

*United States
of America*

THE UNITED STATES OFFICE
of PERSONNEL MANAGEMENT
FISCAL YEAR 2002
PERFORMANCE & ACCOUNTABILITY REPORT

Working for America



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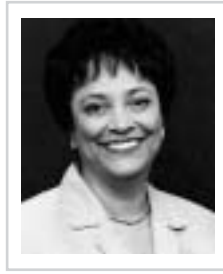
FISCAL YEAR 2002
PERFORMANCE & ACCOUNTABILITY REPORT



MISSION STATEMENT

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





A MESSAGE from the DIRECTOR

I am pleased to present the Office of Personnel Management's *Performance and Accountability Report for Fiscal Year 2002*. For the Nation, our Federal Government and OPM, the year was a period of significant transition. I believe this report accurately describes OPM achievements during this time.

Nearly 50 years after President Harry Truman integrated our military branches into the unified Department of Defense, we are once again forced to confront serious and evolving challenges to the security of our Nation. President George W. Bush recognized that our system was not well organized to meet these emerging threats. He successfully pushed for legislation to integrate our civilian agencies into a cohesive and well managed unit responsible for protecting America at home. OPM has contributed substantial resources to establish the Department of Homeland Security and will continue to lead in the creation of a world class personnel system for the Department's 170,000 civilian employees. This new role could not have been anticipated when the goals for FY 2002 were written.

In FY 2001, the President began initiating changes to improve the management and performance of the Federal Government. The President's Management Agenda (PMA), the blueprint for this change, is comprised of five results-oriented initiatives.

It is fitting that the first initiative in the PMA is the "Strategic Management of Human Capital". As the leader of this Governmentwide initiative, OPM has taken a proactive, and at times provocative, role in ensuring that agencies make the changes necessary to achieve a high grade on the strategic management of human resources scorecard. This is a new role for OPM and one which is taken quite seriously. Our goal goes beyond offering assistance to help agencies manage their human capital to ensure that they are successful in doing so.

OPM, working in close partnership with OMB, has been the managing partner for five items within President Bush's e-Government initiative to make the Government efficient and responsive to the American people. In addition to seeing significant progress on "e-Clearance," "Recruitment One-Stop," "Enterprise Human Resource Integration" (EHRI), and "e-Training," OPM has led the way to increasing efficiency through its work on "e-Payroll." Four Federal payroll service providers have been selected to replace the 22 current providers of payroll and related services. We believe this e-Payroll initiative will save taxpayers more than one billion dollars over the next decade. In the case of our e-Training effort, we project a Governmentwide savings of \$1.19 billion over the next decade.

Internally, we are conducting the most extensive reorganization of OPM since its creation in 1979. By focusing on our key responsibilities and who we serve, we are creating an organization that is flexible and responsive. The focus will be on our customers—the emphasis on results rather than process. This innovative structure will transform OPM to ensure that the Government's human resources are used wisely and are well managed.

Sincerely,

A handwritten signature in blue ink that reads "Kay Coles James". The signature is fluid and cursive.

Kay Coles James





A MESSAGE *from the* CHIEF FINANCIAL OFFICER

I am pleased to be able to report that the independent public accounting firm of KPMG, LLP has once again issued an unqualified (clean) audit opinion on our Fiscal Year 2002 Consolidated Financial Statements. An unqualified opinion is the highest level of assurance that an audit firm can give on an organization's financial statements. It helps demonstrate to our customers — Federal employees, annuitants and their families — that our financial stewardship over the \$600 billion we hold in trust for them is effective. Our clean opinion is perhaps more meaningful because it was issued without the accompaniment of any material control weaknesses.

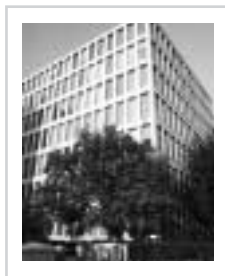
Although our ability to produce annual financial statements that receive clean audit opinions is fundamentally important and we are proud of our achievements in this regard, we must do much more to meet the challenges of President Bush's Management Agenda. Our systems and processes still do not generate financial information continually and routinely, as demonstrated by the considerable effort it takes for us to produce our year-end financial statements. Moreover, we must modify our systems and reinvent many of our processes to be able to meet the very tight time-frames for annual reporting in FY 2004 and beyond.

As I am quite new to OPM, I am pleased to have discovered that our financial management team is meeting the challenges posed by the President's Management Agenda by formulating sound plans for the future as well as making significant progress toward their implementation. For instance, we have implemented our new core financial management system and have reengineered business processes to align them with that system. We have also worked to seek effective solutions to benefit payment issues that have long plagued us.

I appreciate the selflessness and professionalism of the OPM employees who are responsible for performance and financial management and look forward to working with them to meet the challenges that lie ahead of us.

Clarence C. Crawford
Chief Financial Officer





OPM at a GLANCE

The Office of Personnel Management (OPM)

provides human resources policy leadership, technical advice and assistance, and products and services to Federal agencies, as well as employees and annuitants and job seekers. It oversees the civil service merit system and Governmentwide compensation and performance management systems. Also, it provides fast, friendly, accurate and cost-effective retirement, health benefit and other insurance services to Federal employees, annuitants, other beneficiaries, and agencies. The Director of OPM is the President's chief advisor in civilian Federal human resources management, and OPM is the primary agency for helping the President carry out his responsibilities for managing the Federal workforce.

LOCATION

OPM is headquartered at 1900 E Street, NW, Washington, DC 20415, where many of its approximately 3,000 employees work. OPM also has a field presence in 16 major cities across the country, and operating centers in Pittsburgh and Boyers, Pennsylvania, and in Macon, Georgia. Our Web site can be found at www.opm.gov.

FOUNDING LEGISLATION

The Pendleton Act of 1883 established the merit system and set up OPM's predecessor organization, the United States Civil Service Commission. The Civil Service Reform Act of 1978 transformed the Commission into a number of agencies, entrusting the Office of Personnel Management with Governmentwide human resources

management responsibilities and making it more directly accountable to the President.

OPM MISSION STATEMENT

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



OPM assists agencies in implementing effective merit-based human capital strategies to create a rewarding work environment.

To carry out this mission, OPM enables Federal agencies to recruit, retain and develop the employees they need to meet their specific missions, assists agencies in implementing effective merit-based human capital strategies to create a rewarding work environment, and provides efficient and effective products and services that meet the needs of agencies, Federal employees, annuitants, and the American people.

OPM'S HISTORY AND TRADITIONAL ROLE

When the Office of Personnel Management was created in 1978, its mission was to be the central personnel agency of the Federal Government. At that time, most of the personnel functions associated with staffing Federal departments and agencies were centralized in OPM.

The work performed by the Federal Government and its employees changed significantly in the 1980s and 1990s, driven by the advent of information technology, knowledge-based work, and a greater emphasis

on accountability, customer service and quality. These changes eroded the effectiveness of the one-size-fits-all approach to human resources management that for years had supported the Federal workforce, and they brought to the foreground the need for flexibility and a decentralized human resources management (HRM) system.

Responding to these changes, OPM took on the role of providing the agencies with HRM policy leadership in a manner that balanced flexibility with consistency across Government. For instance, we used authority under title 5, U.S. Code, to set up demonstration projects and alternative personnel systems that allowed a limited number of agencies, in special circumstances, to develop HRM systems tailored to these circumstances. At the same time, we sustained certain Governmentwide values, such as the merit principles, veterans' preference, workforce diversity, and family-friendly policies. In addition, we continued to administer Governmentwide compensation, employee benefits, and automated

information systems. Finally, we provided assistance and services to agencies through a mix of appropriated, trust, and reimbursable funds.

AN AGENCY IN TRANSITION

The Office of Personnel Management began a dramatic transition in FY 2002 in response to President George W. Bush's making the strategic management of human capital a top administration initiative; OPM Director Kay Coles James's focus on Federal agency performance as the measure of OPM success; and a shifting Federal work environment due to the advent of a new age of information technology, knowledge-based work, an aging workforce, and an increased emphasis on public sector accountability.

The OPM transition is anchored in a new Strategic Plan for the years 2002–2007 presented to Congress a full year ahead of requirements in the Government Performance and Results Act of 1993. The OPM Director approved a major overhaul and restructuring of OPM to align the agency to the goals articulated in

the Strategic Plan. OPM will implement the restructuring during the first half of FY 2003.

NEW OPM GOALS

The new OPM can be best captured by a comparison of the goals of the previous Strategic Plan and the current one. For example, one of OPM's goals from the FY 2000 Strategic Plan stated: "We serve Federal agencies, employees and retirees, their families and the public through employment information, pay administration, benefits delivery and technical assistance." The emphasis here is on OPM *providing services*. Our new FY 2002 plan states: "Federal agencies use effective merit-based human capital strategies to create a rewarding work environment that accomplishes the mission." Note that the outcome shifts from OPM as a service provider to OPM taking responsibility Governmentwide for human capital practices that are effective *in the agencies*. No matter how well designed or intended a strategy, it is only as good as its ability to deliver the results that the American people expect.

In another example, in FY 2000, OPM said that its goal was to "lead Federal agencies in shaping human resources management systems to effectively recruit, develop, manage and retain a high-quality, diverse workforce." A goal in our new FY 2002 plan states: "Federal agencies adopt human resources management systems that improve their ability to build successful, high-performance organizations." Again note that the emphasis shifts in this example from *activities* (e.g., recruitment) to *outcomes* (e.g. high performance of agencies) — regardless of whether high performance is achieved by investment in employees, new technology, management systems, or those from outside the Federal Government who support agencies.

THE NEW GOALS AND OPM'S PERFORMANCE AND ACCOUNTABILITY

These two goals also exemplify OPM's commitment to balance our measures of both performance *and* accountability. In the past, OPM has measured the performance of its various activi-

ties with service delivery and customer satisfaction indicators. To add accountability to its performance measures, OPM committed in its new Strategic Plan to develop an index that allows assessment of human capital practices across Federal agencies and a model to assess and evaluate human resources policies.

In FY 2002, OPM piloted a Human Capital Assessment and Accountability Framework developed with agencies, the Office of Management and Budget, and the General Accounting Office to assess human capital practices Governmentwide on the following dimensions: Strategic Alignment, Workforce Planning and Deployment, Leadership and Knowledge Management, Results-Oriented Performance Culture, Talent, and Accountability. When this framework is fully implemented, OPM will be able to report to the President and Congress on the state of Federal human capital, thereby holding a mirror to itself on its own effectiveness.

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A SHIFT IN EXPECTATIONS

Through these new goals and accountability measures, OPM will shift from being a service provider to acting as a strategic partner with agencies. We will put an emphasis on producing a clear view of the competency needs of Federal agencies, and how those needs match the capacity of their employees. Rather than promoting a standard set of competencies to be applied

matrix team to design a human resources management system for the new Department with flexibilities tied directly to a new mission brought into sharp focus by the terrorist attacks of September 11, 2001.

Throughout the summer of 2002, OPM supported the development of the new department by operating in a manner consistent with its new strategic outlook. Instead of relying

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

OPM's work did not end with the passage of legislation as it may have in the past. It is now OPM's job to make sure that the Department of Homeland Security adopts the human capital strategies necessary to accomplish its mission to ensure the



OPM responded to the challenge of shaping the Federal Government's most extensive reorganization since the Second World War by forming a matrix team to design a human resources management system for the new Department with flexibilities tied directly to a new mission brought into sharp focus by the terrorist attacks of September 11, 2001.

Governmentwide, OPM will develop, in conjunction with Federal agencies, customized models and solutions to human capital challenges.

A clear example of such customization is the work that OPM did in FY 2002 in support of the legislation that created the Department of Homeland Security, which passed Congress and was signed into law by the President in the fall of 2002. OPM responded to the challenge of shaping the Federal Government's most extensive reorganization since the Second World War by forming a

on various internal "stovepipes" to make their independent contributions generated from outdated mindsets and roughly cobbled together, OPM formed a cross-agency team to apply integrated expertise. The result was new flexibilities built into the law that never existed before—flexibilities that provide a coherent model for future human capital management practices in the Federal Government. Hence, OPM demonstrated that it is capable of achieving its new goal for Federal agencies (a brand-new agency in this case) to

security of the Nation. After all, the capabilities needed to provide security at home may differ somewhat from the capabilities of the component organizations. To address this and other needs, OPM will hold itself accountable for those strategies that support the mission, requiring a close, ongoing working relationship with the new Department.

RESTRUCTURING OPM

OPM has restructured itself to better align its efforts to achieve the goals of the new Strategic Plan. The

capacity for creating the human resources systems in the example of the Department of Homeland Security is reflected in OPM's new Strategic Human Resources Policy Division. This division will develop integrated systems and new programs linked to the mission accomplishment of agencies.

The new OPM division that helps agencies to implement and assess human capital strategies Governmentwide is Human Capital Leadership and Merit Systems Accountability. This division is responsible for the use of OPM's Human Capital Assessment and Accountability Framework and for OPM's ability to report on the state of human capital practices Governmentwide.

OPM also supports agencies by administering retirement and insurance programs, and by providing personnel investigation services and revolving fund activities that meet the needs of Federal agencies. These activities are organized in the Human

Resources Products and Services Division.

These three divisions are structured to work closely together to continually link policy and program development with assistance, assessment and service. They are supported by an internal management office that sustains OPM in achieving its mission.

THE FY 2002 PERFORMANCE AND ACCOUNTABILITY REPORT

To meet the challenge of reporting on OPM's accomplishments in FY 2002 as it transitioned to the demands of the 21st Century, we have organized this report according to the goals in the new Strategic Plan and consistent with the restructured organization. We did this to reflect that, in many ways, OPM operated with a significant new direction during FY 2002.

The impact of OPM's commitment to that new direction is already evident in this report. Several of the performance goals and indicators, particularly those that use surveys,

reflect a downturn from earlier levels and the FY 2002 targets. Aside from some methodological considerations about the sample sizes and margins of error, it is worth noting here that OPM does not view those shifts with alarm, nor would we take particular action to return to previous levels on those indicators. In many instances those indicators and targets operationalized our previous strategies and perspectives. OPM had already changed in FY 2002, and we view those results as positive evidence of that positive change.

In FY 2003 OPM will complete its restructuring and will develop and pilot a robust agency evaluation program that will measure OPM's impact on human capital strategies Governmentwide. This report positions OPM to move in that direction by organizing our current measurements and reporting to reflect the quality of our current efforts and to assess which activities and measurements we will take into the future.



MANAGEMENT DISCUSSION and ANALYSIS



OPM'S MISSION AND STRATEGIC GOALS

OPM's job is to build a high quality and diverse Federal workforce, based on merit system principles, that America needs to guarantee freedom, promote prosperity and ensure the security of this great Nation. To fulfill this mission, OPM guarantees to the President that Federal departments and agencies have the human capital talent and capability they need to achieve their missions. Further, as Federal agencies achieve their missions, they must do so with the effectiveness and efficiency that the American public expects and deserves. In pursuit of this mission, we developed the following strategic goals:

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

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

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

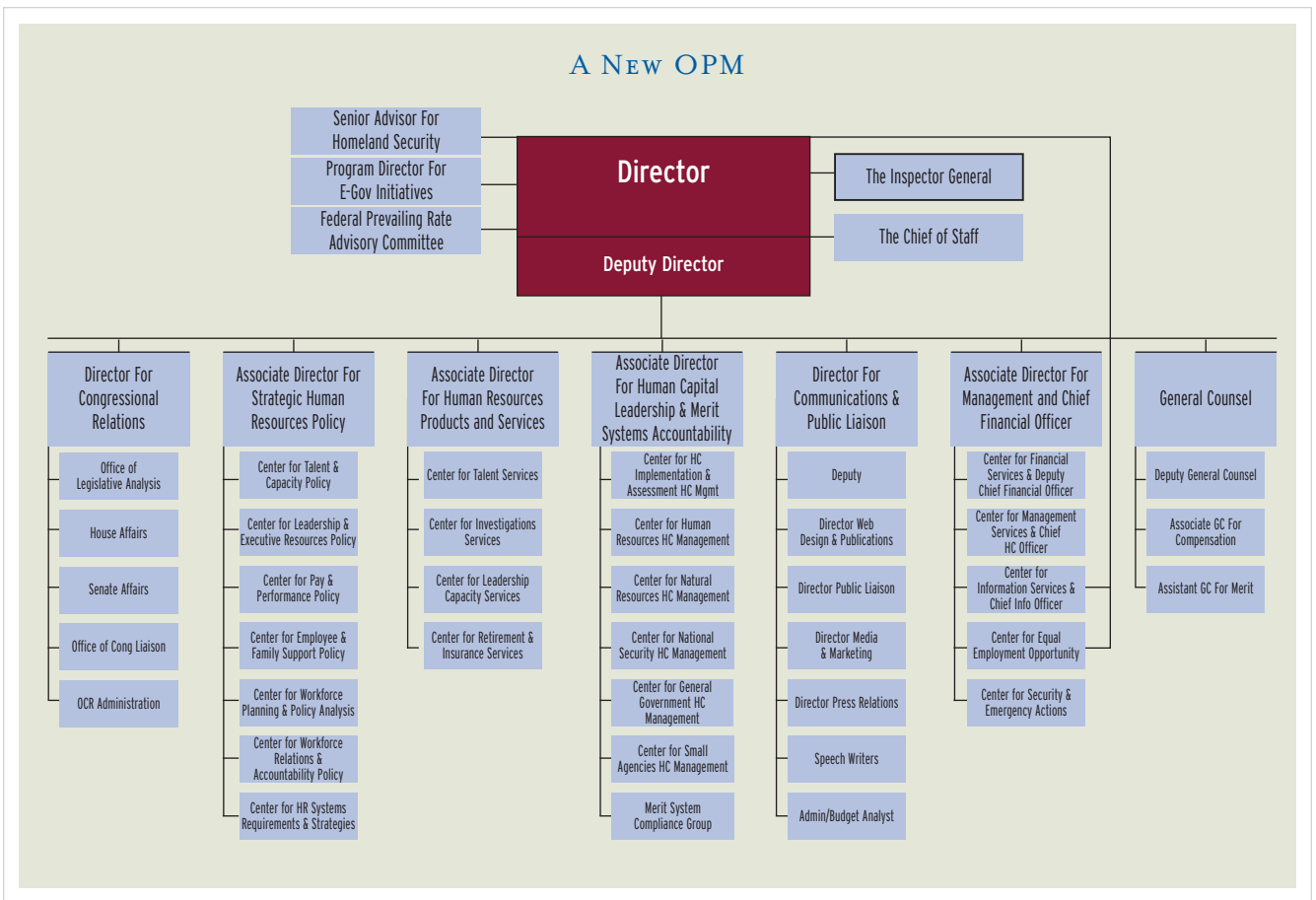
Corporate Management Strategy: OPM creates an environment that fosters the delivery of services to our cus-

tomers and employees through effective communication and management of human capital, technology, financial resources, and business processes.

These goals recognize the responsibilities and expectations of Congress for OPM as described in statute and developed through our consultations with these key stakeholders. The Strategic Plan holds OPM accountable for Federal agencies' adopting human resources management systems that improve their ability to build successful, high-performance organizations while using effective merit-based human capital strategies to create a rewarding work environment that

accomplishes the mission. To better accomplish these goals, OPM is undergoing in FY 2003 a major restructuring that will align its resources with the goals in the Strategic Plan. This restructuring will eliminate organizational barriers and significantly reduce the number of offices, resulting in a delayed agency better able to serve its customers.

FY 2004 will be the first full year that OPM will operate in its new structure. The restructuring will ensure that policies and programs are developed and implemented in an integrated manner and that OPM will work with agencies to adopt the best



human capital practices that meet their unique needs. Instead of the standardization of the past required by a Federal Government composed primarily of clerical operations, OPM will team with agencies to implement flexible and customized human capital practices that attract and retain a high-quality, well-motivated workforce able to tackle the complex issues of today and tomorrow.

ORGANIZATIONAL STRUCTURE

On September 24, 2002, Director James approved a major restructuring of the U.S. Office of Personnel Management. OPM's new structure will further the President's goal of forging agencies that

are citizen centered, results oriented, and market based. The new design focuses the agency on customer needs, emphasizes outcomes over process, and fosters integration of human resources management and accountability across Government. The new organizational structure aligns with our new Strategic Plan and ensures accountability for the agency's mission in that each of our revised strategic goals is the responsibility of a single executive reporting to the head of the agency. The restructuring creates four new Associate Director positions and reduces the number of individuals reporting directly to the Director from 17 to 11.

The **Director for Congressional Relations** oversees and coordinates all

of OPM's activities in this regard, including providing legislative analysis to the Director, her staff, and OPM's program offices. This executive oversees the development of strategies for the design and implementation of OPM's legislative program and analyzes and responds to congressional initiatives which impact Federal human resources management issues.

The **Director for Communications and Public Liaison** promotes and defends the heritage and principles of America's civil service. In addition, this executive ensures that the policies and directives of the President and the Director of OPM are fully supported as they relate to the strategic management of human capital, and provides

the American citizenry, Federal agency customers, and pertinent stakeholders with accurate information to aid in their planning and decision-making.

The **General Counsel** provides legal services for OPM's Director, Deputy Director, and programs and is a source of expertise for other Government agencies, Federal employees, and the public. In addition, the General Counsel works closely with all of the senior officials and program offices of OPM to initiate and implement policy, ensure that programs are administered lawfully, and the represent the programs in all types of advocacy settings.

The Senior Advisor for Homeland Security, the Program Director of E-Gov Initiatives, the Chair of the Prevailing Rate Advisory Committee, and the Inspector General report to the Director on matters concerning their specific initiatives or programs.

The **Associate Director for Strategic Human Resources Policy** will focus on developing human resources policies and programs as described under OPM's revised Strategic Goal 1. The development and implementation of cutting-edge human resources management systems is a critical ingredient for every Federal agency in meeting the needs of the American people.

The **Associate Director for Human Capital Leadership and Merit Systems Accountability** will be responsible for meeting the human capital management needs of agencies and creating human resources (HR) accountability across the Government to facilitate delivery of corporate HR functions. As described in Strategic Goal 2, this executive will lead the Strategic Human Capital Initiative and ensure compliance with the merit principles. The

internal structure of this organization will mirror OMB's Resource Management Offices, with four divisions supporting groups of similar agencies — Natural Resources, Human Resources, General Government, and National Security — with the addition of a fifth grouping dedicated to small agencies.

The **Associate Director for Human Resources Products and Services** will have central responsibility for OPM's functions that deliver products and provide services, such as retirement and insurance services, investigations, employment testing, training and management assistance, and executive and managerial development. This executive will be the champion for meeting the objectives and outcomes established under Strategic Goal 3.

The **Associate Director for Management and Chief Financial Officer** will consolidate the functions covering internal human resources, Equal Employment Opportunity, information technology, the Chief Financial Officer, and contracting and administrative services. This executive is responsible for implementing OPM's corporate management strategy, as documented in our new Strategic Plan.

A NEW OPM

OPM is a reinvigorated agency with new leadership, a new organizational structure, and a new Strategic Plan. In FY 2002 we embarked in a new direction, while keeping our sights on our statutory responsibilities and functions. This new direction reflects the priorities of the Administration, particularly as it relates to homeland security and the President's Management Agenda.

It also reflects our transformation into a

more nimble and responsive organization, providing leadership, accountability, assistance, and service to all Federal agencies, enabling them to become high-performance organizations that better serve American citizens.

A NEW FOCUS AND NEW PRIORITIES

It is evident that OPM's public value extends beyond policy leadership, advice, technical assistance and services. While maintaining these traditional roles, the agency also must be accountable for the implementation of these policies and systems and must be the proactive champion for the Strategic Management of Human Capital across Government. Further, we must inform the President regarding the status of human capital in the Federal Government. Recognizing this, we established new priorities for the agency during FY 2002, which are:

- to stand up the Department of Homeland Security,
- to fully implement the President's Management Agenda of reform initiatives,
- to modernize Federal human resources systems,
- and to address the agency's top management challenges.

The Department of Homeland Security

OPM's first and most immediate priority is to stand up the Department of Homeland Security. Establishing this new agency is the centerpiece of the President's first national priority: defending the homeland. The criticality of this priority was borne out by the events of September 11, 2001. Not since December 7, 1941, have the

events of a single day so shaken and roused our great Nation, and so completely reshaped the agenda and priorities of American government at all levels. Because many of the issues surrounding the President's proposal to establish this Department pertain to human resources systems and human capital management, leading the way toward resolving them presents OPM with an immediate and historic opportunity.

The President's Management Agenda

In the summer of 2001 President George W. Bush set forth a bold plan to reform the management of the Federal Government. Pursuing that plan, called the President's Management Agenda, is OPM's second priority. This program of management reforms calls for a Government that is citizen centered, not bureaucracy centered; results-oriented; and market based, actively promoting rather than stifling innovation through competition. The program consists of five initiatives:

- Strategic Management of Human Capital,
- Competitive Sourcing,
- Improved Financial Performance,
- Expanded Electronic Government, and
- Budget and Performance Integration.

The Office of Management and Budget established straightforward Executive Branch Management Scorecards for these initiatives, summarizing agencies' status as being "red," "yellow" or "green." Based on these scorecards, OPM's second prior-

ity is to successfully implement the five initiatives and "get to green" on the President's Management Agenda.

It is not by accident that Strategic Management of Human Capital is first on the President's Management Agenda. Motivated, talented employees are essential to the success of all the initiatives, and OPM is proud to accept the President's charge to lead the effort Governmentwide. Our Strategic Human Capital Initiative represents a sea change in the business of managing people. Human capital captures the value of employees as assets, not as costs of an organization. Assets are invested in; costs are reduced. Good management in human resources means that processes are working well and that employees are engaged in decision making and are treated fairly. Good leadership in human capital means that the Federal Government is a desirable place to work, and that Federal employees are capable and inspired, performing in a manner that gets the results that the American public expects. OPM is honored to lead this Governmentwide initiative, and we will hold ourselves accountable for the status of human capital in the Federal Government.

OPM is the Managing Partner for five initiatives aimed at expanding Electronic Government, or e-Government. They include Recruitment One-Stop, e-Clearance, e-Training, e-Payroll, and Enterprise Human Resources Integration (EHRI). These interrelated initiatives, combined with our Retirement Systems Modernization Project, cover the entire life cycle of a Government worker's career. They will enhance the selection

and development of Federal employees across Government and are key elements of OPM's new strategic direction, including the Strategic Management of Human Capital and ensuring homeland security.

These projects support the Strategic Management of Human Capital by speeding the Federal recruitment and hiring process; providing enhanced training resources to the Federal workforce to build Governmentwide competencies; and improving the flow of information among Federal human resources systems. Recruiting for homeland security positions will benefit from the faster hiring and training of security personnel and improved access to investigation and clearance information.

The remaining three components of the President's Management Agenda — Competitive Sourcing, Improving Financial Management, and Budget and Performance Integration — have been adopted as the foundation of OPM's internal management program. We are leveraging the Federal Activities Inventory Report Act inventory to support Competitive Sourcing as a management tool to deliver the right products and services to the right customers in the right way. We have a well-defined plan for Improved Financial Management under way that includes upgrading our financial management systems, improving the timeliness of financial information, continuing to receive unqualified audit opinions on our annual financial statements, and reducing erroneous payments. Finally, Budget and Performance Integration is a driving force in our realignment of OPM's Chief Financial Officer function to

better support the agency's internal organizations and further consolidate budget and performance planning, measurement and reporting functions. Structured teams, dedicated to servicing each OPM organization, specifically designed along their business lines, will provide comprehensive support for all financial management

applicants of diverse backgrounds, while a modern and more competitive compensation system will assist Federal agencies to meet their strategic goals.

OPM will work with Federal agencies to improve the attractiveness of public service, in part by communicating the Government's exciting mission and career opportunities. Our focus on

(OIG). The Reports Consolidation Act of 2000 requires agency Inspectors General to prepare a list of the top management challenges facing the agency for inclusion in the agency's Annual Performance and Accountability Report. The Inspector General identifies these top challenges based on one or more of the following criteria:

Human capital captures the value of employees as assets, not as costs of an organization. Assets are invested in; costs are reduced.



functions from budget formulation through preparation for audit.

Modernizing Federal Human Resources Systems

American citizens demand and deserve a civil service that is world-class, one that meets their highest expectations for commitment, performance, integrity, and accountability. To contribute to that end, OPM's next priority is to modernize Federal human resources systems in two important ways: increase the effectiveness and efficiency of the Federal hiring processes and provide the Federal Government with a modern compensation system that is performance oriented and market sensitive. Improving the hiring process will make Federal employment attractive to high-quality

attracting and selecting highly-qualified applicants leads to a better fit to the job which, in turn, supports retention. This will involve making it easier for individuals to apply for Federal jobs and developing strategies that enhance employment opportunities for veterans, minorities, women, and persons with disabilities. We will also increase agency awareness and use of flexibilities already available to them for how Federal employees are compensated and how pay can be linked to performance. In addition, we will continue to discuss pay modernization while continuing to administer current systems.

Top Management Challenges

Our fourth priority is to fully address the top management challenges identified by OPM's Office of the Inspector General

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

On December 20, 2002, OPM's Inspector General identified the following as top management challenges for the agency.

- Human Resources Management

- Retirement Systems Modernization (RSM)
- Homeland Security
- Expanding e-Government
- Implementation of the Government Performance and Results Act
- Revolving Fund and Salaries and Expenses Accounts
- Maintaining and Improving the Performance of the Federal Employees Health Benefits Program (FEHBP)
- Restructuring OPM

Most of these challenges are critical to OPM's core goals, align with the President's Management Agenda, and involve on going collaboration with OMB, the Congress, and our customers. While we agree that these challenges represent our most significant issues, we believe our new Strategic Plan and our restructuring of the agency demonstrate that we are positioned to address them effectively. The Strategic Plan highlights the significance we place in these issues since many of them are featured as objectives supporting our revised strategic goals. Our new organizational structure aligns our resources to achieve these goals and objectives and organizes them under the authority and responsibility of our four new executive positions.

The Human Resources Management challenge lies at the heart of OPM's mission and is being fully addressed not just by OPM, but by all Federal agencies as we continue moving forward with the Strategic Human Capital Initiative. This priority is clearly reflected in our Strategic Goal

2. However, our primary strategy for meeting this challenge — the implementation of the Human Capital Assessment and Accountability Framework will provide us the information we need to develop new human resources policies and programs under Strategic Goal 1, and new products and services under Strategic Goal 3. These policies, programs, products, and services will be tailored to meet specific agencies' needs and ensure that all agencies meet all of the Human Capital Standards for Success. We will continually assess, evaluate, and report the status of human capital across Government.

The Retirement Systems Modernization (RSM) Project is a large undertaking in terms of resources, information technology and business process reengineering and has been featured prominently in our Annual Performance and Strategic Plans and Annual Performance Reports. As described later in this report, we have virtually completed the design phase of this long-term project and are now building this system. The "early wins" reported in previous years proved that OPM was capable of achieving the goals and objectives of this project, and in FY 2002, we began to see the first improvements in retirement program performance indicators related to RSM technology. We have mitigated much of the risk associated with RSM by organizing its milestones and deliverables into "*useful segments*," each linked to specific resource requirements that provide the information needed to make critical funding decisions as a part of the annual budget cycle.

As stated earlier, standing up the Department of Homeland Security

(DHS) is OPM's top priority for the next few years. This significance is demonstrated in our new Strategic Plan as it is one of the four objectives supporting our first strategic goal. During FY 2002, OPM played a central role and directed considerable resources in shaping the Administration's responses to the civil service issues revolving around the legislation to establish the DHS. We successfully redirected resources and were at the forefront in making the case for flexibility in the areas of pay, performance, labor-management relations, discipline, and employee appeals. In effect, OPM became the human resources office of DHS, with the responsibility to plan and forecast human capital needs and approaches. We formed working groups to study human resources areas relating to performance appraisals, job classifications, pay, labor management, discipline and employee appeals. We are committed to drafting a proposal for the new Department's human resource management system by June 1, 2003. In addition to the accomplishments described in other parts of this report, we have established an executive position, reporting directly to the OPM Director, to oversee and coordinate all of our activities in support of establishing this new Federal department.

OPM's challenge with regard to Expanding e-Government (e-Gov) will be to manage its five e-Gov initiatives efficiently and effectively. OPM must actively manage partners, resources — both people and dollars — and critical inter-dependencies to ensure all five e-Gov projects meet planned performance goals and timelines. We have a clear vision of these five e-Gov initiatives as an interlocking enterprise sys-

tem based on the employee life-cycle beginning with recruitment, continuing through all aspects of employment, and culminating with retirement. Taken together, our e-Gov initiatives will enable the transformation of human capital that must occur in all Federal agencies. We will use these five e-Gov initiatives to remove redundancies, reduce response times, eliminate paperwork, and improve coordination among Federal agencies. Recognizing the importance and risks

phase and implementing civilian payroll consolidation.

Implementation of the Government Performance and Results Act (GPRA) and strengthening our Revolving Fund and Salaries and Expenses Accounts are both underlying forces in our agency restructuring plan. Responsibility for both is now, for the first time, in the hands of a single OPM executive, the Associate Director for Management and Chief Financial Officer. The implementation of GPRA parallels the

aligned to the new organizational structure immediately upon implementation of the restructuring, to be completed in the first half of FY 2003. A cross-agency team, with additional representation from the OPM OIG and OMB budget examiners, is in the process of developing a robust evaluation program that will measure the performance of OPM relative to the new goals. This evaluation program will be developed and piloted in FY 2003 and implemented in FY 2004,



We have a clear vision of these five e-Gov initiatives as an interlocking enterprise system based on the employee life cycle beginning with recruitment, continuing through all aspects of employment, and culminating with retirement.

associated with the e-Gov projects, we have established an executive position to oversee these projects and report directly to the OPM Director. Each project has a project leader and is operated day-to-day within its specific program areas. Each project has submitted fully supported Capital Asset Plans as a part of OPM's budget justifications and has received the necessary budgetary support within the Administration. Three of our five projects — Recruitment One-Stop, e-Clearance, and e-Training — are already operational. The remaining two projects — Enterprise Human Resources Integration and e-Payroll — are, respectively, completing the design

President's management reform initiative for Budget and Performance Integration in many ways, and strengthening controls over the Revolving Fund and Salaries and Expense Accounts is closely related to the initiative for Improving Financial Management.

The combination of the full implementation of a new financial management system and the continued use of zero-based budgeting gives OPM the flexibility to quickly adjust its funding allocations to align resources to the new goals in the revised Strategic Plan. Since the agency restructuring is closely aligned with the goals in the Strategic Plan, all accounts will be

thereby providing the data that demonstrates performance relative to OPM's intended outcome to improve human capital practices Governmentwide.

The implementation of our new financial management system during FY 2002 began to address the long-standing problems in resolving financial data discrepancies in our Revolving Fund and Salaries and Expenses accounts. Another important milestone in the resolution of this management challenge was the long-term "Management Plan" for the oversight of the Revolving Fund account that we prepared in April 2002. This document lays out expected cost and income esti-

mates, and moves the Revolving Fund toward a level of earnings sufficient to recover costs. Finally, we hired an experienced senior financial manager with extensive knowledge and experience with Revolving Fund and Salaries and Expenses to maintain vigorous oversight of such accounts. This will ensure that policies and procedures governing the operation of these accounts are consistently applied across all programs and that related transactions are executed accurately and on time.

We have reported to the President under the Federal Managers' Financial Integrity Act that the "material non-conformances" related to these two accounts have been corrected. Despite this, we will continue to report them until they are fully resolved. Finally, to ensure we have resolved these issues and to identify any possible problems in the Revolving Fund and Salaries and Expenses accounts, we will sponsor an independent audit of these accounts by the end of FY 2003, in addition to the annual audit of our Consolidated Financial Statements.

The Management Challenge of Maintaining and Improving the Performance of the Federal Employees Health Benefits Program requires developing a comprehensive and competitive benefits package for the Federal workforce that offers choices comparable to the private sector. Providing a high-quality benefits package supports our human capital management efforts to recruit and retain an effective workforce. To mitigate the effects of rising health insurance premiums, OPM implemented premium conversion in FY 2001. Premium conversion allows Federal

employees to deduct their share of health insurance premiums from their taxable income, thereby reducing their taxes and making health coverage more affordable. In addition, OPM has proposed a Flexible Spending Account (FSA) option. These accounts allow employees to set aside a part of their salary by pre-tax withholdings and to use those pretax dollars to pay for non-reimbursable expenses such as some medical, dental, vision and dependent-care expenses. FSAs are scheduled to be available to Federal employees beginning July 1, 2003.

We are confident that we can successfully implement our plan for Restructuring OPM by March 2003 and work out any remaining issues by the end of the fiscal year. OPM Director Kay Coles James has approved and announced the overall restructuring plan and selected executives to head up the four main organizational components of the agency. OPM's Deputy Director Dan Blair has taken leadership responsibility for implementing the new structure and we have created Restructuring Implementation Teams that are addressing the detailed stages of the reorganization that include a diverse range of issues, such as staffing, transition management, finance, and logistics, all of which come into play when restructuring an organization.

As will be demonstrated in the pages that follow, we focused considerable resources on these management challenges during FY 2002. Six of these challenges were included in the IG's report for FY 2002, including Human Resources Management, Retirement Systems Modernization,

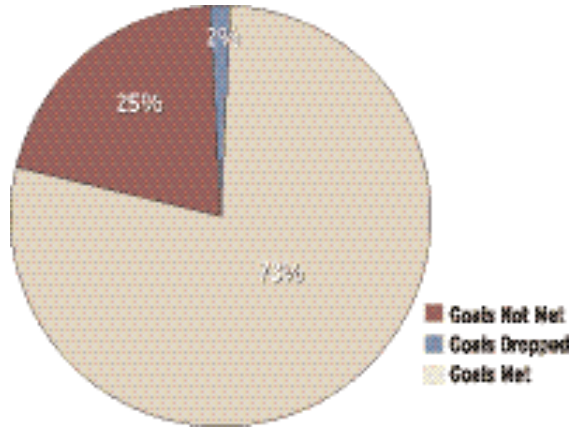
Expanding e-Government, Implementation of the Government Performance and Results Act, Revolving Fund and Salaries and Expenses Accounts, and Maintaining and Improving the Performance of the Federal Employees Health Benefits Program. Virtually every annual goal in OPM's FY 2002 Annual Performance Plan supported the resolution of one of these management challenges in some way. A brief discussion of this relationship is included for each of the FY 2002 annual goals in the *Annual Performance Goals and Results* section of this report.

FY 2002 PERFORMANCE SUMMARY

Our new strategic goals represent a new direction for the agency and reflect the new work that OPM is undertaking to bring about the outcomes embodied in these goals and their underlying objectives. Although we developed the FY 2002 Annual Performance Plan two years before we revised our Strategic Plan, we are using our new strategic goals and objectives as the framework for reporting our performance under the annual goals described in the FY 2002 plan. Our FY 2002 Annual Performance Plan set forth 77 annual goals that described the specific actions and initiatives planned for the fiscal year, and we accomplished 67 of these goals.

Although we met most of our FY 2002 annual goals, we recognize that these goals did not clearly reflect OPM's new direction and priorities. Further, we recognize that the new work of the agency dictates the sunset of the goals and performance measures that we had

OPM GOAL ACHIEVEMENT IN FY 2002



established prior to revising our Strategic Plan. Our Annual Performance Plan for FY 2004 will demonstrate that our objectives, outcomes, indicators and strategies now are directly aligned with OPM goals, as envisioned by Congress with the passage of the Government Performance and Results Act of 1993. Further, the FY 2004 annual plan establishes a link between OPM programs and the results that Americans expect from the Federal Government. Our FY 2003 Annual Performance Plan also was written before we revised our Strategic Plan and, because of that, does not fully reflect the new OPM. To completely close the loop between the old OPM and the new OPM we are describing in these pages, we are revising our FY 2003 annual plan.

Building Successful, High-Performance Organizations – Strategic Goal I

Successful agencies of the future will attract, engage, develop and retain quality employees. The development and implementation of cutting-edge

human resources management systems are critical for every Federal agency in meeting the needs of the American public. OPM must create flexible human resources policies and programs that can assist agencies in attracting and retaining quality applicants by making the hiring process more effective and efficient, by improving the attractiveness of public service to people of diverse backgrounds, by providing a compensation system that is both market sensitive and performance oriented, and by creating a work culture that encourages workforce development and work/life balance.

We took important steps toward building these successful, high-performance organizations during FY 2002. As described on pages 40 and 41, our single, most significant accomplishment under Strategic Goal I was our work on the Administration’s proposal to establish the Department of Homeland Security, which the President signed into law on November 25, 2002. Our leadership in developing the Administration’s pro-

posal for the Department of Homeland Security provides us, and the entire Federal Government, with an opportunity to take a new and flexible approach to how Federal employees are hired, compensated, developed and managed. The lessons we learn from the deployment of this new Department will be leveraged and replicated as we address more generally the issues of compensation, hiring, employee development, performance, and the other aspects of the Strategic Human Capital Initiative.

Creating a Rewarding Merit-Based Work Environment – Strategic Goal II

Under Strategic Goal II, we seek to make the Federal Government an employer of choice. Thus, we will assist Federal agencies to create a work environment that invests in employees’ growth and rewards their performance, and will interpret, implement, disseminate and enforce human resources policies and practices that guarantee the preservation of all rights and protections afforded all employees of the Federal Government. The investment in human capital is the right thing to do if agencies are to achieve their mission. As part of the President’s Management Agenda, the Office of Personnel Management is leading the Federal Government’s Strategic Human Capital Initiative.

The Strategic Human Capital Initiative entails nothing less than transforming the way agencies employ, deploy and develop their workforce and is arguably the most complex initiative on the President’s Management Agenda. Implementing this initiative has transformed OPM’s role within the

STATUS OF ANNUAL GOAL BY STRATEGIC GOAL

Strategic Goals	FY 2002 Annual Goals	Number of Goals Met	Number of Goals Not Met	Number of Goals Dropped
I. Federal agencies adopt human resources management systems that improve their ability to build successful, high-performance organizations.	17	9	7	1
II. Federal agencies use effective merit-based human capital strategies to create a rewarding work environment that accomplishes the mission.	19	13	5	1
III. Meet the needs of Federal agencies, employees, and annuitants through the delivery of efficient and effective products and services.	17	14	3	0
Corporate Management Strategies and Other Internal Goals.	24	20	4	0
FY 2002 Totals	77	56	19	2

community of Federal agencies and our relationship with them. Progress will require not just procedural changes, but also substantial cultural changes. Still, we made considerable progress during FY 2002.

OPM led this progress, as described on pages 48-49, establishing a Human Capital Performance Team — now a part of the Merit Systems Accountability and Human Capital Division — to guide agencies in developing and implementing their strategic plans for human capital management. OPM worked with the Office of Management and Budget and the General Accounting Office to develop common language for the Human Capital Standards for Success. Then OPM provided consolidated, comprehensive guidance to agencies on how they can achieve these standards.

The progress we made during FY 2002 on this initiative in general, and developing standards and metrics

in particular represents an essential first step toward determining the precise state of human capital Governmentwide. This also enables us to report this status to the President, the Congress, and the American people. Using the Executive Branch Management Scorecard to determine this status, two agencies improved their status, as shown on pages 59 and 60 of this report, the Human Capital Assessment and Accountability Framework we developed will provide us with the information we need to work with agencies to create the appropriate rewarding work environment for Federal employees that supports and generates the high-performance organizations envisioned under Strategic Goal I. The new Human Capital page developed for the OPM Web site, www.opm.gov, offers OPM policy guidance as well as links to exemplary products and practices developed by other agencies.

Delivering Efficient and Effective Products and Services – Strategic Goal III

The focus of Strategic Goal III is service excellence in support of human resources policies and providing agencies with the tools and systems to implement those policies. To this end, OPM provided agencies a wide range of services — some on a reimbursable basis — that enhanced the talent and capacity of the Federal workforce and better enabled agencies to become high-performance organizations. We increased the number of customers accessing our Web-based workforce information products (page 68), improved HR specialists’ satisfaction with pay table guidance (page 69), met customer workload demands for investigative services (page 70), and increased the participants in our executive and management training programs (page 70).

In addition, we facilitated retire-

ment income security by reducing the time needed to pay FERS benefits from the retirement program (page 76) and enhanced the tools available to agencies and employees to ensure that Federal employees are prepared for retirement (page 79). Our Retirement Systems Modernization Project proceeded on schedule and within budget, and we began implementing the technology to completely automate the retirement process (pages 77-80).

To strengthen the quality of health care and services in the Federal Employees Health Benefits Program, we combined our efforts to expand accreditation among health carriers participating in the program with our ongoing practice of providing program customers with the information they need to choose the health benefits coverage best for them and their families. As a result, we observed an increase in the percentage of program customers enrolled in these quality plans (page 82).

Making OPM a High-Performance Organization – Corporate Management Strategies

We recognize that we cannot accomplish our program goals and outcomes without properly managing the agency’s internal resources. These resources include a workforce of nearly 3,000 well-trained, diverse and motivated people, information technology systems and infrastructure, and financial management systems. We established corporate management goals (pages 83-96) for each of these critical areas and maintained a cooperative and consultative relationship with the Inspector General regarding the oversight of these resources. During FY 2002, the agency met 20 of the 24 internal goals that comprise our corporate management strategy. By meeting these goals, we continued to foster an environment that supports the delivery of services to our customers and employees through effective communi-

cation and management of OPM’s human capital, technology, financial resources, and business processes.

QUALITY OF PERFORMANCE DATA

The performance information presented in this report accurately and reliably represents OPM’s performance during FY 2002. In accordance with the requirements of the Government Performance and Results Act, OPM ensures that reported performance information is accurate and based on reliable information. During FY 2002, we strengthened controls over the collection of performance data in two program offices and the preparation of program office submissions for the Performance and Accountability Report. These strengthened controls include documented data collection procedures and quality standards for performance information reported by the Retirement and Insurance

FY 2002 BUDGETARY RESOURCES BY STRATEGIC GOAL (\$ in thousands)

Funding Source	Goal I		Goal II		Goal III		Corporate Management		Totals	
	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE
Salaries & Expenses	\$22,531	126	\$37,381	307	\$8,398	46	\$34,103	235	\$102,413	714
Inspector General	\$0	0	\$0	0	\$0	0	\$1,459	17	\$1,459	17
Trust Fund	\$1,444	15	\$7,222	14	\$102,551	966	\$33,220	210	\$144,437	1,205
Inspector General	\$0	0	\$0	0	\$0	0	\$10,446	72	\$10,446	72
Advances & Reimbursements	\$0	0	\$1,168	4	\$2,077	126	\$0	0	\$3,245	130
Revolving Fund	\$0	0	\$0	0	\$643,000	626	\$0	0	\$643,000	626
Total Resources	\$23,975	141	\$45,771	325	\$756,026	1,764	\$79,228	534	\$905,000	2,764

The dollar amounts and FTE levels shown in the table above are estimates based on initial decisions regarding OPM’s restructuring, which was in progress at the time this report was prepared.

Programs and documented data collection procedures for the Workforce Compensation and Performance Programs. To improve controls over program office submissions, we began implementing certifications to the Director by program managers and executives concerning the accuracy and reliability of performance data provided for their specific organizations.

In addition to internal controls, OPM relies on traditional reviews and audits by the Office of the Inspector General and the General Accounting Office that may identify issues in performance measurement and reporting. These reviews have informed the agency regarding improvements in policies and procedures for the preparation of performance reports and the collection of performance information, and they have indicated where controls over performance information could be strengthened. Also, these reviews have pointed out instances in which performance results do not completely address pertinent performance indicators. We have accepted all of the Inspector General's recommendations in these regards and note that these issues do not represent pervasive or significant weaknesses in the quality of the data used in this report.

Further, we believe that the restructuring of the agency provides opportunities for OPM to consolidate resources in our Office of Management and the Chief Financial Officer to strengthen all aspects of the implementation of the Government Performance and Results Act at OPM.

Finally, we are establishing a program evaluation and performance measurement capability in OPM's Office of Management and the Chief

Financial Officer. This unit will evaluate specific OPM human resources programs in support of the Strategic Human Capital Initiative. This unit also will oversee the development of program performance measures and indicators throughout the agency and the collection of performance information on behalf of the Director.

ANALYSIS OF OUR FINANCIAL PERFORMANCE

"Clean" Audit Opinions

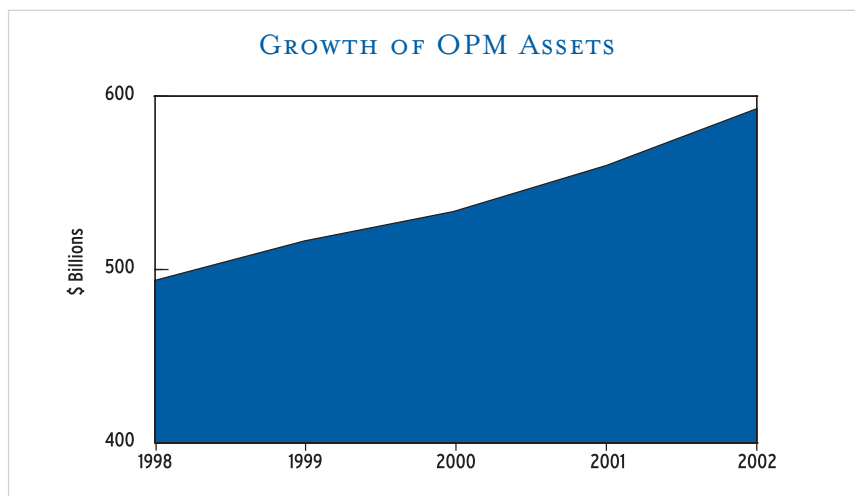
These are the third agencywide consolidated financial statements we have prepared. We are pleased to report that for the third consecutive year, we have received an unqualified ("clean") opinion from our auditors, KPMG LLP, on the Consolidated Financial Statements as well as the individual financial statements of the Retirement, Health Benefits, and Life Insurance Programs. An unqualified opinion means that our financial statements were fairly stated in all material respects. Moreover, our auditors did not report any material weaknesses in our internal controls over our financial reporting.

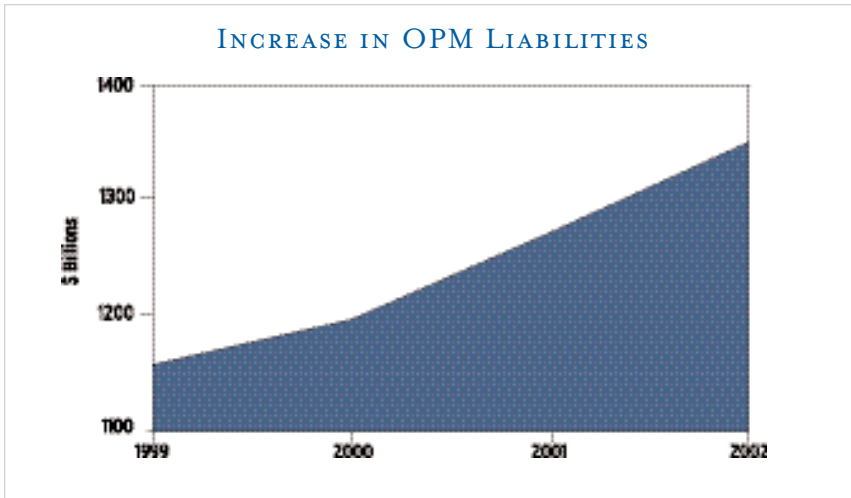
Analysis of the Consolidated Balance Sheet

The Consolidated Balance Sheet on page 101 presents the total amounts we have available for our use [assets] against the total amounts we owe [liabilities] and the amount that comprises the difference [net position].

Assets. We had \$620 billion in assets at the end of FY 2002, compared with \$585 billion at the end of FY 2001, an increase of 6 percent. The balance sheet separately identifies intragovernmental assets from all other assets. Almost all of our assets — \$618 billion — are intragovernmental, representing our claims against other Federal entities.

Our largest asset, *Investments* [\$606 billion], represents 98 percent of our total assets at the end of FY 2002. We invest all Retirement, Health Benefits, and Life Insurance Program balances that we do not immediately need for payment, but only in special securities issued by the U.S. Treasury. As we routinely collect more money than we disburse, our investment portfolio continued to grow — by 6 percent in FY 2002. Our next largest asset reflects





the interest owed to us on our investments by the U.S. Treasury — at the end of FY 2002, that was more than \$9 billion.

Liabilities. We have three very large, long-term liabilities that we categorize as “Actuarial Liabilities.” We report Actuarial Liabilities for each of the earned benefit programs that we administer: the Retirement, Health Benefits, and Life Insurance Programs. These Actuarial Liabilities reflect an estimate of the future cost, expressed in today’s dollars, of providing retirement, life insurance, and post-retirement health benefits to employees and annuitants. To compute these estimates, our actuaries make many assumptions about the future economy and about the demographics of the future Federal workforce and annuitant population.

The *Pension Liability* is an estimate of the future, long-term cost to provide Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) benefits to current employees and annuitants. It is \$1.1 trillion at the end of FY 2002, slightly larger than at the end of FY 2001 year [see discussion of

Pension Expense below].

The *Actuarial Postretirement Health Benefits Liability*, the future, long-term cost to provide health benefits to active employees after they retire, is \$207 billion at the end of FY 2002. This reflects a \$16 billion increase from the amount at the end of FY 2001 [see discussion of Postretirement Health Benefits Expense 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, long-term cost for both pre-retirement and post-retirement life insurance benefits. The Actuarial Life Insurance Liability increased by approximately \$1.4 billion in FY 2002 [see discussion of

Future Life Insurance Benefits below].

Net Position. At the end of FY 2002, our Net Position is a negative \$707 billion dollars, approximately the same as at the end of FY 2001. As can be seen on the Consolidated Statement of Changes in Net Position on page 103, our Net Position improved by \$3.3 billion due primarily to a large actuarial gain as a result of the differences between economic assumptions and actual experiences. The reason for our negative Net Position is the large Actuarial Liabilities that Federal accounting standards require we report on our Balance Sheet. Since our total assets less our non-actuarial liabilities exceeds \$600 billion, we can pay benefits to Retirement, Health Benefits, and Life Insurance Program participants well into the future. The chart below shows that the net assets we have available to pay benefits increased by almost 6 percent in FY 2002.

Analysis of the Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost on page 102 presents our net cost of operations by our major programmatic outputs or “responsibility segments.” We have defined responsibility segments for four broad categories of services we provide and have assigned all of our costs of doing business and the associated revenues to them. These

(\$ in Billions)	2002	2001	Change
Total Assets	\$619.6	\$585.3	\$34.3
Less “Non-Actuarial” Liabilities	\$9.2	\$8.4	\$0.8
Net Assets Available to Pay Benefits	\$610.4	\$576.9	\$33.5

NET COST TO PROVIDE CSRS BENEFITS

(\$ in Billions)	2002	2001	Change
Gross Cost	\$47.6	\$71.1	\$(23.5)
Associated Revenues	37.8	37.7	0.1
Net Cost	\$9.8	\$33.4	\$(23.6)

NET COST TO PROVIDE FERS BENEFITS

(\$ in Billions)	2002	2001	Change
Gross Cost	\$14.2	\$14.5	\$(0.3)
Associated Revenues	20.2	18.5	1.7
Excess of Revenues over Gross Cost	\$(6.0)	\$(4.0)	\$(2.0)

NET COST TO PROVIDE HEALTH BENEFITS

(\$ In Billions)	2002	2001	Change
Gross Cost	\$38.9	\$20.3	\$18.6
Associated Revenues	17.8	16.0	1.8
Net Cost	\$21.1	\$4.3	\$16.8

(\$ In Billions)	Disclosed	Applied to PRHB	Total 2002	Total 2001
Health Benefits Claims	\$10.9	\$5.8	\$16.7	\$15.2
Premiums	3.4	1.4	4.8	4.6
Administrative and other	0.7	0.8	1.5	1.2

NET COST TO PROVIDE LIFE INSURANCE BENEFITS

(\$ in Millions)	2002	2001	Change
Gross Cost	\$3,360	\$3,395	\$(35)
Associated Revenues	3,449	3,341	108
Net Cost (Excess of Revenue)	\$(89)	\$54	\$(143)

result in the Net Cost To Provide CSRS, FERS, Health Benefits, and Life Insurance Benefits and the Net Cost to Provide Human Resources Services.

Net Cost To Provide CSRS

Benefits. As can be seen below, the Net Cost To Provide CSRS Benefits in FY 2002 has decreased significantly

compared to FY 2001. This is a result of a very large actuarial gain because the actual pay raises granted to Federal employees and the cost-of-living-allowance given to Federal annuitants were less than estimated.

Due to Federal accounting standards, the amount we paid in CSRS benefits is not shown on the

Consolidated Statement of Net Cost. In FY 2002, we paid benefits of \$46.9 billion, as compared with \$45.8 billion in FY 2001. The increase of 2.4 percent reflects both a larger annuity roll and the effect of the cost-of-living increase.

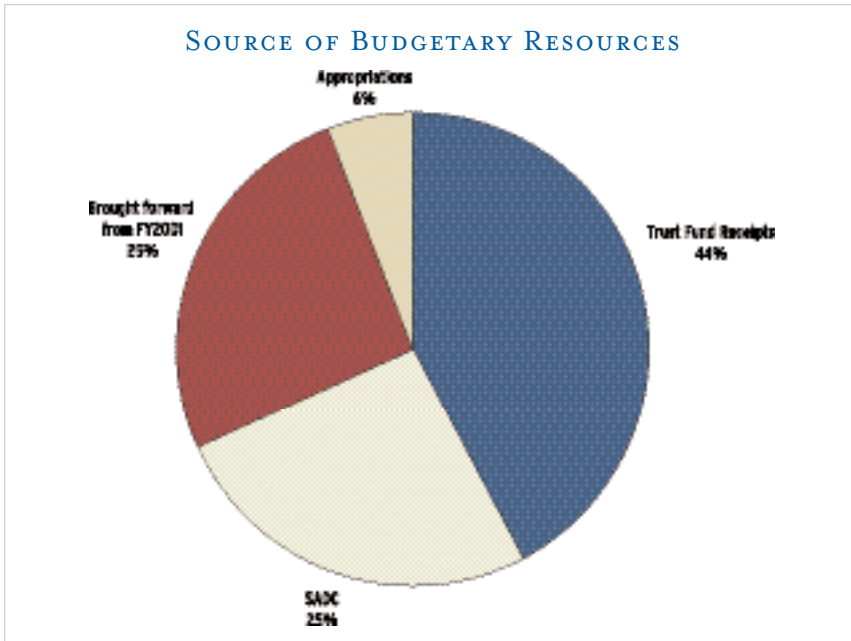
Net Cost To Provide FERS

Benefits. The Net Cost To Provide FERS Benefits was “negative” in FY 2002, which means that the revenues associated with providing a FERS benefit exceeded the gross cost to do so by \$6.0 billion. In FY 2001, the Net Cost to provide FERS benefits was a “negative” \$4.0 billion. The increase in the “negative” net cost in FY 2002 can be attributed, in large part, to an increase in earned revenues due to the fact that all new entrants are covered by FERS. We would expect earned revenues to continue to exceed costs.

As with the CSRS, Federal accounting standards do not provide for the disclosure of the amount we paid in FERS benefits on the Statement of Net Cost. In FY 2002, we paid benefits of \$1.5 billion, as compared to \$1.4 billion in FY 2001, the increase reflecting both a larger annuity roll and the effect of the cost-of-living increase.

Net Cost To Provide Health

Benefits. The Net Cost To Provide Health Benefits in fiscal year 2002 is \$21.1 billion, an increase of \$16.8 billion from FY 2001. The increase in the Net Cost To Provide Health Benefits can be attributed to an increase in the Postretirement Health Benefits Expense of \$17.2 billion. The increase in the Postretirement Health Benefits Expense in FY 2002 results mainly from an actuarial loss relating to actual experience being different



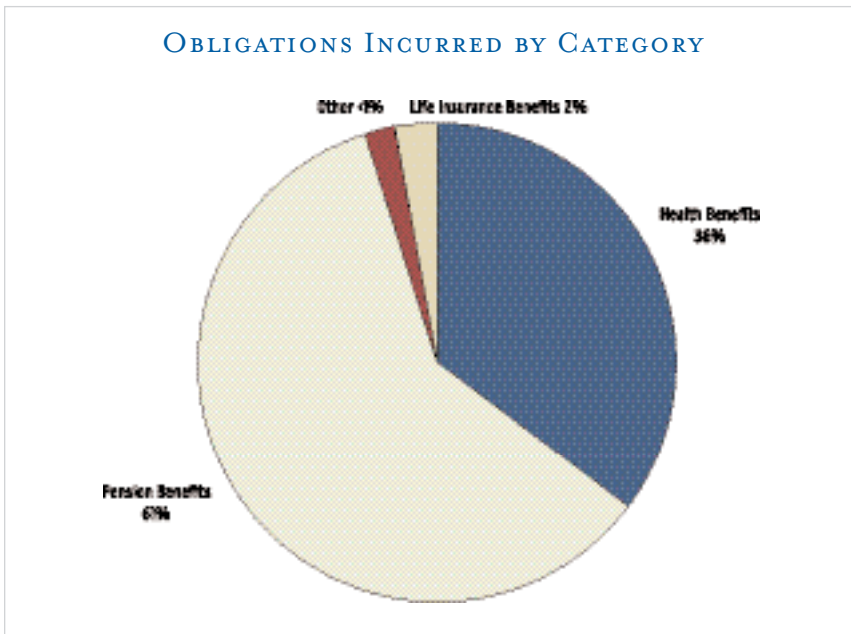
in FY 2002. This means that in FY 2002 the revenues associated with providing benefits exceed the gross cost to do so by \$89 million. In FY 2002, the gross cost to provide Life Insurance benefits decreased by \$35 million (1.0 percent), attributable to an increase in the Actuarial Life Insurance Liability [“Future Life Insurance Benefits”]. There was a \$108 million (3.2 percent) increase in associated revenues, attributable almost entirely to participant contributions stemming from greater levels of optional life insurance coverage.

Analysis of the Statement of Budgetary Resources

We may incur obligations and make payments to the extent that we have budgetary resources to cover them. The Combined Statement of Budgetary Resources on page 104 depicts the sources of our budgetary resources, their status at the end of the year, and the relationship between our budgetary resources and the outlays we made against them.

As can be seen from the Consolidated Statement of Budgetary Resources, a total of \$110.9 billion in budgetary resources was made available to us for FY 2002. Our budgetary resources in FY 2002 derive from the unobligated balances carried over from FY 2001 (\$27.7 billion) as well as the three major sources of new budgetary resources:

- (1) Appropriations = \$6.2 billion
- (2) Trust Fund receipts = \$49.1 billion
- (3) Spending authority from off-setting collections (SAOC) = \$27.9 billion.



from the actuary’s economic and demographic assumptions.

Due to accounting and actuarial reporting standards, a portion of certain costs incurred for health benefits claims, premiums to HMOs, and administration are netted against, and thereby reduce, the Postretirement Health

Benefits (PRHB) Liability. So that we may provide the reader of the financial statements with information about these costs, they are presented in the table Net Cost To Provide Health Benefits.

Net Cost To Provide Life Insurance Benefits. The Net Cost To Provide Life Insurance Benefits was “negative”

Appropriations are Acts of Congress that authorize Federal agencies to incur obligations and to make payments for specified purposes. Our appropriations were principally to fund contributions for retirees and survivors who participate in the Health Benefits Program.

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,” whereas collections by the Health Benefits and Life Insurance and Revolving Fund Programs are classified as “Spending Authority from Offsetting Collections.”

From the \$110.9 billion in budgetary resources we had available to us during FY 2002, we incurred obligations of \$80.9 billion, mainly for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs. Most of the excess of budgetary resources we had available in FY 2002 over the obligations we incurred against those resources is classified as being “unavailable” (for obligation) at year-end.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Report on our Evaluation of Management Controls

The Federal Managers Financial Integrity Act of 1982 (FMFIA) requires that we provide a statement of assurance annually regarding the effectiveness of our management controls. Our management control program

fully complies with the goals, objectives, and requirements of Office of Management and Budget (OMB) Circular A-123, by assessing whether our organization, policies, and procedures reasonably ensure that:

- our programs achieve their intended results;
- we use our resources in a manner that is consistent with our mission;
- our programs and resources are protected from waste, fraud, and mismanagement;
- we follow all laws and regulations; and
- we generate and use reliable and timely information for decision making.

In assessing the sufficiency of our management controls, we relied on the judgments of our senior executives of their program and administrative functions, the input of our Office of the Inspector General (OIG) and of our independent public accountants, and on our internal program of quality assurance reviews. We are pleased to be able to certify, with reasonable

assurance, that our management controls are sufficient, effective, and are achieving all intended purposes.

As the chart on the right indicates, we have no material weaknesses in management control outstanding at the end of FY 2002.

Our FY 2002 assessment of management controls resulted in the downgrading of two material weaknesses. Although we believe that they no longer rise to the level of material weaknesses, we will continue to give them our full attention until we are assured they have been completely resolved. Both areas related to our reconciliation and control over financial information, including our Fund Balance with Treasury. Although we have made substantial progress in this area, unreconciled balances remain which must be researched and resolved.

I am pleased to certify that OPM is in full compliance with the provisions of the Federal Managers Financial Integrity Act.

Kay Coles James
Director

FMFIA MATERIAL WEAKNESSES IN MANAGEMENT CONTROLS

Fiscal Year	Beginning of the Year	New	Disposed	End of the Year
2002	0	0	0	0
2001	4	0	4	0

FMFIA MATERIAL NONCONFORMANCES WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS

Fiscal Year	Beginning of the Year	New	Disposed	End of the Year
2002	2	0	2	0
2001	2	0	0	2

Report on Evaluation of Financial Management Systems

FMFIA also requires that we evaluate our financial management systems to determine whether they conform with the requirements of OMB Circulars A-127 and A-130 and the Government Information Security Reform Act. As a consequence of our evaluation, we can report that our financial management systems meet all related requirements.

Last year, we reported two areas as material nonconformances with financial management system requirements: a *Systems Development Life Cycle* methodology for our major information technology projects and our *General Controls over Electronic Data Processing*. We have implemented an agency-wide Systems Development Life Cycle and have made important strides towards implementing a security program that will significantly strengthen our overall processing controls. As a consequence, we consider both material nonconformances as having been resolved.

Report on Compliance with FFMIA

The Federal Financial Management Improvement Act of 1996 (FFMIA) is intended to improve Federal financial management by ensuring that Federal financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. FFMIA requires each agency to implement and maintain systems that comply substantially with (1) Federal accounting standards, (2) United States Government Standard General Ledger (SGL) at the transaction level, and (3) Federal financial management systems requirements. FFMIA requires that

RETIREMENT PROGRAM RECEIVABLES	
(\$ in Millions)	
Total receivables at beginning of year	\$140.7
New receivables	184.3
Collections	155.5
Adjustments	11.2
Total receivables at end of year	\$154.5
Total delinquent	\$43.8
Percent delinquent (total)	28.4%

HEALTH BENEFITS PROGRAM RECEIVABLES	
(\$ in Millions)	
Receivable at the beginning of the year	\$212.4
New receivables	108.1
Less collections and adjustments	195.1
Receivable at the end of the year	\$125.9
Less management decisions in appeal	14.1
Currently available for collection	\$111.3

auditors report on whether agencies comply with FFMIA. KPMG LLP has reported that OPM's financial management systems as a whole comply substantially with Federal accounting standards and financial management systems requirements.

It has also reported that the systems and processes supporting the Revolving Fund Programs and Salaries and Expenses account are substantially noncompliant with the FFMIA because they do not provide for the recording of financial events in a manner consistent with the SGL. We believe we will be able to implement the necessary systemic and procedural changes in FY 2003 to ensure that the Revolving Fund Programs and Salaries and Expenses account substantially comply with the FFMIA.

Compliance with the Debt Collection Improvement Act

The Debt Collection Improvement Act (DCIA) has had a major impact on the way we make our payments and collect the monies owed us. We comply with the DCIA in the following ways:

Cross-servicing. The DCIA established the Treasury's Financial Management Service (FMS) as the collection agency for all Federal agency receivables that are delinquent for more than 180 days. As a consequence, we transfer all such receivables to FMS for collection or "cross-servicing". To collect on the accounts we transfer, FMS issues demand letters, administratively offsets, performs wage garnishment and refers accounts to private collection agencies. To date, 5,235 of our receivables valued at more than \$1.9 million have been collected via FMS cross-servicing.

PERCENTAGE OF PAYMENTS MADE ELECTRONICALLY IN FY 2002

Retirement benefits	94%
Salary	92%
Carriers participating in Health and Life Insurance Programs	100%
Other vendors	86%

SUMMARY OF THE STATUS OF MANAGEMENT DECISIONS ON COST QUESTIONED BY THE OIG DURING FY 2002:

	Number of Audit Reports	Questioned Costs (\$ in millions)
No management decision on questioned costs at the beginning of the year	24	\$68.9
Questioned costs during the year	38	128.9
Management decisions made during the year:	52	189.8
Costs disallowed		110.2
Costs not disallowed		79.6
No management decision on questioned costs at the end of the year	10	8.0
No management decision on questioned costs within six months of issuance of report	1	2.1

Note that the resolution of the one report totaling \$2.1 million at fiscal year-end 2002 has been delayed at the request of the OIG.

Computer-Matching. We believe that it is equally important to prevent overpayments in the first place as it is to collect them once they become debts. Thus, we maintain 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 computer-matching agreements. As such, we exchange payment information with other benefit-paying agencies to identify individuals who have died or are otherwise no longer eligible for benefits. In FY 2002, our computer-matching activities identified more than \$25 million in overpayments and prevented an additional \$100 million from being overpaid.

Quality Assurance Program. We have incorporated a Quality Assurance Program in our Retirement Program claims adjudication process by performing quarterly reviews of recently adjudicated cases for errors.

Managing Receivables. The tables above summarize our receivables management activity for FY 2002.

Overpayment of Retirement Program Benefits. Retirement Program receivables result when beneficiaries or family members inadvertently delay reporting certain changes in an individual's status (death, marriage, recovery from disability, etc.) that result in a changed benefit. In other cases, partial or incorrect information is provided by the individual or the employing agency, resulting in an overpayment. Our receivables manage-

ment process demonstrates a balance between our accountability for the public's money vis-a-vis the needs of Federal employees and retirees who have performed vital services on behalf of America's citizens. We recognize that our customers are generally aged, living on fixed incomes, and are often unaware of the rules that apply to the need to report changes in their circumstances.

In fact, Retirement Program receivables represent a very small part of our total assets, as we do not operate commercial programs that are material to our financial statements. In FY 2002, total Retirement Program overpayments were less than one percent of the total benefit payments we made. Further, almost 88 cents of every dollar that was overpaid was collected.

Due from Health Benefits Program Carriers. Our Office of the Inspector General (OIG) performs financial and contract compliance audits of the participating insurance carriers. As a consequence of these audits, the OIG may question costs charged by the carriers to their contracts with the Program. If Program management agrees and decides that such costs should not be charged to the Program, a receivable is established.

As with the Retirement Program, Health Benefits Program receivables are relatively small, representing less than one percent of the total benefit and premium payments we make.

As can be seen in the table on the previous page, we ended the year with \$111.3 million in management decisions requiring final action, a decrease of \$101.1 from the beginning of the year. The receivable at the end of the year is \$125.9 million, a decrease of

\$86.5 million from FY 2001. Increased collections during FY 2002 and the resolution of certain receivables outstanding at the end of FY 2001 contributed to the significant decrease in Program receivables.

Electronic Payments. We continue to excel in sending annuity payments electronically. Ninety-four percent of our 2.4 million monthly annuity payments are sent via electronic funds transfer (direct deposit), far exceeding any other Federal benefits-paying agency.

In March 2002, we successfully initiated electronic payments to our annuitants living in Italy. Over 400 of our 700 payees elected to enroll in International Direct Deposit during the first month it was offered, and more continue to sign-up each month.

In FY 2003, we hope to expand our international electronic payments to Panama as part of the Federal Reserve Bank - Atlanta's International Automated Clearing House (IACH) program. We currently send almost 12,000 checks via courier each month for distribution in Panama. We anticipate that over 80 percent of our Panamanian annuitants will sign-up for electronic payments once the

IACH program is up and running.

The table in upper left corner shows the percentage of payments we made electronically in FY 2002 by major category of payment.

Inspector General Act Compliance

The Inspector General Act, as amended, requires the Director to report to the Congress on the actions we have taken in response to audit reports issued by the Inspector General. The Office of the Inspector General (OIG) conducts periodic audits of the records of the carriers participating in the Health Benefits Program to determine whether amounts charged to the Program comply contractually and with Federal procurement regulations. Upon issuance of an audit report that questions the costs charged by a carrier, Program management must decide within six months whether to allow or disallow the questioned costs. Accounts receivable are recorded promptly upon a decision by Program management to disallow the costs questioned by the OIG.

The table on the previous page provide a summary of the status of management decisions on cost questioned by the OIG during FY 2002.

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 the generally accepted accounting principles for Federal entities and the formats prescribed by the Office of Management and Budget. 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.



ANNUAL PERFORMANCE GOALS AND RESULTS

For the purposes of this report, we have organized our FY 2002 annual goals according to the design of our new Strategic Plan, which covers fiscal years 2002–2007 and was published in November 2002. Therefore, our annual goals are aligned under the new strategic goal, objective and program outcome to which they most closely relate.

Although our FY 2002 goals were written for the framework of our Strategic Plan dated September 30, 2000, aligning them with our new Strategic Plan demonstrates how our new direction and priorities overtook some of those goals. It also demonstrates the extent to which many of the FY 2002 goals related to our redefined Strategic goals and objectives. Although some goals do not have a strong link to the outcomes described in our new strategic plan, these goals pertain to core functions and we have reported our results for them. To provide a crosswalk to the FY 2002 Annual Performance Plan, the goals reflect the program and organizational titles (i.e., Employment Service, Investigations Service, Merit Systems Oversight and Effectiveness, etc.) that were used in that plan.

Our revised Strategic Plan also sets forth a new framework of performance measures that we will use to assess progress in achieving our outcomes. We have already started to implement this new measurement framework, and to the extent that we have collected performance data, we have reported those results here, even though many of these measures were not included in the FY 2002 Annual Performance Plan.

PERFORMANCE UNDER FY 2002 ANNUAL GOALS

Our FY 2002 Annual Performance Plan contained four overarching goals that crossed all of our strategic goals and organizations. During FY 2002, we combined these four goals into the Executive Services Goal shown below. This goal was first published in our FY 2003 Annual Performance Plan and combines the resources of the OPM Director and her staff with support from our Offices of Communications, Congressional Relations, and the General Counsel, and the White House Fellows Program.

ANNUAL PERFORMANCE GOALS AND RESULTS

Executive Services Goal:

Shape the Administration’s direction on Federal human resources policy issues to effectively support the President’s Management Agenda through leadership, communication, congressional relations, and legal services.

Status: Goal Met

Key FY 2002 Results: OPM took a strong leadership role in several crucial efforts during FY 2002 and established them as our new priorities for the next several years. The most significant of these were:

- 1) Playing a lead role in crafting the Administration’s legislative proposal for the Department of Homeland Security;
- 2) Taking the lead within the Administration on the Strategic Human Capital Initiative and developing the Human Capital Assessment and Accountability Framework;
- 3) Accepting responsibility for and advancing five major e-Government Projects and advancing the Retirement Systems Modernization Project;
- 4) Beginning to address pay reform with the white paper on Federal compensation;
- 5) Implementing the Long-Term Care Insurance Program;
- 6) Developing a new organizational structure and strategic plan for OPM that positions the agency to address the status of human capital in the Federal Government and to be accountable for improving it;
- 7) Strengthening controls over OPM’s financial information by implementing new financial management systems.

Many of these accomplishments related to the President’s Management Agenda and contributed in large part to the progress we made toward getting scored “green” for progress on the five Agenda items during the year.

OPM’s PMA EXECUTIVE SCORECARD FOR FY 2002

President’s Management Agenda	Beginning of Year Status	1st Quarter Progress	2nd Quarter Progress	3rd Quarter Progress	4th Quarter Progress
Strategic Human Capital					
E-Gov					
Competitive Sourcing					
Financial Management Improvement					
Budget & Performance Integration					

Link to Management Challenge: OPM's most significant accomplishments during FY 2002 were in direct response to several of the management challenges identified by the Office of the Inspector General on January 28, 2002, including Human Resources Management (Strategic Management of Human Capital), Retirement Systems Modernization, Expanding e-Government, and Revolving Fund and Salaries and Expense Account.

STRATEGIC GOAL I

FEDERAL AGENCIES ADOPT HUMAN RESOURCES MANAGEMENT SYSTEMS THAT IMPROVE THEIR ABILITY TO BUILD SUCCESSFUL, HIGH-PERFORMANCE ORGANIZATIONS.

OBJECTIVE 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.

Eleven of our FY 2002 annual goals pertained to Federal agencies using OPM's human resources policy and guidance to meet and improve upon their strategic performance targets. Our new Strategic Plans describes the key strategic measures shown in the table below.

KEY STRATEGIC MEASURES

Measure	FY 2000 Results	FY 2001 Results	FY 2002 Results
Agency leadership reports that OPM's human capital resources enabled them to develop and maintain the workforce needed to meet their missions.*	45%	59%	80%
Agency leadership reports that OPM is focused on the right human capital issues.*	N/A	79%	61%
More employees report that they are held accountable for results.**	87%	86%	80%

* Current data source is the OPM Human Resource Directors Survey. Data more representative of agency leaders will be developed in FY 2003.

** Current data source is the OPM Federal Human Capital Survey (of Federal employees).

STRATEGIC OUTCOME:

Federal employees are capable of meeting their agencies' missions.

FY 2002 Annual Goals related to this outcome:

Employment Services Goal 1:

Implement a fully functional, on-line workforce planning system to help Federal agencies align human resources with accomplishment of agency mission and objectives and to meet the President's goal to flatten the Federal hierarchy.

Status: Goal Discontinued after FY 2001

Key FY 2002 Results: As noted in the FY 2001 Performance and Accountability Report, this goal was dropped during FY 2001 because we determined it was not feasible to develop a workforce planning tool that has all of the functionality we had envisioned. However, during FY 2001, we launched a workforce planning guide on the OPM Web site that partially fulfilled the functionality we had originally planned as it supports efforts by Federal agencies to align their human resources with their missions.

Link to Management Challenge: Positioning agencies for the strategic alignment of resources to mission is an ingredient of the Human Capital Assessment and Accountability Framework which is the Government’s key strategy for addressing the Human Resources Management challenge.

Employment Services Goal 2:

Develop and implement employment policies and initiatives that are sound, innovative and flexible in order to recruit and retain a high-quality and diverse Federal workforce.

Status: Goal not met

Key FY 2002 Results: During FY 2002, OPM met continually with stakeholders through a variety of media to share information and gather ideas about improving staffing policies and services. Nonetheless, some results of our FY 2002 survey of agency Human Resource Directors reflect perceived short-term declines in satisfaction. We believe these results reflect the new direction in which we embarked and the gulf this shift created.

Customer Satisfaction Indicators	FY 1998 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
% of HR Directors satisfied with OPM policy leadership for Employment Information	84%	86%	86%	87%	81%
% of HR Directors satisfied with OPM policy leadership for Selection and Promotion	76%	76%	89%	90%	69%
% of HR Directors satisfied with OPM policy leadership for Workforce Restructuring	81%	79%	53%	54%	76%
% of HR Directors satisfied with OPM policy leadership for Administrative Law Judges	N/A	59%	N/A	61%	37%

Business Process Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results*
% of Federal employees perceiving that staffing is conducted in accordance with Merit Systems Principle 1, “Recruit, select, and advance on the basis of merit.”*	62%	64%	65%	N/A	36%

*Results from 1999 through 2001 are based on the MSPQ. FY 2002 results are based on the Federal Human Capital Survey, which replaced the MSPQ. The survey populations for the MSPQ and Federal Human Capital Survey were substantially different, both in terms of the agencies participating and in the number of responses. Thus, the results from the two surveys are not comparable and the Federal Human Capital Survey, in fact, establishes a new baseline for this indicator.

Link to Management Challenge: Sound employment policies will provide Federal agencies the flexibility they need to recruit for the specific competencies identified in their workforce analyses as a part of addressing Human Resources Management.

Workforce Compensation and Performance Goal 4:

Needed changes in all significant workforce compensation and performance policies and programs are identified, and changes are introduced so that Federal agencies are better equipped to respond to changing human resources needs in the 21st century.

Status: Goal Met

Key FY 2002 Results: We published appropriate notices and rules in the Federal Register that pertained to needed changes for several significant compensation and performance issues including:

- 1.) The collection of information for the nonforeign area Cost-of-Living Allowance (COLA) program.
- 2.) A new methodology for the COLA program pursuant to the Caraballo vs. United States stipulation for settlement.
- 3.) Final Federal Wage System regulations dealing with wage survey cycle times and area boundaries for the Federal Wage System.

Link to Management Challenge: By making needed changes in workforce compensation and performance policies, Federal agencies are better equipped to respond to changing human resources as a part of addressing Human Resources Management.

Workforce Compensation and Performance Goal 5:

Governmentwide position classification and job grading systems are improved to include more up-to-date standards and to apply more streamlined approaches to classification.

Status: Goal Not Met

Key FY 2002 Results: We made a deliberate decision to delay the studies we had scheduled for FY 2002 as we redirected resources to homeland security issues and to coordinate issuing these standards with the establishment of the Department of Homeland Security for job family classification standards relating to investigation, enforcement, inspection, and compliance jobs. This decision had an adverse impact on the weighted average age of standards, shown below, as we did not maintain the improvement achieved during FY 2001.

Business Process Indicator	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
Weighted Average Age of Standards (in Months)	219	228	178	178	188

Link to Management Challenge: In addition to ensuring that newly-issued standards will support Homeland Security objectives and that management challenge, the Department of Homeland Security will be the model from which OPM will address virtually every aspect of human resources management and the Human Resources Management challenge, including the classification of Federal jobs.

Workforce Compensation and Performance Goal 6:

Governmentwide efforts to organize agencies and programs using flatter, less hierarchical and more streamlined structures are supported by policies and guidance that promote effective delayering and position management practices.

Status: Goal Not Met

Key FY 2002 Results: We took steps during FY 2002 that supported agency efforts to streamline and delayer their organizational structures. For instance, we issued Position Classification Advisory Opinions that addressed effective position management practices at the Department of the Interior, and we addressed position management questions during the Classification for Experienced Practitioners Workshop at the 2002 Strategic Compensation Conference; we also briefed the Classification and Compensation Society on this subject at its Annual Conference.

ANNUAL PERFORMANCE GOALS AND RESULTS

Customer Satisfaction Indicators	FY 2001 Results	FY 2002 Target	FY 2002 Results
% of HR Specialists satisfied with OPM's Web-based Performance Management Technical Assistance Center	65%	65%	67%
% of HR Specialists satisfied with OPM's Handbook for Measuring Employee Performance	66%	66%	64%
% of HR Specialists satisfied with OPM's Web-based Performance Management Clearinghouse	59%	60%	59%

Link to Management Challenge: Positioning agencies to streamline their organizational structures is an important aspect of the President's Management Agenda to remove organizational layers between agency heads and the citizens they serve and is a part of the Human Capital Assessment and Accountability Framework for addressing Human Resources Management.

STRATEGIC OUTCOME:

Federal employees at all levels are held accountable for results.

FY 2002 Annual Goals related to this outcome:

Workforce Compensation and Performance Goal 2:

Performance improvements in agencies throughout the Government are promoted by maintaining a flexible, decentralized policy framework for managing employee performance, particularly through the effective use of appraisal and rewards.

Status: Goal Not Met

Key FY 2002 Results: Although our primary measure for this goal indicates a decline in the extent to which performance appraisals across Federal agencies are a fair reflection of performance, we believe this is due to the changes we made in our measuring instrument during FY 2002. Based on the actions we and the agencies took in FY 2002 to improve performance management Governmentwide, we expect to see this indicator improve in future years.

Business Process Indicator*	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
Performance appraisals are a fair reflection of Federal employee performance	64%	67%	66%	68%	65%

* Based on MSPQ/FHCS question: "My performance appraisal is a fair reflection of my performance." Percentage of favorable responses (including supervisors)." The survey populations for the MSPQ and FHCS were substantially different, in terms of both the agencies participating and the number of responses. This may explain the slight drop in the FY 2002 results. The margin of error in the FHCS was one percent.

Link to Management Challenge: Holding employees accountable for their performance is an important aspect of the President's Management Agenda to focus on performance results, and accountability is a part of the Human Capital Assessment and Accountability Framework for addressing Human Resources Management.

Investigations Services Goal 1:

Only suitable applicants, appointees and employees are hired for, and remain in, the Federal competitive service.

Status: Goal Met

Key FY 2002 Results: While we do not have direct measurements regarding the suitability of new hires or the existing Federal workforce, we have determined that we are keeping up with our ongoing case work and that the quality and timeliness of our suitability decisions during FY 2002 were very good. Also, we know that our agency customers continue to be very satisfied with our work in this area. Based on this information, we believe that only suitable applicants, appointees and employees are hired for Federal service.

Business Process Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
Agency referrals	1,608	1,419	1,561	1,000	1,489
Determinations completed*	1,560	1,433	1,588	1,000	1,456
Extensive investigation completed	402	467	407	450	364
Ineligible rulings	152	175	206	200	160
Ineligible/non-response rulings	308	363	381	300	353
Direct removals*	58	37	41	50	39

Customer Satisfaction Indicator	FY 1998 Results	FY 1999 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
% of HR Specialists satisfied with suitability determinations	66%	64%	67%	64%	70%

*Critical indicators

Link to Management Challenge: In addition to addressing Human Resources Management, ensuring that Federal employees meet certain suitability standards assures the President, agency heads, and the American people that the Federal workforce supports Homeland Security, defends American interests around the world, and carries out other Administration priorities.

Investigations Services Goal 2:

Promote uniform application of investigative standards mandated by statute and Executive order by developing and implementing Governmentwide investigative policy.

Status: Goal Not Met

Key FY 2002 Results: During FY 2002, OPM continued to promote the uniform application of investigative standards by being an active member on several personnel security related boards, forums, and councils. However, appraisals and self-assessments reveal that civilian Federal agencies have not implemented new policies and standards as we have expected. Because of downsizings, RIFs, and retirements, suitability and security programs in general have fallen into disrepair. Agencies have not updated their policies and standards in some time and are not current with the prevailing regulations, Executive orders and laws. Often, suitability and security staffs are new to their positions and have no background or training in their jobs. A current trend developing primarily in the civilian Federal government is that employees responsible for suitability and security programs have these responsibilities as a collateral duty, with many competing demands. Also, because of limited resources, some agencies conduct substandard investigations mostly for public trust positions — those positions for which there is no access to classified national security information.

We expect to better address this issue by consolidating our compliance resources in the Human Capital Leadership and Merit Systems Accountability Division.

Link to Management Challenge: In addition to addressing Human Resources Management, ensuring that Federal agencies implement new investigative policies and standards is an important aspect of ensuring that Federal employees meet certain necessary suitability standards, which is essential in supporting Homeland Security.

Workforce Relations Goal 3:

Federal agencies have increased understanding of and commitment to effective employee and labor-management relationships that improve performance and service to the public.

Status: Goal Met

Key FY 2002 Results: To increase Federal agencies’ understanding of and commitment to employee and labor-management relationships, we provided guidance within the Administration on these issues particularly as they pertain to the new Transportation Security Administration and Department of Homeland Security. In addition, we informed and advised agencies with respect to Administration initiatives relating to performance management and conduct, as well as other areas including reasonable accommodation, workplace violence, and employee appeal and grievance rights. We also met all statutory requirements to inform labor organizations of proposed changes to Governmentwide policies or regulations, and fully considered union recommendations and comments. Finally, we continued to lead the Human Resources Management Network on Labor-Management Relations and Employee Relations in FY 2002. In response, network members indicated that the effectiveness of OPM’s related services was increasing, as shown below.

Customer Satisfaction Indicators	FY 2001 Results*	FY 2002 Results*
OPM’s leadership of the Labor Relations Network has helped me in effectively addressing and resolving labor-management relations issues at my agency	4.20	4.47
OPM’s organization and administration of the Labor Relations Network is conducive to sharing ideas that facilitate effectively addressing labor relations issues at my agency	4.20	4.63
The information that I receive through the Labor Relations Network contributes to the effectiveness of my agency’s labor relations program	N/A	4.42
The email newsletter, Case Listings, is a useful tool that assists me in my ability to effectively address labor relations issues at my agency	N/A	4.37
The email publication, Case Summaries, is a useful tool that assists me in my ability to effectively address labor relations issues at my agency	N/A	4.37
The ER Network has helped me in effectively addressing and resolving employee relations issues at my agency	N/A	4.26
The ER Network is conducive to sharing ideas that facilitate effectively addressing performance and conduct issues at my agency	N/A	4.33
The information that I receive through the ER Network contributes to the effectiveness of my agency’s employee relations program	N/A	4.20

* Results based on a five point scale where 1 is the lowest score and 5 is the highest score.

Link to Management Challenge: Our actions to increase agencies’ understanding of and commitment to employee and labor-management relationships supports Human Resources Management in that accountability is one of the Standards for Success under the Human Capital Assessment and Accountability Framework, which is OPM’s key strategy in the Strategic Human Capital Initiative.

STRATEGIC OUTCOME:

Agencies address the retirement wave and other demographic impacts.

FY 2002 Annual Goals related to this outcome:

Retirement and Insurance Goal 2:

Modifications to the Federal retirement system that support retention are examined and coupled with other benefit offerings.

Status: Goal Met

Key FY 2002 Results: We positioned Federal agencies to address the expected baby-boom retirement wave and workforce planning aspects of the Strategic Management of Human Capital. This involved developing a legislative proposal, as a part of the Administration’s Managerial Flexibility Act, to amend the computation of annuities based on part-time service that will eliminate the disincentive in current law affecting Federal employees who elect to work part-time near the end of their careers.

Link to Management Challenge: Eliminating the disincentive described above addresses the Human Resources Management challenge as agencies will have another tool for managing institutional knowledge by encouraging key retirement-age employees to work part-time instead of retiring.

STRATEGIC OUTCOME:

Systems supporting executive leadership are strengthened and restructured.

FY 2002 Annual Goals related to this outcome:

Executive Resources Goal 1:

Continue the comprehensive, long-term study of the organization, structure and composition of the Senior Executive Service and other senior personnel systems begun in FY 2001.

Status: Goal Not Met

Key FY 2002 Results: We were unable to move forward on this study as we refocused resources to develop the legislative proposal for the Department of Homeland Security, the President’s Management Agenda, and participation on several OPM strike force initiatives to provide advice and technical assistance to agencies. Our comprehensive review of the organization, structure and composition of the Senior Executive Service is a key strategy for strengthening the system supporting the SES. In the meantime, our key indicator for this goal continues to be satisfaction among agency HR Directors with OPM’s development of executive resources policy, because the HR Directors are critical to successful implementation of major personnel system/policy changes. However, our relationship with HR Directors changed during FY 2002, as we adopted the new priorities, strategies, and perspectives described previously. We believe this change in approach contributed to the perceived short-term decline in HR Directors satisfaction shown below.

Customer Satisfaction Indicators	FY 2001 Results	FY 2002 Results
% of HR Directors satisfied with OPM policy leadership for SES and other Executive Resources Programs	93%	69%

Link to Management Challenge: Improvements in the Senior Executive Service results in improved leadership for Federal agencies, particularly for Human Resources Management, as measured in the Leadership and Knowledge Management Standards in the Human Capital Framework.

OBJECTIVE 2)

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.

Although there were no goals in our FY 2002 Annual Performance Plan that pertained to the Department of Homeland Security, we redirected resources to support this Presidential priority. To assess our success in achieving the outcomes we established in our new Strategic Plan relative to the new Department, we identified the following strategic measures. We will put in place mechanisms to collect data for these measures, shown below, as the authorizing legislation for this agency is implemented.

KEY STRATEGIC MEASURES

DHS personnel components enjoy overwhelming support from Congress, affected employees and the public.
The new Department is established without incident resulting from human resources issues.
DHS experiences little turnover in the workforce reassigned from other agencies
Retirements of eligible DHS employees are lower than predicted.
A dramatic increase over normal in new recruits is experienced, and the quality of applicants is determined to be superior, based on rejection rates.
Over time, retention rates in the Department are higher than the Governmentwide average.

STRATEGIC OUTCOME:

The establishment of the Department of Homeland Security enhances our nation’s security.

FY 2002 Annual Goals related to this outcome:

Because OPM’s FY 2002 Annual Performance Plan was published before the 9/11 attacks, it contained no goals or initiatives specific to homeland security. However, we responded to the President’s call to establish a Department of Homeland Security and assisted with the development of the legislative proposal to establish the new Department. Standing up the Department of Homeland Security is at the heart of OPM’s mission and fully represents the President’s objectives for the Strategic Management of Human Capital.

In the weeks and months following the President’s announcement on June 6, 2002, few agencies shouldered a greater burden in realizing his vision than OPM. From the start, the prospect of uniting 170,000 Federal employees in a single Department with a mission to protect America cast in stark relief the myriad issues that this undertaking entails. OPM’s leadership and staff have had to adopt multiple perspectives and redeploy resources to meet increasing demands. Certainly, we were key participants in formulating the President’s imaginative legislative proposal to establish for the Department a “human resources management system...which shall be flexible, contemporary, and grounded in the public employment principles of merit and fitness.”

As so much of the debate about the legislation to establish the Department of Homeland Security revolved around civil service issues, OPM played a central role in shaping the Administration's responses to the large volume of requests for timely data, analyses, briefing papers, talking points, examples, trends, best practices, etc. These demands forced us to dedicate considerable resources toward DHS and away from other priorities in our pre-DHS goals and objectives during fiscal year 2002.

OPM became, for all intents and purposes, the human resources office of the new Department, with the responsibility to plan and forecast human capital management needs and approaches well in advance of the Department's actual establishment. Two sets of needs always required attention: those associated with harmonizing the existing systems and programs of 22 incoming organizational units and cultures, and those associated with responding to future, sudden changes in mission emphasis and requirements. Whereas the agencies contributing units and personnel to the new Department had occasion to plan for transfers of function, OPM had the distinction and obligation to take the point of view of the newly formed entity and anticipate issues and competing interests that must be reconciled. Consequently, we recognized that it was not too soon to begin cataloguing and dealing with the "nitty-gritty" issues presented by the incoming units and workforces, and we undertook extensive analyses of the statutes and systems that currently apply, particularly in the areas of pay and labor relations.

Our efforts were rewarded as the authorizing legislation for this important new Cabinet-level Department passed the Congress in late November, and was signed into law by the President on November 25, 2002. We expect to play a central role in standing up the Department of Homeland Security during the next several years as the Department comes into being.

Link to Management Challenge: In addition to supporting Homeland Security, we expect to leverage the lessons learned from the approaches to compensation, promotion, performance management, merit protections, veteran's preference, and other human resources issues that will be used in the Department of Homeland Security as a part of our larger response to response to the Human Resources Management challenge and the President's Management Agenda concerning the Strategic Human Capital Initiative.

OBJECTIVE 3)

Provide the Federal government with a modern compensation system that is performance oriented, market sensitive, and used to assist Federal agencies to meet their strategic goals.

OPM has been working toward a proposal for Federal pay reform by taking a whole-cloth approach to compensation that includes pay, benefits, more general rewards, and performance. The FY 2002 Annual Performance Plan contained four annual goals that are related to this issue. Upon her arrival at OPM in the summer of 2001, Director James made "fixing pay" one of her top priorities. The ultimate measure of the success in this effort is the degree to which Federal compensation systems contribute to the recruitment, management, and retention of a workforce that can meet the goals of Federal agencies. With this in mind, we set forth the following strategic measures for our strategic compensation effort. We will use the Federal Human Capital Survey and the program evaluation project described in our FY 2004 Annual Performance Plan. We will supplement these measures with more reliable data sources as we implement our program evaluation project during the later part of FY 2003 and begin using the data from these measurement tools to inform decision making as we develop a proposal regarding the strategic compensation of Federal employees.

KEY STRATEGIC MEASURES

Measure
Agency leadership reports that Federal compensation policies are flexible and manageable, allowing them to recruit and hire quality employees.
Agency leadership reports that Federal compensation policies are flexible and manageable, allowing them to retain high-quality employees.
Federal employees indicate that Federal compensation was one reason they chose a Federal government job.

STRATEGIC OUTCOME:

*Federal compensation policies contribute to recruitment and retention of high-quality employees.
FY 2002 Annual Goals related to this outcome:*

Workforce Compensation and Performance Goal 1:

Options for performance-oriented strategic compensation in the Federal Government are formulated and vetted among stakeholders so that legislative proposals can be drafted and forwarded for action.

Status: Goal Not Met

Key FY 2002 Results: OPM took the critical first step toward developing options for a performance-oriented, strategic compensation proposal by developing and disseminating a comprehensive picture of state-of-the-art compensation practices by publishing the white paper, “A Fresh Start for Federal Pay: The Case for Modernization,” in April 2002. The white paper provided stakeholders with an honest and complete assessment of significant deficiencies in the Government’s outdated position classification and pay systems. The white paper did not include specific proposals regarding Federal compensation practices, but instead was designed to stimulate discussion among key stakeholder groups. At the same time, OPM continued to refine proposals for Governmentwide reform.

When the President proposed the creation of the new Department of Homeland Security, we shifted our compensation modernization efforts to support the President’s agenda. Our analyses showed a wide and conflicting variety of HR and compensation provisions that pertain to the 22 workforces of the new department. As a result, OPM is positioned to assist with the resolution of these issues as the new agency is set up in 2003 and will use lessons learned from this experience to support proposals regarding Federal pay across Government. These endeavors will be a key component in our broader response to the challenge that the Strategic Human Capital Initiative presents to OPM and the Federal Government as a whole.

Link to Management Challenge: Resolving the issue of Federal pay is critical for addressing Human Resources Management in every Federal agency’s human capital strategy. This is especially true for a solution that provides sufficient flexibilities for rewarding performance, and meaningful incentives for recruitment and retention.

Workforce Compensation and Performance Goal 3:

Retention efforts in agencies throughout the Government are promoted by encouraging and facilitating the use of existing compensation flexibilities (such as special salary rates, retention allowances, and work scheduling flexibilities) and introducing new compensation flexibilities as needed.

Status: Goal Met

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Key FY 2002 Results: We supported retention efforts among the Federal agencies by approving several agency requests for special salary rates for certain police officers, survey technicians, plant protection technicians, air traffic controllers, and space missile warning specialists. In addition, we approved 26 special rate schedules for employees covered by the Department of Veterans Affairs title 38 special rates authorities. Finally, we drafted proposed regulations on the determination of the official duty station for the purpose of location-based pay entitlements for employees telecommuting from home or an alternative work site, simplified the administration of the leave program, and supported the creation of a standardized and centralized payroll system.

Customer Satisfaction Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
% of HR Specialists whose agencies use recruitment, relocation and retention payments (compensation flexibilities) effectively	70%	70%	70%	72%	78%
% of HR Specialists whose agencies promote understanding of best ways to use incentives and recognition	57%	57%	57%	60%	61%
% of HR Specialists whose agencies understand and apply job family and other position classification standards and guides	71%	71%	71%	73%	75%
% of HR Specialists whose agencies Understand existing HR flexibilities	68%	68%	68%	70%	72%

Link to Management Challenge: A critical component of every Federal agency's human capital strategy involves flexibilities for rewarding performance, and meaningful incentives for recruitment and retention. Thus, OPM's actions and accomplishments in this regard support strengthening the strategic management of human capital across agencies and thereby address the Human Resources Management challenge.

Workforce Relations Goal 1:

To promote work/life and wellness programs Governmentwide and provide agencies with policy guidance and information resources on a full range of work/life and wellness initiatives.

Status: Goal Met

Key FY 2002 Results: OPM took several steps during FY 2002 to promote work/life and wellness programs and to provide agencies with policy guidance and information resources on the full range of initiatives in these areas. We conducted symposiums and conferences on elder care, teleworking, and child care, where we provided agency personnel with tools and guidance for implementing or enhancing these programs at their agencies. Also, we responded to an increased demand from Federal agencies for assistance concerning workplace violence, trauma and other sensitive employee concerns stemming from the events of 9/11 and anthrax incidents in Federal agency mailrooms.

The number of Federal agencies offering their employees child care tuition reimbursement has grown steadily from 9 agencies in 2000 to 28 in 2002. In the area of teleworking, we worked with many Federal agencies to develop policies for this option and encourage their employees to use it. As a result, the number of Federal employees teleworking is increasing (see below).

Time Reference	Number of Employees Teleworking	Percent of Employees Teleworking
April 2001	53,389	3.1%
October 2001	74,487	4.2%
October 2002	90,010	5.0%

Link to Management Challenge: Work/life and wellness programs, such as child care, elder care, and telecommuting, enable agencies to be competitive employers and to recruit and retain the workforce talent needed to meet their missions. As such, they contribute significantly to addressing the Human Resources Management challenge.

Retirement and Insurance Goal 1:

The Federal employee benefit programs are enhanced to offer a more flexible range of benefits as OPM explores new benefit offerings and implements new programs.

Status: Goal Met

Key FY 2002 Results: We began implementing the first significant enhancement to employee benefits since the Federal Employees Retirement System Act of 1983 as the Federal Long Term Care Insurance Program moved forward on schedule.

Project Milestone	FY 2002 Results
Award contract for administering Long Term Care Insurance Program	Contract awarded in December 2001 to partners MetLife and John Hancock.
Conduct education and marketing campaign	Conducted extensive education and marketing campaign in February 2002
Conduct early enrollment period	Held an early enrollment period from March 25 to May 15, 2002.
Conduct open enrollment period	Full open enrollment period began on July 1, 2002 and continued through December 31, 2002.

Link to Management Challenge: Enhancing the benefit choices available to Federal employees to include options such as long-term care insurance and flexible spending accounts addresses Human Resources Management since these programs enable agencies to be competitive employers and to recruit and retain the workforce talent needed to meet their missions.

OBJECTIVE 4)

Increase the effectiveness and efficiency of the Federal hiring process and make Federal employment attractive to high-quality applicants with diverse backgrounds.

Two goals in our FY 2002 Annual Performance Plan supported the outcomes we seek for modernizing the Federal hiring process. We will know we are achieving these outcomes when we have attained the desired levels for the key measures described in the table below. We will establish baselines for many of these new measures during FY 2003 and FY 2004 through the program evaluation project described in our FY 2004 Annual Performance Plan.

KEY STRATEGIC MEASURES

Hiring cycle time is increased.
Number of applicants who are recruited through technology-based systems is increased.
Federal applicants report that the application process is clear and understandable.
Federal agencies adopt one or more preferred practices or methods to improve hiring (e.g., more valid assessment procedures).
Number of applicants who are assessed through preferred practices is increased.
Number of HR Directors and line managers who agree they fill jobs with quality hires is increased.

STRATEGIC OUTCOME:

Job applicants understand how to apply for Federal jobs.

FY 2002 Annual Goals related to this outcome:

None. Although no FY 2002 goals focused specifically on this outcome, our e-Government Project, “Recruitment One-Stop,” and other enhancements we made to the USAJOBS Web site improved applicants’ understanding of how to apply for a Federal job. Further, our commitment to improving the effectiveness and efficiency of the Federal hiring process is clearly established in our new Strategic Plan. Annual goals and measures supporting this outcome will be included in our Annual Performance Plans for FY 2003 and future years.

STRATEGIC OUTCOME:

Representation of women, minorities and people with disabilities in the general workforce, in executive and management leadership positions and in leadership feeder ranks (e.g., grades GS-9 and above) is increased.

FY 2002 Annual Goals related to this outcome:

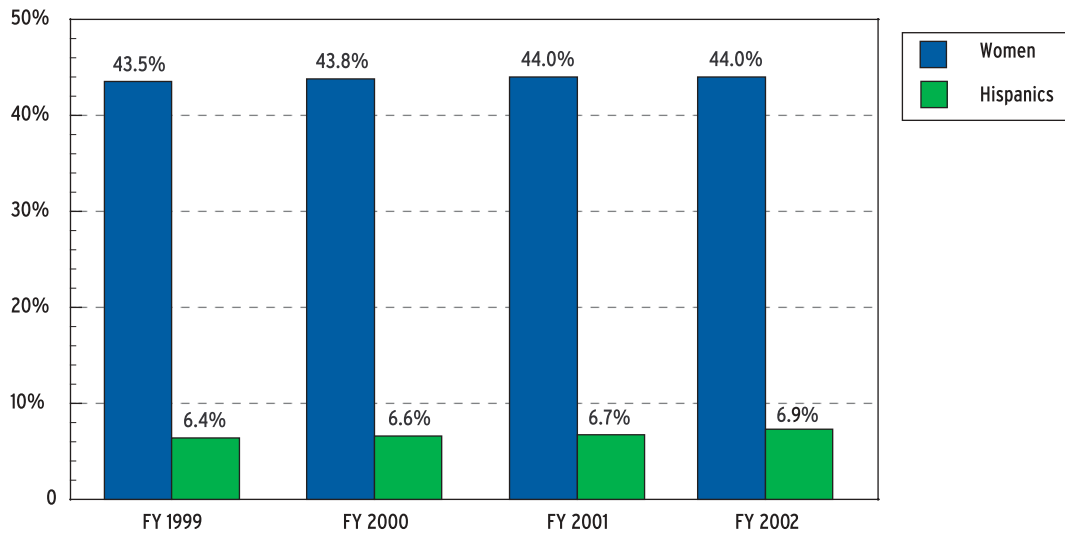
Employment Service Goal 4:

Federal workforce diversity and veteran hiring efforts for executive branch departments and agencies are monitored and reported on, and policies, guidance and strategies are developed. Assist agencies to increase diversity levels in key Federal occupations and at key pipeline grade levels as they endeavor to achieve a workforce representing all segments of society, honoring national values placed in law.

Status: Goal Met

Key FY 2002 Results: OPM continued to monitor and report on diversity and veteran hiring efforts during FY 2002 via the Federal Equal Opportunity Recruitment Program Report (FEORP), and we are seeing incremental improvement at expected levels in hiring trends. Our data through FY 2002 show that both women and Hispanics were underrepresented relative to the civilian labor force, but that representation improved from FY 1999 to FY 2002 (the percentage of women hired increased from 43.5 to 44.0 and of Hispanics hired increased from 6.4 to 6.9).

WOMEN AND HISPANICS HIRED AS A PERCENTAGE OF ALL NEW EMPLOYEES HIRED



Hiring of women and Hispanics as a percentage of all hires for GS and Related Grades (GSR) 13 through 15 was not significantly different from FY 2000 to FY 2001. The on-board status of these groups also was not significantly different from FY 2000 to FY 2001, although slightly higher in most cases (Hispanics at GSR-14 being the only exception). The on-board and hiring percentages were as follows:

HISPANIC

	On-Board Hispanic Percentage			Hiring Percentage		
	GSR-15	GSR-14	GSR-13	GSR-15	GSR-14	GSR-13
FY 2000	3.3	3.7	4.3	5.0	3.3	2.8
FY 2001	3.4	3.7	4.4	3.8	3.5	3.4

WOMEN

	On-Board Hispanic Percentage			Hiring Percentage		
	GSR-15	GSR-14	GSR-13	GSR-15	GSR-14	GSR-13
FY 2000	25.2	29.9	32.9	30.3	32.5	32.4
FY 2001	25.7	30.7	33.8	28.1	32.8	29.5

Link to Management Challenge: Workforce diversity is a component of the Human Capital Standards for Success. Thus, OPM's actions and accomplishments to improve the diversity of the Federal workforce are important to the success of the Strategic Human Capital Initiative and address the Human Resources Management challenge.

STRATEGIC OUTCOME:

More individuals are recruited to Federal jobs by technology-based methods, and agencies' use of preferred practices improves and speeds up the hiring process.

FY 2002 Annual Goals related to these outcomes:

Employment Service Goal 3:

Conduct occupational studies that will provide a foundation for developing selection criteria for the Information Technology, Trades and Labor, and Science and Engineering occupations.

Status: Goal Met

Key FY 2002 Results: We met our critical indicator for this goal by conducting studies that identified tasks and competencies for the Information Technology, Trades and Labor, and Science and Engineering occupations and shared this information with the Federal human resources community. For instance, we studied the 11 new Information Technology (IT) specialty areas and communicated our findings in the HR Manager System. Also, we completed a Governmentwide occupational analysis study covering 76 trades and labor occupations, and reported our findings in technical management reports. Finally, we completed a Governmentwide study of 47 science and engineering occupations — the first broad-scale Internet administration of a MOSAIC survey — and published our findings in technical reports.

Link to Management Challenge: Providing agencies with better selection criteria for the information technology, trades and labor, and science and engineering occupations will enable them to address skill gaps identified in their workforce planning efforts and thus support the alignment of workforce planning with their missions and strategic goals, thereby addressing critical areas of Human Resources Management.

STRATEGIC GOAL II

FEDERAL AGENCIES USE EFFECTIVE MERIT-BASED HUMAN CAPITAL STRATEGIES TO CREATE A REWARDING WORK ENVIRONMENT THAT ACCOMPLISHES THE MISSION.

OBJECTIVE 1)

Provide advice to agencies and promote best practices for solutions, actions and strategies to meet their human capital management needs.

Ten of our annual goals for FY 2002 relate to meeting agencies' human capital needs through the provision of technical advice and promoting best practices.

KEY STRATEGIC MEASURES

Measure
Agency leadership reports that OPM's strike force teams were timely and met their needs.
Agency leadership reports that OPM's ongoing advice enables them to improve their human capital practices.
Agency leadership reports that OPM's ongoing advice helps them meet their responsibilities.
OPM's e-Gov Projects' business case outcomes are met.

STRATEGIC OUTCOME:

OPM meets agency human capital needs during times of emergency.

FY 2002 Annual Goals related to this outcome:

None. Although no FY 2002 goals focused specifically on this outcome, we implemented a practice of creating cross-functional “strike forces” to respond to requests from agencies for help in implementing major human capital initiatives. To date, we have worked with HUD, the Departments of Energy, Commerce, Labor, Transportation (Transportation Security Administration and Aviation Security), and Justice, the Securities and Exchange Commission, the Export-Import Bank, and the Immigration and Naturalization Service. We also provide more targeted assistance on critical issues and have helped the new Office of Homeland Security, the State Department and NASA. We stand ready to apply our resources wherever and whenever needed.

STRATEGIC OUTCOME:

OPM’s ongoing advice enables agencies to improve their human capital practices.

FY 2002 Annual Goals related to this outcome:

Merit Systems Oversight and Effectiveness Goal 5:

Provide technical assistance to agencies to improve the overall effectiveness of agency human resources management.

Status: Goal Met

Key FY 2002 Results: OPM fundamentally restructured itself in order to be more responsive to agency needs. One example of this is the Human Capital Performance Team, which we established in FY 2002 to work directly with OMB and agency leaders to promote and assess agency human capital initiatives. The Human Capital Performance Team is becoming a major component within the agency to ensure OPM is guiding agencies in developing and implementing their strategic plans for human capital management. During FY 2002, the Human Capital Performance Team positioned us to lead the Strategic Human Capital Initiative by accomplishing the following:

- 1.) Worked with the Office of Management and Budget and the General Accounting Office to develop common language for the Human Capital Standards for Success;
- 2.) Developed the Human Capital Assessment and Accountability Framework to provide agencies consolidated, comprehensive guidance on how they can achieve the Human Capital Standards for Success;
- 3.) Provided agencies with new, easily accessible, Web-supported tools and information that support our policy guidance and technical assistance regarding the merit system, accountability, and the strategic management of their human capital;
- 4.) Released the Accountability Toolkit — a package of reference materials to help agencies develop and maintain their human capital accountability systems — and the HRM Accountability Systems Clearinghouse — a compendium of successful and promising applications of HRM accountability systems or their components within Federal agencies;
- 5.) Developed an HR Workforce Portal, for release in FY 2003, as a Web-based gateway to information, resources, and tools to help HR employees develop, enhance, and maintain their Federal human resources career; and,

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- 6.) Broadened the scope of our technical assistance by providing support and background information on HR flexibility proposals tied to the creation of the Department of Homeland Security, and by responding to information requests from Congress regarding specific flexibilities, such as categorical ranking and pay banding.

Customer Satisfaction Indicators	FY 1999 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
% of HR Specialists satisfied with HRM Accountability support	69%	48%	71%	46%
% of HR Specialists satisfied with HR Innovation-Alternative Personnel Systems	47%	48%	49%	54%

Most agencies are still establishing their human capital management program, and only a few have moved into the implementation stage where they can demonstrate how effective human capital management can help line managers perform the work of the agency. This explains why most agencies still have a red status score for Human Capital on the scorecard. In FY 2003, OPM and OMB will push agencies to implement their human capital plans and policies and begin to show results.

Link to Management Challenge: The development of the Human Capital Assessment and Accountability Framework is central to meeting the Human Resources Management Challenge and OPM's strategy for leading the Strategic Human Capital Initiative. As we apply this tool across Federal agencies, we will acquire the information we need to determine the status of human capital Governmentwide and to develop and implement specific initiatives to improve human capital on an agency-by-agency basis.

Workforce Compensation and Performance Goal 7:

Federal agencies receive timely, accurate and useful advice and technical assistance on performance, classification and employee compensation that keeps them better informed about appropriate system flexibilities and ways in which they can be used to support accomplishment of agency strategic goals.

Status: Goal Met

Key FY 2002 Results: OPM provided agencies with the technical assistance they needed in the areas of performance, classification and compensation by hosting the fourth annual Strategic Compensation Conference in August 2002. The Strategic Compensation Conference is OPM's primary vehicle for providing technical assistance in these HR areas. At the FY 2002 Conference, more than 500 attendees participated in a variety of plenary and breakout sessions on classification, pay and leave administration, performance management, and strategic compensation policies and practices of interest to the Federal HR community. Our end-of-conference surveys show that participants' expectations were met in terms of the level and type of information provided to help them understand developing HR issues.

Level of Conference Attendee Satisfaction	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
Overall conference mean rating	4.2	4.3	4.3	4.3
Overall average of concurrent sessions	4.3	4.1	4.3	4.3

Combined pay and leave update in FY 2001 and FY 2002.

However, we just missed achieving our targets on non-critical indicators in the level of HR Specialists' satisfaction with OPM's technical assistance.

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% of HR Specialists satisfied with OPM's Technical Assistance	FY 1998 Results	FY 1999 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
Position classification & job grading	70%	63%	74%	75%	73%
Classification advisories	N/A	N/A	73%	75%	72%
Annual pay adjustment	83%	81%	79%	80%	79%
Pay & leave administration	-	83%	82%	80%	83%
Premium pay & hours of work	78%	81%	80%	80%	77%
Federal wage system	77%	72%	72%	76%	73%
Compensation administration casework	N/A	N/A	70%	72%	70%
Performance appraisal	71%	68%	68%	72%	66%
Incentive awards	72%	66%	66%	70%	65%

Link to Management Challenge: Expanding the use of existing human resources flexibilities is an element of OPM's strategy for improving the status of human capital throughout Government and, therefore, is related to the Human Resources Management challenge.

Investigations Service Goal 3:

Agency personnel security programs are made more effective as a result of OPM evaluations, which note best practices, identify deficiencies and make recommendations for improvement.

Status: Goal Not Met

Key FY 2002 Results: The results of OPM's agency security appraisals and our review of self-assessments conducted during FY 2002 indicate that, in general, agency positions are under-designated, investigations are not requested in a timely manner, and documentation of completed investigations is not maintained in the official personnel folders and security files. Agencies are not fully compliant in reporting adjudicative actions. Reinvestigations within some agencies are not requested as required by Executive order. Despite the Executive order requirements and interagency working groups to support its implementation, some agencies are not timely in requesting or conducting reinvestigations according to Executive orders and they do not follow appropriate adjudicative guidance. We will address compliance issues, such as this, by organizing resources in the Human Capital Leadership and Merit Systems Accountability Division.

Link to Management Challenge: Effective agency personnel security programs support the talent and workforce planning dimensions of the Human Capital Standards for Success, which is a key component of OPM's strategy for addressing the Human Resources Management challenge.

Workforce Relations Goal 4:

Agencies make use of alternative dispute resolution (ADR) programs in order to make dispute resolution a more timely and cost-effective and less divisive process.

Status: Goal Met

Key FY 2002 Results: Federal agency ADR programs are improving, as indicated by the consistency of the quality and numbers of nominations for the OPM Director's Award for Outstanding ADR Programs in the Federal sector. The number of nominations received for the October 2001 award increased over the previous year and, based on an assessment by program staff and the outside evaluation panel, we believe the quality of nominations remains high.

In addition, we continue to get positive agency feedback on the usefulness of the agency ADR Resources Guide. In March 2002, participants at the Symposium on Employee and Labor Relations (SOELR) rated the Guide's utility as 3.6 on a 5-point scale. A similar survey conducted in March 2001 rated its utility 4.1 on a 5-point scale.

Link to Management Challenge: Expanding the use of alternative resolutions to workplace disputes supports the talent, workforce planning, and results-oriented performance culture dimensions of the Human Capital Standards for Success, thereby addressing the Human Resources Management challenge.

Workforce Relations Goal 5:

Third-party decisions that warrant OPM intervention are identified to ensure that case decisions are consistent with civil service laws, rules and policies.

Status: Goal Met

Key FY 2002 Results: We reviewed all decisions of the Merit Systems Protection Board and appropriate Federal labor relations, court, and arbitration decisions (approximately 10,000 decisions annually). We sought formal reconsideration in two cases, both involving issues of substantial Government impact.

Link to Management Challenge: Although the management challenge regarding Human Resources Management does not relate specifically to OPM's third-party intervention process, these interventions indirectly support the accountability dimension of the Human Capital Standards for Success.

Workforce Relations Goal 6:

Stakeholders receive responsive and useful advice and technical assistance to assure that employee relations, employee health services, work/life initiatives, labor-management relations, and human resources development are a part of agencies' fully integrated human resources systems.

Status: Goal Not Met

Key FY 2002 Results: During FY 2002, OPM continued to provide our agency customers with advice and technical assistance across the full range of workforce relations programs. This support was provided through many conferences, seminars, and workshops, and by responding to specific agency requests.

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Customer Satisfaction Indicators	FY 1998 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
% of HR Specialists satisfied with advice and technical assistance for labor-management relations	66%	62%	69%	75%	68%
% of HR Specialists satisfied with advice and technical assistance for employee relations	N/A	N/A	75%	75%	73%
% of HR Specialists satisfied with advice and technical assistance for Work/life Issues	N/A	N/A	74%	75%	72%

Link to Management Challenge: Supporting agencies in the technical aspects of employee relations, employee health services, work/life initiatives, labor-management relations, and human resources development helps to ensure that these programs fully support Human Resources Management.

Executive Resources Goal 2:

SES performance management systems incorporate balanced measures which help agencies to improve individual and organizational performance, hold executives accountable for results, and provide an adequate basis for personnel decisions.

Status: Goal Not Met

Key FY 2002 Results: We have made a special effort to focus agencies' attention on managing performance to achieve results. On November 1, 2001, the OPM Director sent a memorandum to heads of departments and agencies urging them to use their SES performance management systems to drive organizational excellence and to hold their senior executives accountable for results. FY 2001 results, transmitted to agency heads on September 20, 2002, show some progress in this regard.

Career SES Performance Ratings – All Systems*	FY 2001 Results	FY 2002 Target	FY 2002 Results
Number rated	5,790	5,927	Not Available
% rated at highest performance level	85.5%	83.7%	Not Available

*Agencies have rating systems of 3, 4 or 5 levels

In the 1999 SES Survey, only two out of three executives reported that their performance plans were linked to their agency's strategic plan, and most executives reported that their pay increases and bonuses were more directly linked to their individual performance than to other outcomes. In FY 2000 and FY 2001, we used these responses to inform our revisions to the SES performance management regulations that require agencies to focus on results-based performance management, and to factor organizational results, customer satisfaction, and employee perspectives into assessments of senior executive performance.

Link to Management Challenge: Strengthening the SES performance management system relates to the leadership and knowledge dimensions of the Human Capital Assessment and Accountability Framework. Thus, OPM's actions and accomplishments in this regard can be considered part of our overall response to the Human Resources Management challenge.

Executive Resources Goal 5:

Through the biennial executive resources allocation process, maintain an executive workforce that is consistent with Administration policy and the overall size of the Federal Government.

Status: Goal Met

Key FY 2002 Results: The minimal ad hoc increases above executive resource levels were initially allocated in the biennial FY 2002–2003 cycle, exclusive of any new agencies that were created or changes in Administration priorities. We administered the FY 2002–2003 biennial cycle, including developing guidance for agencies on justifications for allocation increases and preparing OPM recommendations for OMB consultation. Final allocations issued in September 2002 decreased the number of spaces authorized, partially due to agencies returning allocations that they no longer needed and two agencies no longer being covered by the SES.

Link to Management Challenge: This outcome relates to the overall strength of the SES and, therefore, is related to the leadership and knowledge dimensions of the Human Capital Assessment and Accountability Framework. Thus, OPM’s actions and accomplishments in this regard can be considered part of our overall response to the Human Resources Management challenge.

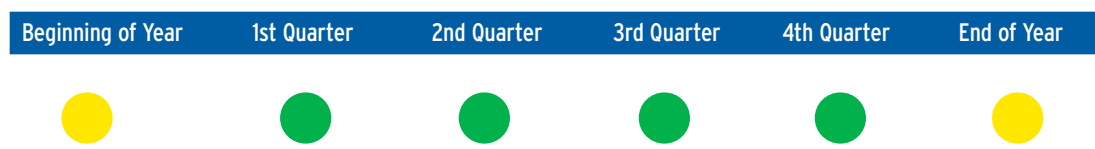
STRATEGIC OUTCOME:

Agencies increase efficiency and reduce costs through E-Government solutions.

FY 2002 Annual Goals related to this outcome:

OPM is Managing Partner for five e-Government projects under the President’s Management Agenda. These interrelated projects support the selection and development of human capital across Government and the Strategic Human Capital Initiative, as well as homeland security, and consist of Recruitment One Stop, e-Clearance, e-Training, e-Payroll, and Enterprise Human Resources Integration (EHRI). Our FY 2002 Annual Performance Plan already had goals relating to e-Training and e-Payroll, and our accomplishments for those goals are described below.

Our e-Gov initiatives will have far-reaching impact as they will speed the Federal recruitment and hiring process, provide enhanced training resources to the Federal workforce to build Governmentwide competencies, and improve information flows between Federal human resources systems. Homeland security benefits from the faster hiring and training of security personnel and improved access to investigation and clearance information. While these projects, both individually and collectively, represent a challenge to OPM because of their scope, complexity and risks, all five projects are supported by well-documented and defined Capital Asset Plans and are proceeding apace. The progress we made during FY 2002 on these projects, both individually and collectively, was recognized within the Administration as we received “green” ratings for progress on our E-Gov Executive Scorecard.



Recruitment One-Stop

Recruitment One-Stop will improve the process of locating and applying for Federal jobs, and expand the functionality of the current USAJOBS automated employment information system. Key features of Recruitment One-Stop will give job seekers access to:

- A Federal Government branded Web presence that delivers a fast and responsive experience
- A job search routine that is clear and easy to use, and that helps job seekers identify jobs that match both their skills and interests
- An improved, intelligent and efficient process for building on-line job applications
- Early feedback regarding basic eligibility screening on factors such as citizenship or age
- On-line application status tracking
- Seamless integration with agency automated assessment systems

Through these enhanced services, Recruitment One-Stop seeks to position the Federal Government as the first stop for job seekers. An improved front-end process for job applicants will ultimately improve the quality level of new hires and reduce the amount of time it takes Federal agencies to identify and attract candidates. During FY 2003, enhancements to Recruitment One-Stop will be a key ingredient of OPM's larger effort to modernize the Federal hiring process and will be tied to implementing new policies regarding the recruitment and selection of Federal employees.

The first wave of the Recruitment One-Stop initiative got under way with the launch of the redesigned USAJOBS Web site in June 2002. The redesigned USAJOBS Web site provides improved functionality for job searching, resume building, and information gathering; and includes new features such as a revolving featured job and featured employer section, a Working for America presentation, and a Career Exploration module.

The USAJOBS Web site redesign effort is just a first step in improving job seeker services through Recruitment One-Stop. Enhancements and changes scheduled for later in 2003 will include developing the seamless movement of job applicants from Recruitment One-Stop to agency assessment systems and the addition of an applicant database mining feature for agency hiring managers.

e-Training

The vision of e-Training is the creation of a premier Governmentwide Web-based environment that supports the career development of the Federal workforce. It focuses on unifying, simplifying and increasing access to high-quality on-line training and employee development products, which will, in turn, advance the accomplishment of agency missions.

e-Training generates a number of benefits to Federal agencies and the Federal workforce, including, but not limited to: reduced redundancies in development and purchase of training and development materials; economies of scale achieved through consolidated purchasing; easy, one-stop Web-based access to a robust environment of high-quality content; leveraging components of existing on-line training and development systems; and encouraging investments in learning as appropriate to the continuous development of human capital.

Drawing on the resources already available across government, the e-Training initiative will connect Federal agencies to a robust, competency-based library of courses through the creation of an OPM-managed "portal"

which will enable Federal workers to access mandatory and high-interest Governmentwide courses through the Web. The portal will provide users with access to a broad range of content to include topics mandatory across Government (e.g., Computer Security, Ethics, Sexual Harassment, etc.), agency-specific topics (accessible in the portal via a link to the contributing agency), and soft-skill oriented topics. Some of the content would be available on a fee-for-service basis to ensure the financial viability of this initiative, and some of the content would be offered free to users. The portal will use a series of Learning Management Systems to manage the courses and related information, and will link to specific agency partners.

Delivery of Module 1 of the e-Training initiative in FY 2002 established an online national learning center as the first phase of the initiative. The range of products and services available through e-Training will increase over time. In January 2003, an enhanced e-Training Web site became operational. Since we were already working on e-Training when it was selected as an e-Gov project, our FY 2002 performance plan included a goal for the initiative, as shown below.

Workforce Relations Goal 2:

Strategic human resources development policy, programs and initiatives are formulated and advanced so that Federal agencies are better equipped to address their workforce development needs.

Status: Goal Met

Key FY 2002 Results: The e-Training project led our efforts to provide methods and tools that enable Federal agencies to implement and enhance human resources development strategies during FY 2002. Coupling our expertise in the development of human capital with Web-based information technology, we launched the first module of our e-Training initiative, Gov Online Learning Center, on July 23, 2002 — ahead of schedule and under budget. Since the launch of this Web-based tool, a significant number of agencies and organizations have approached OPM about collaborating on future enhancements to the Center and participating more fully in the e-Training initiative. As a result, e-Training is being powered by a wide-ranging partnership of Federal agencies and non-Federal organizations committed to enhancing their residential training programs with the online services available through the Gov Online Learning Center.

In addition, OPM continued to champion proposed legislation that will have impact Governmentwide on agency recruiting and retaining efforts and developing their workforces. These proposals included expanding the authority for Federal agencies to pay for academic degrees. This proposal, which addressed agencies' need for increased Governmentwide flexibility concerning workforce development issues, was incorporated into the Homeland Security Act of 2002, signed by President Bush on November 25, 2002.

Link to Management Challenge: OPM's activities and accomplishments during FY 2002 concerning the e-Training project are a large part of the agency's overall response to the management challenge for an Expanding e-Government.

e-Clearance

The e-Clearance initiative is another element of OPM's effort to modernize the Federal hiring process, as the efficiencies resulting from the e-Clearance components will speed up security clearances that must be completed as a part of that process. e-Clearance will involve three new components to improve the current security clearance process.

The Electronic Questionnaire for Investigations Processing (e-QIP) is an automated online version of the security clearance application, Form SF-86. With e-QIP, certain current work processes will change from a paper-based environment to an electronic environment.

The second component of the e-Clearance initiative is development and implementation of a cross-agency Clearance Verification System (CVS). The CVS initiative captures the concept of providing access for OPM and all partnering agencies to the personnel security investigation and clearance data of each participating database.

The third component of e-Clearance is to image investigative records held by the myriad investigative agencies and make them available electronically among all authorized federal users. By doing so, e-Clearance will facilitate the exchange of previous investigative results, thereby maximizing savings by eliminating redundancy.

Enterprise Human Resources Integration

Enterprise Human Resources Integration (EHRI) will eliminate the need for paper records on employees, enable the electronic transfer of human resources data among all Federal agencies, and complement the Human Resources Information Systems capabilities of all Federal agencies. As EHRI is developed and implemented, we will identify opportunities to standardize and streamline human resource transactions, which will both drive and facilitate new policies for human resources management across Government.

EHRI will provide timely access to human resources data on all Federal employees, both active and separated, and will support the electronic transfer of employee information throughout the Federal employee's life cycle. Also, it will streamline and improve Governmentwide workforce reporting and data analysis.

In addition, EHRI will transfer data to the new retirement processing systems envisioned in the Retirement Systems Modernization Project (see Retirement and Insurance Goal 5 on page 77) to facilitate timely and accurate retirement claims processing. EHRI will develop standard HR data definitions that will be used by each of the HR-related e-Government initiatives. Through automated information collection from agency systems, EHRI will enable strategic decisions regarding the use of human capital and financial resources to improve agency performance and to address emerging needs. Our FY 2002 Performance Plan described the following goal for the EHRI initiative.

EHRI Goal:

(formerly Human Resources Technology Council and Human Resources-Data Network Goals)
Reengineer Governmentwide HRM recordkeeping and reporting practices to facilitate the use of human resources data, and streamline and improve Governmentwide reporting.

Status: Goal Met

Key FY 2002 Results: The EHRI initiative overtook two goals in our FY 2002 Performance Plan that previously had covered an effort to leverage the energy and resources of the former Human Resources Technology Council to modernize human resources recordkeeping and transactions. Thus, the Human Resources Data Network was recognized within the Administration for its Governmentwide implications and benefits and became the Enterprise Human Resources Integration Project. During FY 2002, the project stayed on track with the design of the EHRI system and met its critical milestones.

Project Milestone	FY 2002 Results
Update Conceptual Model	Completed in November 2001
Document Functional, Security, and Privacy Requirements	Functional Requirements Document and Security and Privacy Requirements Document released in January 2002
Document Hardware and Network Architectures	Hardware and Network Architectures Document released in February 2002
Publish Business Base: Benefit-Cost Analysis Accelerated Schedule	Forwarded to OMB in February 2002
Document Final Physical Data Model	Final Physical Data Model and Distribution Analysis released in March 2002
Map Logical Model to Agency Data	Logical Data Model Mapping to Agency Data completed in September 2002
Develop EHRI Solution Architecture	EHRI Solution Architecture completed in September 2002

Link to Management Challenge: OPM’s activities and accomplishments during FY 2002 concerning the EHRI Project are a large part of the agency’s overall response to the management challenge for Expanding e-Government.

e-Payroll

The e-Payroll initiative will standardize, consolidate, and integrate Federal civilian payroll services and processes through simplifying payroll policies and procedures and better integrating payroll, human resources, and financial management functions.

A key component of e-Payroll is the consolidation of Federal payroll providers to a minimum of three, resulting in a significant savings of tax dollars by reducing agency operating costs and avoiding duplicative systems modernization investments. This consolidation will enable uniform payroll policies and procedures, and interoperable Governmentwide solutions that will be “best in class” in terms of overall costs and ease of administration while delivering high-quality service. The e-Payroll initiative advances the e-Government agenda by creating greater efficiencies in Federal payroll processing.

The ability to consolidate and standardize payroll data across the Federal Government will also improve Performance and Budget Integration, and will support Improved Financial Management by providing both program managers and finance officers with information needed to make well-informed decisions. This initiative represents a strategic investment in human capital, as Government employees will enjoy better, more cost-effective service through implementation of best practices in a simplified, easy-to-understand delivery approach. The goal established in our FY 2002 performance plan for this project is described below.

Workforce Compensation and Performance Goal 9:

Important steps are taken to achieve standardization and consolidation of Federal payroll processes during the first phase of a long-term effort to achieve simple, easy to use, cost effective, standardized, integrated e-HR/Payroll services to support the mission and employees of the Federal Government.

Status: Goal Met

Key FY 2002 Results: The e-Payroll Project proceeded on schedule during FY 2002 as solicitations of proposals from Federal payroll offices interested in handling consolidated payroll functions were developed

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and submitted to potential Federal agency respondents. Responses were received on July 31, 2002, evaluated, and scored by September 30, 2002. The major reportable milestones were:

Target Date	Activity	Results
May 2002	Requirements developed	Completed
June 2002	Solicitation for internal competition issued	Completed
June 2002	Selection criteria established	Completed
June 2002	Review and identify changes needed in major HR and payroll policies	Completed
July 2002	Submit final draft revisions to OMB	Completed
July 2002	Provider responses due	Completed

Link to Management Challenge: OPM's activities and accomplishments during FY 2002 concerning the e-Payroll Project is another large part of the agency's overall response to the management challenge for Expanding e-Government.

OBJECTIVE 2)

Monitor and assess agencies' effectiveness in implementing merit-based strategies that support their mission.

While none of our FY 2002 goals links to assessing the extent to which agencies are implementing effective merit-based strategies that support their mission, eight goals were related to merit-based human resources management and accountability systems. As we implement our new Strategic Plan during FY 2003 and beyond, we will develop data collection mechanisms through our new program evaluation initiative for the strategic measures shown below. We will use this data as the basis for new annual goals that will be fully linked to improving the status of human capital across all Federal agencies.

KEY STRATEGIC MEASURES

Agencies' employee skill gaps are closed.
HR flexibilities are appropriately used
Federal agencies' organizational structures are streamlined and improved
Awards effectively align with performance.
OPM's e-Gov solutions are used to address human capital issues.

STRATEGIC OUTCOME:

Agencies demonstrate an improvement in human capital management.

FY 2002 Annual Goals related to this outcome:

OPM is the lead agency for implementing the President's Management Agenda item for the Management of Strategic Human Capital and has developed specific new initiatives to do this. We take very seriously our role as strategic advisor to the President on the management of human capital, and have moved aggressively to advance the Governmentwide transformation of strategic human capital management by broadening the quantity and depth of resources dedicated to this effort. We have forayed into the world of human capital consultation to support agencies in the various components of human capital, from those already succeeding to those in need of assistance.

To achieve this end, and as detailed in the specific annual goals on the immediately following pages, OPM focused extensively on the development of criteria to measure and evaluate agency progress and success on the Human Capital Initiative. In this capacity, OPM successfully led negotiations for the integration of the three principal offices in human capital performance (OPM, OMB and GAO), bringing about a refinement of the Human Capital Standards for Success, which established Human Capital requirements in the Federal Government. These standards were then immediately shared with the President's Management Council Subcommittee on Human Capital for review.

In addition, OPM worked closely with OMB, GAO, and key stakeholder agencies on the President's Management Council to develop the Human Capital Assessment and Accountability Framework (HCAAF), a comprehensive, consolidated guide for agencies as they work to meet the Standards for Success. The HCAAF is the foundation of OPM's Human Capital Web site that gives all those involved in human capital transformation a direct link to the Framework and its examples and resources.

In short, OPM has dedicated an enormous amount of resources that align with its mission, new strategic goals, proposed organizational structure, and responsibility for establishing systems to institutionalize OPM's Governmentwide leadership and oversight responsibility for the Human Capital component of the President's Management Agenda. We understood the significance of the strategic management of human capital and had addressed it in our FY 2002 performance plan, through the three annual goals described below.

Merit Systems Oversight and Effectiveness Goal 1:

Improve the overall effectiveness of Governmentwide human resources management (HRM) by promoting innovative merit-based HRM projects, including agency alignment of HRM with mission; improving the capability of HR professionals; and identifying well-accepted measures for assessing HRM.

Status: Goal Dropped — Overtaken by Human Capital Initiative

Key FY 2002 Results: While the President's Strategic Management of Human Capital Initiative was just becoming known to Federal agencies when this goal was written in February 2001, this Initiative has already provided evidence that an increasing number of agencies are properly integrating HRM into strategic planning. The Human Capital Standards for Success requires agencies to integrate HRM into their strategic planning efforts and provide an indirect measure of this integration.

In order to achieve a "green" on the Executive Branch Management Scorecard for Human Capital, an agency must meet all core criteria defined in the related standards. In the baseline assessment released in September 2001, none of the 28 President's Management Council (PMC) agencies evaluated met all of the core criteria (i.e., none was "green"). Three agencies achieved some but not all core criteria, showing yellow on the Scorecard under Human Capital. The current status, as of September 2002, determined by OMB and OPM working together, shows that five agencies achieved some but not all core criteria (yellow status). Since the human capital initiative is still new, the current status scores are not surprising. Successful human capital transformation will take some time. The good news for FY 2002 is that 18 of the 28 large agencies scored did earn a green progress score for making a good start on establishing human capital plans and policies. In FY 2003, OPM and OMB will push agencies to implement their human capital plans and policies and begin to show results.

OPM analysis identified the integration of human capital strategies and active development of an accountability system for HRM in each of the agencies that were assigned a yellow rating and that in at least 18 of the 28 agencies “Implementation of plans to meet the core criteria is proceeding according to plans agreed upon with agencies.”

Although not included as a performance measure in our FY 2002 Annual Performance Plan, our ultimate measure of success in the Strategic Human Capital Initiative is to get all 28 of the PMC agencies “to green” for Human Capital on the Executive Scorecard. Because the Standards for Success set the bar high, no agencies had achieved a green rating by the end of FY 2002. However, three agencies that were rated yellow at the end of FY 2001 maintained that rating during FY 2002, and two others progressed from their initial red rating to yellow during the year.

Executive Scorecard Rating	FY 2001 Results	FY 2002 Results
Number of agencies rated Green	None	None
Number of agencies rated Yellow	3	5
Number of agencies rated Red	23	21

Link to Management Challenge: Integrating HRM in agency strategic plans is a cornerstone of the Strategic Human Capital Initiative and directly addresses the Human Resources Management challenge.

Merit Systems Oversight and Effectiveness Goal 2:

Provide analyses of current HRM topics to OPM program offices in order to improve HRM policies and programs.

Status: Goal Met

Key FY 2002 Results: During FY 2002, we provided OPM program offices with data and analyses from our studies of five areas of agency HRM practices. These analyses provided valuable information for policy or program proposals and offered recommendations for Federal agencies in areas that currently are of great interest in the human resources community. These included studies of:

- 1) Elder care, which described the elder care needs of Federal employees and what agencies are doing to help employees balance those needs with their work responsibilities;
- 2) Position classification, which provided the results of agency efforts in recent years to streamline and reinvent human resources management in the areas of classification and position management;
- 3) Incentive Awards, which confirmed a 1998 study finding that current regulations provide agencies all the flexibility needed to operate the kind of recognition programs they feel are best suited to their mission;
- 4) Quality Step Increases, which identified factors that influenced an agency’s use of Quality Step Increases (QSI), as well as the factors that managers consider when recommending QSIs and confirmed that there was no need for a change in policy or program; and
- 5) Delegated Examining, a special retrospective study on 6 years of Delegated Examining oversight.

These studies were provided internally to OPM program offices for their analysis and use in improving HR policies and programs.

In addition, we collected research from both the private and public sectors for the special study on pay banding. Findings indicated that Federal managers agreed that it was easier to hire, pay and reward productive employees under a pay banding system. The prospects for wider implementation of pay banding in Federal agencies are positive and reflect trends being seen in the non-Federal sectors. Our research data was also used to respond to agency inquiries and in presentations about pay banding.

Link to Management Challenge: The findings from the studies described above provided important information for human resources policy makers across Government, and will be used in OPM to support specific initiatives in implementing the Strategic Human Capital Initiative. Such studies are part of our response to the Human Resources Management challenge.

Merit Systems Oversight and Effectiveness Goal 4:

Encourage and facilitate the development and improvement of agency accountability for conducting HRM in accordance with the merit system.

Status: Goal Met

Key FY 2002 Results: HRM Accountability is an integral part of the Human Capital Standards for Success, and is fully integrated into OPM’s Human Capital Assessment and Accountability Framework. With the broadening of our oversight program to include continual engagement with the President’s Management Council (PMC) agencies, and the genesis of the HCAAF, OPM provides continual monitoring with quarterly reports on progress to the OMB on the whole Framework, which includes HRM accountability systems as an integral part. We looked at HRM Accountability in 25 of the PMC agencies. Of these, 4 agencies have HRM accountability systems in place, 11 are in initial stages of developing HRM accountability systems, while 10 need to begin developing their systems. The continual monitoring process, for the first time, has provided current information on the status of those agencies that constitute over 95% of the Federal workforce.

Our FY 2002 survey of HR Directors indicates a decline in satisfaction with our policy leadership and with their opportunity for involvement in this area. However, we believe this is a by-product of our new role with agencies. Although OPM retains a strong service orientation to the HR community, the agency’s strategic focus on cross Government policy, and more prominent role as a driver of policy through the PMC, has resulted in a period of adjustment in the HR community as agencies take more ownership of their established duties. We are researching the results of the FY 2002 HR Directors Survey to better understand these results.

Customer Satisfaction Indicator	FY 1998 Result	FY 2000 Result	FY 2001 Result	FY 2002 Target	FY 2002 Result
% of HR Directors satisfied with OPM policy leadership in HRM Accountability	60%	60%	86%	64%	52%

Governmentwide awareness of the Merit Principles and Prohibited Personnel Practices increased, as evidenced by results from the Federal Human Capital Survey and its predecessor instrument, the Merit System Principles Questionnaire. Managers must be aware of the Merit Principles and Prohibited Personnel Practices before they actually apply the knowledge obtained from it in their decisions that affect people.

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	% Favorable				
	FY 1999 Results	FY 2000 Result	FY 2001 Result	FY 2002 Target	FY 2002 Result
I know what the merit system principles are.	61%	62%	62%	N/A	72%
I know what the prohibited personnel practices are.	75%	75%	75%	N/A	81%

Link to Management Challenge: As stated above, HRM Accountability is an integral part of the Human Capital Standards for Success, and fully integrated into OPM’s Human Capital Assessment and Accountability Framework. OPM efforts that expand HRM Accountability Governmentwide represent part of our response to the management challenge concerning Human Resources Management.

STRATEGIC OUTCOME:

*Agencies’ human capital practices comply with merit principles and prescribed standards.
FY 2002 Annual Goals related to this outcome:*

Merit Systems Oversight and Effectiveness Goal 3:

Improve and support the high standard of agency adherence to the merit system principles and other laws, rules, regulations and public policies governing Federal human resources management.

Status: Goal Met

Key FY 2002 Results: During FY 2002, we observed signs of improvement in Federal employees’ perceptions of equity and merit in the workplace. Because we changed our measuring tool from the Merit System Principles Questionnaire (MSPQ) to its replacement tool the Federal Human Capital Survey in FY 2002, we cannot clearly determine whether we met the FY 2002 targets we had set for the MSPQ. Nonetheless, data from the Federal Human Capital Survey indicates improvements in 10 of the 17 items that were carried over from the MSPQ. However, comparing results from the MSPQ and Federal Human Capital Survey is not statistically valid because of basic differences between the two surveys.

The Federal Human Capital Survey was developed to provide useful indicators of the views of Federal employees who work in the 28 member agencies of the President’s Management Council in support of the President’s Management Agenda, while maintaining a subset of questions from the MSPQ to assess work-force perceptions of equity and merit in the workplace.

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	% Favorable				2002 Result
	FY 1999 Results	FY 2000 Result	FY 2001 Result	FY 2002 Target	
1. Recruit, select and advance on the basis of merit.					65%
Supervisors/Managers in my work unit are committed to a workforce representative of all segments of society.	70.3	71.2	67.7		56.3
Selections for promotions in my work unit are based on merit.	41.5	42.8	42.4		36.1
2. Treat employees and applicants fairly and equitably.					66%
Complaints, disputes or grievances are resolved fairly in my work unit.	41.5	46.0	40.4		44.0
My supervisor supports my need to balance work and family issues.	74.8	75.0	75.8		77.4
3. Provide equal pay for equal work, and reward excellent performance.					47%
Awards in my work unit depend on how well employees perform their jobs.	42.1	40.2	40.8		47.4
4. Maintain high standards of integrity, conduct, and concern for the public interest.					69%
I know what the merit system principles are.	60.7	62.4	56.9		72.0
I know what the prohibited personnel practices are.	74.6	75.3	70.4		80.5
5. Manage employees efficiently and effectively.					57%
I am kept informed about important changes in personnel rules and employee benefits.	58.1	59.7	60.3		67.4
My workload is reasonable.	63.6	66.3	62.2		64.9
I have sufficient resources to get my job done.	58.6	63.5	59.9		48.5
Information collected on my work unit's performance is used to improve my work unit's performance	44.7	45.9	42.2		51.7
6. Retain or separate employees on the basis of their performance.					68%
I am held accountable for achieving results.	84.5	86.6	86.0		79.8
My performance appraisal is a fair reflection of my performance.	63.7	66.9	63.3		64.9
In my work unit, steps are taken to deal with a poor performer who cannot or will not improve.	32.1	31.4	27.1		26.8
7. Educate and train employees when it will result in better organizational and individual performance.					61%
My training needs are assessed.	50.5	48.4	53.2		49.9
8. Protect employees from improper political influence.					70%
Arbitrary action, personal favoritism, and coercion for partisan political purposes are not tolerated.	58.5	63.2	55.7		44.6
9. Protect employees against reprisal for the lawful disclosure of information.					44%
I can disclose a suspected violation of law, rule, or regulation without fear of reprisal.	43.0	48.5	41.3		55.0

Link to Management Challenge: In addition to the Federal Human Capital Survey results, the merit system oversight reviews we conducted during FY 2002 indicated that Federal agencies continue to adhere to the merit principles and comply with HR laws and regulations. Also, we dovetailed our merit system oversight reviews with the Strategic Human Capital Initiative by developing an Evaluators Assessment Tool to guide both evaluators and agencies in their management of human capital consistent with merit system requirements. Using this Tool, we conducted onsite reviews at 10 small agencies. Also, we used the Tool as a foundation for our development of the Human Capital Assessment and Accountability Framework. We used

this new framework for collaborating with each of the 28 President’s Management Council agencies and evaluating their progress on implementing the President’s Human Capital Scorecard, as reported on the results.gov website. We designated a lead human resource specialist as our principal contact with each of these agencies. Through this new approach, we gathered current information on the state of human capital programs in all 28 of these agencies and their adherence to merit system principles. For the first time, we now have current information about the state of human capital across the agencies that employ over 90% of the Federal workforce. This is a giant step forward from past practice where we only looked at each agency once every four years. These actions represent another part of OPM’s overall response to the Human Resources Management challenge.

Employment Service Goal 5:

Competitive examining is conducted correctly to ensure that Federal agencies comply with civil service laws, rules, regulations, and Executive orders, and support the merit principles.

Status: Goal Met

Key FY 2002 Results: Our primary indicator for this goal is the extent to which Delegated Examining Unit (DEU) training program participants believe the program achieves its objectives in terms of relevance to their work, level of detail and meeting their needs overall. For FY 2002, training participants gave OPM high marks in these and other areas, as shown below. The following is a synopsis of feedback (on a 5-point scale) obtained through formal DEU training evaluations:

DEU Training Area	FY 2002
Objectives were achieved	4
Content was relevant	4
Level of detail was appropriate	4
Length was appropriate	3
Materials were well organized	5
Overall met my needs	4

Link to Management Challenge: OPM’s Inspector General has not specifically included competitive examining as a part of the management challenge for human resources management. However, we recognize that these services play a role in Federal agencies’ recruitment and selections strategies. Thus, we consider our actions and accomplishments in this regard a part of our overall response to this issue.

Employment Service Goal 6:

Agency requests for variations, exceptions, extensions, waivers, adjudications, and Schedule C activities are responded to in a manner that is both timely and consistent with law and merit staffing principles so that agencies can proceed in a timely manner.

Status: Goal Met

Key FY 2002 Results: We continued to meet the timeliness standard for answering correspondence, which includes requests for variations, exceptions, waivers, adjudications, and Schedule C, within ten days of receipt, although we were unable to track individual actions due to the lack of an automated tracking system. We were unable to establish a correspondence tracking system in FY 2002 in time to collect data

for this fiscal year as we reallocated staff resources to support Homeland Security issues and the President's Management Agenda activities. However, this system was successfully implemented in October 2002 and we expect to have more reliable data for FY 2003 and beyond.

In addition, we provided consistent responses to ensure that requests from Federal agencies for Administrative Law Judges (ALJ) promotions, transfers, reassignments and details, and temporary appointments under the Senior ALJ and ALJ Loan Programs satisfied all Administrative Procedure Act requirements and merit systems principles.

Link to Management Challenge: OPM's Inspector General has not specifically included timely responses to requests for variations, exceptions, waivers, adjudications, and Schedule C as a part of the management challenge for Human Resources Management. However, we recognize that these services play a role in Federal agencies' recruitment and selections strategies. Thus, we consider our actions and accomplishments in this regard a part of our overall response to this issue.

Executive Resources Goal 3:

All career SES selections, particularly those of noncareer employees for career SES appointments, comply with merit principles; agencies comply with statutes and regulations in their use of noncareer and limited appointment authorities.

Status: Goal Not Met

Key FY 2002 Results: Due to the unanticipated requirement to meet agencies' needs after 9/11, and the efforts to shorten the selection process, we were unable to collect direct information regarding agency adherence to merit principles. This area is now a candidate program for our program evaluation initiative described in our FY 2004 Annual Performance Plan. However, we ascertained that all SES career appointments of individuals from noncareer-type positions comply with merit requirements. We conducted nine in-depth reviews of proposed SES career appointments of individuals from noncareer-type appointments. We did not process any cases that did not meet the intent and spirit of the law. Where necessary, we educated agencies about process improvements to ensure that they are adhering to merit requirements.

Link to Management Challenge: Strengthening leadership, particularly among Federal executives, is one of the dimensions of the Human Capital Standards for Success. Thus, OPM's actions and accomplishments in this area link to the Human Resources Management challenge.

Executive Resources Goal 4:

Leadership and management skills, public service values, and a Governmentwide perspective are key factors in selections for all SES positions.

Status: Goal Not Met

Key FY 2002 Results: We were unable to collect critical performance information for this goal as we redirected resources to developing the legislative proposal for the Department of Homeland Security, the President's Management Agenda, and participation on several OPM strike force initiatives. As a result, we delayed our primary data collection mechanism for evaluating the effectiveness of our Executive Resources Programs — the Senior Executive Service Survey until FY 2003. The SES Survey enables us to assess the extent to which

agencies have increased their emphasis on the Executive Core Qualifications in their internal SES selection process. Agencies' success in choosing the best executives depends on how well they assess the leadership competencies of job applicants that are embodied in the Executive Core Qualifications (ECQs).

Link to Management Challenge: Strengthening leadership, particularly among Federal executives, is one of the dimensions of the Human Capital Standards for Success. Thus, OPM's actions and accomplishments in this area link to the Human Resources Management challenge.

STRATEGIC GOAL III

FEDERAL AGENCIES, EMPLOYEES, AND ANNUITANTS' NEEDS ARE MET THROUGH THE DELIVERY OF EFFICIENT AND EFFECTIVE PRODUCTS AND SERVICES.

OBJECTIVE 1)

Provide direct human capital products and services that are cost effective, relevant and useful to agencies.

OPM provides a wide range of products and services to Federal agencies that support the recruitment, retention, development and management of the Federal workforce. To account for the variety of these products and services, we established 12 goals in our FY 2002 Annual Performance Plan.

KEY STRATEGIC MEASURES

Measure	FY 2000 Results	FY 2001 Results	FY 2002 Results
Customer (agency) satisfaction with products and services is increased.*	N/A	77.6%	N/A
Products and services are delivered within agreed-upon costs and timeframes (with agency customers).	N/A	N/A	Accomplished
Return-on-investment targets are met, when applicable.	N/A	N/A	Accomplished

* Current data source is OPM's Human Resources Specialists Survey.

STRATEGIC OUTCOME:

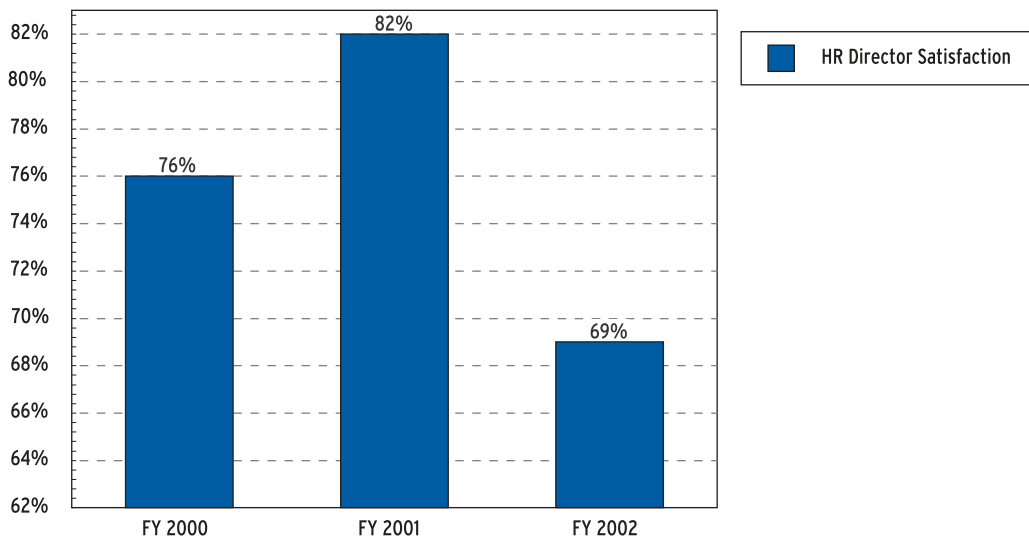
Anyone dealing with OPM gets the highest level of timely and quality service.

FY 2002 Annual Goals related to this outcome:

Employment Service Goal 8:

USAJOBS, the Governmentwide employment information system, provides service to job seekers and agencies resulting in accessible, cost-effective and efficient recruitment of highly skilled and diverse candidates.

Status: Goal Not Met



Key FY 2002 Results: HR Directors' satisfaction with our USAJOBS Web site dropped during FY 2002 even though we completed enhancements to the site that ensured that it continued to be accessible, cost-effective and efficient as a recruitment vehicle for Federal agencies. The improvements we made during FY 2002 included a complete home page redesign, the addition of a Homeland Readiness and Security page, section 508 compliance changes, and the Career Exploration module.

Also, we provided Web-based publicity for ten focused recruiting programs through USAJOBS, as we successfully publicized the Outstanding Scholar and Presidential Management Intern Programs, the Selective Service, the Senior Executive Service, Summer Employment and Temporary and Term appointments, the Volunteer Service, Hispanic employment, employment of people with disabilities, and the FAA Air Marshals Program. In addition, we sponsored a Virtual IT job fair with more than 23 agencies participating.

Link to Management Challenge: USAJOBS is related to two management challenges: Human Resources Management and Expanding e-Government. USAJOBS addresses Human Resources Management by providing Federal agencies efforts to recruit and select the talent they need to meet their missions. Through its off-spring application, Recruitment One-Stop, USAJOBS represents OPM's actions to leverage e-Government technology to streamline the hiring process.

Merit Systems Oversight and Effectiveness Goal 7:

To ensure that voting rights are protected under the Voting Rights Act.

Status: Goal Met

Key FY 2002 Results: Although we have no Strategic Outcomes or Objectives that pertain to our statutory requirements under the Voting Rights Act, we take seriously our responsibilities to serve the American people by assisting the Department of Justice in administering this law. Thus, our annual performance plans include an annual goal to account for the resources we dedicate to the provision of voting poll observers.

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We met our statutory requirement under the Voting Rights Act by responding fully to all Department of Justice calls for voting rights observers. This includes four instances in which observers were on standby to participate in elections but coverage was subsequently canceled by DOJ shortly before the election date. We provided 443 observers and 74 examiners in 13 states (Alabama, Arizona, Georgia, Louisiana, Michigan, Mississippi, New Jersey, New Mexico, New York, North Carolina, South Carolina, Texas, and Utah), covering 283 polling sites. We provided support for 11 language-based elections held in locations where the predominant language of voters is other than English. We provided minority language coverage for 7 different languages (Spanish, Arabic, Chinese, and four Native American languages: Nava, Keres, Tewa and Towa). DOJ attorneys onsite complimented many of our observer teams in their written reports. DOJ officials provided favorable verbal comments to the Program Administrator on the overall success of the election exercises.

Link to Management Challenge: None; OPM's support for the Voting Rights Act has no relationship to any of the management challenges identified by the Office of the Inspector General.

STRATEGIC OUTCOME:

Agencies have access to the most efficient and effective human capital services.

FY 2002 Annual Goals related to this outcome:

Merit Systems Oversight and Effectiveness Goal 6:

Meet the workforce information needs of the White House, Congress, Federal agencies, the public, and other customers through the Central Personnel Data File (CPDF).

Status: Goal Met

Key FY 2002 Results: We met the workforce information needs of our various customers in FY 2002 as we improved the results of all of our critical performance indicators, including customer satisfaction, volume, accuracy and timeliness. We continued to look for new approaches to providing useful workforce information and anticipate that the number of hits on the Workforce Information Web sites will continue to increase in the coming years.

Customer Satisfaction Indicators	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
% of Customers satisfied with OWI's products and services	96%	N/A	80%	91%

Business Process Indicators	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
# of customers accessing Web-based, workforce information products - hits per week	N/A	N/A	50,000	60,000
CPDF Status file average error rate on core data elements only	N/A	3.0%	3.0%	1.3%
CPDF Status file average error rate for all data elements	5.0%	3.1%	* None	2.9%
CPDF Dynamics file average error rate for all data elements	8.7%	7.2%	* None	8.5%
CPDF Status file data timeliness - days	N/A	135	135	119
CPDF Dynamics file data timeliness - days	N/A	140	140	155

*In FY 2002 Performance Plan target established for only the core data elements in the Status file.

Link to Management Challenge: None; although there are no management challenges specific to the Central Personnel Data File, maintaining accurate and timely Governmentwide workforce data is important to addressing strategic human capital since such data is used to assess recruitment and retention rates, position and grade levels, project retirement and other attrition factors, etc.

Employment Service Goal 10:

Administer the Armed Services Vocational Aptitude Battery for the Department of Defense (DOD) and provide related services.

Status: Goal Met

Key FY 2002 Results: We continued to administer the Armed Services Vocational Aptitude Battery as we negotiated a new contract with the Department of Defense for testing services in both FY 2002 and FY 2003, and were able to satisfy increased distribution demands as a result of the deployment of new tests. Also, we streamlined the billing process with the Military Enlistment Processing Stations, reducing the timeline from six months to one month, thereby freeing OPM resources for other tasks.

Link to Management Challenge: None; the administration of the Armed Services Vocational Aptitude Battery tests has no relationship to any of OPM’s management challenges.

Workforce Compensation and Performance Goal 8:

Continue to administer current compensation systems (annual pay adjustment process, Cost-of-Living Allowance program, Federal Wage System, special salary rates, etc.) in an efficient, accurate and timely manner.

Status: Goal Met

Key FY 2002 Results: OPM took all actions necessary to make new pay schedules effective, accomplished them within statutory deadlines, and provided agencies with sufficient information to implement new pay schedules on a timely basis. Thus, the 2002 pay adjustments were implemented for all affected Federal employees on schedule. In addition, the 2002 pay tables, including locality pay rates and locality pay areas, were posted on the OPM Web site in a format compliant with section 508 of the Rehabilitation Act Amendments of 1998 (29 U.S.C. 794) so that they would be accessible to individuals with disabilities.

Customer Satisfaction Indicators	FY 1998 Results	FY 1999 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
% of HR Specialists satisfied with pay tables guidance	92%	92%	90%	90%	92%

Link to Management Challenge: Administering current compensation systems is related to the Human Resources Management challenge since current pay systems must be maintained while OPM and other stakeholders develop proposals that address Federal compensation from a strategic perspective.

Investigations Services Goal 4:

The quality of investigations is maintained and workload demands are met with timely, relevant products.

Status: Goal Met

ANNUAL PERFORMANCE GOALS AND RESULTS

Key FY 2002 Results: The quality of our investigations contractor’s case products continued to be excellent during FY 2002 as less than one-tenth of one percent of the total cases processed for customers in FY 2002 was returned by those agencies for additional work. As a part of OPM’s e-Clearance initiative, we launched the Electronic Questionnaire for Investigative Positions (e-QIP). e-QIP allows applicants to electronically enter, update and transmit their personal investigative data over a secure Internet connection to their employing agency for review and approval. In addition, we continued to recover program operating costs, as during FY 2002 our revenue covered the costs of conducting investigations and operating the program. Finally, we met customer workload demands by responding to significant increases in our three major workloads (see below).

Workload Measures	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results
Background investigations	44,005	53,000	74,015	92,634
NAC/NACIs	124,969	175,000	289,221	531,746
SAC/SACIs	218,580	231,355	536,122	1,161,527

Link to Management Challenge: Supporting agency recruitment and selections efforts with high-quality and timely personnel investigations builds the talent and capacity of the Federal workforce and links to OPM’s overall response to the Human Resources Management challenge.

Executive Resources Goal 8:

Participation in OPM’s executive and managerial training programs is increased, and income and costs are balanced.

Status: Goal Met

Key FY 2002 Results: Participation in OPM’s executive and management training programs increased during FY 2002 as the number of training sessions was 10% higher than the target level and the number of participants was 6% higher than target. The decrease in Participant Training Days (PTDs) was due to redesigning the Management Development Centers’ (MDC) interagency residential two-week programs (see explanation below the table).

Business Process Measures	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
Sessions	328	422	421	461
Participants	10,164	11,234	12,359	13,125
Participant Training Days	87,890	95,377	100,568	96,635*

*The FY 2002 PTD decrease was due to a new formula used by the MDCs to calculate PTDs. When the MDCs redesigned their two-week interagency residential programs, they eliminated weekend sessions and added evening sessions. The redesign had no impact on program learning outcomes, however the number of “contact days” with faculty (over the weekends) was reduced. As a result, PTDs decreased from FY 2002 Target to FY 2002 Results. Prior to FY 2000, production data above did not include off-campus consulting services (such services did not exist in significant numbers prior to FY 2000).

This year, we achieved positive retained earning balances, while at the same time investing in infrastructure and facilities improvements at each organization. OPM continues to refine the use of its “Cost of Program” model to determine the cost effectiveness of individual seminars and programs. For FY 2002, our financial results show a balance of +\$613k. This includes prior year revenue billings of +\$907k, offset by a write-off of receivables of -\$615k. The positive balance is remarkable considering that current year performance more than adequately made up for the financial impact of the September 11 terrorist attacks and the resulting substantial increases in security expenses for the Federal Executive Institute.

Link to Management Challenge: Increasing the number of training days, sessions and participants is an indication that OPM is building the leadership capacity of the Federal executive and managerial corps. Leadership capacity is a dimension of the Human Capital Standards for Success and these Standards are at the core of OPM's response to the Human Resources Management challenge.

STRATEGIC OUTCOME:

Government leaders are better able to meet the strategic goals of their agencies.

FY 2002 Annual Goals related to this outcome:

Employment Service Goal 7:

Agencies receive clear, accurate, timely staffing advice, assistance and models to ensure that the lawful rights of employees and applicants (including minorities, veterans and displaced employees) are safeguarded and that managers are aware of staffing tools they can use to accomplish strategic objectives.

Status: Goal Not Met

Key FY 2002 Results:

Business Process Indicator	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results
% of employees with favorable perception that staffing is conducted in accordance with Merit Systems Principle #1 (recruit, select and advance on the basis of merit)*	62%	64%	65%	37%

Customer Satisfaction Indicator	FY 1998 Results	FY 1999 Results	FY 2001 Results	FY 2002 Results
% of HR Specialists satisfied with technical assistance on selection & promotion policies	79%	70%	81%	82%
% of HR Specialists satisfied with technical assistance on veterans' preference	84%	76%	79%	83%
% of HR Specialists satisfied with technical assistance on reduction in force	80%	69%	72%	67%
% of HR Specialists satisfied with technical assistance on voluntary early retirement & voluntary separation incentives	82%	74%	80%	74%
% of HR Specialists satisfied with technical assistance on career transition	73%	63%	66%	61%

* The MSPQ has been replaced in FY 2002 by the Federal Human Capital Survey. That survey includes the following question: Selections for promotions in my work unit are based on merit.

Link to Management Challenge: Maintaining adherence to Governmentwide standards, such as the merit principles, is part of the vision of the Strategic Human Capital Initiative. Therefore, OPM's advice and assistance to agencies in support of this outcome relates to the human resources management challenge.

Employment Service Goal 9:

Provide expert human resources products and services that meet agencies' specific needs to ensure that Federal agencies receive high-quality, cost-effective employment services needed to run high-performing organizations.

Status: Goal Met

Key FY 2002 Results: We ensured that Federal agencies received the employment services they needed during FY 2002 as our Organizational Assessment Survey (OAS) continued to be used by agencies and other organizations to measure and improve their organizational performance. During the year, we conducted the OAS for 12 agencies and contracted for 4 others in FY 2003. In addition, we continued to expand our customer base for our other services, indicating that our products and services are effective and useful. For instance, the USA Staffing user base was significantly expanded in FY 2002, to include the United States Postal Service and the State of Hawaii. Finally, agencies continued to contract for staffing products at least at prior year levels. USA Staffing registered a net increase of 104 licenses issued to external customers in FY 2002 — a 27% increase — bringing the total number of external users from 378 to 482. New licenses outnumbered cancellations by a 5 to 1 margin. (129 to 25).

Link to Management Challenge: Agencies becoming high-performing organizations is a key outcome of the Strategic Human Capital Initiative. Thus, OPM's actions and accomplishments to deliver services that enable agencies to become such organizations is related to the Human Resources Management challenge.

OWR Goal 7:

Through the Training and Management Assistance program (TMA), assistance is provided to Government agencies in managing the development of training and other human resources management solutions that meet specific short-and long-term agency objectives.

Status: Goal Met

Key FY 2002 Results: End-of-project quality surveys and interviews (based on a scale of 1 to 5) indicate high levels of satisfaction with OPM's key TMA program services.

Services	Rating
Pre-Selection of Contractors	4.7
Task Order Competition Process	4.5
Project Management/Oversight	4.0
Contract Administration/Financial Tracking	4.0
Conflict Resolution	4.0
Statement of Work Development	3.5
Ongoing Consultative Services	3.5

In FY 2002, the TMA and its customer agencies approved for payment 99.5% of the products (1,796 of 1,805 products) based on the requirements established in Statements of Work and project management plans. This indicates a high level of customer satisfaction with products received through the TMA program.

Based on projected data, earned income during FY 2002 exceeded operating costs. Currently, the TMA program has retained earnings (projected \$3.5 million) that exceed the breakeven point. The retained earnings allow for losses, providing that over time the program is in balance. The following chart outlines income and costs in millions of dollars for Fiscal Years 2000, 2001, and 2002.

ANNUAL PERFORMANCE GOALS AND RESULTS

Financial Measures	FY 2000 Results	FY 2001 Results	FY 2002 Results
Income earned	\$42.3	\$36.5	\$29.5
Operating costs	\$42.9	\$36.3	\$30.5 (projected)
Difference (+/-)	\$-0.6	\$ 0.2	\$-1.0

Link to Management Challenge: Developing the talent and capacity of the Federal workforce through continual investments in training is a critical component of the Strategic Human Capital Initiative, which is OPM's central strategy for addressing the human resources management challenge.

Executive Resources Goal 6:

Continual learning and voluntary mobility are valued as strategies for maximizing executive effectiveness. Agencies and executives increasingly use training, sabbaticals, details, temporary assignments, and movement within and between agencies to broaden perspectives and gain fresh insights on leadership.

Status: Goal Not Met

Key FY 2002 Results: We continue to receive favorable ratings and comments on participant evaluations of SES leadership forums, briefings for new SES members, and other presentations. This is the critical indicator because the purpose of continual learning is to improve job effectiveness.

Business Process Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
New SES briefings	2	3	3	3	3
Participants	340	479	499	500	443
Effectiveness rating	N/A	N/A	98%	95%	95%

Link to Management Challenge: Building the leadership capacity of the Federal executive and managerial corps is a dimension of the Human Capital Standards for Success, and these standards are at the core of OPM's response to the Human Resources Management challenge.

Executive Resources Goal 7:

Increase the efficiency and productivity of Federal agencies by developing the leadership skills of senior leaders and managers. We will accomplish this by providing high-quality, competency-based, intellectually challenging, and affordable interagency leadership and management training to members of the Senior Executive Service corps, GS-15 senior executives and other managers.

Status: Goal Met

Key FY 2002 Results: During FY 2002, OPM improved the leadership skills of Federal executives and managers through its leadership and managerial development programs. During the year, we dramatically exceeded our targets for conducting Level 2 (knowledge gains) Kirkpatrick Model evaluations. The Kirkpatrick Model of Evaluation enables us to measure not just participant satisfaction and perceptions of training, but also the effectiveness of training and development.

ANNUAL PERFORMANCE GOALS AND RESULTS

During FY 2002, all ten Leadership Development System programs were evaluated at Level 2, as were 180 Management Development System programs. For the executive and management development programs evaluated on a 5-point scale, knowledge gains were 4.6 or better. For executive and leadership development programs evaluated on a 7-point scale, knowledge gains were 5.83. In addition, we collected evaluation data at Level 3 for 30 programs, far surpassing our goal. Level 3 evaluation studies were written for five sessions of the Leadership Assessment Program. Successful changes in on-the-job behaviors were observed by more than 79% of participants across all sessions.

Effectiveness Indicators	FY 2001 Performance	FY 2002 Target	FY 2002 Performance
Level 1 Ratings - All programs*	4.5	4.5	4.5
Level 2 Ratings - MDC and CEL*	4.2	4.2	4.2
Level 2 Ratings - LDS*	5.5	5.5	5.5

Business Process Indicators	FY 2001 Performance	FY 2002 Target	FY 2002 Performance
No. of Training Sessions	422	421	461
No. of Participants	11,234	12,359	13,125
No. of Participant Training Days	95,377	100,568	96,635

Financial Indicators	FY 2001 Performance	FY 2002 Target	FY 2002 Performance
Full cost recovery	Yes	Full cost recovery is maintained	Yes

*The Kirkpatrick Model of Evaluation:

Level 1. Reaction – Were the participants pleased with the program?

Level 2. Learning – What did the participants learn in the program?

Level 3. Behavior – Did the participants change their behavior based on what was learned?

Level 4. Results – Did the change in behavior positively affect the organization?

Link to Management Challenge: Building the leadership capacity of the Federal executive and managerial corps is a dimension of the Human Capital Standards for Success, and these standards are at the core of OPM’s response to the Human Resources Management challenge.

OBJECTIVE 2)

Facilitate retirement income security for Federal employees by making the transition from active employment to retirement seamless and expeditious.

Four goals in our FY 2002 Annual Performance Plan link to improving the delivery of retirement programs services, thereby making the transition from active employment to retirement a seamless and expeditious experience for Federal employees and their families.

ANNUAL PERFORMANCE GOALS AND RESULTS

KEY STRATEGIC MEASURES

Measure	FY 2000 Results	FY 2001 Results	FY 2002 Results
Retirement claims processing times (days) improve (decrease).			
CSRS Annuity Claims	44	54	55
CSRS Survivor Claims	20	24	31
FERS Annuity Claims	185	101	70
More annuitants receive full monthly benefits when they are first due	78%	79%	78%
The number of claims processed per FTE increases, while cost per claims decreases.	627.3	646.8*	637.6
Customer (annuitant) satisfaction with retirement service improves.	93%	93%	93%
Percentage of customer calls handled increases, even as the volume of calls also increases.			
# of Calls Handled	1,221,786	1,425,052	1,324,591
% of Calls Handled	88%	93%	95%
Percentage of customer service transactions handled by self-servicing increases.	34%	34%	37%
Number of customer service transactions processed per FTE increases, while cost per transaction decreases.	7,302.7	6,345.6	7,726.3
More retiring employees receive consistent and accurate retirement counseling.			
% of retirees receiving retirement counseling	68%	88%	74%
% satisfied w/accuracy of counseling	88%	86%	94%

*Revised from data reported in FY 2003 Annual Performance Plan.

STRATEGIC OUTCOME:

Annuitants receive full and accurate monthly annuity payments when they are first due.

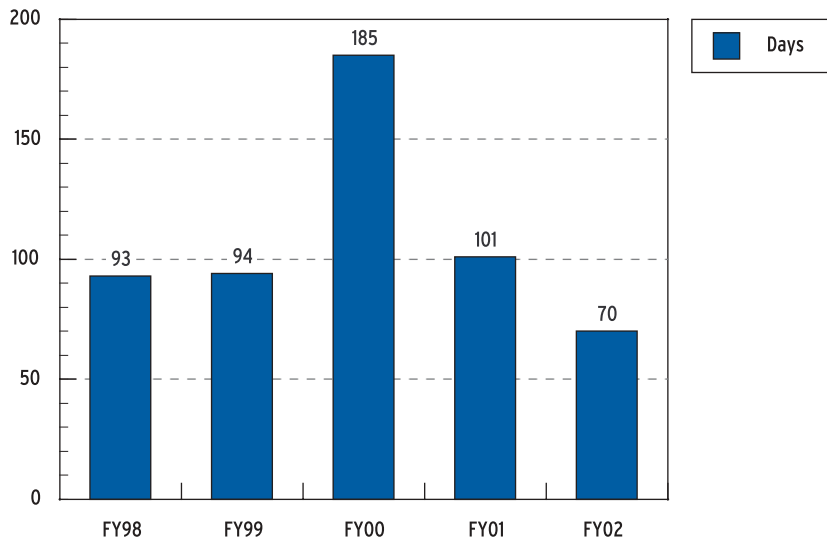
FY 2002 Annual Goals related to this outcome:

Retirement and Insurance Goal 3:

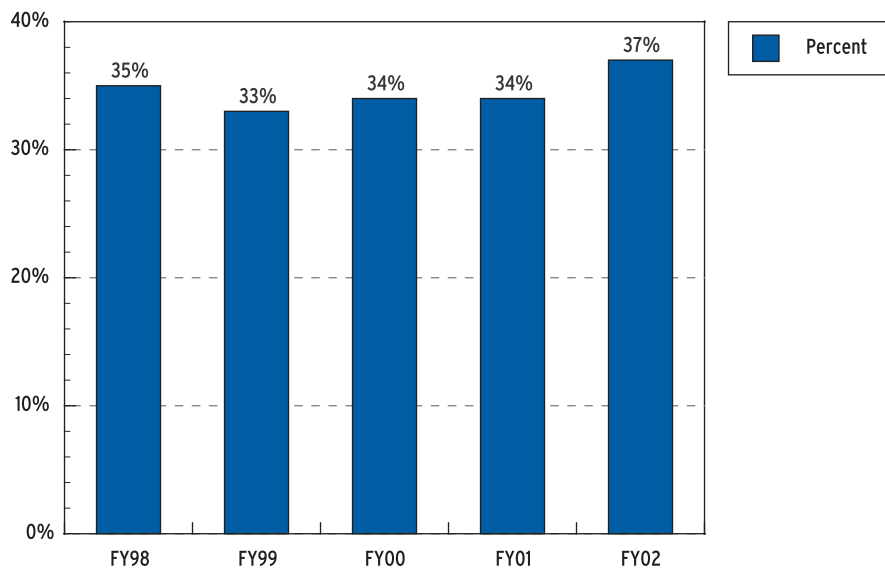
FERS retirement claims processing times are reduced to FY 1999 levels and more customer services are delivered through self-servicing.

Status: Goal Met

FERS RETIREMENT PROCESSING TIMES



PERCENT OF SELF-SERVICING



Key FY 2002 Results: OPM moved closer to the outcome of paying full and accurate annuity payments when they are due as we reduced FERS processing times to less than 70 days and increased the services delivered through self-servicing systems. To pay annuitants their full benefit when it is first due, claims processing times across the board (CSRS retirements, FERS retirements, and CSRS survivors) must be significantly reduced. The most critical of these in FY 2002 was FERS retirement claims, since the time needed to process these has been much higher than for other claims.

Second, we increased the percent of customer service transactions processed through self-servicing systems to 37 percent. Self-servicing has been our strategy for improving the delivery of ongoing benefit account maintenance services because it allows annuitants to execute a wide range of the most frequently requested services for themselves. This makes the delivery of these services both immediate and less costly by eliminating the need for OPM staff to execute these services. Although we fell short of the FY 2002 target level of 40 percent, we improved this indicator by nearly 10 percent.

Link to Management Challenge: None; there is no management challenge concerning the delivery of retirement program services. However, OPM's OIG has recognized the significance and risk associated with the Retirement Systems Modernization Project, which is addressed below.

Retirement and Insurance Goal 5:

Perform acquisition planning and begin implementing the redesigned business processes and supporting technology for the modernized retirement system.

Status: Goal Met

Key FY 2002 Results: The Retirement Systems Modernization project continued on track during FY 2002 as we performed acquisition planning and began implementing the redesigned business processes and supporting technology for the new system. We adjusted our original 2002 indicators to align the project with our final resource allocations and build upon progress achieved during FY 2001. As most of the segments begun in FY 2002 are 18 months in length, work will continue on them in FY 2003.

ANNUAL PERFORMANCE GOALS AND RESULTS

Project Milestone	FY 2002 Results
Original FY 2002 Milestone – Overall planning segment for programwide data is completed	Began overall planning for programwide data capture and conversion. Programwide data is the repository for all of the data RSM will use and is called the Retirement Data Repository (RDR). The RDR will be populated with personnel and payroll information for every Federal employee and retiree.
Original FY 2002 Milestone – First phase overall planning segments for customer service and annuitant service and recordkeeping are completed	Delayed until FY 2003 or 2004.
Original FY 2002 Milestone – Prototyping for paper data capture and correspondence management are under way	Began the first phase of planning and analysis for the On-Demand data conversion process. On-Demand converts into electronic format on an “ad hoc” basis the millions of hard-copy retirement records at the Retirement Operations Center to make member historical data available to agencies in electronic media via the RDR.
Revised milestone – Deploy the data exchange gateway	Began to deploy the data exchange gateway to agencies throughout Government, enabling them to stop using paper and obsolete magnetic tape technology to transmit retirement data to OPM, and reducing the time needed to deliver to retiring employees their first retirement payment. The reduction in interim annuity payment processing times described in RIS Goal 2 resulted from the implementation of the data exchange gateway.
Revised milestone – Pilot the Coverage Determination Application	We piloted the Coverage Determination Application throughout DOD and parts of OPM, and expect to deploy this tool to all agencies by April 2003. The Coverage Determination Application will assist agencies in more accurately identifying the correct retirement plans for new hires, rehires, transfers, and conversions and eventually will be the primary tool for recording program-wide data.
Revised milestone – Complete acquisition planning for a new programwide RSM Benefits Calculator	Completed planning for the acquisition of the RSM Benefits Calculator and are now considering an acquisition strategy for this tool. The RSM Benefits Calculator will be used by OPM and agency staff to calculate and project member benefits. Current technology is available only to OPM and data must be entered manually for computing annuities. The RSM calculator will draw the data it needs from the RDR and automatically compute retirement payments.
Original FY 2002 Milestone – FY 2002 activities are completed within the allocated funding	RSM activities did not exceed the allocated funding for FY 2002.

Link to Management Challenge: OPM’s Inspector General has identified the RSM project as among the agency’s top management challenges because it is a very large, long-term information technology project that will require significant resources and several years to implement. RSM is OPM’s central strategy for meeting the customer service, business process, and financial management objectives for the delivery of retirement program services.

STRATEGIC OUTCOME:

Employees receive consistent retirement counseling.

Although the RSM Project will ultimately provide the only truly consistent retirement counseling, we continue to pursue this outcome through the ongoing efforts of our Benefits Officers Resource Center, as described in the annual goal (RIS Goal 4) below.

FY 2002 Annual Goals related to this outcome:

Retirement and Insurance Goal 4:

More retiring Federal employees receive benefits counseling, and agency benefit officers are provided with improved information and tools for these services.

Status: Goal Met

Key FY 2002 Results: We continued to increase the amount and variety of information available on the Benefits Officer Resource Center part of the OPM Web site (<http://www.opm.gov/asd>). Examples include a retirement benefits estimator, benefits administration and other letters, pamphlets, guidance, handbooks, related Web links, mailing list signups, and order forms for obtaining other benefits information. Our biggest Web effort this year was providing additional information about FERCCA. FERCCA is the Federal Erroneous Retirement Coverage Corrections Act and addresses the long-term harm to employees who were inadvertently put in the wrong retirement plan. We implemented the new FERCCA program to correct retirement coverage errors and began providing information about it to agency Human Resources Specialists, affected employees, retirees, and the public.

Customer Satisfaction Indicator	FY 1998 Results	FY 1999 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
% of HR Specialists satisfied with OPM technical assistance for preparing employees for retirement	85%	80%	87%	80%	81%

Link to Management Challenge: None; there is no management challenge concerning the OPM’s ongoing support for agency benefits officers, or the implementation of the Federal Erroneous Retirement Coverage Corrections Act.

Retirement and Insurance Goal 7:

The trust fund financial systems are in substantial compliance with the Federal Financial Management Improvement Act and all financially related management challenges are addressed.

Status: Goal Met

Key FY 2002 Results: The most critical indicator regarding compliance with the Federal Financial Management Improvement Act is that we received our fifth consecutive “unqualified” opinion on the trust fund financial statements for FY 2002 when the audit report was released by our independent auditors, KPMG, LLP in early January 2003. A second critical indicator is that our auditors will find no material weaknesses in internal controls. Finally, we addressed our only reportable condition — also one of our financially related management challenges — the reconciliation of Health Benefit Program premiums and enrollments, as we implemented the enrollment reconciliation clearinghouse project, known as “CLER.” The CLER system will enable us to reconcile plan enrollment data with similar data from agency payroll offices. To date, the system is reconciling about 92% of the enrollments for most of the FEHBP population.

ANNUAL PERFORMANCE GOALS AND RESULTS

Customer Satisfaction Indicator	FY 1998 Results	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
% of annuitants who agree they receive their payments on time	97%	98%	97%	97%	98%	98%

Financial Indicators	FY 1998 Results	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
% of total retirement program overpayments that are delinquent	29.8%	31.1%	27.3%	26.8%	25.0%	28.4%
Total retirement program overpayments collected (\$M)	\$136	\$131	\$133	\$146	\$137	\$156
Number of retirement overpayments referred to Treasury's Referral & Offset Program	426	249	215	183	275	233
Amount of retirement overpayments referred to Treasury's Referral & Offset Program (\$M)	\$3.2	\$1.9	\$1.6	\$1.7	\$2.1	\$1.3
Administrative cost per annuitant	\$40.94	\$44.47	\$45.00	\$44.43	\$45.00	\$51.07
Erroneous payment rate for retirement programs	NA	0.19%	0.23%	0.20%	0.20%	0.21%

Link to Management Challenge: The CLER system directly addresses the management challenge regarding the reconciliation of health plan enrollment data with the premium payments made by OPM to participating carriers in the FEHB Program.

OBJECTIVE 3)

Federal employees, annuitants and their families can choose from among quality and fiscally responsible carriers to address their specific insurance needs.

The Federal insurance programs administered by OPM are among the most important employee benefits offered by the Federal government as an employer. In particular, the Federal Employees Health Benefits Program is an area of great emphasis for OPM and is the subject of three of the Management Challenges identified by OPM's Inspector General. While our FY 2002 Annual Performance Plan described but one goal to ensure that Federal employees, annuitants and their families can choose from among quality and fiscally responsible carriers to address their specific insurance needs, our long-established family of performance measures address all of the outcomes we expect to achieve.

KEY STRATEGIC MEASURES

Measure	FY 2000 Results	FY 2001 Results	FY 2002 Results
Customer (enrollee) satisfaction with health plan performance positively reflects industry trends.			
% of enrollees satisfied with their HMO Plan	59%	62%	63%
% of enrollees satisfied with their FFS Plan	75%	77%	79%
The percentage of enrollees covered by a quality health plan increases.	90%	82%	89%
Life insurance claims processing time (days) improves (decreases).	10.2	5.7	6.0
Life insurance payment accuracy is maintained	99.5%	99.5%	99.9%

STRATEGIC OUTCOME:

Health plans are accountable for the quality of services to program customers.

FY 2002 Annual Goals related to this outcome:

None. While there were no FY 2002 goals focused specifically on this outcome, OPM pursued initiatives to improve patient safety within the Federal Employees Health Benefits Program, which should improve the quality of care offered by these plans. For instance, we continued our collaboration with health plans regarding patient safety. The “Five Steps to Patient Safety” have been widely adopted both in and out of Government, and are available in both English and Spanish. Some carriers already have adopted safety initiatives such as automated entry systems for prescription drugs, referring patients to recognized Centers of Excellence, and appropriate staffing for Intensive Care Units as recommended by the Leapfrog Group. We are encouraging other carriers to adopt these measures as well and have requested carriers to annotate provider directories accordingly.

Link to Management Challenge: OPM efforts to improve patient safety in the Health Benefits Program represents a part of the agency’s response to the management challenge regarding the overall performance of the program.

STRATEGIC OUTCOME:

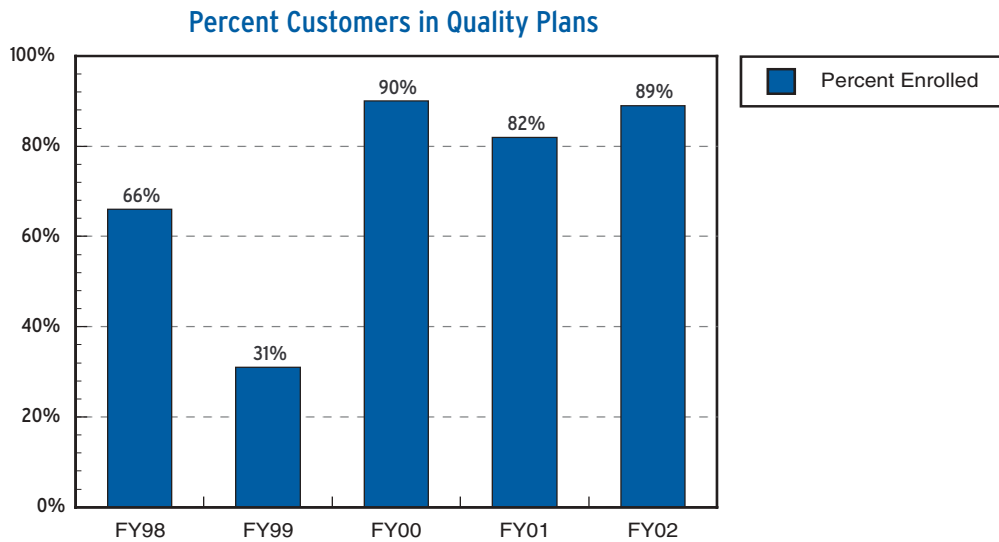
Improved quality of health care experienced by insurance program customers.

FY 2002 Annual Goals related to this outcome:

Retirement and Insurance Goal 6:

Insurance programs customers can make informed decisions about their health care, and they are provided with quality insurance products and services.

Status: Goal Met



Key FY 2002 Results: OPM efforts to strengthen health plan accountability in the Health Benefits Program and inform program customers of health plan performance have increased the percent of customers enrolled in quality plans. Thus, the quality health care experienced by these individuals and their families – a population of nearly nine million people – has improved. To accomplish this, OPM has promoted accreditation among plans and used the Consumer Assessment of Health Plan Surveys to evaluate plan performance among plans that are not yet accredited. These efforts are beginning to show results as the percent of Health Benefits Program customers enrolled in these quality plans has risen toward the 90 percent level. In addition, 87% of plans are considered highly rated, or are accredited.

Link to Management Challenge: OPM efforts to strengthen health plan accountability in the Health Benefits Program represents a part of the agency’s response to the management challenge regarding the overall performance of the program.

STRATEGIC OUTCOME:

The incidence of fraud in the FEHBP is measured and reported accurately.

FY 2002 Annual Goals related to this outcome:

None. No FY 2002 goals focus specifically on this outcome. However, addressing the incidence of fraud in the employee benefit programs has long been a priority at OPM, and performance indicators regarding the rate of erroneous payments were included in our FY 2002 performance plan for both the health benefits and the life insurance programs. Initiatives to improve these indicators are a part of our ongoing business process.

Financial Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
HB Program erroneous payments rate	0.49%	0.36%	0.99%	0.40%	0.42%
LI Program erroneous payments rate	0.01%	0.01%	0.01%	0.01%	0.02%

Link to Management Challenge: Tracking the erroneous payments rate of the HB Program and using this information to support the reduction of these errors is an example of OPM’s effort to address the management challenge concerning the oversight of the FEHB Program.

STRATEGIC OUTCOME:

Life insurance payments are timely and accurate. FY 2002 Annual Goals related to this outcome:

No FY 2002 annual goals focused specifically on this outcome. However, performance indicators regarding the timeliness and accuracy of life insurance payments were included in the FY 2002 performance plan.

Business Process Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
Life insurance claims processing time (calendar days)	11.3	10.2	5.7	10.0	6.0
Life insurance claims processing accuracy (% of claims paid)	99.58%	99.5%	99.5%	95.5%	99.7%
Life insurance claims processing accuracy (% of dollars paid)	99.8%	99.8%	99.7%	95.7%	99.9%

*Based on preliminary data

Link to Management Challenge: None; there are no management challenges concerning the timeliness and accuracy of benefits paid by the Federal Employees Life Insurance Program.

CORPORATE MANAGEMENT GOALS

CREATE AN ENVIRONMENT AT OPM 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 & EEO Goal 1:

OPM manages its workforce strategically and aligns its human resources in a manner that best supports accomplishment of the agency’s strategic goals and furthers the President’s HR management improvements objectives.

Status: Goal Met

Key FY 2002 Results: Overall, we achieved this goal as indicated by the following major accomplishments:

- The Director approved an agency restructuring plan that fundamentally restructures agency programs and aligns our human capital resources to better serve customers, supports the President’s Management Agenda, and supports accomplishment of OPM strategic goals.
- We developed a detailed Human Capital Management Improvement plan that contains specific strategies, action items and performance measures that will enable us to enhance the overall management of our human resources, and we have been successful in implementing this plan.
- OPM’s Strategic Plan was rewritten in September 2002 to reflect Director Kay Coles James’s vision for the agency. The new Plan acknowledges the critical importance of each element of the President’s Management Agenda, including the strategic management of human capital, and also emphasizes the important role that the OPM workforce plays in achieving OPM’s mission.
- Thirty-five employees were selected to participate in the FY 2001 leadership development program. Of the 35, 11, or 31%, were promoted to positions of greater responsibility. Sixty-four employees were selected to participate in the FY 2002 leadership development program, a 54% increase over FY 2001. Of the 64, 15, or 23%, of the graduates have been promoted to positions of greater responsibility already. Complete data for FY 2002 graduates (one program does not end until August 2003) will be included in the FY 2003 annual performance report.

Link to Management Challenge: Although the management challenge regarding Human Resources Management is more externally focused, this goal and our accomplishments regarding aligning human resources management with OPM’s mission and strategic goals demonstrate that OPM recognizes that addressing our internal human capital issues must be a part of our overarching response to this challenge.

Human Resources & EEO Goal 2:

Recruitment and staffing strategies are based on workforce planning information and facilitate the hiring of a diverse, capable and flexible workforce.

Status: Goal Met

Key FY 2002 Results: We accomplished this goal because we improved our recruitment and staffing operations by reducing the time it takes to issue candidate referrals and by attracting high-quality and diverse candidates to facilitate management’s ability to have the right numbers and quality of employees to accomplish our mission.

Workforce Diversity Indicators	FY 1998 Results	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results
Hispanic	2.90%	3.30%	3.70%	3.90%	4.0%
Asian/Pacific Islander	1.25%	1.22%	1.52%	2.00%	2.2%
American Indian/Alaska Native	0.33%	0.43%	0.54%	0.60%	1.0%

Hiring Cycle Time Indicator	FY 1998 Results	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results
Time to issue a certificate of eligibles	N/A	58 days*	53 days*	29 days	29 days

* Previously reported data for FY 1999 and FY 2000 used a different set of parameters for the cycle time, and could not be recreated to match the better defined cycle period for FY 2001 and FY 2002. FY 2001 will be used as a new baseline to measure future improvement.

Link to Management Challenge: Although the management challenge regarding Human Resources Management is more externally focused, this goal and our accomplishments regarding workforce planning and diversity demonstrate that OPM recognizes that addressing our internal human capital issues must be a part of our overarching response to this challenge.

Human Resources & EEO Goal 3:

Innovative employee education and training programs and practices cultivate a workforce that is flexible, optimally trained, and capable of adapting to changing technology.

Status: Goal Not Met

Key FY 2002 Results: We continued to focus on workforce development initiatives to create a highly skilled and resilient workforce. We administered a variety of leadership development programs to support our succession planning efforts; we inaugurated a pilot Virtual University that provides OPM employee participants with on-demand access to more than 1,800 online courses; and we expanded the services of our Career Resources Center. Despite these actions, employee survey data indicated a decrease in employees’ perception of their access to training and developmental opportunities. This finding will require careful tracking in future surveys. The critical indicator for this goal is the degree to which the agency accomplishes its strategic goals.

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Business Process Indicator	FY 2000 Results	FY 2001 Results	FY 2002 Results
% of OPM annual performance goals met	88%	92%	73%

Customer Satisfaction Indicator	FY 2000 Results	FY 2001 Results	FY 2002 Results
% of employees indicating they believe they have access to training and developmental opportunities	60%	75%	63%

Link to Management Challenge: Although the management challenge regarding Human Resources Management is more externally focused, this goal and our accomplishments regarding employee development demonstrate that OPM recognizes that addressing our internal human capital issues must be a part of our overarching response to this challenge.

Human Resources & EEO Goal 4:

OPM's work environment attracts, retains and satisfies employees and managers.

Status: Goal Not Met

Key FY 2002 Results: Despite the individual success of various initiatives and activities during the fiscal year, overall levels of employee satisfaction in key dimensions declined in FY 2002, according to survey data. This is a normal by-product of restructuring efforts such as OPM's. In FY 2002, the percent of employees completing exit surveys and citing family and work/life issues as their reason for leaving rose from 4 percent to 12 percent. While this reflects a modest increase, we continue to experience a very low rate of employees who leave the agency due to family and work/life issues.

Employee Satisfaction Indicators	FY 2000 Results	FY 2002 Results
% of employees indicating that they felt valued	77%	60%
% of employees indicating that OPM's work environment, policies and family-friendly programs support their work/life responsibilities	76%	65%
% of employees who felt they had access to the training and developmental opportunities needed to do their jobs	75%	63%
% of employees who reported they were satisfied with their job overall	78%	67%
% of managers and supervisors indicating that they are satisfied with OPM's family-friendly policies and the advisory and consultative services provided by the Office of Human Resources and Equal Employment Opportunity.	82%	60%

Exit Interview Indicators	FY 2001 Results	FY 2002 Results
% of employees leaving OPM due to family and work/life problems	4%	12%

Link to Management Challenge: Although the management challenge regarding Human Resources Management is more externally focused, this goal and our accomplishments regarding recruiting and retaining the talent of OPM's workforce demonstrate that our internal human capital issues are a part of our overarching response to this challenge.

Human Resources & EEO Goal 5:

OHREEO uses the best available technology for personnel data processing and recordkeeping to provide fast, accurate and efficient human resources services.

Status: Goal Met

Key FY 2002 Results: Overall, we were successful in accomplishing this goal. We successfully completed a major conversion to a Web-based personnel data system – the backbone of our transaction processing and data-keeping operations. This seamless migration was accomplished without any delays or major processing errors, and was transparent to our clients. We also met or exceeded high Governmentwide standards of accuracy and timeliness. Finally, streamlined services and automated systems were in place, as our Delegated Examining Unit enabled us to issue 210 competitive certificates, rather than purchase these services from an outside source, resulting in savings of approximately \$210,000.

Link to Management Challenge: None; there are no management challenges that pertain to OPM’s personnel processing and recordkeeping systems.

Human Resources & EEO Goal 6:

OPM’s work environment promotes and values diversity, and is free from unlawful discrimination.

Status: Goal Met

Key FY 2002 Results: We were successful in accomplishing this goal as indicated by a significant reduction in EEO complaint activity and improvements in the overall diversity of our workforce.

Business Process Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results
Representation of women in OPM workforce*	63.0%	63.2%	63.1%	N/A
Overall minority representation in OPM workforce*	34.9%	35.2%	36.7%	N/A
# of internal grievances and EEO complaints (OPM employees)	16	21	25	13
# of external grievances and EEO complaints (non-OPM employees)	15	12	10	6

*Based on OPM’s most recent (FY 2001) AEP accomplishment report. The data for the FY 2002 AEP report was not available when this report was prepared.

Link to Management Challenge: Although the management challenge regarding Human Resources Management is more externally focused, this goal and our accomplishments regarding workforce diversity demonstrate that OPM recognizes that addressing our internal human capital issues must be a part of our overarching response to this challenge.

Contracting and Administrative Services Goal 1:

Agency space planning supports program office strategic plans.

Status: Goal Met

Key FY 2002 Results: To ensure the continued alignment of the agency’s office space management program with OPM’s strategic plan during FY 2002, we completed a review of the FY 2001 space plan in light of the agency’s restructuring plans. Our review identified \$1.5M in multi-year funds, which we have set aside to fund anticipated office renovations pertinent to restructuring and have reallocated \$1,000,000 of FY 2002 funds to cover expenses related to heightened security following the September 11, 2001 terrorist attacks and changes to the agency’s emergency preparedness programs. The bulk of this \$1,000,000 was used to establish an around-the-clock watch center in OPM’s headquarters — the Theodore Roosevelt Office Building.

In addition, we continued to ensure that program office rent charges were linked to program strategic plans, are accurate and are equitably distributed among programs. Our ongoing review of the monthly rent bill and ongoing negotiations with the General Services Administration identified more than \$700K in annual savings in FY 2002.

Link to Management Challenge: None; there are no management challenges that pertain to OPM’s space management services.

Contracting and Administrative Services Goal 2:

Provide quality procurement services to OPM’s program offices.

Status: Goal Met

Key FY 2002 Results: We continued to generate savings in procurement costs as a result of increased purchase card use, as shown in the table below. In addition, 79.9 percent of all service contracts awarded contained performance-based service contract principles.

Business Process Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results
Purchase card transactions	15,699	19,229	35,507	49,798
Administrative savings*	\$1,103,458	\$1,269,114	\$2,413,766	\$3,486,156

*Administrative savings are calculated using the 1993 Procurement Executives Association’s study group’s estimate of \$66 saved per purchase card transaction in FY 2000 escalated by 3 percent for FY 2001 and FY 2002, which equates to a savings of \$70 saved per purchase card transaction.

Link to Management Challenge: None; there are no management challenges that pertain to OPM’s procurement services.

Contracting and Administrative Services Goal 3:

Improve mail management services to reduce postage and shipping costs.

Status: Goal Met

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Key FY 2002 Results: We continued to improve our internal mail service by decreasing number of pieces of mail not sorted by ZIP + 4, while increasing the number of pieces of mail eligible for pre-sort discounts.

Business Process Indicators	FY 1998 Results	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results
Pieces of mail processed total	N/A	N/A	N/A	3,618,827	3,769,914
% without ZIP + 4	N/A	N/A	N/A	63%	43%
Mail eligible for pre-sort discounts	7%	15%	18%	37%	51%
Total pre-sort discount savings	\$22,214	\$36,414	\$43,190	\$68,833	\$76,585*
Rental postal boxes	40	19	16	13	9
Total cost of rented boxes	\$17,900	\$8,766	\$6,944	\$9,160	\$6,828**

*Postal rate increases in excess of nine percent were put into place for the last quarter of FY 2002. Although our total number of pieces eligible for discount increased during the fiscal year, the postal rate increase decreased our total savings for the fiscal year.

**Although the number of rental postal boxes has decreased, the total cost appears skewed due to a significant price increase (35% on average) per box by USPS in FY 2001.

Link to Management Challenge: None; there are no management challenges that pertain to OPM's mail management services.

Contracting and Administrative Services Goal 4:

Local voice telecommunications services are improved.

Status: Goal Met

Key FY 2002 Results: During FY 2002, we increased the number of employees with automated local voice services by installing a new voicemail system for an element of OPM's Retirement Information Service. This provided voicemail service to approximately 65 employees who previously did not have this service. We also upgraded the agency's Visual Messenger service to provide an interface between an employee's voicemail and desktop PC, making the receipt, retrieval and management of faxes and voicemail more convenient and intuitive for approximately 250 additional employees. Finally, we reduced costs and number of lines by conducting annual phone line inventories and correcting billing errors.

Business Process Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results
Telephone lines eliminated	85	130	432	377
Savings	\$15,000	\$20,000	\$101,800	\$85,918

Link to Management Challenge: None; there are no management challenges that pertain to OPM's voice and telecommunications services.

Contracting and Administrative Services Goal 5:

Facilities systems and customer services are improved to increase employee productivity, satisfaction and awareness.

Status: Goal Met

Key FY 2002 Results: During FY 2002, we worked in tandem with other Federal and local security agencies as a part of the Federal Government's coordinated response to the 9/11 attacks. Our overriding strategy in these efforts was to first provide for the safety of OPM employees. We made significant improvements to our Occupant Emergency Plan, which included distributing to all employees and contractors a pamphlet summarizing the plan and describing their responsibilities during an evacuation. Other improvements to our Emergency Evacuation Plan ensured that we more accurately account for each employee and contractor following an evacuation.

To improve our Personnel Security Program, we implemented an electronic fingerprint scanning system that significantly increased the timeliness and quality of personnel security investigations on OPM employees. We completed an agencywide review of all employees to determine whether basic investigative requirements had been met and conducted additional investigative work when this review revealed the need for it.

Finally, we upgraded our physical security program by implementing heightened security standards that include employee, contractor and visitor access procedures, and inspection of all packages brought into the TRB. We upgraded the building Access System software to include better tools for database management and the use of proximity card readers and reissued all employee photo-identification cards and credentials. During FY 2003, we will install a new digital storage and retrieval system for the agency's closed circuit TV cameras that will allow our security staff to better manage the pictures being recorded inside and outside our main office building.

Link to Management Challenge: None; there are no management challenges that pertain to the maintenance of OPM's personnel and facility security plans.

Contracting and Administrative Services Goal 6:

Administration and OPM policy objectives are fulfilled.

Status: Goal Met

Key FY 2002 Results: We ensured that OPM administrative policies are aligned with the Administration's, particularly as they relate to the Administration's response to the 9/11 attacks. For instance, we began an intensive review of OPM's Continuity of Operations and Business Continuity and Contingency plans by contracting with a private firm to work with all agency components to reorganize and update their respective contingency plans. We also built and activated two Continuity of Operations Watch centers and one new agency relocation site. Together, these sites substantially improve OPM's readiness and response capabilities in emergencies.

Also, OPM complied with Administration objectives under the President's Management Agenda for competitive sourcing as we identified two activities, representing 202 FTE, for A-76 competitions during FY 2003. The 202 FTE well exceeded OMB's 10 percent target goal for A-76 competitions (164 FTE) for FY 2003. We complied with the FAIR (Federal Activities Inventory Report) Act as our inventory of commercial activities was submitted to OMB on June 28, 2002. In addition, we completed competitive sourcing competitions involving four activities representing 86 FTE, thereby meeting our 5 percent target regarding A-76 competitions for FY 2002.

Link to Management Challenge: None; there are no management challenges that pertain to OPM's Continuity of Operations planning and implementation.

Chief Information Officer Goal 1:

IT operational support and services, which are provided in an efficient and effective manner, meet customer requirements and facilitate program offices' achieving strategic goals.

Status: Goal Met

Key FY 2002 Results: We met this goal as, during FY 2002, we built upon the FY 2001 realignment of agencywide IT support that consolidated most services in OCIO to enhance customer support.

One of the key improvements in FY 2002 was in Help Desk responsiveness where we enhanced skill levels and resources among call center staff so that 68 percent of Tier I calls were resolved in an average of under 8 minutes and higher priority Tier II problems were resolved in an average of 2.5 hours. We also began more formal tracking and analysis of Help Desk requests, identifying source, type of request, and time to close for the more than 13,000 calls received. This will provide a base line of performance information for future years.

We continued to improve the agency wide IT infrastructure by deploying more than 1,000 new computer systems throughout the agency and updating more than 2,000 systems so that virtually every OPM employee and on-site contractor is using a desktop system that meets agencywide standards. We also began consolidating OPM's various PC networks into a single integrated system, which will significantly improve network operations.

Link to Management Challenge: Other than the Retirement Systems Modernization Project, which is addressed elsewhere in this report, OPM has no management challenges concerning its information technology resources.

Chief Information Officer Goal 2:

Our mission-critical systems, infrastructure and information are protected by a robust IT security system.

Status: Goal Met

Key FY 2002 Results: We have ensured that OPM's IT resources are fully protected against loss or compromise. During the fiscal year, we updated our Computer Security Policy and disseminated a computer security Program Guide to OPM's executive staff. We continued to enhance our computer security plans for our two major IT infrastructure systems and finalized the certification and accreditation of these two systems on schedule. As a result of our active computer security program, our infrastructure and information suffered no intrusions or losses during FY 2002.

Also, in our GISRA Plans of Actions and Milestones reports, we have addressed audit recommendations to strengthen our security program. None of the audit findings constituted material weaknesses. In addition, we have an ongoing security scanning and intrusion detection program to identify any technical vulnerabilities to our network, and we apply the software patches necessary to fix identified vulnerabilities.

Finally, we enhanced our disaster recovery capability by adding the capability to restore our new financial management system. Our disaster recovery capability has been in place for several years and provides for full, off-site recovery for all mainframe/enterprise server based mission-critical systems, and is tested annually. During FY 2003, we expect to implement a recovery plan for our key local area network and client server based applications, which will include a mirroring capability for these critical systems.

Link to Management Challenge: Other than the Retirement Systems Modernization Project, which is addressed elsewhere in this report, OPM has no management challenges concerning its information technology resources.

Chief Information Officer Goal 3:

Continuing improvements to our IT capital planning, control and development process are implemented to assure optimal decisions on technology investments and the efficient and effective design and operation of the IT systems that achieve our strategic goals.

Status: Goal Met

Key FY 2002 Results: We continued revising our IT capital planning and investment control processes to ensure that OPM's IT investments produce the intended results. We also continued to realign most IT support services into OPM's Office of the Chief Information Officer, and thereby have been able to provide improved technical review and oversight of most major IT projects at all stages of their life cycle.

During FY 2002, all of OPM's major IT initiatives and project proposals were determined to be in compliance with our Enterprise Architecture and other IT requirements, e.g., security and accessibility. These initiatives include the Retirement System Modernization Project and OPM's five e-Gov initiatives. In addition, because our Network Management Center provides agencywide management of our local and wide area network infrastructures, we are able to ensure that all hardware or software on our network conforms to our standards and that client server based applications conform to OPM's Technical Reference Model in our Enterprise Architecture.

To ensure that all IT projects follow a rigorous methodology, we have developed and implemented an agencywide methodology, the IT System Manager. Thus, OPM's major IT projects, e.g., the Retirement Systems Modernization, will either follow rigorous project management and development methodologies that are mandated as part of their contracts or they will use the IT System Manager. All of OPM's major IT projects currently remain on schedule and within budget.

The IT System Manager also supports and provides the foundation for meeting the standards of the Software Engineering Institute's Capability Maturity Model (CMM). In addition, we strengthened our overall quality assurance function by providing additional staff for that activity, and we soon will procure an agencywide automated configuration management system, which is a key component of the CMM.

Link to Management Challenge: Other than the Retirement Systems Modernization Project, which is addressed elsewhere in this report, OPM has no management challenges concerning its information technology resources.

Chief Information Officer Goal 4:

A sound and integrated agencywide IT architecture provides a standards-based, interoperable and secure technology environment that meets OPM staff needs.

Status: Goal Met

Key FY 2002 Results: We continued to meet this goal as we maintained OPM's Enterprise IT Architecture, which includes a standards-based Technical Reference Model. We also began a comprehensive update to

our Enterprise Architecture and ensured full compliance with OMB guidance and the Federal Enterprise Architecture Framework. All OPM IT acquisitions and implementations comply with our Enterprise Architecture, which is focused on ensuring interoperability and security of our IT infrastructure while meeting the technology support needs of our customers. Our Network Management Center manages the agencywide local and wide area network infrastructure, including the connection of all IT devices to the network and the installation of software on those devices. We also manage the mainframe/enterprise server IT infrastructure and the agencywide technology refreshment program. This centralized approach to managing OPM's IT infrastructure ensures that only Architecture-compliant hardware and software are procured and added to our environment.

Link to Management Challenge: Other than the Retirement Systems Modernization Project, which is addressed elsewhere in this report, OPM has no management challenges concerning its information technology resources.

Chief Information Officer Goal 5:

An information resources management program is in place that meets the requirements of the Paperwork Reduction, Freedom of Information and Privacy Acts, and ensures that OPM's critical records are safeguarded.

Status: Goal Met

Key FY 2002 Results: Our information resources management program continues to meet the essential legal and regulatory requirements. To help improve the program, we hired an experienced team leader and focused on training existing staff. Few problems were identified during internal and external evaluations and those that were identified were not material weaknesses and were rectified promptly. During the year, our Inspector General conducted an agencywide review of the handling of Social Security Number data and, while this review identified several areas for improvement in records management, no material weaknesses were identified.

Link to Management Challenge: Other than the Retirement Systems Modernization Project, which is addressed elsewhere in this report, OPM has no management challenges concerning its information technology resources.

Chief Financial Officer Goal 1:

Prepare financial statements by the statutory due date and earn an unqualified audit opinion on the OPM financial statements.

Status: Goal Met

Key FY 2002 Results: OPM received an unqualified opinion on its FY 2002 consolidated financial statements. This was the 2nd year in a row that we received a clean opinion. In addition, we have no material weaknesses outstanding. In accordance with the provisions of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), we assessed the adequacy of our management controls in FY 2002. Finally, we improved our internal accounting processes as shown below.

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Business Process Indicators	FY 1998 Results	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
Timeliness of payments	90%	91%	94%	97%	98%	99%
Accounts receivable delinquency (% of debt over 181 days, versus total debt)	38%	7%	22%	6%	6%	24%
Identify and research cash accounts differences with Treasury	90 days	30 days	30 days	30 days	30 days	30 days

*Results revised from previous reports.

Link to Management Challenge: This goal relates to the management challenge concerning the Revolving Fund and Salaries and Expenses accounts since the specific areas of OIG concern — the reconciliation of fund balances with Treasury and Disbursements in Transit Accounts and Data Reconciliation and Control — could be impediments for producing timely and accurate financial statements at the close of each fiscal year.

Chief Financial Officer Goal 2:

Modernize OPM's administrative financial management systems.

Status: Goal Met

Key FY 2002 Results: During FY 2002, we modernized our administrative financial management functions as we launched a new core financial management system that supports all of OPM's major financial management and budget accounts including, the Revolving Fund programs, Salaries and Expenses Account and Inspector General Accounts. The system includes modules for funds management, accounts receivable, purchasing accounts payable, project cost accounting, automated disbursements, procurement, general ledger functions, and external reporting.

Also in 2001, we implemented a single-entry on-line time and labor distribution system. In addition, to provide program managers with accurate, useful and timely information, we developed a data warehouse that uses data from our various financial management systems. Finally, in April 2002, we implemented a Web-based paper-free travel and miscellaneous reimbursement system with built-in edits to ensure correct input and proper authorization.

Link to Management Challenge: Our accomplishments under this goal directly address the management challenge concerning the financial accounting for OPM's Revolving Fund and Salaries and Expenses accounts.

Chief Financial Officer Goal 3:

Financial management support and reporting is provided to ensure that OPM's core functions can meet their goals and objectives.

Status: Goal Met

Key FY 2002 Results: The implementation of our new financial management systems has better enabled OPM to provide financial management support to its program offices and track budgetary resources to performance goals. As required, we issued our FY 2001 Performance and Accountability Report to OMB and Congress in March 2002. For FY 2003, OPM issued a combined Annual Performance Plan and Congressional Budget Justification in February 2002. This document aligned annual and strategic goals and specified the resources required for each goal by fund source.

Also, during FY 2002 we revised our Strategic Plan; one year earlier than required by the Government Performance and Results Act. Our new Strategic Plan covers FY 2002 through FY 2007, reflects the agency's new priorities and restructuring, and explains how OPM is carrying out the President's Management Agenda, particularly in the area of human capital. In September 2002, OPM submitted its FY 2004 budget request to OMB, including the initial annual performance plan. The budget request and annual plan are tied to OPM's new strategic plan and restructuring.

Link to Management Challenge: Our accomplishments under this goal directly address the management challenges concerning the implementation of the GPRA and the financial accounting for OPM's Revolving Fund and Salaries and Expenses accounts.

Chief Financial Officer Goal 4:

Improve OPM's implementation of the Government Performance and Results Act.

Status: Goal Not Met

Key FY 2002 Results: Because we redirected resources to meet the challenges of developing a legislative proposal for the Department of Homeland Security, the President's Management Agenda, our revised Strategic Plan, and the restructuring of the agency, we were not able to implement the improvements we had planned for our GRPA processes. However, we documented and strengthened controls over performance data for the retirement and insurance programs and workforce compensation and performance programs. In addition, we established agencywide certification of performance data regarding the submission of performance data from all programs. We completed all required GRPA-related documents and reports within the timeframes required by the Results Act. Evaluations of our FY 2001 Performance and Accountability Report were not favorable or not improved over prior years. However, our restructuring plans, approved by the Director at the end of FY 2002, include establishing a formal strategic planning and performance measurement and reporting function within the Office of the Chief Financial Officer so that appropriate resources will be focused on implementing the GRPA in the future.

Link to Management Challenge: The improvements we made regarding the controls over performance data address the management challenge of Implementing GPRA.

Inspector General Goal 1:

Provide independent oversight of agency programs, operations, functions and activities.

Status: Goal Met

Key FY 2002 Results: OPM's Inspector General continued to provide independent oversight of the agency's programs, operations and activities during FY 2002. While we did not meet target levels for some business process indicators, this does not signal a decline in audit and oversight activity. It is difficult to predict the exact number of audits that will be completed in a given fiscal year since auditing priorities often change throughout the year. In addition, target levels often assume staffing levels that may not be maintained due to attrition.

However, the actual questioned costs per audit are very close to the original target that we set. The FEHBP audit recovery rate is lower than both our original target and previous year's experience as a result

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of a settlement agreement between a large health carrier participating in the FEHBP, the Department of Justice, and OPM. The impact of the settlement is that approximately \$56.3 million of questioned costs will not be recovered. This type of settlement is unusual and it significantly affects the recovery rate percentage. The financial indicators exceeded predicted target levels and show that OIG activities are financially beneficial to the agency, the Federal Government, and the taxpayer.

Business Process Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
Insurance audit reports questioned costs	54 \$51.9m	68 \$150.7m	65 \$145m	65 \$145m	58 \$129M
CFC audit reports	4	8	15	15	6
Performance audit reports	N/A	N/A	8	8	11
FEHBP audit recovery rate	74%	72%	85%	70%-75%	58%
FEHB audit cycle	5.4 years	4.5 years	4.0 years	4.0 years	4.0 years
Average FEHB unaudited years	5.5 years	5.4 years	5.2 years	5.1 years	5.1 years
Carriers not audited w/in 5 yr retention period	197	153	145	135	135

Financial Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
Positive financial impact (recoveries + costs disallowed by OPM program offices)	\$51.9m	\$105.2m	\$242.1m	\$100m	\$116m
Return on investment (positive financial impact per direct OIG program \$ spent)	\$6	\$11	\$25	\$10	\$12

(Critical indicators)

Link to Management Challenge: The Inspector General's activities to provide independent oversight of the FEHB Program reflects the management challenge "Oversight of the Federal Employees Health Benefits Program," and recognizes the significant OIG resources required to fully resolve this issue.

Inspector General Goal 2:

Assist and work with our customers and stakeholders in a spirit of cooperation.

Status: Goal Not Met

Key FY 2002 Results: This goal is being dropped from future performance plans since it represents a business strategy, and not a program outcome. Nonetheless, OPM's IG continues to place great emphasis on working with OPM program offices to resolve problems that it identifies, while maintaining a high level of independence necessary to objectively carry out its mission. Key to this philosophy is the QIT approach, in which OIG staff work together with OPM program staff to develop solutions to issues for the benefit of the agency.

Performance Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
Issues addressed and/or resolved by Quality Improvement Teams	9	10	11	As needed	3
OIG joint investigations or multi-agency task forces	147	147	120	120	163

(Critical indicators)

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Link to Management Challenge: As a general business strategy for the OIG, maintaining a spirit of cooperation through Quality Improvement Teams supports all of the financially related management challenges, including the Revolving Fund and Salaries and Expenses accounts, implementing GPRA, and financial oversight of the FEHB Program.

Inspector General Goal 3:

Fraud against OPM programs is detected and prevented.

Status: Goal Met

Key FY 2002 Results: We used the Common Rule Debarment Authority during FY 2002 to strengthen the prevention and detection of fraud in the Federal Employees Health Benefits Program. We are currently very close to implementing Public Law 105-266, the Federal Employees Health Care Protection Act of 1998. Under this statute, the OIG will issue sanctions, including suspensions, debarment, and financial assessments of health care providers for violations committed against the health benefits program (workload indicators in FY 2003 will be mandatory debarments and permissive debarments in the table below). The cases retained for investigation are lower than originally projected due to attrition that has occurred among our fraud investigations staff.

Performance Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Target	FY 2002 Results
Cases retained for investigation	634	650	570	570	247
Investigative referrals received	1,882	1,514	1,600	1,600	1,441
Arrests	17	14*	27	13*	16
Indictments	13	14*	28	14*	17
Convictions	14	14*	22	17*	24
Referrals to DOJ	40	50	50	50	62
Common rule debarments	2,743	2,706	4,032	0	3,380
Mandatory debarments (statutory)	N/A	0	0	4,000	NA
Permissive debarments	N/A	N/A	0	100	NA
Debarment inquiries	1,101	1,725	2,119	2,800*	3,827

(Critical indicators) *These data have been recalculated since being reported in the FY 2001 Performance and Accountability Report or the FY 2003 Annual Performance Plan.

Link to Management Challenge: The Inspector General's activities to detect and prevent fraud and abuse in OPM's programs are in line with challenge of maintaining financial oversight of the FEHB Program.

COMPLETENESS AND RELIABILITY OF PERFORMANCE DATA

The completeness and reliability of performance information used by OPM in its Performance and Accountability Reports, and Annual Performance Plans improved during FY 2002. We strengthened controls over the collection of performance data in two program offices and the preparation of program office submissions for the Performance and Accountability Report. These strengthened controls include documented data collection procedures and quality standards for performance information reported by the Retirement and Insurance Programs, and documented data collection procedures for the Workforce Compensation and Performance programs. To improve controls over program office submissions for our

Performance and Accountability Reports, we began implementing certifications to the Director by program managers and executives concerning the accuracy and reliability of performance data provided for their specific organization.

Based on a review of the performance information used in this Report by OPM's Office of the Inspector General, we recognize that we need to improve the policies and procedures for obtaining and compiling performance data. Policies and procedures are an important internal control element in assuring the reliability of performance data. These policies and procedures should include program evaluations and field verification of selected indicators to test the accuracy and reliability of reported data. While we have accepted all of the Inspector General's recommendations regarding performance information, we note that these issues do not represent pervasive or significant weaknesses in the quality of the data throughout the agency. In fact, most of the performance information used in this report is reliable and accurate. The wealth of performance data reported for the retirement and insurance programs is highly reliable and accurate. The customer feedback we collect through our Web sites, during conferences, and from our program specific surveys is also very reliable and accurate.

To further improve the quality of our performance information as suggested by our Inspector General, we will continue to develop written policies and procedures for agency offices to use for collecting, maintaining, tracking, and preparing performance data results. Documented policies and procedures decrease the likelihood of errors in performance data in annual performance reports. When developed and implemented, such policies and procedures would improve the reliability, consistency, and auditability of performance data presented in annual performance reports. These procedures will include internal controls, such as recalculating figures and tracing results to supporting documentation, to support the review and certification of the accuracy of performance data.

We recognize we need to improve the administration of some of our primary data collection mechanisms, such as the Human Resource Directors and Human Resource Specialists surveys so that these instruments are conducted on a timely basis. Also, we recognize that we need to better focus our measures and indicators on program results, and less so on program activities. However, we believe that the restructuring of the agency provides opportunities for OPM to consolidate resources in our Office of Management and the Chief Financial Officer and in the business management components of OPM's four major organizations to solidify the administration of these data collections and to strengthen other aspects of the implementation of the Government Performance and Results Act at OPM.

We undertook a review of our outcomes and measures during FY 2002. With the assistance of an expert committee that included representatives of the Mercatus Center at George Mason University, the General Accounting Office, the Private Sector Council, and the National Association of Public Administrators (NAPA), we revised the OPM Strategic plan which included revised strategic goals, objectives, and corporate measures that realigned the agency's performance measurement system with agency outcomes using the President's Management Agenda and the Management Challenges identified by the Office of the Inspector General as a foundation. The measurement framework described in our revised Strategic Plan is a cornerstone for our Annual Performance Plan for FY 2004, which has fewer, but more outcome-oriented annual goals, and specific performance measures that are linked to these outcomes and speak to the program results we expect during FY 2004.

Although each OPM program office develops some performance indicators unique to its program area, much of the agency's performance data is collected through the following mechanisms:

The Federal Human Capital Survey on Human Capital was designed and administered as a Web-based survey to support the human capital initiative under the President's Management Agenda. Accommodations were also made for a limited number of employees who did not have Internet access or preferred a paper version. It was undertaken in 2002 to establish a uniform indicator of employee attitudes across agency lines and to create a single yardstick for all agencies to track their progress against each other and over time. Together with other measures, the survey results will be a powerful tool for driving improvement in human capital management.

In order to provide context and enrich our understanding of what they mean, survey results have also been compared to results on the same or similar items from the Merit Systems Principles Questionnaire (MSPQ), an annual survey conducted by OPM until 2001, which is the immediate forerunner of the present survey.

Those surveyed were drawn from 24 agencies which cover about 93% of the civilian Federal workforce. A sample of roughly 216,000 Federal employees was selected by a stratified random sample of these agencies. More than 100,000 employees completed the survey, resulting in a 48% usable response rate. We have undertaken a study to assess the extent of non response bias, pertinent to the 48% response rate, and its implications for interpreting these survey results.

The HR Specialists' Customer Satisfaction Survey (SCSS) is administered annually and collects information from agency staff working in human resources management positions regarding the quality, usefulness, and effectiveness of the advice, assistance, training, informational materials, and other support the agency provides to these staff for the administration of HR programs across Government.

The Web-based survey was administered to more than 18,000 Federal employees across the country, using two methodologies. Approximately half of the participating agencies used option one, which allowed us to send frequent email reminders to individual employees, asking them to complete the survey. The other agencies utilized a second option, in which they were responsible for notifying employees of the survey and reminding them to complete it. The response rate for option one was 36.9%, and for option two 8.4%. The overall rate was 26%, with a margin of error of $\pm 1.2\%$. Because of the low response rate for option 2, we will not offer the second option in the FY 2003 survey.

The HR Directors' Customer Satisfaction Survey (DCSS) The HR Directors' Customer Satisfaction Survey (DCSS) is administered annually and collects information from agency human resources directors. This Web-based survey was redesigned in FY 2002 to emphasize human capital management issues and the results of OPM activities in this field. The population was also expanded to include nearly 90 HR directors. Fifty-nine HR directors responded, for a response rate of 66%, a substantial improvement from the less than 50% rate in FY 2001, and the margin of error dropped from 12.1% to 7.4%.

Client Satisfaction Survey (of Retirement Program customers). OPM has conducted annual customer satisfaction surveys of Civil Service retirees and survivor annuitants since 1990. The purpose of the survey is to determine the level of client satisfaction among retired employees and survivor annuitants with services provided to them by the agency. The areas covered by the survey include processing claims for retirement benefits, answering correspondence, handling telephone inquiries, processing transactions for existing accounts, and the extent and quality of retirement counseling which the annuitants received from their

former employing agencies. Only annuitants retired in the last two years were asked to complete the retirement counseling section. The survey is mailed to approximately 650 individuals each year, and typically has a response rate of about 65%.

The Customer Assessment of Health Plans Study (CAHPS) is the primary vehicle for assessing health plan performance within the Federal Employees Health Benefits (FEHB) Program. This survey instrument is the health care industry's most thoroughly tested and widely accepted tool for obtaining customer feedback regarding health plan performance. It has several components which use both the Internet and mail, with varying sample sizes and response rates. CAHPS-based results are published in the annual FEHB Open Season Guide for each carrier participating in the Program.

The American Customer Satisfaction Index (ACSI) is an econometric indicator that was developed by the National Quality Research Center at the University of Michigan Business School and has been used in the private sector to measure customer satisfaction since 1994. It is based on modeling of customer evaluations of the quality of goods and services that are purchased in the United States. OPM began participation in the ACSI in 1999 as an objective measurement of customer satisfaction that validates and complements the agency's surveys. Those surveyed were Federal retirees and survivor annuitants. For 2002, OPM's overall satisfaction score was 78 on a scale of 100, matching the score for 2001 and five points higher than achieved in 2000. The overall rating for private and public sectors combined was 73.1 in 2002.



FY 2002 CONSOLIDATED FINANCIAL STATEMENTS

U.S. OFFICE OF PERSONNEL MANAGEMENT CONSOLIDATED BALANCE SHEET

As of September 30, 2002 and 2001

(In Millions)

	2002	2001
ASSETS		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	\$853	\$658
Investments [Note 3]	606,421	572,812
Interest Receivable on Investments	9,400	9,230
Accounts Receivable [Note 4]	1,159	945
Total Intragovernmental	617,833	583,645
Accounts Receivable with the Public, Net [Note 4]	1,016	961
Assets Held by Insurance Carriers	735	701
General Property and Equipment	19	13
TOTAL ASSETS	619,603	585,320
LIABILITIES		
Intragovernmental	462	132
Federal Employee Benefits:		
Benefits Due and Payable	7,513	7,202
Pension Liability [Note 5]	1,082,500	1,069,500
Postretirement Health Benefits Liability [Note 6]	207,331	191,507
Actuarial Life Insurance Liability [Note 7]	27,543	26,149
Total Federal Employee Benefits	1,324,887	1,294,358
Contingencies [Note 14]	205	174
Other [Note 8]	986	842
Total Liabilities	1,326,540	1,295,506
NET POSITION		
Unexpended Appropriations	11	11
Cumulative Results of Operations	(706,948)	(710,197)
Total Net Position	(706,937)	(710,186)
TOTAL LIABILITIES AND NET POSITION	\$619,603	\$585,320

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

**U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENT OF NET COST**

For the Years Ended September 30, 2002 and 2001

(In Millions)

	2002	2001
	—	—
	—	—
	\$34,215	\$34,112
	(34,215)	(34,112)
<i>Provide</i>	47,603	71,115
<i>CSRS Benefits</i>	3,542	3,613
	44,061	67,502
	9,846	33,390
	—	—
	19,497	17,759
	(19,497)	(17,759)
<i>Provide</i>	14,187	14,520
<i>FERS Benefits</i>	724	748
	13,463	13,772
	(6,034)	(3,987)
	—	—
	11,240	10,100
	(11,240)	(10,100)
<i>Provide</i>	38,850	20,283
<i>Health Benefits</i>	6,543	5,882
	32,307	14,401
	21,067	4,301
	—	—
	1,787	1,788
	(1,787)	(1,788)
<i>Provide</i>	3,360	3,395
<i>Life Insurance</i>	1,662	1,553
<i>Benefits</i>	1,698	1,842
	(89)	54
	108	69
	345	303
	(237)	(234)
<i>Provide</i>	385	411
<i>Human Resource</i>	40	26
<i>Services</i>	345	385
	108	151
	108	69
	67,084	64,062
	(66,976)	(63,993)
<i>Total</i>	104,385	109,724
<i>Net Cost</i>	12,511	11,822
<i>of Operations</i>	91,874	97,902
	\$24,898	\$33,909

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 For the Year Ended September 30, 2002
(In Millions)

	Cumulative Results of Operations	Unexpended Appropriations	Net Position
Beginning Balances, as Previously Reported			
Cumulative Effect of Accounting Change [Note 15]	(\$710,197)	\$11	(\$710,186)
Beginning Balances after Accounting Change	(710,375)	11	(710,364)
Financing Sources			
Budgetary:			
Transfer-in from General Fund	22,109	—	22,109
Appropriations:			
Received	—	6,218	6,218
Used	6,205	(6,205)	0
Cancelled and Rescinded	—	(13)	(13)
Other	11	—	11
Total Financing Sources	28,325	0	28,325
Net Cost of Operations	24,898	—	24,898
Ending Balances	(\$706,948)	\$11	(\$706,937)

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the Year Ended September 30, 2002
(In Millions)

BUDGETARY RESOURCES

Appropriations:	
Received	\$6,218
Cancelled	(13)
Trust Fund Receipts:	
Appropriated	80,070
Precluded from Obligation [Note 9]	(30,961)
Spending Authority from Offsetting Collections:	
Collected	27,834
Changes in Receivables from Federal Sources and Unfilled Customer Orders	51
<i>Subtotal</i>	27,885
Unobligated Balance - Beginning of Period	27,685
Total Budgetary Resources	110,884

STATUS OF BUDGETARY RESOURCES

Obligations Incurred:	
Direct	80,354
Reimbursable	562
Unobligated Balance:	
Available	106
Not available	29,862
Total, Status of Budgetary Resources	110,884

RELATIONSHIP OF OBLIGATIONS TO OUTLAYS

Obligations Incurred	80,916
Obligated Balance, Net - Beginning of the Period	6,960
Less: Obligated Balance, Net - End of the Period:	
Accounts Payable and Undelivered Orders	9,006
Accounts Receivable and Unfilled Customer Orders	(1,544)
<i>Subtotal</i>	7,462
Less: Changes in Receivables from Federal Sources and Unfilled Customer Orders	51
Outlays:	
Disbursements	80,363
Collections	(27,834)
Net Outlays	\$52,529

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENT OF FINANCING
 For the Year Ended September 30, 2002
(In Millions)

RESOURCES USED TO FINANCE ACTIVITIES

Budgetary Resources Obligated:	
Obligations Incurred	\$80,916
Spending Authority from Offsetting Collections	(27,885)
Appropriated Trust Fund Receipts	(80,070)
Net Budgetary Resources Obligated	<u>(27,039)</u>
Transfer-in from the General Fund	22,109
Other	11
Total Resources Used to Finance Activities	<u>(4,919)</u>

RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS	35
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COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD

Components Requiring or Generating Resources in Future Periods:	
Increase in Actuarial Liabilities	30,218
Increase in Contingent Liabilities	31
Exchange Revenue not in the Budget	(384)
Components not Requiring or Generating Resources	<u>(83)</u>
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	<u>29,782</u>

NET COST OF OPERATIONS	<u>\$24,898</u>
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The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*U.S. Office Of Personnel Management
Notes To Consolidated Financial Statements
September 30, 2002 And 2001
[In Millions]*

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

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

The financial statements are comprised of the following major Programs administered by OPM:

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

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

Life Insurance Program. The Program provides group term life insurance coverage to Federal employees and retirees. The Program was implemented in 1954 and significantly modified in 1980. It is operated through the Employees Group Life Insurance Fund, a revolving trust fund, and is administered, virtually in its entirety, by the Metropolitan Life Insurance Company under contract with OPM. The Program pro-

vides Basic life insurance (which includes accidental death and dismemberment coverage) and three packages of optional coverage.

The *Revolving Fund Programs* provide a variety of human resource-related services to other Federal agencies, such as pre-employment testing, security investigations, and employee training. *Salaries and Expenses* reflects the resources provided to and used by OPM for the administrative costs of the agency.

B. BASIS OF ACCOUNTING AND PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and OPM's own accounting policies, as summarized in this note. They have been compiled from OPM's records and presented in accordance with the form and content requirements of Office of Management and Budget (OMB). The statements differ from the reports OPM prepares pursuant to other OMB directives to monitor and control the use of its budgetary resources.

C. USE OF MANAGEMENT'S ESTIMATES

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

D. NEW REPORTING STANDARD AND RECLASSIFICATIONS

In September, 2001, OMB issued Bulletin No. 01-09 — *Form and Content of Agency Financial Statements*. OPM has implemented certain provisions of Bulletin No. 01-09 for fiscal year 2002. Certain reclassifications have been made to the prior period to conform with the fiscal year 2002 presentation; these have no effect on OPM's financial position or results of operations.

E. RECENTLY ADOPTED ACCOUNTING CHANGE

Technical Bulletin 2002-1. Effective on October 1, 2001, OPM has adopted Federal Accounting Standards Advisory Board (FASAB) Technical Bulletin 2002-1 - *Assigning to Component Entities Costs and Liabilities that Result from Legal Claims against the Federal Government*. Technical Bulletin 2002-1 requires OPM to recognize liabilities for certain legal claims. Previously, OPM had not recognized such liabilities.

F. FINANCIAL STATEMENT CLASSIFICATIONS

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

Intragovernmental and Other Balances. OPM classifies as intragovernmental, those assets, liabilities, revenues and costs that arise from transactions with other Federal entities, including the U.S. Postal Service (USPS). Even though they are remitted to OPM by Federal entities, employee contributions to the Retirement, Health Benefits and Life Insurance Programs are classified as revenues "from the public". All of OPM's costs to provide Retirement, Health and Life Insurance benefits are classified as "with the public".

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

Liabilities Covered By Budgetary Resources. OPM has no authority to liquidate a liability, unless budgetary resources have been made specifically available to do so. Where budgetary resources have not been made available, the liability is classified as being "not covered by budgetary resources." Since no budgetary resources have been made available to liquidate the Pension, Postretirement Health Benefits, and Actuarial Life Insurance Liabilities, they are classified as being "not covered by budgetary resources." With minor exception, all other OPM liabilities are classified as being "covered by budgetary resources." The change in the Pension, Postretirement Health Benefits, and Actuarial Life Insurance Liabilities from the end of the previous fiscal year comprise most of the amount reported in the Statement of Financing as "components requiring or generating resources in future periods".

Net Position. OPM's Net Position is classified into two separate balances. The Cumulative Results of Operations comprises OPM's net results of operations since its inception. Unexpended Appropriations is the balance of appropriated authority granted to OPM by the Congress against which no outlays have been made.

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

Direct vs. Reimbursable Obligations. A reimbursable obligation reflects the costs incurred to carry-out a contract to provide goods or services that will be reimbursed by the recipient of those goods or services. All other obligations incurred are categorized as "direct obligations." OPM classifies all of its incurred obligations as direct, except those of the Revolving Fund Programs against which only reimbursable obligations may be incurred.

G. NET COST OF OPERATIONS

OPM deducts earned revenues associated with the gross cost of providing benefits and services to derive its net cost of operations.

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

PROGRAM	RESPONSIBILITY SEGMENT
Retirement Program	Provide CSRS Benefits Provide FERS Benefits
Health Benefits Program	Provide Health Benefits
Life Insurance Program	Provide Life Insurance Benefits
Revolving Fund Programs Salaries and Expense Account	Provide Human Resources Services

Earned Revenue. OPM’s major earned revenues are earnings on investments; (2) employer and participant contributions to the Retirement, Health Benefits and Life Insurance Programs; and (3) special contributions to the Retirement and Health Benefits Programs by the USPS.

Employer and Participant Contributions by program are, as follows:

The *Retirement Program* is contributory with the law fixing the contributions by and for most CSRS participants at a combined 15.51 percent of basic pay for fiscal years 2002 and 2001. The service cost of providing a CSRS benefit to most participants is 24.2 percent, which represents the percentage of basic pay that should be contributed by and for employees over their working careers to meet their projected retirement benefits. Thus, contributions by and for participants do not cover the service cost of the CSRS. The contributions made by and for FERS participants fully funds the service cost of providing a FERS benefit after retirement (11.5 percent of basic pay).

The *Health Benefits Program* is contributory; both the covered participant and his/her employer or retirement system make contributions at a ratio of approximately one to two, respectively. The “employer” share for participating Retirement Program annuitants is drawn from an appropriation account. Although the Health Benefits Program provides benefits to participating employees after they retire, neither active employees nor their employing agencies (other than the USPS) make contributions for post-retirement health benefits [Note 6].

The *Life Insurance Program* is contributory, with both the covered participant and his/her employer or retirement system required to make contributions. Participant contributions for Basic life insurance are twice that of the non-USPS employing agency or retirement system. For participating annuitants, the “employer” contribution for Basic life insurance is drawn from an appropriation account. For optional coverages, the entire contribution is borne by the participant.

Special Contributions by the USPS. When the USPS increases the basic pay of its employees who are covered by the CSRS, it is liable by law for the resultant increase in the Pension Liability. This amount is amortized over a 30-year period, including interest at five percent per annum. The first payment is due to OPM at the end of the year in which the covered employees have received the pay increase. The USPS also makes an annual contribution to the Life Insurance and Health Benefits Programs to fund the cost of providing life insurance benefits and post-retirement health benefits to its participating employees.

H. FINANCING SOURCES OTHER THAN EARNED REVENUE

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

Transfer-In From The General Fund. Since the contributions by and for participants do not cover the service cost of the CSRS, the U.S. Treasury is required by law to transfer an amount annually to the Retirement Program from the General Fund of the U.S. to subsidize in part this under-funding.

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

I. BUDGETARY RESOURCES

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

Appropriations. The budgetary resources granted to OPM by Congress to fund the Government’s share of the cost of health and life insurance benefits for Retirement Program annuitants and the operating expenses of the agency. OPM’s appropriations are “definite”, in that the amount of the authority is stated at the time it is granted, and “annual”, in that the authority is available for obligation only during the current fiscal year. At fiscal year-end, any unobligated balances in the appropriations that fund the Government’s share of the cost of health and life insurance benefits for Retirement Program annuitants are cancelled.

Trust Fund Receipts. Collections by OPM that are credited to the CSRDF generate budgetary resources in the form of trust fund receipts. Trust fund receipts are considered to be immediately appropriated and available to cover the valid obligations of the Retirement Program as they are incurred. At the end of each fiscal year, the amount by which OPM’s collections have exceeded its incurred obligations are temporarily precluded from obligation and added to OPM’s trust fund balance [see Note 9].

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

J. FUND BALANCE WITH TREASURY

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

K. INVESTMENTS

OPM invests its FBWT related to the Retirement, Health Benefits, and Life Insurance Programs in securities guaranteed by the United States as to principal and interest. Retirement Program monies are invested initially in Certificates of Indebtedness (“Certificates”), which are issued by the Treasury at par value and mature on the following June 30. The Certificates are routinely redeemed at face value to pay for authorized Program expenditures. Each June 30, all outstanding Certificates are “rolled over” into special government account series (GAS) securities that are issued by the Treasury at par-value, with a yield equaling the average of all marketable Public Debt securities with four or more years to maturity. The Retirement Program also carries, but does not routinely invest in, securities issued by the Federal Financing Bank (FFB) and a small amount of other securities.

Health Benefits and Life Insurance Programs monies are invested in “market-based” securities that mirror the terms of marketable Treasury bills, fixed-principal notes and bonds, and inflation-indexed notes and bonds. In addition, OPM invests Health Benefits and Life Insurance Program monies that are immediately needed for expenditure in “overnight” market-based securities, with a yield equal to the overnight repurchase agreement rate calculated by the Federal Reserve Bank of New York.

Investments are stated at original acquisition cost net of amortized premium and discount. Premium and discount is amortized into interest income over the term of the investment, using the interest method. The market-based securities are valued using the quoted market prices for the securities upon which they are based. There are no quoted market prices for the remaining securities: the market value of the special GAS securities held by the Retirement Program, the Certificates, and the FFB securities is equal to their par values.

L. ACCOUNTS RECEIVABLE

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

M. ASSETS HELD BY INSURANCE CARRIERS

This represents the balance of assets held by the experience-rated carriers participating in the Health Benefits Program and by the Life Insurance Program carriers, pending disposition on behalf of OPM.

N. GENERAL PROPERTY AND EQUIPMENT

OPM capitalizes major long-lived software and equipment. Software costing over \$10 thousand is capitalized at the cost of either purchase or development, and is amortized using a straight-line method over a useful life of five years. Equipment valued costing over \$10 thousand is capitalized at purchase cost and depreciated via a straight-line method over five years. The cost of minor purchases, repairs and maintenance is expensed as incurred.

O. BENEFITS DUE AND PAYABLE

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

P. ACTUARIAL LIABILITIES AND ASSOCIATED EXPENSES

OPM records actuarial liabilities and associated expenses in accordance with SFFAS No. 5 — *Accounting for Liabilities of the Federal Government*. The actuarial liabilities are measured as of the first day of the year, with a “roll-forward” or projection to the end of the year, in accordance with SFFAS Interpretation Number 3 — *Measurement Date for Pension and Retirement Health Care Liabilities*. The “roll-forward” considers all major factors that affect the measurement that occurred during the reporting year, including pay raises, cost of living allowances, and material changes in the number of participants.

NOTE 2 — FUND BALANCE WITH TREASURY

Fund Balances. OPM’s FBWT balances by account type for fiscal years 2002 and 2001 are:

	2002	2001
Revolving Fund	\$136	\$34
Trust Fund	26	31
Trust Revolving Fund	17	19
Appropriated Funds	674	574
Total FBWT	\$853	\$658

Status of Unexpended Balances. OPM’s unexpended balances are comprised of its FBWT, its investments (at par), and the original discount on its investments. The following tables present the portions of OPM’s unexpended balances that are obligated, unobligated and precluded from obligation at fiscal year-end 2002 and 2001, respectively:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Retirement Program	Health Benefits Program	Life Insurance Program	Other	2002
Unexpended Balance					
FBWT	\$26	\$617	\$8	\$202	\$853
Investments (at par)	573,713	7,554	25,350	–	606,617
Original discount	(2)	(10)	(549)	–	(561)
Total Unexpended Balance	\$573,737	\$8,161	\$24,809	\$202	\$606,909
Status of Unexpended Balance					
Obligated	\$4,258	\$2,894	\$214	\$96	\$7,462
Unobligated:					
Available	–	–	–	106	106
Unavailable	–	5,267	24,595	–	29,862
Precluded from Obligation [Note 9]	569,479	–	–	–	569,479
Total, Status of Unexpended Balance	\$573,737	\$8,161	\$24,809	\$202	\$606,909

	Retirement Program	Health Benefits Program	Life Insurance Program	Other	2001
Unexpended Balance					
FBWT	\$31	\$566	\$6	\$55	\$658
Investments (at par)	542,608	6,651	23,690	–	572,949
Original discount	(2)	(14)	(428)	–	(444)
Total Unexpended Balance	\$542,637	\$7,203	\$23,268	\$55	\$573,163
Status of Unexpended Balance					
Obligated	\$4,119	\$2,785	\$134	\$(78)	\$6,960
Unobligated:					
Available	–	–	–	133	133
Unavailable	–	4,418	23,134	–	27,552
Precluded from Obligation [Note 9]	538,518	–	–	–	538,518
Total, Status of Unexpended Balance	\$542,637	\$7,203	\$23,268	\$55	\$573,163

NOTE 3 – INVESTMENTS

All of OPM investments are in securities issued by other Federal entities and are therefore classified as intragovernmental. The following tables summarize OPM's investments by Program for fiscal years 2002 and 2001:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2002

	Cost	Amortized Discount/(Premium)	Investments, Net	Market Value
Retirement Program:				
Par-value GAS securities	\$531,347	–	\$531,347	\$531,347
Certificates of Indebtedness	27,086	–	27,086	27,086
FFB securities	15,000	–	15,000	15,000
Other	280	–	280	321
Total Retirement Program	573,713	–	573,713	573,754
Health Benefits Program	7,624	(\$12)	7,612	7,815
Life Insurance Program	25,172	(76)	25,096	27,104
Total Investments	\$606,509	(\$88)	\$606,421	\$608,673

AS OF SEPTEMBER 30, 2001

	Cost	Amortized Discount/(Premium)	Investments, Net	Market Value
Retirement Program:				
Par-value GAS securities	\$500,742	–	\$500,742	\$500,742
Certificates of Indebtedness	26,447	–	26,447	26,447
FFB securities	15,000	–	15,000	15,000
Other	419	–	419	472
Total Retirement Program	542,608	–	542,608	542,661
Health Benefits Program	6,655	(\$3)	6,652	6,843
Life Insurance Program	23,694	(142)	23,552	25,062
Total Investments	\$572,957	(\$145)	\$572,812	\$574,566

NOTE 4 – ACCOUNTS RECEIVABLE

Intragovernmental. The balances comprising OPM's intragovernmental accounts receivable as of September 30, 2002 and 2001 are:

	2002	2001
Contributions due for benefit program participants	\$1,073	\$882
Other	86	63
Total Intragovernmental Accounts Receivable	\$1,159	\$945

With The Public. The balances comprising the accounts receivable OPM classified as “with the public” at September 30, 2002 and 2001 are presented in the following tables as the gross amount due, the allowance for uncollectible amounts, and the net amount due:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2002

	Gross	Allowance	Net
Contributions by participants	\$693	–	\$693
Overpayments of Retirement Program benefits, net	155	\$50	105
Due from Health Program carriers, net	126	3	123
Other, net	95	–	95
Total Accounts Receivable with the Public, Net	\$1,069	\$53	\$1,016

AS OF SEPTEMBER 30, 2001

	Gross	Allowance	Net
Contributions by participants	\$621	–	\$621
Overpayments of Retirement Program benefits, net	141	\$43	98
Due from Health Program carriers, net	212	4	208
Other, net	34	–	34
Total Accounts Receivable with the Public, Net	\$1,008	\$47	\$961

NOTE 5 — PENSION LIABILITY

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

Economic Assumptions. The following table presents the significant economic assumptions used to compute the Pension Liability in fiscal years 2002 and 2001:

	2002	2001
Interest rate (%)	6.75	6.75
Rate of inflation (%)	3.75	3.75
Rate of increases in salary (%)	4.25	4.25

Pension Expense. OPM’s Pension Expense for fiscal years 2002 and 2001 is:

	2002			2001		
	CSRS	FERS	TOTAL	CSRS	FERS	TOTAL
Service cost	\$12,105	\$10,063	\$22,168	\$12,545	\$9,329	\$21,874
Interest cost	62,117	9,176	71,293	62,695	8,579	71,274
Actuarial (gain)/loss	(26,619)	(5,052)	(31,671)	(4,125)	(3,388)	(7,513)
Pension Expense	\$47,603	\$14,187	\$61,790	\$71,115	\$14,520	\$85,635

Federal accounting standards require employing agencies to recognize the excess of the service cost of a CSRS benefit over the amount contributed by and for participating employees as an “imputed cost”. For most participating employees, the service cost of a CSRS benefit is 24.2 percent of payroll in both fiscal years 2002 and 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pension Liability. OPM's Pension Liability as of the September 30 measurement date is:

	2002		
	CSRS	FERS	TOTAL
Pension Liability at October 1, 2001	\$ 937,800	\$ 131,700	\$1,069,500
Plus: Pension Expense	47,603	14,187	61,790
Less: Costs applied to Pension Liability	47,203	1,587	48,790
Pension Liability at September 30, 2002	\$938,200	\$144,300	\$1,082,500

	2001		
	CSRS	FERS	TOTAL
Pension Liability at October 1, 2000	\$912,500	\$118,600	\$1,031,100
Plus: Pension Expense	71,115	14,520	85,635
Less: Costs applied to Pension Liability	45,815	1,420	47,235
Pension Liability at September 30, 2001	\$ 937,800	\$131,700	\$1,069,500

Costs Applied To Pension Liability. In accordance with Federal accounting standards, the Pension Liability is reduced by the total operating costs of the Retirement Program. The following table presents the costs applied to the Pension Liability in fiscal years 2002 and 2001:

	2002	2001
Annuities	\$48,351	\$46,791
Refunds of contributions	287	310
Administrative and other expenses	152	134
Costs applied to the Pension Liability	\$48,790	\$47,235

NOTE 6 — POSTRETIREMENT HEALTH BENEFITS LIABILITY

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

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

	2002	2001
Interest rate (%)	6.75	6.75
Increase in per capita cost of covered benefits (%)	7.00	7.00

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PRHB Expense. OPM's PRHB Expense for fiscal years 2002 and 2001 is:

	2002	2001
Service cost	\$7,896	\$ 7,316
Interest cost	13,116	12,111
Actuarial (gain) or loss	2,811	(12,783)
PRHB Expense	\$23,823	\$6,644

Since neither active employees or employers (other than the USPS) make current contributions to their PRHB coverage, Federal accounting standards require employing agencies to recognize the entire PRHB service cost as an imputed cost. OPM's actuaries have computed the factor to be used by employing agencies to compute their imputed cost per participating employee for fiscal years 2002 and 2001, as follows (in whole dollars):

2002	\$3,473
2001	\$3,246

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

	2002	2001
PRHB Liability at the beginning of the year	\$191,507	\$ 192,217
Plus: PRHB Expense	23,823	6,644
Less: Costs applied to the PRHB Liability	7,999	7,354
PRHB Liability at the end of the year	\$207,331	\$191,507

Costs Applied To PRHB Liability. In accordance with Federal accounting standards, the PRHB Liability is reduced by certain operating costs incurred by the Health Benefits Program. The following table presents the costs that have been applied to the PRHB Liability in fiscal years 2002 and 2001:

	2002	2001
Current benefits	\$5,846	\$5,425
Premiums	1,374	1,277
Administrative and other expenses	779	652
Total costs applied to the PRHB Liability	\$7,999	\$7,354

Effect of Assumptions. The assumed health care cost trend rate has a significant effect on the amounts reported as the PRHB Liability and associated expense. A one percentage point change in the assumed health care cost trend rate would have the following effects in fiscal years 2002 and 2001:

	2002		2001	
	8.0% [One Percent Increase]	6.0% [One Percent Decrease]	8.0% [One Percent Decrease]	6.0% [One Percent Increase]
Interest cost component	\$14,949	\$11,581	\$13,828	\$10,694
Service cost component	9,823	6,381	\$9,102	\$5,912
PRHB Liability	\$238,177	\$181,587	\$220,391	\$167,728

NOTE 7—ACTUARIAL LIFE INSURANCE LIABILITY

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

The Life Insurance Program is funded by means of the “level premium” method. That is, the contributions paid by and for participants remain fixed until age 65, but are set at a level that overcharges during early years of coverage to compensate for higher rates of expected outflows at later years.

Actuarial Life Insurance Liability. The following table presents OPM's Actuarial Life Insurance Liability as of the September 30 measurement date:

	2002	2001
EPV of future benefits	\$55,319	\$53,461
EPV of future contributions by participants	(27,776)	(27,312)
Actuarial Life Insurance Liability	\$27,543	\$26,149

Future Life Insurance Benefits Expense. OPM's Future Life Insurance Benefits Expense for fiscal years 2002 and 2001 is:

	2002	2001
Actuarial Life Insurance Liability at the end of the year	\$27,543	\$26,149
Actuarial Life Insurance Liability at the beginning of the year	(26,149)	(24,662)
Future Life Insurance Benefits Expense	\$1,394	\$ 1,487

The Future Life Insurance Benefits Expense reflects the accrued cost of both pre-retirement and post-retirement benefits. The portion relating to post-retirement benefits is 0.02 percent of the basic pay of participating employees for both fiscal years 2002 and 2001. Federal accounting standards require employing agencies to recognize an imputed cost for this amount.

NOTE 8 — OTHER LIABILITIES

The following liabilities, all current and “with the public”, are classified as “other” on the accompanying Balance Sheet as of September 30, 2002 and 2001:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2002	2001
Accrued carrier liabilities other than benefits	\$456	\$415
Withheld from Retirement Program benefits	402	380
Accrued administrative expenses	128	47
Total Other Liabilities	\$986	\$842

NOTE 9 — TRUST FUND BALANCE PRECLUDED FROM OBLIGATION

The following table presents OPM's trust fund balance that has been precluded from obligation as of September 30, 2002 and 2001:

	2002	2001
Trust fund receipts during year	\$80,070	\$77,948
Retirement Program obligations incurred during the year	(49,109)	(47,533)
Excess of trust fund receipts over obligations incurred	30,961	30,415
Balance precluded from obligation at the beginning of the year	538,518	508,103
Balance Precluded from Obligation at the End of the Year	\$569,479	\$538,518

NOTE 10 — HEALTH BENEFITS/LIFE INSURANCE PROGRAM CONCENTRATIONS

During fiscal years 2002 and 2001, approximately half of the Health Benefits Program's benefits were administered by the Blue Cross and Blue Shield Association, an experience-rated plan. Virtually all of the Life Insurance Program's benefits were administered by the principal life insurance carrier, Metropolitan Life Insurance Company.

NOTE 11 — APPORTIONMENT CATEGORIES OF INCURRED OBLIGATIONS

All of OPM's accounts are apportioned by OMB, either quarterly ["Category A"] or annually ["Category B"]. The following chart details the direct and reimbursable obligations that have been incurred against each apportionment category during fiscal year 2002:

Apportionment Category	Direct	Reimbursable	Total
A	\$237	\$562	\$799
B	80,117	-	80,117
Total	\$80,354	\$562	\$80,916

NOTE 12 — GROSS COST AND EARNED REVENUES BY BUDGET FUNCTION

The President's budget classifies the gross cost and associated earned revenues of the Retirement and Life Insurance Programs as "*Federal Employee Retirement and Disability*" [budget function code 602]; the Health Benefits Program as "*Health Care Services*" [code 551]; and the Revolving Fund Programs and Salaries and Expenses as "*Central Personnel Management*" [code 805]. The following table presents OPM's gross cost and associated earned revenue by budget function:

TOTAL OPM

Budget Functional Classification	2002			2001		
	Gross Costs	Earned Revenue	Net Cost	Gross Costs	Earned Revenue	Net Cost
Federal Employee Retirement and Disability	\$65,150	\$61,427	\$3,723	\$89,030	\$59,573	\$29,457
Health Care Services	38,850	17,783	21,067	20,283	15,982	4,301
Central Personnel Management	493	385	108	480	329	151
Total OPM	\$104,493	\$79,595	\$24,898	\$109,793	\$75,884	\$33,909

INTRAGOVERNMENTAL

Budget Functional Classification	2002			2001		
	Gross Costs	Earned Revenue	Net Cost	Gross Costs	Earned Revenue	Net Cost
Federal Employee Retirement and Disability	–	\$55,499	\$(55,499)	–	\$53,659	\$(53,659)
Health Care Services	–	11,240	(11,240)	–	10,100	(10,100)
Central Personnel Management	\$108	345	(237)	\$69	303	(234)
Total Intragovernmental	\$108	\$67,084	\$(66,976)	\$69	\$64,062	\$(63,993)

NOTE 13 — DEDICATED COLLECTIONS

OPM collects and credits monies to the CSRDF for the purpose of paying retirement benefits to employees and their survivors after they establish entitlement. As the CSRDF is a trust fund, the monies collected and credited to it are considered to be “dedicated collections”. For financial reporting purposes, the CSRDF and Retirement Program are interchangeable; the financial position and results of the Retirement Program are presented separately in the accompanying Consolidating Balance Sheet and Statement of Net Cost.

NOTE 14 — CONTINGENCIES

NTEU v. OPM. On January 3, 2002, counsel for the plaintiffs and the Federal government signed a proposed settlement agreement to resolve all remaining issues in the case of the National Treasury Employees Union [“NTEU”] v. Kay Cole James, Director, OPM [“OPM”]. In *NTEU v. OPM*, the plaintiffs, a class of present and former Federal employees, sued OPM regarding the process by which annual pay increases were applied to certain “special rate” employees. The U.S. Court of Appeals for the Federal Circuit ruled that for several years OPM had erroneously applied those pay raises and ordered OPM to calculate appropriate damages. On December 20, 2002, the U.S. Court of Federal Claims issued a decision approving the proposed settlement agreement. The Court’s order is scheduled to become final on February 18, 2003, and approximately \$174 will be paid from the TJF to the plaintiffs. Since OPM is not required to reimburse the TJF, it will recognize an imputed financing source in the amount of the settlement as of the date the Court’s order becomes final.

Health Benefits Program Carriers. OPM is a party to litigation in which certain carriers participating in the Health Benefits Program are seeking relief for alleged underpayments of premiums. Although OPM is contesting the allegations, any underpayments that have occurred will have stemmed from inaccuracies in the amount of contributions by and for participants remitted to OPM by employers and retirement systems. OPM has reported a contingency in the Balance Sheet and a future funded expense in the Statement of Net Cost to reflect the probability that it will incur losses of \$31 from the litigation pending as of

September 30, 2002. In addition, OPM has determined that it is reasonably possible that an additional \$23 will result in losses. Although all losses involving this litigation will be paid from the TJF, OPM has not the budgetary resources to and is precluded by law from making any reimbursement to the TJF. Based upon the opinion of its General Counsel, OPM management believes that the outcome of all such litigation, both pending or known to be threatened, will have no material adverse effect on OPM's financial position or results of operations.

Other Litigation. OPM is often involved in other legal and administrative proceedings that arise in the ordinary course of business. OPM management, based upon the opinion of its General Counsel, believes that the combined outcome of all such proceedings, both pending or known to be threatened, will have no material adverse effect on OPM's financial position or results of operations.

NOTE 15 — CHANGE IN ACCOUNTING PRINCIPLE

To comply with Technical Bulletin 2002-1, OPM must accrue a liability at the time amounts are paid from the TJF as settlement to Health Benefits Program carriers that have sought relief for alleged underpayments of premiums [see Note 14]. Prior to the adoption of Technical Bulletin 2002-1, OPM did not accrue a liability in these circumstances. Thus, OPM has reduced its beginning cumulative results of operations balance by \$178 in the Consolidated Statement of Changes in Net Position, reflecting the total amount paid from the TJF to the carriers through September 30, 2001. During fiscal year 2002, the TJF paid an additional \$8 as settlement to certain carriers, which is reflected as a gross cost with the public in the Consolidated Statement of Net Cost for the year ended September 30, 2002. The total liability to the TJF of \$186 as of September 30, 2002 is reflected as an intragovernmental liability in the Consolidated Balance Sheet. This liability is not covered by OPM's budgetary resources.

CONSOLIDATING FINANCIAL STATEMENTS

Schedule 1

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
 As of September 30, 2002
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	2002
ASSETS							
Intragovernmental:							
Fund Balance with Treasury	\$26	\$617	\$8	\$136	\$66	—	\$853
Investments	573,713	7,612	25,096	—	—	—	606,421
Interest Receivable on Investments	9,007	38	355	—	—	—	9,400
Accounts Receivable	667	393	14	86	4	(\$5)	1,159
Total Intragovernmental	583,413	8,660	25,473	222	70	(5)	617,833
Accounts Receivable with the Public, Net	285	544	92	94	1	—	1,016
Assets Held by Insurance Carriers	—	115	620	—	—	—	735
General Property and Equipment	—	—	—	2	17	—	19
TOTAL ASSETS	583,698	9,319	26,185	318	88	(5)	619,603

Schedule 1 - continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET

As of September 30, 2002

(In Millions)

	1	188	1	273	4	(5)	462
	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	2002
LIABILITIES							
Intragovernmental	1	188	1	273	4	(5)	462
Federal Employee Benefits:							
Benefits Due and Payable	3,862	3,072	579	—	—	—	7,513
Pension Liability [Note 5]	1,082,500	—	—	—	—	—	1,082,500
Postretirement Health Benefits Liability [Note 6]	—	207,331	—	—	—	—	207,331
Actuarial Life Insurance Liability [Note 7]	—	—	27,543	—	—	—	27,543
Total Federal Employee Benefits	1,086,362	210,403	28,122	—	—	—	1,324,887
Contingencies [Note 14]	—	31	—	—	174	—	205
Other	402	456	—	59	69	—	985
Total Liabilities	1,086,765	211,078	28,123	332	247	(5)	1,326,540
NET POSITION							
Unexpended Appropriations	—	—	—	—	11	—	11
Cumulative Results of Operations	(503,067)	(201,759)	(1,938)	(14)	(170)	—	(706,948)
Total Net Position	(503,067)	(201,759)	(1,938)	(14)	(159)	—	(706,937)
TOTAL LIABILITIES AND NET POSITION	\$583,698	\$9,319	\$26,185	\$318	\$88	(\$5)	\$619,603

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

Schedule 1 - continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET

As of September 30, 2001
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	2001
ASSETS							
Intragovernmental:							
Fund Balance with Treasury	\$31	\$566	\$6	\$34	\$21	—	\$658
Investments	542,608	6,652	23,552	—	—	—	572,812
Interest Receivable on Investments	8,801	34	395	—	—	—	9,230
Accounts Receivable	559	313	11	60	15	(13)	945
Total Intragovernmental	551,999	7,565	23,964	94	36	(13)	583,645
Accounts Receivable with the Public, Net	267	580	80	34	—	—	961
Assets Held by Insurance Carriers	—	126	575	—	—	—	701
General Property and Equipment	—	—	—	3	10	—	13
TOTAL ASSETS	552,266	8,271	24,619	131	46	(13)	585,320

Schedule 1 - continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET

As of September 30, 2001

(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	2001
LIABILITIES							
Intragovernmental	4	7	1	129	4	(13)	132
Federal Employee Benefits:							
Benefits Due and Payable	3,746	2,927	529	-	-	-	7,202
Pension Liability [Note 5]	1,069,500	-	-	-	-	-	1,069,500
Postretirement Health Benefits Liability [Note 6]	-	191,507	-	-	-	-	191,507
Actuarial Life Insurance Liability [Note 7]	-	-	26,149	-	-	-	26,149
Total Federal Employee Benefits	1,073,246	194,434	26,678	-	-	-	1,294,358
Contingencies [Note 14]	-	-	-	-	174	-	174
Other	380	415	-	24	23	-	842
Total Liabilities	1,073,630	194,856	26,679	153	201	(13)	1,295,506
NET POSITION							
Unexpended Appropriations	-	-	-	-	11	-	11
Cumulative Results of Operations	(521,364)	(186,585)	(2,060)	(22)	(166)	-	(710,197)
Total Net Position	(521,364)	(186,585)	(2,060)	(22)	(155)	-	(710,186)
TOTAL LIABILITIES AND NET POSITION	\$552,266	\$8,271	\$24,619	\$131	\$46	(\$13)	\$585,320

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
 For the Year Ended September 30, 2002
(In Millions)

	CSRS	Retirement Program FERS	Total	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	2002
INTRAGOVERNMENTAL									
Intragovernmental Gross Costs						\$106	\$165	(\$163)	\$108
Less Intragovernmental Earned Revenue:									
Employer Contributions	\$4,156	\$9,563	\$13,729	\$9,981	\$380				24,090
Special Contributions from USPS	3,875		3,875	993	8				4,876
Earnings on Investments	26,174	9,934	36,108	266	1,399				37,773
Other						368	140	(163)	345
Total Intragovernmental Earned Revenue	34,215	19,497	53,712	11,240	1,787	368	140	(163)	67,084
Intragovernmental Net Costs	(34,215)	(19,497)	(53,712)	(11,240)	(1,787)	(262)	25	0	(66,976)
WITH THE PUBLIC									
Gross Costs with the Public:									
Pension Expense [Note 6]	47,603	14,187	61,790						61,790
Postretirement Health Benefits [Note 6]				23,823					23,823
Future Life Insurance Benefits [Note 7]					1,394				1,394
Current Benefits and Premiums				14,317	1,964				16,281
Future Funded Expenses [Note 14 and 15]				39					39
Other				671	2	296	89		1,058
Total Gross Costs with the Public	47,603	14,187	61,790	38,850	3,360	296	89		104,385
Less Earned Revenue with the Public:									
Participant Contributions	3,542	724	4,266	6,543	1,661				12,470
Other					1	40			41
Total Earned Revenue with the Public	3,542	724	4,266	6,543	1,662	40			12,511
Net Costs with the Public	44,061	13,463	57,524	32,307	1,698	256	89		91,874
Net Cost of Operations (Excess of Earned Revenue over Cost)	\$9,846	(\$6,034)	\$3,812	\$21,067	(\$89)	(\$6)	\$114		\$24,890

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

Schedule 2 - continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
 For the Year Ended September 30, 2001
(In Millions)

	Retirement Program		Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	2001
	CSRS	FERS	Total					
INTRAGOVERNMENTAL								
Intragovernmental Gross Costs								\$69
Less Intragovernmental Earned Revenue:								
Employer Contributions	\$4,217	\$8,666	\$12,883	\$8,833	\$367	—	—	22,083
Special Contributions from USPS	3,755	—	3,755	929	8	—	—	4,592
Earnings on Investments	26,140	9,093	35,233	338	1,413	—	—	36,984
Other	—	—	—	—	—	302	(172)	303
Total Intragovernmental Earned Revenue	34,112	17,759	51,871	10,100	1,788	302	(172)	64,062
Intragovernmental Net Costs	(34,112)	(17,759)	(51,871)	(10,100)	(1,788)	(12)	0	(63,993)
WITH THE PUBLIC								
Gross Costs with the Public:								
Pension Expense [Note 5]	71,115	14,520	85,635	—	—	—	—	85,635
Postretirement Health Benefits [Note 6]	—	—	—	6,644	—	—	—	6,644
Future Life Insurance Benefits [Note 7]	—	—	—	—	1,487	—	—	1,487
Current Benefits and Premiums	—	—	—	13,075	1,792	—	—	14,867
Other	—	—	—	554	116	240	—	1,091
Total Gross Costs with the Public	71,115	14,520	85,635	20,283	3,395	240	—	109,724
Less Earned Revenue with the Public:								
Participant Contributions	3,613	748	4,361	5,882	1,551	—	—	11,794
Other	—	—	—	—	2	26	—	28
Total Earned Revenue with the Public	3,613	748	4,361	5,882	1,553	26	—	11,822
Net Costs with the Public	67,502	13,772	81,274	14,401	1,842	214	—	97,902
Net Cost of Operations (Excess of Earned Revenue over Cost)	\$33,390	(\$3,987)	\$29,403	\$4,301	\$54	(\$8)	\$159	33,909

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
 For the Year Ended September 30, 2002

(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2002
Net Position at the Beginning of the Year						
Cumulative Results of Operations, as Previously Reported	(\$521,364)	(\$186,585)	(\$2,060)	(\$22)	(\$166)	(\$710,197)
Cumulative Effect of Accounting Change [Note 15]	—	(178)	—	—	—	(178)
Cumulative Results of Operations after Accounting Change	(\$521,364)	(186,763)	(2,060)	(22)	(166)	(710,375)
Unexpended Appropriations	—	—	—	—	11	11
Net Position at the Beginning of the Year after Accounting Change	(\$521,364)	(186,763)	(2,060)	(22)	(155)	(710,364)
Financing Sources						
Cumulative Results of Operations:						
Budgetary:						
Appropriations Used	—	6,071	33	—	101	6,205
Transfers-in from General Fund	22,109	—	—	—	—	22,109
Other	—	—	—	2	9	11
Subtotal	22,109	6,071	33	2	110	28,325
Unexpended Appropriations:						
Appropriations Received	—	6,083	34	—	101	6,218
Appropriations Used	—	(6,071)	(33)	—	(101)	(6,205)
Appropriations Cancelled and Rescinded	—	(12)	(1)	—	—	(13)
Subtotal	—	0	0	—	0	0
Total Financing Sources	22,109	6,071	33	2	110	28,325
Net Cost of Operations (Excess of Earned Revenue over Cost)	3,812	21,067	(89)	(6)	114	24,898
Net Position at the End of the Year						
Cumulative Results of Operations	(503,067)	(201,759)	(1,938)	(14)	(170)	(706,948)
Unexpended Appropriations	—	—	—	—	11	11
Net Position at the End of the Year	(\$503,067)	(\$201,759)	(\$1,938)	(\$14)	(\$159)	(\$706,937)

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

CONSOLIDATING FINANCIAL STATEMENTS

Schedule 4

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the Year Ended September 30, 2002
 (In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2002
BUDGETARY RESOURCES						
Appropriations:						
Received	—	56,083	534	—	\$101	56,218
Cancelled	—	(12)	(1)	—	—	(13)
Trust Fund Receipts:						
Appropriated	\$80,070	—	—	—	—	80,070
Precluded from Obligation [Note 9]	(30,961)	—	—	—	—	(30,961)
Spending Authority from Offsetting Collections:						
Collected	—	23,609	3,501	\$563	161	27,834
Changes in Receivables from Federal Sources and Unfilled Customer Orders	—	133	(29)	(45)	(8)	51
Subtotal	—	23,742	3,472	518	153	27,885
Unobligated Balance - Beginning of Period	—	4,418	23,134	126	8	27,685
Total Budgetary Resources	49,109	34,231	26,639	643	262	110,884

STATUS OF BUDGETARY RESOURCES						
Obligations Incurred:						
Direct	49,109	28,964	2,044	—	237	80,354
Reimbursable	—	—	—	562	—	562
Unobligated Balance:						
Available	—	—	—	81	25	106
Not Available	—	5,267	24,595	—	—	29,862
Total, Status of Budgetary Resources	49,109	34,231	26,639	643	262	110,884

RELATIONSHIP OF OBLIGATIONS TO OUTLAYS						
Obligations Incurred	49,109	28,964	2,044	562	237	80,916
Obligated Balance, Net - Beginning of the Period	4,119	2,785	134	(91)	13	6,960
Less: Obligated Balance, Net - End of the Period:						
Accounts Payable and Undelivered Orders	4,258	3,924	584	173	67	9,006
Accounts Receivable and Unfilled Customer Orders	—	(1,030)	(370)	(118)	(26)	(1,544)
Subtotal	4,258	2,894	214	55	41	7,462
Less: Changes in Receivables from Federal Sources and Unfilled Customer Orders	—	133	(29)	(45)	(8)	51
Gross Outlays:						
Disbursements	48,970	28,721	1,994	461	217	80,363
Collections	—	(23,609)	(3,501)	(563)	(161)	(27,834)
Net Outlays	\$48,970	\$5,112	(\$1,507)	(\$102)	\$56	\$52,529

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF FINANCING
 For the Year Ended September 30, 2002
 (In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2002
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	\$49,109	\$28,964	\$2,044	\$562	\$237	\$80,916
Spending Authority from Offsetting Collections	—	(23,742)	(3,472)	(518)	(153)	(27,885)
Appropriated Trust Fund Receipts	(80,070)	—	—	—	—	(80,070)
Net Budgetary Resources Obligated	(30,961)	5,222	(1,428)	44	84	(27,039)
Transfer-in from the General Fund	22,109	—	—	—	—	22,109
Other	—	—	—	2	9	11
Total Resources Used to Finance Activities	(8,852)	5,222	(1,428)	46	93	(4,919)
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
	(3)	(53)	131	(56)	16	35
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in Future Periods:						
Increase in Actuarial Liabilities	13,000	15,824	1,394	—	—	30,218
Increase in Contingent Liabilities	—	31	—	—	—	31
Exchange Revenue not in the Budget	(326)	(50)	(11)	3	—	(384)
Components not Requiring or Generating Resources	(7)	93	(175)	1	5	(83)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	12,667	15,898	1,208	4	5	29,782
NET COST OF OPERATIONS (EXCESS OF EARNED REVENUE OVER COST)						
	\$3,812	\$21,067	(\$69)	(\$6)	\$114	\$24,898

REQUIRED SUPPLEMENTAL INFORMATION

INTRAGOVERNMENTAL BALANCES

The following tables provide OPM's intragovernmental assets, liabilities, and earned revenue balances by major trading partner. For intragovernmental earned revenue, a table provides the gross cost to generate the earned revenue by budget functional classification.

INTRAGOVERNMENTAL ASSETS				
As of September 30, 2002				
<i>(In Millions)</i>				
<i>Trading Partner</i>	<i>Fund Balance with Treasury</i>	<i>Investments</i>	<i>Interest Receivable on Investments</i>	<i>Accounts Receivable</i>
Agriculture	—	—	—	\$203
Defense	—	—	—	246
Treasury	\$853	\$606,421	\$9,400	33
Other	—	—	—	677
Total	\$853	\$606,421	\$9,400	\$1,159

INTRAGOVERNMENTAL LIABILITIES	
As of September 30, 2002	
<i>(In Millions)</i>	
<i>Trading Partner</i>	<i>Amount</i>
Treasury	\$186
Other	276
Total	\$462

INTRAGOVERNMENTAL EARNED REVENUE				
For the Year ended September 30, 2002				
<i>(In Millions)</i>				
<i>Trading Partner</i>	<i>Employer Contributions</i>	<i>Special Contributions from USPS</i>	<i>Earnings on Investments</i>	<i>Other</i>
Defense	\$5,811	—	—	—
Treasury	1,424	—	\$37,773	—
USPS	6,791	\$4,876	—	—
Other	10,064	—	—	\$345
Total	\$24,090	\$4,876	\$37,773	\$345

FULL COST TO GENERATE INTRAGOVERNMENTAL EARNED REVENUE		
For the Year ended September 30, 2002		
<i>(In Millions)</i>		
<i>Code</i>	<i>Budget Functional Classification</i>	<i>Amount</i>
602	Federal Employee Retirement and Disability	\$55,499
551	Health Care Services	11,240
805	Central Personnel Management	345
Total		\$67,084

UNAUDITED – SEE ACCOMPANYING INDEPENDENT AUDITORS' REPORT

REQUIRED SUPPLEMENTAL INFORMATION

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
Account Level
For the Year Ended September 30, 2002
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2002
BUDGETARY RESOURCES							
Appropriations:							
Received	—	—	—	—	\$101	\$6,117	\$6,218
Cancelled	—	—	—	—	—	(13)	(13)
Trust Fund Receipts:							
Appropriated	\$80,070	—	—	—	—	—	80,070
Precluded from Obligation [Note 9]	(30,961)	—	—	—	—	—	(30,961)
Spending Authority from Offsetting Collections:							
Collected	—	\$23,609	\$3,501	\$563	161	—	27,834
Changes in Receivables from Federal Sources and Unfilled Customer Orders	—	133	(29)	(45)	(8)	—	51
Subtotal	—	23,742	3,472	518	153	—	27,885
Unobligated Balance - Beginning of the Period	—	4,418	23,134	125	8	—	27,685
Total Budgetary Resources	49,109	28,160	26,506	643	262	6,104	110,884
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	49,109	22,893	2,011	—	237	6,104	80,354
Reimbursable	—	—	—	562	—	—	562
Unobligated Balance:							
Available	—	—	—	81	25	—	106
Not available	—	5,267	24,595	—	—	—	29,862
Total, Status of Budgetary Resources	49,109	28,160	26,506	643	262	6,104	110,884
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS							
Obligations Incurred	49,109	22,893	2,011	562	237	6,104	80,916
Obligated Balance, Net - Beginning of the Period	4,119	2,235	131	(91)	13	553	6,960
Less: Obligated Balance, Net - End of the Period:							
Accounts Payable and Undelivered Orders	4,258	3,319	581	173	67	608	9,006
Accounts Receivable and Unfilled Customer Orders	—	(1,030)	(370)	(118)	(26)	—	(1,544)
Subtotal	4,258	2,289	211	55	41	608	7,462
Less: Changes in Receivables from Federal Sources and Unfilled Customer Orders	—	133	(29)	(45)	(8)	—	51
Gross Outlays:							
Disbursements	48,970	22,706	1,961	461	217	6,048	80,363
Collections	—	(23,609)	(3,501)	(563)	(161)	—	(27,834)
Net Outlays	\$48,970	(\$903)	(\$1,540)	(\$102)	\$56	\$6,048	\$52,529

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

UNAUDITED - SEE ACCOMPANYING INDEPENDENT AUDITORS' REPORT



MANAGEMENT CHALLENGES

INSPECTOR GENERAL'S MEMORANDUM *on* TOP MANAGEMENT CHALLENGES



OFFICE OF
THE INSPECTOR GENERAL

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1100
December 31, 2002

MEMORANDUM FOR KAY COLES JAMES
Director

FROM: PATRICK E. McFARLAND
Inspector General

A handwritten signature in black ink that reads "Patrick E. McFarland". The signature is written in a cursive style and is positioned to the right of the typed name.

SUBJECT: Top Management Challenges

The Reports Consolidation Act of 2000 requires the Inspector General to prepare a list of the top management challenges facing the agency for inclusion in the agency's Annual Performance and Accountability report. Similar to our prior years' lists that we have developed in response to congressional requests, this year's submission is intended to highlight the key challenges facing OPM management, as well as note areas of improvement that we have observed.

While all of the challenges identified below and summarized in the enclosure are critical to the mission of OPM, we believe that human resource management is especially critical given OPM's government-wide leadership role in this area. The challenges included on our list are:

- Human Resources Management;
- Retirement Systems Modernization;
- Homeland Security;
- Expanding e-Government;
- Implementation of the Government Performance and Results Act;
- Revolving Fund and Salaries and Expenses Accounts;
- Maintaining and Improving the Performance of the Federal Employees Health Benefits Program (FEHBP); and
- OPM's Restructuring.

Kay Coles James

2

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

- 1) There is a significant risk of fraud, waste, or abuse of OPM or other government assets;
- 2) The issue involves significant strategic alliances with OMB, the administration, Congress, or the public;
- 3) The issue is related to the Presidential Management Initiatives;
- 4) The issue involves a legal or regulatory requirement not being met; or
- 5) The issue involves an operation that is critical to OPM's core missions.

The attachment to this memorandum includes written summaries of each of the challenges that we have noted on our list. These write-ups include a description of the efforts of OPM management to resolve each challenge. This information was obtained through our analysis and follow-up discussions with senior agency managers so that the most current, complete and accurate characterization of the challenges could be presented. I would like to point out that one of the challenges included on this list last year, *OPM's Financial Management Oversight of the FEHBP*, has been removed as a result of the implementation of the Centralized Enrollment Clearinghouse System to facilitate the reconciliation of enrollment between health carriers and agencies.

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

If there are any questions, please feel free to call me at (202) 606-1200.

Attachment

TOP MANAGEMENT CHALLENGES
OFFICE OF PERSONNEL MANAGEMENT
DECEMBER 31, 2002

1. HUMAN RESOURCES MANAGEMENT

Strategic human resource management (HRM) consists of several elements, including strategic human capital planning; organizational alignment; leadership continuity and succession planning; acquiring and developing a staff whose size, skills, and deployment meet agency needs; and creating results-oriented organizational cultures. HRM continues to be a demanding government-wide challenge as a large number of employees become eligible to retire, the job market becomes more competitive, the need for better skills in technological positions increases, and the awareness of performance management increases.

OPM, the federal human resource management agency, has the lead role in directing, assisting, and reviewing human resource efforts, including fostering a more results-oriented approach to strategic human resource management across the government and promoting broader application of best practices in human capital management. OPM's leadership role and challenges include assessing the status and plans for addressing human resources management in agencies, working with agencies to better prepare them to meet future challenges and deal with performance improvement efforts, and ensure more effective oversight of the government's key human resource concerns.

OPM's leadership role requires significant attention and resources. Following are some of the steps already being taken by OPM to improve human capital management throughout the government:

- OPM continues to work with the Office of Management and Budget (OMB) to assess the status of each agency's strategic human capital action plans, assessing them for weaknesses, and suggesting new strategies to make them successful. This is done quarterly in conjunction with OMB's review of each agency's President's Management Agenda scorecard assessment.
- OPM partnered with OMB and the General Accounting Office (GAO) to revise the Human Capital Standards for Success to provide a single, comprehensive, human capital framework. OPM also developed the Human Capital Assessment and Accountability Framework. This framework provides consolidated guidance. It includes the revised Standards for Success, replaces the Human Capital Scorecard, and incorporates a number of GAO's Critical Success Factors as well as the accountability requirements of Civil Service Rule X from Executive Order 13197. OPM's challenge includes developing a method of evaluating the results of the Human Capital Assessment and Accountability Framework government-wide and using the information to assess the status of human capital in the federal government.
- The President's management agenda also includes an initiative to expand A-76 competitions. In carrying out this initiative, work now performed by federal employees could be shifted to the private sector, and will have a government-wide

impact on federal human resource management operations. As a result, OPM will face the challenge of providing leadership in managing not only the civil service, but also a whole range of contractors who perform work for the federal government.

OPM is currently reorganizing their operating structure, in part to improve their ability to provide human capital leadership on a government-wide basis. OPM is challenged with implementing the approved restructuring plan and will continue to require executive management's full commitment and support to improve government performance and human resource management leadership, oversight and accountability (see Challenge number 8).

2. RETIREMENT SYSTEMS MODERNIZATION

One of the agency's high-risk challenges continues to be the modernization of the systems used to administer the Federal Retirement Program. The Federal Retirement Program includes the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). The present computerized systems that support the processing of both CSRS and FERS retirement information are insufficient in their processing and programming techniques. In order for OPM to maintain current service levels to retiring employees, to keep up with customer expectations, and to manage the workload associated with significant increases in the FERS retirement annuitant population, the retirement systems must be modernized.

In 1997, the Retirement and Insurance Service's (RIS) Retirement System Modernization (RSM) project team documented both the CSRS and FERS retirement business requirements and selected a long-term concept of operations. Through 1998 and 1999, RIS reengineered its business processes using a dedicated OPM project team, subject matter experts, and a contractor with business process reengineering experience. The RSM project team identified six core business functions that the future system will utilize to accurately and efficiently process retirement information. These core processes were outlined and presented to senior OPM management, OPM system users, and stakeholders from several other government agencies. In 2000, the RSM project team completed process blueprints for four of the six core processes and started to translate them into the technical requirements necessary to design the new retirement system. In 2001, the RSM project team completed the process blueprints for the remaining two core processes and the technical requirements document. In addition, the RSM project team performed a staffing analysis, designed the transition strategy, developed the architectural design, and began implementing and testing the system in phases.

During 2002, the RSM project team focused on initial implementation segments, including the initial version of the benefits calculator, data exchange gateway, and coverage determination application. The RSM project team also began program-wide data planning and on-demand data capture and conversion. At this point, RSM project managers believe that a majority of the project will be completed by 2008. However, 2 of the 21 project segment completion dates have been delayed until FY 2010. The risk of

further implementation delays is possible since FY 2003 budget appropriations are not yet in place. Without an approved FY 2003 budget, RSM project managers can not task contractors with additional development activities. This could result in experienced contractor staff being assigned to other projects on a permanent basis.

It is also important to note that in 2002 OPM management continued to look at other options for retirement processing, including the possibility of outsourcing. Also, the benefits calculator development has been put on hold pending a build versus buy decision.

A project of this magnitude makes managing risk very difficult. Due to the uncertainty of success for reengineering OPM's business processes, the development and implementation of entirely new computerized systems to support these business processes, and the long-term nature of RSM, we are performing limited scope reviews of components of the RSM systems development life cycle (SDLC) process, as resources permit. These reviews attempt to validate that appropriate controls are being designed into the system and that the RSM project team is following sound SDLC practices.

3. HOMELAND SECURITY

With the establishment of the Department of Homeland Security (DHS), OPM is tasked with developing a strategic human resource management system for the new agency. OPM is challenged with developing a system uniting 170,000 Federal employees from 22 agencies in a single Department with a mission to protect America, in addition to providing its' ongoing services to other federal agencies.

Over the past several months, OPM has played a central role and has directed considerable resources in shaping the Administration's responses to the civil service issues revolving around the legislation to establish the DHS. For example, OPM's Office of Labor and Employee Relations (OLER) was at the forefront for OPM in making the case for flexibility in the areas of labor-management relations, discipline, and employee appeals. Approximately 60 percent of OLER's staff time, and 80-90 percent of the time of the SES-level office head, has been spent on homeland security since the President introduced his proposal in June.

In effect, OPM became the human resources office of DHS, with the responsibility to plan and forecast human capital management needs and approaches. OPM formed working groups to study personnel areas relating to performance appraisals, job classifications, pay, labor management, discipline appeals and employee appeals as it develops DHS' personnel system. OPM anticipates having a draft proposal of DHS's human resource management system by June 1, 2003.

4. EXPANDING E-GOVERNMENT

The President's electronic government (e-Gov) initiative seeks to enhance access to and delivery of government information and services through expanded use of technology. These projects will use internet-related technologies to accelerate and streamline service delivery to citizens, reduce paperwork burdens on business, improve management and responsiveness of joint federal-state-local programs, and apply commercial best practices to improve government operating efficiency. As a result of simplifying business processes and unifying government operations around citizen needs, each e-Gov initiative will improve the efficiency and effectiveness of government operations.

OPM is responsible for leading the following e-Gov projects:

- **Recruitment One-Stop:** Building on the current success of USAJOBS, the Recruitment One-Stop e-Gov initiative is a collaborative effort between OPM and Federal agencies to design an innovative Internet site that assists applicants in finding employment with the Federal government.
- **e-Clearance:** This project focuses on consolidating and increasing access, and leveraging technology to improve the efficiency and speed of granting or locating previous clearances or investigations.
- **Enterprise Human Resource Integration (EHRI):** The EHRI initiative reaches back to March 1999, when OPM conceived of a Government-wide network for exchanging federal Human Resources (HR) information. It was called the Human Resources Data Network (HRDN) and it focused on enabling the electronic transfer of HR data throughout the Government and eliminating the need for a paper employee record. In January 2002, the project was renamed EHRI and included among a group of e-Gov initiatives designed to improve the internal efficiency and effectiveness of Government operations. Since becoming an e-Gov initiative, EHRI has remained true to the original purpose. In addition, the project now actively supports other OPM e-Gov initiatives to streamline and improve business processes tied to the federal employee's life cycle.
- **e-Training:** The Gov Online Learning Center is a premier e-Training environment that supports development of the Federal Workforce through simplified and one-stop access to high-quality e-Training products and services, and advancement of agency missions. The Gov Online Learning Center is a product of the e-Training initiative.
- **e-Payroll:** OPM is focused on developing standardized policies affecting payroll and consolidating executive branch Federal payroll providers. OPM, OMB, and payroll providers determined that the consolidation of payroll service delivery can be achieved by reducing the number of federal agencies providing payroll services and systems operations, and standardization of payroll processes is the first step in achieving this consolidation.

These initiatives support President Bush's Management and Performance Plan for Expanding Electronic Government. The five e-Gov initiatives, along with OPM's Retirement Systems Modernization (RSM), encompass the Federal employee's entire work lifecycle and address human capital issues.

OPM has a clear vision of its five e-Gov initiatives as an interlocking enterprise system based on the employee life cycle beginning with recruitment, continuing through all aspects of employment, and culminating with retirement. OPM will use these five e-Gov initiatives to remove redundancies, reduce response times, eliminate paperwork, and improve coordination among Federal agencies.

OPM's challenge will be to manage these five e-Gov initiatives efficiently and effectively. OPM must actively manage partners, resources (people and dollars) and critical inter-dependencies to ensure all five e-Gov projects meet planned performance goals and timelines.

5. IMPLEMENTATION OF THE GOVERNMENT PERFORMANCE AND RESULTS ACT

The Government Performance and Results Act (GPRA) requires a change from process management to performance management. Data systems and controls need to be in place to achieve performance management. Agencies are required to effectively plan, budget, execute, evaluate, and account for their programs and activities.

OPM is currently re-structuring its activities to better serve its customers (see Challenge number 8). The new design focuses on customer needs, emphasizes outcomes over process, and fosters integration of human resources management and accountability across Government. OPM has concurrently revised its strategic plan to align with the new structure. Similar to prior years, it will take at least one more planning cycle before the new framework is fully integrated into the annual plans and reports. As a consequence, it will be at least one year before it is apparent how annual program goals/measures work within the new framework and to obtain a complete picture of OPM's progress toward meeting strategic goals. OPM is challenged with aligning the FY 2003 and 2004 annual performance plan with OPM's updated strategic plan to better show the relationship between goals, activities, resources, and outcomes.

As part of OPM's restructuring, OPM is expanding its program evaluations function and strengthening its performance measurement system. For example, the President's Management Agenda challenges OPM to more effectively and efficiently manage human capital efforts across the Federal government. The Human Capital Framework and OPM's revised strategic plan describe the outcomes OPM will affect through the wide range of new initiatives and on-going activities. These documents lay the foundation for performance measures that will enable OPM to determine the extent to which these outcomes are being achieved and ultimately, assess the contributions of OPM to its customers and citizens. OPM is challenged with defining these measures in more detail and developing the mechanisms for collecting the data to support them.

In our last audit of internal controls over FY 2001 performance results, we reported that OPM needs to improve controls over that performance data. As OPM is restructuring and moving people and activities, it is even more important to have strong internal controls over performance data. OPM is challenged to improve policies and procedures

for obtaining and compiling performance data and providing additional oversight and monitoring of performance data. Managers need to be able to use performance data throughout the year to make business decisions.

Another of the major management initiatives of the current Administration is to fully integrate performance and budget information. In prior annual budget justifications to OMB and Congress, OPM aligned requested resources with the goals the agency committed to achieve that year. However, with OPM's restructuring, the agency will need to realign its cost allocation system in addition to analyzing its cost allocation methodology and OPM accounts. Full integration of budget and performance requires that agencies are able to link and report not only their budget requests, but the resources actually expended to achieve outcomes. Consequently, in FY 2002, OPM implemented a zero-based budgeting concept, requiring its organizational components to develop their FY 2002 operating budget plans from the ground up, specifying the minimum level of resources that will be needed to successfully accomplish each of its annual performance goals. This new way of preparing the budget will link the resources expended to accomplishments at the close of FY 2002 and serve as the baseline for OPM's FY 2003 goals.

OPM's strategic plans, annual performance plans, and reports have been subject to ongoing and continuous refinement over the years to improve the measurement framework used. The OIG continues to work with the agency in this effort, providing recommendations for improvement. Although the process is still evolving, we believe the improved focus on outcomes will better show the value OPM provides in managing the federal government's human capital, and will provide more reliable information for short- and long-term decision-making.

6. REVOLVING FUND AND SALARIES AND EXPENSES ACCOUNTS

Developing and implementing strong internal control procedures in OPM's financial management systems for the Revolving Fund (RF) and Salaries and Expenses (S&E) accounts has been a top agency challenge for several years. The agency has made progress in this area during the last two years, but issues remain which continue to pose a challenge. The following are the key challenges that the agency is faced with in financial management of the RF and S&E:

a. Reconciliation of OPM's Fund Balance with Treasury Accounts

The reconciliation of OPM's Fund Balance with Treasury for the RF and S&E accounts was reported as a material weakness from 1993 to 2000 in OPM's annual Federal Managers Financial Integrity Act (FMFIA) letter to the President. In the 2001 FMFIA letter it was downgraded to a reportable condition, based on the implementation of internal controls by the Office of the Chief Financial Officer (OCFO) over the cash reconciliation process. These controls included developing standard reconciliation procedures, maintaining documentation

supporting all cash transactions, and implementing supervisory review procedures.

While the status of the cash reconciliations has improved from what it was two years ago, issues remain that must be resolved. For example, while reconciling items have been identified, they have not been corrected in a timely manner. As of August 2002, reconciling items for disbursements dating back to March 2000 were still outstanding, as were reconciling items for receipts dating back to October 2001. These unresolved items totaled approximately \$6.9 million for disbursements and \$10.2 million for receipts.

In addition to the reconciled but unresolved amounts discussed above, as of September 2002, there was an unreconciled difference with Treasury's cash balance of approximately \$20 million. The OCFO is working to implement additional controls that will improve their procedures related to the cash reconciliations with Treasury. This is a key area, as unreconciled cash transactions impact other general ledger accounts.

b. Data Reconciliation and Control

Controls over transactions entered into the RF and S&E general ledgers have historically been inadequate. Subledgers or other detailed records were often not reconciled to general ledger control accounts; supervisory and analytical reviews of transactions and balances were inadequate; and transaction codes used to record general ledger entries were defined incorrectly in some cases. This resulted in erroneous entries to and balances in the general ledger. The absence of these standard accounting procedures and controls was a primary cause of the financial statements of the RF and S&E being unauditible.

A contributing factor to these problems was that the financial management system used to account for the RF and S&E activity did not meet the requirements of the Federal Financial Management Improvement Act of 1996, such as using the U.S. Standard General Ledger. In response to this, OPM purchased a new financial system for the RF and S&E, which was implemented during fiscal year 2002. As part of the implementation process, the OCFO has worked to verify the balances in many of the general ledger accounts. These accounts or line items included Investigations Service transactions, Training Management Assistance transactions, Fund Balance with Treasury (noted above), Accounts Receivable, Accounts Payable, and others.

Maintaining accurate general ledger account balances in the new system through the use of strong internal controls, such as timely reconciliations, will require extensive management efforts. As with the improvement of controls over cash transactions described above, it will be critical for the OCFO to maintain these improvements over time, and not let unresolved differences between general ledger account balances and supporting detail linger and grow.

7. Maintaining and Improving the Performance of the Federal Employees Health Benefits Program

As administrator of the FEHBP, OPM has responsibility for negotiating contracts with insurance carriers covering the benefits provided and premium rates charged for approximately 9 million individuals. Optimizing the programs' performance will require a continuous program improvement process and ongoing investments in technology. There are several key strategies that will have to be more fully considered in how best to maximize the performance of the FEHBP. In addition, there are several key factors that affect the programs performance, such as an aging population; increases in the use of prescription drugs and medical services; advances in medical technology; overall inflation related to general health care services; and decreases in the number of health plans participating in the FEHBP each year.

These factors have also contributed to ever increasing premium rates for health plans nationwide. For FY 2003, estimates indicate that the average premium increase will be around 15%, with some public health plans experiencing increases over 20%. OPM, through aggressive cost-containment actions, was able to hold the average FEHBP premium increase to 11.1%. While this is a noteworthy achievement, it nevertheless continues a trend of double-digit premium increases over the last several years. Controlling these costs is an area of great concern to the government (which is responsible for 72% of the total premium), FEHBP enrollees, and OPM management. However, OPM is often limited in how much it can control premium cost increases without also cutting desired benefits.

OPM is challenged with determining and implementing the program changes that allow for maximizing resources, and obtaining the flexibilities that produce the most cost beneficial benefits package to a population of enrollees that is aging overall. OPM has implemented significant changes to improve the performance of the FEHBP, such as the Consumer Driven Option that is a part of the American Postal Worker's Union health plan for 2003, and the Flexible Spending Accounts (FSA) that will be available to employees beginning in July 2003. In addition, OPM is introducing a consumer education strategy to help hold down premiums and medical costs for the FEHBP. However, controlling costs and improving the performance of the FEHBP will require a continuous effort to explore alternatives and ideas.

One area of flexibility that has potential for program improvement, but is not available under current law, is to have OPM directly contract for selective benefits, such as dental and prescription drugs. This and other changes in regulations and the FEHBP law must be considered in the interest of improving the program's performance. In addition, OPM should consider what strategic alliances could be established to provide for maximum cost savings to the government, such as considering how best to partner with the Centers for Medicare & Medicaid Services to provide cost efficient benefits to the aging FEHBP population.

8. OPM'S RESTRUCTURING

The Director of OPM has approved a significant restructuring of OPM operations to be implemented during FY 2003. This initiative is designed to meet the President's goal of forging a citizen-centered, results-oriented, and market-based organization. The new structure focuses on customer needs, emphasizes outcomes over process, and fosters integration of human resources management and accountability across Government. OPM has concurrently revised its strategic plan to align with the new structure.

OPM is challenged with strategically allocating its human capital to align with the revised strategic plan. OPM management will need to get the people with the proper skill levels in the proper positions to best serve OPM customers and to accomplish its goals in the strategic plan.

OPM has created a Restructuring Implementation Team to implement the stages of the reorganization. OPM faces a diverse range of issues, such as staffing, transition management, finance, and logistics, all of which come with restructuring an organization. For example, OPM will need to determine whether the current staff possesses adequate skills to provide a sufficient level of agency support (e.g., consulting skills, contract management skills, strategic customer service skills, etc.) and how it will make institutional information and knowledge readily available and accessible to staff.

Any reorganization includes challenges, but certainly a restructuring of the magnitude being undertaken by OPM will require the best efforts of all involved to make it a success. One of the keys to this will be for OPM to continue to maintain communications with its employees and stakeholders on the progress of the restructuring, thereby helping to ensure that OPM can meet customer needs throughout the restructuring process.



INDEPENDENT AUDITORS' REPORT



OFFICE OF
THE INSPECTOR GENERAL

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

Report No. 4A-CF-00-02-107

JAN 24 2003

MEMORANDUM FOR KAY COLES JAMES
Director

FROM: PATRICK E. McFARLAND
Inspector General

A handwritten signature in black ink that reads "Patrick E. McFarland". The signature is written in a cursive style and is positioned to the right of the typed name.

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year
2002 Consolidated Financial Statements

As required by the Chief Financial Officer's Act of 1990, an audit of OPM's Consolidated Financial Statements has been completed for FY 2002. KPMG performed the audit and this office conducted oversight of their work. This memo accompanies KPMG's audit report. KPMG's opinion states that the financial statements are fairly presented in all material respects. In addition, while they did not identify any material internal control weaknesses, they did identify four reportable internal control weaknesses and one instance in which OPM's financial management systems did not substantially comply with the requirements of the Federal Financial Managers' Integrity Act of 1996 (FFMIA). The agency agrees with the reportable weaknesses and is taking action to address them.

In connection with the audit contract, we reviewed KPMG's report and related documentation and made inquiries of its representatives regarding the audit. Our review was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls and whether OPM's financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations. KPMG is responsible for the enclosed auditor's report dated January 13, 2003, and the conclusions expressed in the report.

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



OFFICE OF
THE INSPECTOR GENERAL

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

January 24, 2003

Report No. 4A-CF-00-02-107

MEMORANDUM FOR PAUL T. CONWAY

Chief of Staff

FROM:

Darwin K. Black
for HARVEY D. THORP

Assistant Inspector General
For Audits

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year
2002 Consolidated Financial Statements

This memorandum transmits KPMG LLP's report on its financial statement audit of the Office of Personnel Management's (OPM) Fiscal Year 2002 Consolidated Financial Statements and the results of the Office of Inspector General's (OIG) review of that report. OPM's consolidated financial statements include the Retirement Program (RP), Health Benefits Program (HBP), Life Insurance Program (LP), Revolving Fund (RF) and Salaries & Expenses Accounts (S&E).

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

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires OPM's Inspector General or an independent external auditor, as determined by the Inspector General, to audit the agency's financial statements in accordance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States. We contracted with the independent certified public accounting firm KPMG LLP to audit the consolidated financial statements of OPM as of September 30, 2002 and for the fiscal year then ended. The contract requires that the audit be done in accordance with generally accepted government auditing standards; the Office of Management and Budget (OMB) bulletin number 01-02, *Audit Requirements for Federal Financial Statements*; and the General Accounting Office /President's Council on Integrity and Efficiency *Financial Audit Manual*.

KPMG LLP's audit report for Fiscal Year 2002 includes: (1) opinions on the consolidated financial statements and the individual statements for the three benefit programs, (2) a report on internal controls, and (3) a report on compliance with laws and regulations. In its audit of OPM, KPMG LLP found:

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- The financial statements were fairly presented, in all material respects, in conformity with generally accepted accounting principles.
- There were no material weaknesses in internal control. A material weakness is a condition in which the design or operation of an internal control does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period.

However, KPMG LLP's report identified four reportable conditions:

- Information systems general control environment;
- Financial management and reporting processes of the Office of the Chief Financial Officer (OCFO);
- Quality control over annual financial statement preparation; and
- Segregation of duties over the Letter-of-Credit system for the Experience-Rated Carriers.

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

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

OIG Evaluation of KPMG LLP's Audit Performance

In connection with the audit contract, we reviewed KPMG LLP's report and related documentation and made inquiries of its representatives regarding the audit. To fulfill our audit responsibilities under the CFO Act for ensuring the quality of the audit work performed, we conducted a review of KPMG LLP's audit of OPM's Fiscal Year 2002 Consolidated Financial Statements in accordance with GAS. Specifically, we:

- reviewed KPMG LLP's approach and planning of the audit;
- evaluated the qualifications and independence of its auditors;

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

Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls or on whether OPM's financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report dated January 13, 2003, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted GAS.

In accordance with the OMB Circular A-50 and the Federal Acquisition Streamlining Act of 1994, section 6009, all audit findings must be resolved within six months of the date of this report. In order to ensure audit findings are resolved within the required six-month period, we are asking that the OCFO respond directly to the OIG within 90 days of the date of this report advising us whether they agree or disagree with the audit findings and recommendations. As stated in OMB Circular A-50, where agreement is indicated, the OCFO should describe planned corrective action. If the OCFO disagrees with any of the audit findings and recommendations, they need to explain the reason for the disagreement and provide any additional documentation that would support their opinion.

In closing, we applaud OPM's financial management staff for continuing to meet the challenge of issuing consolidated financial statements. Their professionalism, courtesy, and cooperation allowed us to overcome the many challenges encountered during OPM's preparation, KPMG LLP's audit, and the OIG's oversight of the financial statement audit. If you have any questions about KPMG LLP's audit or our oversight, please contact me or have a member of your staff contact Dennis K. Black, Deputy Assistant Inspector General for Audits at 606-4711.

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



2001 M Street NW
Washington, DC 20036

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the U.S. Office of Personnel Management (OPM) as of September 30, 2002 and 2001, the related consolidated statements of net cost for each of the years then ended, and the related consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2002 (hereinafter referred to as the consolidated financial statements). We have also audited the individual balance sheets of the Retirement, Health Benefits, and Life Insurance Programs (hereinafter referred to as the Programs) as of September 30, 2002 and 2001, the related individual statements of net cost for each of the years then ended, and the related individual statements of changes in net position, budgetary resources, and financing for the year ended September 30, 2002 (hereinafter referred to as the Programs individual financial statements).

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

Summary

As stated in our opinion on the financial statements, based on our audits and the results of other auditors, we concluded that the consolidated financial statements of OPM and the Programs' individual financial statements as of and for the years ended September 30, 2002 and 2001, as presented in OPM's *Fiscal Year 2002 Performance and Accountability Report*, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in the following reportable conditions, none of which are believed to be material weaknesses:

- Information systems general control environment;
- Financial management and reporting processes of the Office of the Chief Financial Officer;
- Quality control over annual financial statement preparation; and
- Segregation of duties over the letter-of-credit system related to Experience-Rated Carriers.

The status of prior year findings is presented in Exhibit I.

The results of our tests of compliance with laws and regulations, exclusive of the *Federal Financial Management Improvement Act of 1996 (FFMIA)*, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General



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of the United States, or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*

The results of our tests of compliance with FFMIA disclosed instances where OPM's financial management systems did not substantially comply with the United States Government Standard General Ledger at the transaction level.

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the U.S. Office of Personnel Management as of September 30, 2002 and 2001, the related consolidated statements of net cost for each of the years then ended, and the related consolidated statement of changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year ended September 30, 2002. We have also audited the individual balance sheets of the Programs as of September 30, 2002 and 2001, the related individual statements of net cost for each of the years then ended, and the related individual statements of changes in net position, budgetary resources, and financing for the year ended September 30, 2002. The individual Programs' financial statements are included in the consolidating financial statements presented as Schedules 1 through 5.

We did not audit the financial statements of the experience-rated health carriers, which statements comprise 1.1 percent and 1.4 percent of total assets reflected in the Health Benefits Program (HBP) individual balance sheets as of September 30, 2002 and 2001, respectively, and 74 percent and 73 percent of the current benefits and premiums reflected in the HBP individual statements of net cost as of September 30, 2002 and 2001, respectively. The experience-rated carrier financial statements were audited by other auditors, whose reports thereon have been provided to us, and our opinion, insofar as it relates to the amounts included for the experience-rated carriers, is based solely on the reports of the other auditors.

Additionally, we did not audit the financial statements of Metropolitan Life Insurance Company's Office of Federal Employees Group Life Insurance Program (OFEGLI), which statements comprise approximately 2.4 percent and 2.3 percent of total assets reflected in the Life Insurance Program (LP) individual balance sheets as of September 30, 2002 and 2001, respectively, and substantially all of the current benefits reflected in the LP individual statements of net cost for the years then ended. Those financial statements were audited by other auditors, whose report thereon has been provided to us, and our opinion, insofar as it relates to the amounts included for OFEGLI, is based solely on the reports of the other auditors.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OPM and the financial position of each of the Programs as of September 30, 2002 and 2001; and the consolidated and individual Programs' net costs for each of the years then ended; and the consolidated and individual Programs' changes in net position; combined and individual programs' budgetary resources; and consolidated and individual programs' reconciliation of net costs to budgetary obligations for the year ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.



As discussed in Note 15 to the financial statements, OPM has adopted the provisions of Federal Accounting Standards Technical Bulletin No.2002-1, *Assigning Costs and Liabilities to Agencies that Result From Legal Claims Against the Federal Government*, effective for periods beginning after September 30, 2001.

The information included in the Management Discussion and Analysis (MD&A) and Required Supplementary Information sections of OPM's *Fiscal Year 2002 Performance and Accountability Report* is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of OPM taken as a whole and on the Programs' individual financial statements. The individual financial statements of the Revolving Fund Programs and Salaries and Expenses funds (the Funds) included in the consolidating financial statements, (Schedules 1 through 5), are presented for purposes of additional analysis of the consolidated financial statements of OPM rather than to present the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of the individual Funds. The presented financial statements of the Funds have been subjected to the auditing procedures applied in the audit of the OPM's consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to OPM's consolidated financial statements taken as a whole.

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect OPM's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

In our fiscal year 2002 audit, we noted certain matters, described in items 1 through 4 below, involving internal control over financial reporting and its operation that we consider to be reportable conditions. However, none of the reportable conditions identified below are believed to be material weaknesses.

A summary of the status of prior year reportable conditions is included as Exhibit I.

We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of OPM in a separate letter dated January 13, 2003.

1. Information Systems General Control Environment

OPM continues to make progress in enhancing its technology and information security infrastructure. This includes the adoption of an information technology security program, implementation of security policies

OPM

and procedures, and assignment of security responsibilities throughout the organization. In addition, during fiscal year 2002, OPM finalized the implementation of a new software development life-cycle methodology and accredited its general support system. These steps are very encouraging and help OPM improve its information security posture. However, certain controls still need to be strengthened to meet requirements of OMB Circular A-130, *Management of Federal Information Resources*, as discussed below.

- a. Entity-wide Security Program – OPM has not fully documented security plans for its major application and systems. In addition, OPM has not fully implemented a certification and accreditation process that includes, but is not limited to, performing reviews of security controls, documenting application controls in its security plans, and identifying application specific risks, prior to accreditation. As outlined in OMB Circular A-130, an effective security program includes a risk assessment process, a certification process, and an effective plan for incident response and monitoring.
- b. Access Controls – As reported in the prior year, OPM has not consistently designed, configured, or reviewed access control listings to prevent unauthorized access to its networked resources and critical production data. The *Computer Security Act* requires Federal agencies to identify and provide security protection commensurate with risk resulting from the loss, misuse, unauthorized access, or modification of information collected or maintained.
- c. Service Continuity – OPM has not formalized a computer incident response capability to mitigate the risk of service interruptions. We also noted that OPM has not established offsite storage and processing arrangements for its local area network (LAN) based resources and has not integrated its disaster recovery plan with its continuity of operations plans. Losing the capability to process, retrieve, and protect information maintained electronically could significantly affect OPM's ability to accomplish its mission.

Although OPM's control environment, taken as a whole, provides certain mitigating controls, the conditions described above increase the risk that OPM would not be able to prevent and detect unauthorized access to and modification of financial, retirement, and other sensitive information; loss of assets; disruption of critical operations; and the ensuing costs associated with business downtime and recovery.

Recommendation

We recommend OPM develop a formal action plan for reviewing and revising information systems general and application controls. This plan should address each of the conditions discussed above, set forth appropriate corrective actions, assign responsibilities to employees, and establish target completion dates for each action. This plan should be reviewed by the Office of Inspector General (OIG) and adopted by the executive management of OPM. In addition, this plan should provide for periodic reviews of progress towards the achievement of corrective actions.

2. Financial Management and Reporting Processes of the Office of the Chief Financial Officer (OCFO)

The OCFO is in the process of implementing a new financial information system. The system was acquired by OPM in fiscal year 2001 to assist in improving the control environment over the processing and recording of Fund financial transactions, as well as to facilitate the reporting of Fund financial information. While the new system is capable of providing the system controls necessary to achieve these objectives, other conditions outside the system continue to affect the accuracy of the Funds' fiscal year

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2002 financial information. As in the prior year, we noted the following internal control weaknesses in the OCFO:

- a. *Timeliness of Transaction Entry and Reconciliation* – The OCFO does not consistently record financial transactions or analyze its financial records in a timely manner. In addition, the OCFO does not consistently reconcile the general ledger accounts to subsidiary ledgers and other supporting documentation on a routine basis. More specifically, the OCFO has not fully implemented procedures for reconciling Fund Balance with Treasury. In addition, the OCFO has not fully implemented reconciliation procedures between proprietary and budgetary accounts to ensure that key account relationships exist.
- b. *Budgetary Accounting Structure* – The OCFO has not fully implemented budget controls to provide reasonable assurance that budgetary transactions, such as obligations and outlays, are properly recorded, processed, and summarized to permit the preparation of the Funds' financial statements, mainly the statements of budgetary resources and financing, in accordance with accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*.
- c. *Financial Reporting* – The OCFO has not implemented adequate policies and procedures to prepare, review, and report financial statements and other financial reports submitted to oversight agencies. In addition, we noted that the OCFO's financial information system does not adequately capture transactions by agency trading partner.

As we reported in the prior year, the OCFO is unable to produce timely, accurate, and reliable financial information, as required by laws and regulations. We believe there still exists inadequate communication among functions within the accounting office, and weak enforcement of policies and procedures. We also believe the OCFO could further strengthen its staff's technical skills necessary to perform and oversee account analysis and reconciliation procedures.

While the Funds are not material in relation to OPM's consolidated financial statements presented herein, the conditions identified above indicate significant deficiencies in the operation of OCFO's internal control over financial management and reporting. In our judgment, these deficiencies adversely affect OPM's ability to accurately record, process, summarize, and report financial data for the Funds. In addition, the combination of weak budgetary controls and an unreconciled Fund Balance with Treasury increase the risk of noncompliance with budgetary laws and regulations.

Recommendations

As we recommended in the prior year, the OCFO should emphasize the importance of proper and consistent performance of control procedures. The tasks of performing reconciliation procedures, account analysis, and review of financial statements should be assigned to individuals with appropriate training and skills. We also recommend that the OCFO develop and implement formal month-end financial reporting procedures that include the following:

- Reconciling all general ledger accounts to the subsidiary ledgers or other supporting documentation and resolving reconciling items;
- Reconciling applicable general ledger accounts to the information provided to and received from the U.S. Department of the Treasury;
- Reconciling, where applicable, proprietary to budgetary accounts; and

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- Researching, identifying, and removing items from clearing, suspense, and other temporary general ledger accounts within the month they occur.

In addition, we strongly recommend the OCFO complete its effort to develop and implement budgetary accounting policies and procedures, to ensure that all budgetary transactions are properly recorded and to support the preparation, execution, and reporting of the Funds' budgets, in accordance with budgetary laws and regulations.

As we recommended in the prior year, the OCFO should ensure that staff that complete and review these month-end procedures and perform the day-to-day financial processing possess the necessary skills, experience and training to perform these tasks efficiently and effectively.

3. Quality Control Over Annual Financial Statement Preparation

To meet the financial reporting requirements pursuant to the OMB Bulletin No. 01-09, OPM segregated its annual financial reporting responsibilities among the following departments:

- The Benefits Accounting Branch (BAB), which prepared the Programs' individual financial statements and assembled the consolidated financial statements;
- The OCFO, which prepared the Funds' individual financial statements;
- The Quality Assurance Division staff, which coordinates the preparation of the MD&A and performance measures section of the report; and
- The Financial Policy Staff, which prepared the footnotes to the consolidated financial statements.

Regular communications and cross-reviews were essential for complete and accurate consolidated financial reporting. However, as in the prior year, the complexity of OMB Bulletin No. 01-09 reporting and disclosure requirements and OPM's staffing limitations affected the adequacy of OPM's quality control function for annual financial reporting. As a result, we observed the following weaknesses over the preparation of the consolidated and individual financial statements and related footnotes:

- Cross-reviews of financial statements and footnote drafts were not performed with sufficient technical oversight to ensure that accounts were properly classified and that all required disclosures were included in the accompanying footnotes; and
- Difficulty was experienced in producing complete and accurate consolidated financial statement drafts in a timely fashion for review by management and the auditors.

Recommendations

As recommended in the prior year, OPM should strengthen the effectiveness of its financial reporting controls to minimize financial reporting errors and inconsistencies, and to improve the timeliness of the year-end financial statement preparation. We recommend OPM strengthen the consolidated financial statement preparation process by:

- Developing and implementing a strict quarterly and year-end financial closing and reporting schedule that identifies critical milestone dates and deliverables, and assigns responsible parties to those milestones. OPM should consider linking an individual's ability to meet financial reporting milestones to his or her annual performance plans, so the importance of meeting these deadlines is emphasized and rewarded. OPM should assign the oversight of the schedule to a manager that possesses direct supervisory responsibility over all key personnel involved in the financial reporting process, including those preparing the MD&A and performance information;

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- Positioning itself to handle the processing and recording of accounting transactions in an environment where compressed reporting schedules is the norm. OPM should ensure that personnel have sufficient experience and technical expertise to assure financial statements comply with applicable accounting principles and disclosures;
- Documenting the procedures necessary to ensure the Funds' individual financial statements are complete and accurate, such as which financial statement relationships should exist, and which footnote disclosures are needed; and
- Evaluating OPM's current accounting resources and processing methods to determine whether appropriate skill levels exist and whether additional accounting procedures are needed to accomplish the objectives set forth in the preceding recommendations.

4. Segregation of Duties Over the Letter-of-Credit System for the Experience-Rated Carriers

OPM maintains a letter-of-credit (LOC) system whereby Experience-Rated Health Carriers (ERC) participating in the Federal Employee Health Benefits Program (FEHBP) draw down funds to pay for employees' claims and administrative expenses. During our review of OPM's internal controls over the FEHBP, we noted that the Team Leader and certain other team members for the Health Benefits and Life Insurance Program team within Benefits Accounting Branch have the authorization to perform an emergency draw down on behalf of an ERC, and also have the ability to access, record, or change related accounting transactions in the financial management system. The team leader was also involved in reconciling the LOC fund balances with Treasury's fund balances. OPM has instituted certain mitigating controls over this area, however, segregating the emergency draw down function from the supervisory function is necessary to reduce the risk that unauthorized use or disposition of the entity's assets having a material effect on the financial statements will occur and not be detected in a timely manner.

In accordance with Circular A-123, *Management Accountability and Control*, key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. In addition, managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.

Recommendation

We recommend OPM develop and implement policies and procedures that require an appropriate level of segregation of duties so the same persons do not have responsibilities over authorization, processing, recording, and reviewing of official OPM transactions related to the ERC activity. In addition, we recommend OPM strengthen segregation of duties controls over the LOC system by modifying the system configuration so that:

- A person who can approve the emergency draw down request cannot be the person processing the request;
- The system produces a report for any updates that have been entered but not yet approved on a regular basis. Policies and procedures should be established for a supervisor to review these reports and take appropriate action, if necessary; and
- The user changing critical ERC information would not be able to request emergency draw downs for carriers.

5**Compliance with Laws and Regulations**

Our tests of compliance with certain provisions of laws and regulations as described in the Responsibilities section of this report, exclusive of the FFMIA, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed instances, described below, where the OPM's financial management systems did not substantially comply with the United States Government Standard General Ledger (SGL) at the transaction level.

5. United States Standard General ledger at the transaction level

In accordance with OMB Circular A-127, *Financial Management Systems*, as amended, OPM is to record financial events consistent with the applicable account definitions, attributes, and processing rules defined in the SGL at the transaction level. The OCFO does not consistently record Fund transactions at the time of an event or soon afterward, preventing the OCFO from preparing trial balances that adequately support the Funds' individual financial statements. Additionally, the OCFO has not implemented an adequate accounting structure to support budgetary controls and to ensure that budgetary transactions are recorded in accordance with posting attributes reflected in the SGL.

Recommendation

We understand that the OCFO is in the process of implementing a new accounting system to record Fund transactions and expects to finalize the implementation of this system during fiscal year 2003. We recommend OPM ensure the new system will enable the OCFO to account for the Funds' transactions in accordance with the SGL at the transaction level. The resolution of these findings should be a priority for fiscal year 2003.

The results of our tests of FFMIA disclosed no instances in which OPM's financial management systems did not substantially comply with Federal financial management systems requirements or Federal accounting standards.

Responsibilities***Management's Responsibilities***

The *Government Management Reform Act of 1994* (GMRA) requires each Federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the GMRA reporting requirements, OPM prepares annual financial statements.

Management is responsible for:

- Preparing the consolidated financial statements of OPM and the individual financial statements of the Programs in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting, and preparation of the MD&A (including the performance measures) and required supplementary information; and
- Complying with laws and regulations, including FFMIA.

Scope

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities

Our responsibility is to express an opinion on the consolidated financial statements of OPM and the Programs' individual financial statements for fiscal year 2002 and 2001, based on our audits and the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements of OPM and the Programs' individual financial statements are free of material misstatement.

An audit includes:

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

We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinions.

In planning and performing our fiscal year 2002 audits, we considered OPM's internal control over financial reporting by obtaining an understanding of OPM's internal control, determining whether internal controls were placed in operation, assessing control risk, and performing tests of controls, in order to determine our auditing procedures for the purpose of expressing our opinions on OPM's presented consolidated financial statements and the presented individual financial statements of the Programs. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the MD&A, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the OPM's fiscal year 2002 financial statements are free of material misstatement, we performed tests of the OPM's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance

INDEPENDENT AUDITORS' REPORT

FFMIA

with all laws and regulations applicable to the OPM. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the OPM's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

Distribution

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

KPMG LLP

January 13, 2003

Exhibit I

**U.S. Office of Personnel Management
Status of Prior Year Findings
Fiscal Year 2002**

No.	Title of Finding from FY01 Report	Program /Fund	Prior Year Status	Current Year Status	Factors Affecting Current Year Status
1.	Electronic Data Processing (EDP) General Control Environment	All ¹	Reportable Condition	Reportable Condition – See FY 2002 condition No.1	The general control environment has improved from prior year; however, there are certain areas, which still require improvement.
2.	Account Analysis And Other Significant Reconciliation Procedures By The Office of The Chief Financial Officer (OCFO)	S&E, ² RF ³	Reportable Condition	Reportable Condition – See FY 2002 condition No.2	Controls over account analysis and other significant reconciliation procedures, including fund balance with Treasury, by the OCFO have not changed substantially from the prior year.
3.	Budgetary Accounting Structure of The OCFO	S&E, RF	Reportable Condition	Reportable Condition – See FY 2002 condition No.2	Controls over budgetary transactions have not changed substantially from the prior year. The OCFO continues to experience difficulties in preparing accurate statements of budgetary resources and financing.
4.	Quality Control Over Annual Financial Statement Preparation	All	Reportable Condition	Reportable Condition – See FY 2002 condition No.3	Quality controls over annual financial statement preparation have not changed substantially from the prior year.
5.	Control Over Program Administration For The Community-Rated Health Carriers	HBP ⁴	Reportable Condition	Disposed	OPM implemented a centralized enrollment reconciliation system during FY2002.

¹ Includes the Retirement Program, Health Benefits Program, Life Insurance Program, Revolving Fund, and Salaries and Expenses

² S&E: Salaries and Expenses

³ RF: Revolving Fund Programs

⁴ HBP: Health Benefits Program

Exhibit I

**U.S. Office of Personnel Management
Status of Prior Year Findings
Fiscal Year 2002, Continued**

No.	Title of Finding from FY01 Report	Program /Fund	Prior Year Status	Current Year Status	Factors Affecting Current Year Status
6.	Implementation of Documented Policies and Procedures of the OCFO	S&E, RF	Reportable Condition	Reportable Condition – See FY 2002 condition No.2	This condition was partially addressed in fiscal year 2002. Documentation and implementation of certain policies and procedures have still not been implemented by the OCFO.

IN THIS TEMPLE
IN THE HEART OF THE PEOPLE
FOR WHOM HE SAVED THE UNION
THE MEMORY OF ABRAHAM LINCOLN
IS ENSHRINED FOREVER



APPENDIX A

PROGRAM DESCRIPTIONS AND STATISTICS

OPM accomplishes its mission through the administration of programs that address the full range of human resources management issues including oversight of the merit system, design and delivery of employee benefits, position classification, pay and leave systems, maintenance of personnel security, promoting executive development, and the support of workforce relations.

Merit Systems Oversight Programs

Merit Systems and Veterans' Rights Oversight. OPM assesses agency adherence to the merit principles and veterans' rights by reviewing human resources management practices Governmentwide. The information gathered from such assessments is used to ensure accountability in large and small agencies and to develop policy that improves the management of human capital in accordance with the President's Management Agenda. Demonstration projects explore potential improvements in personnel systems and better and simpler ways to manage the Federal workforce.

The administration of a civil service merit system ensures compliance with Federal personnel laws and regulations. Merit principles ensure that Federal agencies invest taxpayers' money only in employing individuals who are most likely to do a good job, and that they base hiring, pay, promotions, and reductions-in-force on a process that is objective, job related, and fair. Veterans' rights are an integral part of the merit-based personnel system that OPM oversees.

Workforce Information System. OPM sets the standards for data submitted to the Central Personnel Data File for the maintenance of personnel records at employing agencies and provides instructions for release of personnel data under the Freedom of Information Act and the Privacy Act. Data pertaining to the Federal workforce is collected and maintained to support human capital decision making. In addition, OPM gathers, analyzes and maintains statistics on the diversity of the Federal workforce, and those statistics are evaluated in reports prepared for Congress.

The Retirement Program

The Retirement Program covers essentially all Federal civilian employees and comprises two defined benefit programs: the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). The basic benefits of both systems are paid by the Civil Service Retirement and Disability Fund (CSRDF). By law, CSRDF funds may be used to pay all disbursements and operating expenses of both programs.

The Civil Service Retirement System. The Civil Service Retirement System (CSRS) was created by the *Civil Service Retirement Act* in 1920 to provide retirement benefits for Federal employees. The CSRS is a stand-alone pension system – its defined benefits are not intended to be a supplement to or be supplemented by other retirement benefits. The CSRS covers most Federal employees hired before 1984 and provides benefits to the survivors of deceased CSRS annuitants and employees. For all practical purposes, the system was closed to new entrants in 1984.

The Federal Employees Retirement System. The Federal Employees Retirement System (FERS) was established on June 6, 1986, by the *Federal Employees' Retirement System Act of 1986* (P.L. 99-335). The FERS is a three-part pension program, using Social Security as a base and providing a defined benefit component and a thrift savings plan. OPM administers the defined benefit component of FERS. The Federal Retirement Thrift Investment Board, an independent agency, administers the thrift savings plan.

APPENDIX A
PROGRAM DESCRIPTIONS and STATISTICS

The FERS covers most employees first hired after December 31, 1983, and provides benefits to the survivors of deceased FERS annuitants and employees.

Retirement Program Participation. FERS membership among active employees overtook CSRS membership in 1995 and by the end of fiscal year 2002 represented 65% of all covered employees. We expect the CSRS population to decline significantly over the next decade, as CSRS participants retire or leave Federal service for other reasons. The following chart shows CSRS and FERS participation among active employees:

	1998*	1999*	2000*	2001*	2002**
CSRS	1,099,000	1,042,000	978,000	906,000	838,000
FERS	1,594,000	1,640,000	1,668,200	1,717,000	1,785,000
Total	2,693,000	2,682,000	2,646,000	2,623,000	2,623,000

*Figures updated based on current information **Projected

As the FERS employee population has grown, so too has the FERS annuitant population. As the table below shows, the number of FERS annuitants is still quite small, representing only 7 percent of the total annuitant population at the end of FY 2002.

	1998	1999	2000	2001	2002
CSRS	2,271,188	2,258,757	2,247,691	2,231,499	2,213,164
FERS	98,162	109,360	128,813	151,502	169,886
Total	2,369,350	2,368,117	2,376,504	2,383,001	2,383,050

The Health Benefits Program

The Health Benefits Program was established by the *Federal Employees Health Benefits Act of 1959* (P.L. 86-382). The law made basic hospital and major medical protection available to active Federal employees, annuitants and their families. The law also allows OPM to contract with qualified carriers and establish programwide eligibility requirements. The Program has several features that make it one of the Nation's leading health benefits plans: participants have an unparalleled choice in the variety of available health plans; they are not required to pass a medical exam in order to enroll; there are no coverage exclusions for pre-existing conditions or waiting periods; and participants are given an opportunity to change their coverage every year during the annual Open Season.

Types of Plans. In fiscal year 2002, 180 health benefits plans participated in the Program. These plans generally are of two types: Fee-for-Service (composed of the Federal employees plan offered by the Blue Cross and Blue Shield Association and the employee organization sponsored plans) and health maintenance organizations (HMOs). A Fee-for-Service (FFS) plan is a traditional type of insurance that allows the participant to use any doctor or hospital; they are called FFS because doctors and other providers are paid for each service. An HMO is a health plan that provides care through a network of physicians and hospitals located in particular geographic or service areas.

Health Benefit Program Enrollment. Enrollment in the Program is 4.1 million, or about 86% of the eligible population -- 2.2 million enrollees are active employees and 1.9 million are annuitants. Including dependents, the Program covers approximately 8.3 million individuals. Enrollment in the Health Benefits Program, by type of plan, is presented in the table below. As the table shows, enrollment in the Program as a whole and by type of plan has remained relatively constant since 1998.

APPENDIX A
PROGRAM DESCRIPTIONS and STATISTICS

	1998	1999	2000	2001	2002
Fee-for-Service	2,888,827	2,892,681	2,898,144	2,918,406	2,958,982
HMO	1,230,354	1,229,969	1,185,642	1,162,722	1,087,164
Total	4,119,181	4,122,650	4,083,786	4,081,128	4,046,146

The Life Insurance Program

The Life Insurance Program was created in 1954 by the *Federal Employees Group Life Insurance Act* (P.L. 83-598) and covers over 4 million Federal employees and annuitants – about 90% of eligible employees and annuitants. Administered through a contract with the Metropolitan Life Insurance Company (MetLife), it is the largest group life insurance program in the world.

Types of Coverage. The Program provides group term life insurance. This form of life insurance does not build up any cash value or paid-up value. It consists of Basic life insurance coverage and three optional coverages:

Basic life insurance is determined by the amount of an employee’s annual rate of basic pay, rounded to the next highest thousand, plus \$2,000. All eligible employees — most Federal employees — are automatically covered by Basic life insurance unless they decline this coverage.

Standard optional insurance is \$10,000 of coverage that an employee can elect in addition to Basic insurance. *Additional* optional insurance is coverage that an employee can elect based on multiples of his or her basic pay. Family optional insurance is coverage that an employee can elect in multiples of \$5,000 up to a maximum of \$25,000 for spousal coverage, and in multiples of \$2,500 up to a maximum of \$12,500 for each eligible child.

Program Enrollment. The following table shows enrollment in the Life Insurance Program for Basic life insurance and the three optional coverages (in thousands). As the table shows, although enrollment in the Program as a whole has remained generally constant since 1998, “Additional” and “Family” coverage has experienced an increase in popularity in the last year or two, while enrollment in “Standard” coverage has been consistently falling.

	1998	1999	2000	2001*	2002 (est.)
Basic	3,973	3,953	3,941	3,949	3,984
Standard	1,356	1,352	1,330	1,379	1,376
Additional	1,277	1,294	1,375	1,379	1,385
Family	1,220	1,299	1,347	1,348	1,342

* Figures updated based on current information

Long Term Care Program

Another key benefits development that will aid the Federal government in recruiting and retaining employees lies in the *Long Term Care Security Act*, which was passed in FY 2000. This act authorizes OPM to offer long term care insurance to approximately 20 million people by October 2002. During FY 2002, OPM successfully implemented this program on schedule. A partnership of two large insurance companies is now administering this program of long term care insurance to Federal employees, retirees, survivors, members of the uniformed services and certain eligible family members. This program offers a choice of benefits that can provide a variety of services, including but not limited to: nursing home care, assisted liv-

APPENDIX A
PROGRAM DESCRIPTIONS *and* STATISTICS

ing facility care, home care (both formal and informal), adult day care, hospice care, and caregiver training. Enrollees can choose from four prepackaged plans, and can choose an inflation protection method, or they can customize their long term care insurance in several areas of coverage, benefit and waiting periods, as well as inflation protection. OPM held a limited Open Season in the spring of 2002, with the first enrollees covered effective May 1, 2002. The regular full open season began on July 1, 2002, continuing through the end of 2002, with an effective date of coverage as early as October 1, 2002.

Employment Programs

Delegated Examining Unit Certification Program. The authority for most employment examining was delegated to employing agencies in 1994, while OPM retained the responsibility to ensure that employing agencies adhere to corporate policies for staffing. These policies include merit principles, veterans' preference, and a commitment to equal opportunity. To make delegated examining effective, training and reference materials are provided to employing agencies and their examining operations are certified through the Delegated Examining Unit Certification Program.

Workforce Planning Program. The workforce planning program establishes policy, provides guidance, and administers programs for reductions in force, separation incentives, and early retirement, as well as providing advice on internal reorganization and career transition initiatives. These activities ensure that agencies can effectively address their strategic human capital needs and maintain diversity in the workforce. Many of these workforce planning services are provided on a reimbursable basis.

Administrative Law Judges Program. The Governmentwide Administrative Law Judges (ALJ) program allows employing agencies to fill those positions in a way that protects public confidence. Through this program, OPM reviews and approves competitive employment actions, classifies positions, and administers the ALJ loan and senior ALJ employment programs.

Employment Information Program. The Employment Information Program administers a Governmentwide listing of all job vacancies in the competitive service currently open to outside applicants, plus many vacancies outside of the competitive service. This allows employers to quickly reach a wide range of potential employees and provides for open competition from all segments of society. Job seekers find it easy to learn about job openings 24 hours a day, 7 days a week, through USAJOBS. USAJOBS uses the Internet and telephones to provide the public with more information than ever before about job vacancies throughout the Federal Government.

Federal Personnel Security Program

The Federal Personnel Security Program ensures the fitness and suitability of applicants for and appointees to positions in the Federal service. To carry out this responsibility, OPM sets Governmentwide investigations policy for the Federal Personnel Security Program and carries out on-site inspections to ensure that employing agencies are following established policies. Personnel investigations relating to personnel suitability and security also are provided, on a reimbursable basis, through a contractor.

Workforce Compensation and Performance Programs

Classification, Pay and Leave Programs. The standards for classifying Federal jobs, establishing pay scales, and enhancing the Federal Government's leave package are governed by several laws, regulations and Executive orders. Through the classification, pay, and leave programs these compensation factors are adjusted for labor markets and to address recruitment and retention issues.

Performance Management and Awards Programs. The performance management and awards programs promote effective performance management and ensure that individual accountability is established and maintained throughout the Federal workforce. The programs set guidelines for evaluating, developing, and rewarding employee performance and also provide agencies with guidance and assistance about how to identify and correct performance problems.

Workforce Relations Programs

OPM provides Governmentwide policy, advice and consultation to employing agency officials through a broad range of workforce relations programs to support the development of effective labor-management relations, employee relations practices, training, employee development, and work/life and wellness programs. These programs help agencies accomplish their missions, develop effective human capital policies in these areas, and build and retain a productive Federal workforce. The programs act as a clearinghouse for Governmentwide information on best practices, innovations, data trends and other information on Federal labor-management and employee relations. To further support Federal agencies in the Strategic Human Capital Initiative, workforce relations programs make available resource tools such as the Gov Online Learning Center (GOLC) which support Governmentwide development of the Federal workforce through simplified, one-stop access to high-quality e-Training products and services. Through the Training and Management Assistance (TMA) program, we provide assistance to Federal agencies in managing the development of training and other human resources management solutions that advance the President's Management Agenda and increase agencies' ability to meet strategic performance targets.

Executive Resources Programs

OPM's executive resources programs foster the development, selection and management of Federal executives. This is accomplished by allocating senior executive position and appointment authorities; establishing critical competencies used to select and develop new executives; administering qualifications review boards and the Presidential Rank Award program; and overseeing Senior Executive Service (SES) Candidate Development Programs and the SES Performance Management System.

APPENDIX B ACRONYMS

Abbreviation/Acronym Key:			
		FAIR	Federal Activities Inventory Report
ADR	Alternative Dispute Resolution	FEHB	Federal Employees Health Benefits
AEP	Affirmative Employment Program	FEHBP	Federal Employees Health Benefits Program
ALJ	Administrative Law Judge		
APR	Annual Performance Report	FEGLI	Federal Employees' Group Life Insurance Program
ASCP	American Customer Satisfaction Index	FEORP	Federal Equal Opportunity Recruitment Program
CAHPS	Customer Assessment of Health Plans Study	FERCCA	Federal Erroneous Retirement Coverage Corrections Act
CLER	Centralized Enrollment Clearinghouse System	FERS	Federal Employees Retirement System
CEL	Center for Executive Leadership	FFMIA	Federal Financial Management Improvement Act
CMM	Capability Maturity Model	FFS	Federal Financial System
CPDF	Central Personnel Data File	FFS	Fee-for-Service
CSRDF	Civil Service Retirement and Disability Fund	FMFIA	Federal Managers Financial Integrity Act
CSRS	Civil Service Retirement System	FMS	Federal Management Service
CSS	OPM Customer Satisfaction Survey	FTE	Full-time Equivalent
CVS	Clearance Verification System	FSA	Flexible Spending Account
DCIA	Debt Collection Improvement Act	GAO	General Accounting Office
DCSS	OPM HR Directors' Customer Satisfaction Survey	GISRA	Government Information Security Report Act
DHS	Department of Homeland Security	GOIC	Government Online Learning Center
DEU	Delegated Examining Unit	GPRA	Government Performance and Results Act
DoD	U.S. Department of Defense	GSA	General Services Administration
DoJ	U.S. Department of Justice	HB	Health Benefits
ECQ	Executive Core Qualifications	HCAAF	Human Capital Assessment & Accountability Framework
EHRI	Enterprise Human Resources Intergration	HMO	Health Maintenance Organization
EEO	Equal Employment Opportunity	HR	Human Resources
ER	Employee Relations	HRDN	Human Resources Data Network (formerly VHRDR)
E-GOV	Electronic Government	HRM	Human Resources Management
E-QUP	Electronic Questionnaire for Investigations Processing		
FAA	Federal Aviation Administration		

APPENDIX B
ACRONYMS

HUD	Housing Urban Development	QRB	Qualifications Review Board
IACH	International Automated Clearing House	QSI	Quality Step Increases
IT	Information Technology	QUIC	Quality Interagency Coordination Task Force
LI	Life Insurance	RDA	Retirement Data Repository
LDS	Leadership for a Democratic Society	RFP	Request for Proposal
LTCSA	Long-Term Care Security Act	RIS	Retirement and Insurance Service (a component of OPM)
MDC	Management Development Center	RP	Retirement Programs
MSPQ	Merit System Principles Questionnaire	RSI	Required Supplementary Information
NASA	National Aeronautics and Space Administration	SAOC	Spending Authority Offsetting Collections
OAS	Organizational Assessment Survey	SCSS	Specialists Customer Satisfaction Survey
OCAS	Office of Contracting and Administrative Services (a component of OPM)	SDLC	Systems Development Life Cycle
OCFO	Office of the Chief Financial Officer (a component of OPM)	SES	Senior Executive Service
OCIO	Office of the Chief Information Officer (a component of OPM)	SFFAS	Statement of Federal Financial Accounting Standards
OERM	Office of Executive Resources Management (a component of OPM)	SGL	Standard General Ledger
OHREEO	Office of Human Resources and EEO (a component of OPM)	SII	Security/Suitability Investigations Index
OIG	Office of the Inspector General, OPM	SL	Senior Level
OMB	Office of Management and Budget	SOELR	Symposium on Employee and Labor Relations
OMSOE	Office of Merit Systems Oversight and Effectiveness (a component of OPM)	ST	Scientific and Professional
OPM	U.S. Office of Personnel Management	TJF	Treasury Judgement Fund
PL	Public Law	TMA	Training and Management Assistance (a sub-component of OPM)
PMA	Presidential Management Agenda	TRB	Theodore Roosevelt Building
PMI	Presidential Management Intern	U.S.C.	United States Code
PMC	Presidents Management Council	USDA	U.S. Department of Agriculture
PRHB	Post-Retirement Health Benefits	USPS	U.S. Postal Service
PTD	Participant Training Days	WCPS	Workforce Compensation and Performance Service (a component of OPM)
PV	Present Value	WHF	White House Fellows



*“...Some of us will serve in
government for a season;
others will spend an entire
career here. But all of us should
dedicate ourselves to great goals:
We are not here to mark time,
but to make progress, to achieve
results, and to leave a
record of excellence.”*

*President George W. Bush, October 15, 2001
Constitution Hall, Washington, DC*



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PERSONNEL MANAGEMENT

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