Office of the Inspector General. OPM is reporting on audit follow-up activities for the period October 1, 2004 through September 30, 2005 Table 22 – Inspector General Audit Findings provides a summary of OIG's audit findings and actions taken in response by OPM management during this period.

Table 22 — Inspector General Audit Findings

	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1, 2004	14	$32.4
New reports requiring management decisions	34	69.5
Management decisions made during the year	34	65.8
Costs disallowed	–	62.2
Costs not disallowed	–	3.6
Reports with no management decision on September 30, 2005	14	36.1

As of September 30, 2005, there was one report with questioned costs outstanding that had not been resolved by management decision during the preceding six months.

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 2005.

Financial Management Performance

The President's Management Agenda (PMA) is an aggressive strategy for improving the management of the Federal Government. OPM has made implementing the PMA one of its primary goals. The PMA established the overarching goal of "re-inventing" Government in which citizen resources are well managed and wisely used. Also, the PMA holds Federal agencies accountable to the Executive Office of the President for allocating resources efficiently and effectively to the most critical programs to maximize the benefit to the Nation's citizens. It focuses on six Governmentwide goals to improve Federal management and deliver results that matter to the American people; one of these goals is Improved Financial Performance.

OMB uses a scorecard approach to track and evaluate how well agencies are achieving the six PMA goals. OMB assesses agencies against the criteria for successful financial performance as shown in Table 23.

OPM is firmly committed to "getting to green" on the PMA Scorecard for the improved financial performance. As of September 30, 2005, OPM had a rating from OMB of "red" for status; and "green" for progress on this initiative.

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

Table 23 — Improved Financial Performance Scorecard Criteria

Green	Yellow	Red
• Meets all Yellow Standards for Success • Currently produces accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operations AND • Is implementing a plan to continuously expand the scope of its routine data use to inform management decision-making in additional areas of operations	• Receives an unqualified audit opinion on its annual financial statements • Meets financial statement reporting deadlines • Reports in its audited annual financial statements that its systems are in compliance with the Federal Financial Management Improvement Act • Has no chronic or significant Anti-Deficiency Act Violations • Has no material auditor-reported internal control weaknesses • Has no material non-compliance with laws or regulations AND • Has no material weaknesses or non-conformances reported under Section 2 and Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems	• Receives an opinion other than unqualified on its annual financial statements • Does not meet financial reporting deadlines • Cannot report in its audited annual financial statements that its systems are in compliance with the Federal Financial Management Improvement Act • Commits chronic or significant Anti-Deficiency Act Violations • Has material auditor reported internal control weaknesses • Is in material non-compliance with laws or regulations OR • Has material weaknesses or non-conformances reported under Section 2 and Section 4 of the Federal Managers' Financial Integrity Act that impact the agency's internal control over financial reporting or financial systems

Goals and Strategies

OPM established and is following the strategy in achieving the goals of the PMA for improved financial management performance:

- Improve internal controls over financial reporting through systems and processes, while meeting all internal and external financial reporting deadlines;
- Re-affirm processes, controls, and procedures to ensure that unqualified audit opinions continued to be received on the annual financial statements;
- Resolve the existing material weakness resulting from the FY 2004 financial audit, and avoid future material weaknesses, reportable conditions and non-compliances with laws and regulations;
- Enhance the core financial management information system and implement a single integrated financial infrastructure for the agency;
- Strengthen our stewardship, accountability, and internal controls over financial reporting, as stipulated by revised OMB Circular A-123;
- Enhance the professional skills and core competencies of the financial management staff through training; and
- Reduce improper payments to target levels.

Improve Financial Reporting. OPM's goal is to improve its financial reporting systems and processes, while achieving and maintaining unqualified audit opinions, and avoiding material weaknesses and non-compliances with laws and regulations. Improved financial reporting includes strengthening controls over reporting processes and ensuring that the financial data produced for management decision-making are reliable, verifiable, and consistent. OPM has begun implementing steps, including better financial management system support, to reduce the time spent on financial statement preparation, so that its financial management staff can be refocused on other important analytical activities, such as business performance and cost analyses.

Maintain Clean Audit Opinions. OPM has achieved unqualified audit opinions on its consolidated financial statements annually since FY 2000. OPM has accomplished this significant feat, and the same time, met the drastically reduced timeframes (November 15th for fiscal years 2004 and 2005) for issuing the statements and publishing the PARs. To a major extent, OPM's unqualified opinions have been achieved as a result of time-consuming, manual procedures, which have diverted resources from strategic decision making and overall agency performance.

OPM's success has resulted from the following factors:

- Revised estimating techniques for key accruals;
- Accelerated computation and audit of actuarial liabilities; and
- Close collaboration with the OIG and KPMG LLP to facilitate the audit approach related to Health Benefits and Life Insurance Program carriers.

Eliminate Material Weakness and Substantial Non-compliance with FFMIA. As a result of its FY 2004 audit work, KPMG LLP reported one material weakness in OPM's controls over financial reporting for its Administrative Funds, which are comprised of Revolving Fund (RF) programs and Salaries and Expenses (S&E). KPMG noted in its audit report that "Since 1995, significant deficiencies in the operation of … internal control over financial management and reporting that have continued to affect the accuracy of the RF Programs and Salaries and Expenses (S&E) funds." The deficiencies affected the timeliness of transaction entry and reconciliation and budgetary accounting structure.

To resolve these deficiencies, during FY 2005 OPM strengthened fundamental systemic and procedural controls over the Revolving Fund Programs and Salaries and Expenses. OPM implemented reconciliation procedures for the Fund Balance with Treasury (FBWT), standard month-end closing and quality assurance measures, analysis and reconciliation procedures for financial reporting purposes, and, finally, a comprehensive annual close checklist, which includes reconciliation and validation tasks/activities. In the process, OPM undertook substantial data clean-up efforts, identifying and correcting erroneous charges to the Revolving Fund Programs, which resulted in much more reliable reports for OPM decision-makers and stakeholders. OPM has instituted measures to routinely monitor the reliability of financial data and reports, and to promptly investigate and resolve anomalies and erroneous balances/transactions.

As a result of focused and dedicated efforts of OPM, KPMG reduced the FY 2004 material weakness to a

reportable condition for FY 2005. Ongoing corrective actions are in place to help prevent the occurrence of any future material weaknesses related to financial reporting and associated internal controls.

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

- The general ledger of the Employees Benefits System (EBS), which was implemented using Federal Financial System software and is used in administering the Retirement, Health Benefits and Life Insurance Programs.
- The Government Financial Information System (GFIS), which was implemented using Momentum software and which serves as OPM's core financial management system for its Administrative Funds accounts.

A major component of effective financial performance and reporting is sound financial management systems. While the EBS system complies with applicable Federal financial management system requirements, GFIS has a number of weaknesses. KPMG has reported that GFIS does not substantially comply with all pertinent requirements mandated by the Federal Financial Management Improvement Act of 1996 (FFMIA). Specifically, KPMG noted that GFIS did not sufficiently satisfy selected Federal accounting standards and the United States Standard General Ledger at the transaction level. Enhancing OPM's financial management systems will provide OPM managers and stakeholders with more reliable, consistent and timely information, thereby strengthening decision-making.

To strengthen internal controls over transaction entry into GFIS and related processes, OPM undertook a review of the system's transaction posting model and related systems logic. Modifications were made to correct incorrect transaction coding and to curtail the recording of improper transactions.

Notwithstanding efforts to upgrade GFIS' capabilities and controls, OPM management determined that the financial system was based on outdated architecture and technology and should be replaced. During FY 2005 OPM launched a financial management modernization initiative to implement a new core financial system for the Agency's Administrative Funds accounts. To oversee and direct the initiative, OPM established a Financial Modernization Project Office. OPM conducted a formal analysis of alternatives and selected cross-servicing of the core financial system and integrated procurement application by the Department of the Treasury, Bureau of Public Debt (BPD) from the alternatives considered. OPM plans to migrate to the BPD system by the end of the first quarter of FY 2007.

Strengthen Stewardship, Accountability and Internal Controls Over Financial Data. OPM management has made a firm commitment to clean-up, maintain, and continue to improve the quality and integrity of the Agency's financial information. The OPM Financial Advisory Committee, chaired by the OPM Director and comprised of the CFO and other top agency executives, meets on a regular basis with the Director to discuss and address critical financial management issues.

The Center for Internal Control and Risk Management performs high-level internal control reviews and quality assurance under the leadership of a senior level executive. The Center is charged with evaluating and recommending improvements to OPM's internal control systems. A major effort of the Center for FY 2005 was to define a structure and management approach for OPM to implement the requirements of OMB revised Circular A-123, Management's Responsibility for Internal Control. The revised circular's requirements are effective for FY 2006. Under the Center's leadership, during FY 2005 OPM established a Senior Assessment Board for Internal Control over Financial Reporting with a subordinate Assessment Support Team. The Center also developed an implementation plan for conducting necessary internal control reviews and reports, and corrective actions plans, as warranted.

Support Program Managers. In the past, OPM program managers have not always received timely, accurate, and useful financial information with which to make informed decisions. During FY 2005, OPM's implemented its strategy to focus on improving ongoing service to its internal customers. The strategy involves periodic monitoring of key metrics to ensure effective support for OPM administrative, mission, and program activities. OCFO personnel refined monthly financial management reports to financial and program management communities and routinely provided critical in-

formation and reports. Also, OCFO managers routinely met with OPM organizations to review and discuss financial reports, trends and analyses. As a result, OPM managers have more timely and viable information on the status of resources, the results of operations and financial measures and trends.

Attract and Retain a Highly Qualified and Effective Financial Management Staff. To improve OPM's financial management, in FY 2003 OPM management consolidated all financial management activities under the Chief Financial Officer. This action has resulted in focused and centrally managed efforts to implement improvement strategies and enhanced controls. This has assured that all funds and financial management activities receive the high-level attention that they require. During FY 2003 and FY 2004, OPM hired a number of highly qualified and experiences financial managers and professional staff: to fill key vacancies in the OCFO. This team of talented and experienced professionals gathered from across the Government and with expert knowledge and extensive Federal financial management skills, has aggressively pursued opportunities to improve OPM financial management policies, processes, and procedures and controls.

A critical attribute of OPM's successful financial management is its ability to attract, retain and develop a highly skilled financial staff. To that end, OPM management continues to take steps to build and increase the quality, availability, and diversity of entry-level personnel and to improve the recruitment of mid- and senior-level staff. This includes the establishment of an intern program to recruit and train entry-level individuals for professional careers in financial management. OPM also will focus on ensuring that OPM's financial management staff obtain and maintain the requisite expertise to meet current and future requirements.

During FY 2005, OPM continued its quality training efforts for its managers and staffs on the operation of OPM's financial management systems and the generation of viable information. The goal of OPM's training efforts is for the Agency to have a cadre of highly knowledgeable and skilled financial management personnel, extending from the top financial executives to the technicians who carry so much of the day-to-day transaction processing workload.

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

None of OPM's payments were deemed to be susceptible to significant erroneous payments. Nonetheless, the agency recognizes the importance of maintaining adequate internal controls to ensure proper payments, and its commitment to continuous improvement in the disbursement management process remains very strong. OPM believes it can enhance our current process and will identify and implement additional procedures to prevent and detect erroneous payments.

Financial Management Systems

As noted previously, OPM currently operates two financial systems: GFIS, which is the primary accounting system used for OPM's Administrative Funds (Revolving Fund programs and Salaries and Expenses); and the EBS, which supports the Governmentwide employee earned benefits programs. These systems and applications support unique management and accounting functions of the agency or specific programs.

Core Financial Management Systems. GFIS, OPM's core financial management system, provides the foundation for OPM's administrative financial management responsibilities. GFIS was designed and implemented based on the Momentum software package developed by CGI-AMS. The system includes a general ledger, budget/funds management, revenue/ receipts management, procurement/payment management, and financial management reporting modules.

The EBS, which is based on CGI-AMS's Federal Financial Systems Software, complies with all Federal financial management systems requirements, Federal accounting standards, and the SGL at the transaction level. The EBS has various subsidiary feeder systems that reside on the mainframe which, with the exception of the Annuity Roll, are interfaced.

FFMIA Remediation Activities. OPM's FY 2005 assessment of GFIS disclosed that it does not comply

substantially with all pertinent requirements mandated by FFMIA. Specifically, the system does not comply with Federal accounting standards and does not support the requirement that transactions be posted in accordance with the United States Standard General Ledger. OPM has devoted a great deal of time and resources to resolving this deficiency, including a complete renovation of transaction posting models for the Revolving Fund Programs and Salaries and Expenses. As discussed previously, OPM is in the process of replacing GFIS with the BPD's core financial system. Implementation of the BPD cross-serviced system is planned for completion during the first quarter, FY 2007.

Limitations of the Consolidated Financial Statements

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