United States Office of Personnel Management

Performance and Accountability Report

Fiscal Year 2006

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This report is available on OPM's website at www.opm.gov/gpra/opmgpra.

The United States Office *of* Personnel Management

Fiscal Year 2006
Performance & Accountability Report

A MESSAGE *from the* DIRECTOR

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

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

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

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

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

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

A Message *from the* Director

Continued

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

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

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

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

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

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A Message *from the* Director

Continued

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

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

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

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

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

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

Sincerely,

Linda Springer

Linda M. Springer
Director
November 14, 2006

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Part A—Management Discussion and Analysis

(Unaudited—See accompanying Independent Auditors' Report)

Performance and Accountability Report Overview

Introduction

The Office of Personnel Management (OPM) is the central human resources agency for the Federal Government. OPM's mission is to ensure the Federal Government has an effective civilian workforce. To carry out this mission, OPM provides human capital advice and leadership to Federal agencies, supports these with human resources policies, and holds agencies accountable for their human capital practices and the merit system principles. In addition, OPM delivers human resources products and services to agencies on a reimbursable basis, including but not limited to personnel investigations, leadership development and training, examining, staffing and recruiting, organizational assessments, and training and management assistance. OPM also delivers services directly to Federal employees, those seeking Federal employment, and Federal retirees and their beneficiaries. OPM carries out these responsibilities through the programs described below and by implementing the operational goals described in its new Strategic and Operational Plan 2006–2010.

OPM operates from its headquarters in the Theodore Roosevelt Federal Office Building at 1900 E Street, NW, Washington, D.C., 20415. OPM delivers a variety of products and services with the help of its 4,800 employees in D.C., its field presence in 16 locations across the country, and operating centers in Pittsburgh and Boyers, Pennsylvania; Ft. Meade, Maryland; and Macon, Georgia. OPM's website is *www.opm.gov*.

Table 1—OPM Programs and Program Purposes

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

Overview

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

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

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

Part B: FY 2006 Performance Information presents OPM's performance results in comprehensive detail. It expands on the key performance information highlighted in the MD&A, and reports on all of OPM's operational goals pertinent to FY 2006 and goals for FY 2007 achieved ahead of schedule. The Performance Information section is organized by the strategic objectives described in OPM's Strategic and Operational Plan 2006–2010. This level of detail is useful to members and staff in Congress; resource management offices at the Office of Management and Budget; analysts in OPM's Office of the Inspector General; the Government Accountability Office; and interested citizens, customers, and other stakeholders. Lastly, this section includes a comprehensive and thorough discussion of the completeness, accuracy, and reliability of the performance data and information disclosed in the report and describes OPM's data validation and verification process.

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

Part D: Other Accompanying Information contains an assessment of OPM's consolidated financial statements by an independent certified public accounting firm, KPMG LLP. The auditors report on their examination of the evidence supporting the amounts and disclosures in OPM's consolidated financial statements, and individual financial statements for the Retirement, Health Benefits, and Life Insurance Programs. The auditors also report on their consideration of OPM's internal controls over financial reporting, and tests of OPM's compliance with certain provisions of applicable laws, regulations, and contracts. The Other Accompanying Information section also includes the Top Management Challenges: a summary of the most significant challenges facing OPM as it moves forward to fulfill its mission, as described by the agency's Office of the Inspector General. Finally, this section includes OPM's detailed report regarding the agency's compliance with the Improper Payment Information Act.

The *Appendices* provide an analysis of the sources from which OPM collects it performance data, performance results for all Program Assessment and Rating Tool performance measures, a comparison of planned activities against actual results, and an explanation of why performance exceeded or fell short of plans. The appendices also provide information concerning the disposition of the FY 2006/2007 annual goals and performance indicators, and a list of the acronyms and abbreviations used in this report.

OPM employees prepared this Performance and Accountability Report. Limited contractor support was used to develop the performance information disclosed herein. Contractor support was used to develop the financial information reported for the Health Benefits, Life Insurance, and Long-Term Care Insurance Programs because much of that information originates with the carriers participating in those programs. In addition, contractor support was used for editing and graphic design, and in printing the report. This report is available on OPM's website at *www.opm.gov/gpra/opmgpra*. Hard copies may be obtained by contacting Chris Brown, U.S. Office of Personnel Management, Center for Budget and Performance, Room 5447B, 1900 E Street, NW, Washington, D.C., 20415.

OPM's Mission and Strategic Objectives

As required by the Government Performance and Results Act, OPM updated its strategic plan since three years had passed since it was last updated. OPM assessed its external and internal challenges, and reassessed the agency's mission, guiding principles, and priorities with an eye toward creating a more transparent and accountable agency. The result is OPM's new Strategic and Operational Plan 2006–2010, which begins with a concise mission statement and continues with seven strategic objectives (see Table 2), each of which is supported by a series of operational goals.

OPM's newly stated mission is simple and direct: to ensure the Federal Government has an effective civilian workforce. This mission is accomplished by achieving seven strategic objectives. Objectives A and B focus on the outcomes OPM seeks for the Federal workforce. Objectives C and D focus on what OPM needs to achieve through Federal agencies, and the last three (Objectives E, F, and G), describe what OPM should accomplish internally.

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

Table 2—OPM Mission and Strategic Objectives

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

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

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

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

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

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

Organizational Structure

OPM's organizational structure reflects the primary business lines through which OPM carries out its programs and implements its strategic objectives and operational goals: developing Federal human resources management policy, supporting agencies in the implementation of that policy through best practices in human capital management while adhering to the Merit System Principles, and supporting these with human resources products and services. This structure positions OPM to respond to and meet the unprecedented new responsibilities and higher profile the agency has been given. As shown in Figure 2, OPM comprises the following organizational components.

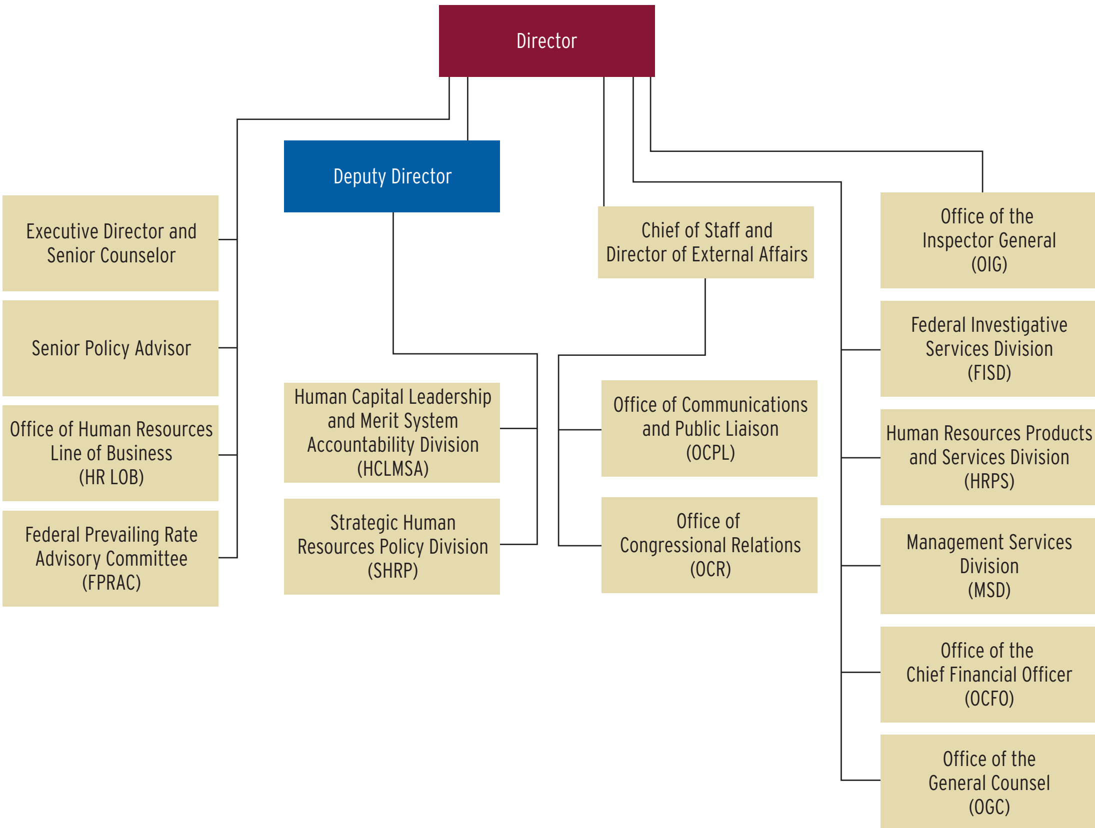
- The *Executive Director and Senior Counselor to the Director* focuses on internal agency matters, including strategic planning and the budgeting process.
- The *Chief of Staff and Director of External Affairs* is responsible for advising the Director on issues affecting the agency and the Federal workforce,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

Figure 1—Performance Management Structure

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

- The *Senior Policy Advisor and the chair of the Federal Prevailing Rate Advisory Committee* report to the Director on matters concerning their respective specific programs.
- *The Human Capital Leadership and Merit System Accountability Division* (HCLMSA) reports through the Deputy Director and supports the Human Capital Program by leading the transformation of human capital management across Government by proactively engaging agencies in the implementation of the Human Capital Standards for Success and providing them with technical advice and assistance. HCLMSA reports through the Deputy Director and also supports the Merit System Compliance Program by assessing and reporting agencies' adherence to the Merit System Principles, veterans' preference, and other Governmentwide standards.
- The *Strategic Human Resources Policy Division* (SHRP) reports through the Deputy Director and designs, develops, and leads the implementation of innovative, flexible, merit-based human resources policies and strategies that enable Federal agencies to meet their missions and achieve their goals. SHRP's activities support the Human Capital Program, and the division also provides policy leadership for the employee benefit programs (retirement, health benefits, and other insurance).
- The *Office of Communications and Public Liaison* reports through the Chief of Staff and advances and defends the heritage and principles of America's civil service. The office promotes the policies and directives of the President and of the OPM Director and ensures they are fully supported as they relate to the Strategic Management of Human Capital Initiative. The office provides the American citizenry, Federal employees, agency customers, and pertinent stakeholders with accurate information to aid in their planning and decision making.
- The *Office of Congressional Relations* reports through the Chief of Staff and oversees and coordinates all of OPM's congressional relations, provides strategic advice and legislative analysis to OPM's Director and program offices, and responds to congressional initiatives that affect Federal human resources management issues.
- The *Office of Human Resources Line of Business* (HRLOB) is responsible for the development of world-class, secure, modern, cross-agency, human resources solutions so that Federal agencies can build successful, high-performing organizations. The initiative is modernizing HR business processes and establishing both Federal and private sector providers of shared common solutions. The solutions will provide more efficient management of the automated information systems that support human resource activities thus allowing Federal agencies to transform their internal human resource focus from an emphasis on administrative processing to strategic planning support for agency leadership and improved customer service.
- The *Office of the Inspector General* (OIG) conducts comprehensive and independent audits, investigations, and evaluations relating to OPM programs and operations. It is responsible for administrative actions against health care providers that commit sanctionable offenses with respect to the Federal Employees Health Benefits Program (FEHBP) or other Federal programs. The OIG keeps the Director and Congress fully informed about problems and deficiencies in the administration of agency programs and operations, and the necessity for corrective action.
- The *Federal Investigative Services Division* (FISD) houses the Investigations Program through which it provides Federal agencies personnel background investigative and employment suitability services on a reimbursable basis to ensure Federal employees meet critical personnel security standards. FISD strives to provide these services within the timeframes mandated by the National Intelligence Directive.
- The *Human Resources Products and Services Division* (HRPS) provides high-quality, cost-effective products and services that help OPM customers recruit and retain the best talent through the Talent

Figure 2—OPM Organizational Structure



Services Program; develops and maintains a results-oriented leadership through the Leadership Capacity Services Program; and delivers benefits services to Federal employees, annuitants, and their families through the employee benefit programs.

- The *Management Services Division* (MSD) provides OPM offices with the full range of administrative services, including human capital and equal employment opportunity management, contracting and administrative management, information technology, and security and emergency services. These services enable OPM to build mission capacity and maintain a high-quality and diverse workforce.
- The *Office of the Chief Financial Officer* (OCFO) is responsible for implementing the President's Management Agenda (PMA) within the agency and providing OPM offices with the full range of financial management, strategic planning, and budget services. The office also performs OPM's oversight of internal controls and risk assessments.
- The *Office of the General Counsel* provides legal services to OPM's Director, Deputy Director, and divisions. It also advises Government agencies in understanding and carrying out their civil service responsibilities and meeting the Merit System Principles. The office provides civil-service-related legal assistance to members of the public, as needed, to serve the American people fairly and professionally.

Table 3—Status of Operational and Annual Performance Goals by Strategic Objective

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

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

Analysis of Program Performance

Performance Highlights

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

Fifty-three of the 83 operational goals described in OPM's Strategic and Operational Plan were scheduled for FY 2006. OPM achieved all of these goals. In addition, OPM achieved five operational goals that were not scheduled for completion until early in FY 2007, making 58 the total number of operational goals successfully completed, as shown in Table 3.

Key Performance Measures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Quality of Performance Data

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

In FY 2006, OPM further improved controls over the collection and reporting of its performance information. For instance, each OPM program office documented its data collection, reporting, and verification procedures to establish a control environment based on data quality standards established by the agency's Chief Financial Officer. More importantly, performance information pertinent to OPM's operational goals is validated with evidence by the Executive Director and submitted to OPM's Director for approval to record the goal achieved and completed. These procedures are facilitated by internal quarterly financial and performance reviews conducted by the OPM Director with each program office during the year. Through these reviews, data collection issues are identified and resolved well before the PAR is due, and strategies for achieving performance targets and goals can be adjusted if necessary. The agency thus has uniform procedures for measuring success in achieving targets and documenting this success for use in the PAR.

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

Key Administration Management Initiatives—the President's Management Agenda

Background

The PMA is an aggressive Administration strategy for improving the management of the Federal Government. The PMA establishes the goals of creating a government in which citizen resources are well managed and wisely used, and holds Federal agencies accountable for allocating resources efficiently and effectively to the most critical programs to benefit citizens. It focuses on six initiatives to improve Federal management and deliver results that matter to the American people. These initiatives are:

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

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

Table 4—OPM PMA Scorecard Results for FY 2006

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

G = Green, Y = Yellow, R = Red

FY 2006 PMA Results

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

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

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

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

Strategic Management of Human Capital

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

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

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

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

Competitive Sourcing

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

In March 2005, OPM made a performance selection decision on its A-76 standard competition of 163 clerical, technical, and administrative support positions located in Washington, DC; Philadelphia and Boyers, Pennsylvania; Dallas, Texas; and San Francisco, California. The private sector contractor Transtecs Corporation, a small disadvantaged business located in Wichita, Kansas, won the competition. Through the first two quarters of FY 2006, OPM has realized savings of $1.4 million through contractor performance of this activity.

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

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

Improving Financial Performance

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

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

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

Expanding Electronic Government

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

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

Enterprise Human Resources Integration (EHRI). Today, agencies can access a central data repository with over 34 years of personnel actions for Federal employees for the purpose of workforce analysis, planning and forecasting, and employee record lookup. Human resources departments across Government will be given the tools to instantly create customized reports and analyses of their agencies' workforces. For the first time, agency payroll and training data will be combined with employee data for workforce analysis. EHRI is also implementing an electronic Official Personnel Folder (eOPF) application across the Government that will replace the current paper personnel folder. eOPF, in conjunction with the EHRI data warehouse, will enable employee information to be transferred electronically across Government, including to the retirement system. It also will provide the capability for security clearance investigators to view personnel file records online rather than having to travel to various locations to view paper folders, thus saving time and money in the clearance process. EHRI has over 355,000 eOPFs on-line, 55,000 over its FY 2006 target, and it is expected that there will be over 305,000 on-line by the end of the fiscal year.

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

e-Payroll. Before the startup of the e-Payroll initiative, 26 executive branch agencies each provided varying levels of payroll services, and most agencies provided service only for their own employees. As a result, these employees received inconsistent treatment in payroll administration. Today, over 85 percent of executive branch employees are receiving payroll services from four cross-servicing payroll providers. Those agencies not serviced by an e-Payroll provider will complete their migrations by the end of 2008.

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

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

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

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

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

On August 22, the President issued an Executive Order on Healthcare Cost Transparency, Quality of Care, and Information Technology. To support the Executive Order, OPM has been instrumental in establishing short term and longer term objectives for FEHBP contractors, including transparency in healthcare pricing and quality, adopting effective health IT standards for interoperability as they are developed and certified, developing consumer awareness of the value of health IT and personal health records, and ensuring compliance with Federal requirements related to the privacy and security of individually identifiable health information.

Budget and Performance Integration

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

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

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

Eliminating Improper Payments

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

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

Addressing Demands, Risks, and Uncertainties

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

Table 5—Summary of OPM Risk Areas

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

Table 5—Summary of OPM Risk Areas *(continued)*

Analysis of OPM's Financial Statements

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

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

Balance Sheet

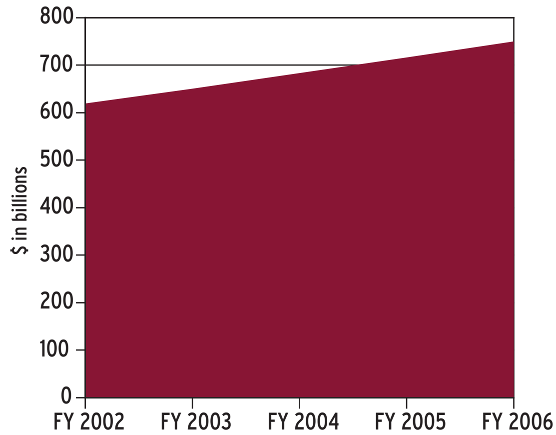
The Balance Sheet is a representation of OPM's financial condition at the end of the fiscal year. It shows the resources OPM holds to meet its statutory requirements (*Assets*); the amounts that it owes that will require payment from these resources (*Liabilities*); and the difference between them (*Net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

Assets

At the end of FY 2006, OPM held $749.7 billion in assets, an increase of 4.7 percent from $716.4 billion at the end of FY 2005. The majority of OPM's assets are intragovernmental, representing claims against other Federal entities. The Balance Sheet separately identifies intragovernmental assets from all other assets.

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

Growth in OPM Assets

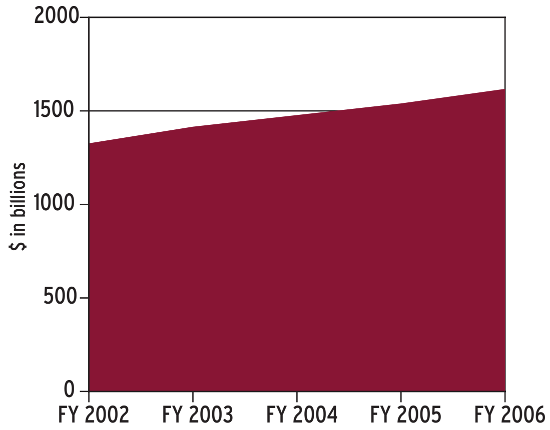


its total assets) continues to grow. In FY 2006, the investment portfolio grew by 6.0 percent. The largest increase for investments occurred in the Retirement Program; in FY 2006, the Total Earned Revenue was greater than the applicable Cost applied to the Pension Liability by $0.9 billion. This net effect allowed the Retirement Program the ability to reinvest interest earnings and apply the excess funds the U.S Treasury Transferred-In to subsidize the under funding of the Civil Service Retirement System (CSRS) totaling more than $28.0 billion for FY 2006, which resulted in an increase in the investment portfolio of more than $29.0 billion for FY 2006 over FY 2005.

Liabilities

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

Increase in OPM Liabilities



2005. In FY 2006, the Retirement and Health Benefits Program changes in assumptions reflect an increase in actuarial liabilities by more than $76.4 billion from FY 2005. To compute these liabilities, the actuaries make many assumptions about the future economy and about the demographics of the future Federal employee and annuitant (retirees and their survivors) populations.

The **Pension Liability**, which represents an estimate of the future cost to provide CSRS and FERS benefits to current employees and annuitants, is $1,286.6 billion at the end of FY 2006, an increase of over $71.7 billion, or 5.9 percent from the end of the previous year. [See discussion of the Net Cost to Provide CSRS and FERS Benefits below].

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

The **Actuarial Life Insurance Liability** is different from the Pension and Postretirement Health Benefits Liabilities. Whereas the other two are liabilities for "post-retirement" benefits only, the Actuarial Life Insurance Liability is an estimate of the future cost of life insurance benefits for both deceased annuitants and for employees who die in service. The Actuarial Life Insurance Liability increased by approximately $1.3 billion in FY 2006 to $33.6 billion, or 3.9 percent from the end of the previous year. [See discussion of the Net Cost to Provide Life Insurance Benefits below].

Actuarial Gains and Losses

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

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

Net Position

The funds related to the operation of the Retirement Program, the Health Benefits Program, and Life Insurance Program are "earmarked funds," as defined by the Statement of Federal Financial Accounting Standards (SFFAS) No. 27—*Identified and Reporting Earmarked Funds*. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. OPM's Net Position is classified into two separate balances. The Cumulative Results of Operations comprises OPM's net results of operations since its inception. Unexpended Appropriations is the balance of appropriated authority granted to OPM against which no outlays have been made. Beginning in FY 2006, OMB Circular A-136, "*Financial Reporting Requirements*," requires a new columnar display for the Statement of Changes In Net Position—one column for earmarked funds and another column for all other funds. OPM's total liabilities exceeded its total assets at the end of FY 2006 by $867.3 billion, primarily due to the large actuarial liabilities. It is important to note that the Retirement, Health Benefits, and Life Insurance

Programs are funded in a manner that ensures that there will be sufficient assets available to pay benefits well into the future. Table 6—Net Assets Available for Benefits shows that OPM's net assets available to pay benefits have increased by over $32.9 billion in FY 2006 to over $739 billion.

Table 6—Net Assets Available for Benefits

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

Statement of Net Cost

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

OPM's Statement of Net Cost presents its cost of providing four major categories of benefits and services: CSRS, FERS, Health Benefits, and Life Insurance Benefits, as well as Human Resources Services. OPM derives its Net Cost by subtracting the revenues it earned from the gross costs it incurred in providing each of these benefits and services. OPM's total FY 2006 Net Cost of Operations was $81.4 billion, as compared with $63.6 billion in FY 2005.

Net Cost to Provide CSRS Benefits

As presented in Table 7, OPM incurred a Pension Expense for the CSRS Benefits of $93.3 billion compared with $68.5, an increase of $24.8 billion from FY 2005. The primary component for the increase is the actuarial losses from actual experience in FY 2006 Cost of Living Allowance (COLA) and general salary increases were different from what had been assumed for FY 2006. The actual COLA was 4.1 percent for CSRS, while 3.25 percent had been assumed and the actual general salary increase was 3.1 percent, while 4 percent had been assumed. The change in assumptions increased Gross Cost because the real interest rate decreased. There are three prime determinants of OPM's cost to provide net CSRS benefits: one cost category (the actuarially-computed Pension Expense) and two categories of earned revenue (contributions by and for CSRS participants and earnings on CSRS investments). The Pension Expense for the CSRS is the amount of future benefits earned by participants during the current fiscal year.

Contributions by and for CSRS participants decreased in FY 2006 by $0.5 billion from FY 2005 and OPM's earnings on CSRS investments declined by $0.3 billion from FY 2005.

Table 7—Net Cost to Provide CSRS Benefits

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

Due to accounting and actuarial standards, current pension benefits paid are applied to the Pension Liability, and therefore do not appear on the Statement of Net Cost. OPM paid CSRS benefits of $54.9 billion, as compared to the $52.2 billion in FY 2005. The increase in benefits paid is due to the effect of the cost-of-living allowance paid to an increasing number of CSRS annuitants.

Net Cost to Provide FERS Benefits

As shown in Table 8, the Net Cost to Provide FERS Benefits in FY 2006 increased by $8.1 billion from FY 2005. As with the CSRS, there are three prime determinants of OPM's net cost to provide FERS benefits: one cost category (the actuarially-computed Pension Expense) and two categories of earned revenue (contributions by and for participants and earnings on FERS investments). Under the new Actuarial assumptions, the real interest rate, that is the difference between the interest rate and the rate of inflation, decreased which caused the Gross Cost to increase.

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

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

Table 8—Net Cost to Provide FERS Benefits

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

Due to accounting and actuarial standards, current pension benefits paid are applied to the Pension Liability, and therefore do not appear on the Statement of Net Cost. In FY 2006, OPM paid FERS benefits of $3.0 billion, compared with $2.5 billion in FY 2005. The increase is due to the annual COLA and the increasing number of FERS retirees.

Net Cost to Provide Health Benefits

The Net Cost to Provide Health Benefits in FY 2006 decreased by $15.6 billion from that in FY 2005. There are three prime determinants of OPM's net cost to provide Health Benefits: two cost categories (the actuarially-computed Postretirement Health Benefits Expense and Current Benefits and Premiums) and one earned revenue category (contributions by and for participants).

The Postretirement Health Benefits Expense (PRHB) is the amount of future benefits earned by participants during the current fiscal year. For FY 2006, OPM incurred a PRHB expense of $15.8 billion, as compared with $30.6 billion in FY 2005, due primarily to the recognition of a larger actuarial gain in FY 2006 than in FY 2005. The actual PRHB associated expense decreased from a gain of $12.6 billion compared to a loss of $3.0 billion in FY 2005. There was a reduction (actuarial gain) in the post retirement medical liability estimated, as of September 2005, because the starting population covered by insurance has gone down, health insurance claims are modestly less than expected, and new demographic rates used in the projections, reflecting such things as rates of retirement, death, and withdrawal from Federal service have been revised to reflect more recent experience. Despite these gains, the liability for September 2006 is expected to be higher because there will be an increase in the cost of health care.

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

Table 9—Net Cost to Provide Health Benefits

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

Due to accounting and actuarial standards, a portion of the costs to provide health benefits is netted against the PRBH Liability and not fully disclosed on the statement of Net Cost. The actual costs to provide health benefits are presented in Table 10.

Table 10—Disclosed and Applied Costs to Provide Health Benefits

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

Net Cost to Provide Life Insurance Benefits

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

Table 11—Net Cost to Provide Life Insurance Benefits

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

Statement of Budgetary Resources

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

As presented in the Statement of Budgetary Resources, a total of $173.2 billion in budgetary resources was available to OPM for FY 2006. OPM's budgetary resources in FY 2006 include $39.3 billion carried over from FY 2005, plus three major additional sources:

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

*Total budgetary resources do not include $28.9 billion of receipts not needed for the Retirement obligations and therefore temporarily not available.

Appropriations are funding sources resulting from specified Acts of Congress that authorize Federal agencies to incur obligations and to make payments for specified purposes. OPM's appropriations partially offset the increase in the Pension Liability in the Retirement Program, and fund contributions for retirees and survivors who participate in the Health Benefits and Life Insurance Programs. This feeder was not included as an appropriation in FY 2005 (see note 13).

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

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

Obligations Incurred by Category		
	FY 2006	FY 2005
Retirement Benefits	57.4 %	57.4 %
Health Benefits	38.9 %	39.3 %
Life Insurance Benefits	2.2 %	2.3 %
Other	1.5 %	1.0 %

From the $173.2 billion in budgetary resources OPM had available during FY 2006, it incurred obligations of $129.7 billion less the $28.2 billion Retirement feeder, mainly for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs. Most of the excess of budgetary resources OPM had available in FY 2006 over the obligations it incurred against those resources is classified as being "unavailable" for obligation at year-end.

Statement of Financing

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

Management Assurances

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

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

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

FMFIA and FFMIA Assurance Statement

OPM is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA. OPM conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control.* Based on the results of this evaluation, OPM can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2006, was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, OPM conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, OPM can provide reasonable assurance that its internal control over financial reporting as of June 30, 2006, was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The FFMIA requires Federal agencies to implement and maintain financial management systems that are in substantial compliance with Federal financial system requirements, Federal accounting standards, and use USSGL at the transaction level. Based on my review of the auditors' report and other relevant information, I have determined that for FY 2006, OPM and the Retirement, Health Benefits, and Life Insurance Programs substantially comply with all FFMIA requirements. OPM did note other matters when systems were not consistent with FFMIA for the Revolving Fund and the Salaries and Expenses accounts. When taken as a whole, I have determined that OPM complies substantially with the requirements of the FFMIA for FY 2006.

Linda Springer

Linda M. Springer
Director

November 6, 2006

Compliance with the Federal Financial Management Improvement Act

Financial Management Systems. The FFMIA requires Federal agencies to implement and maintain financial management systems that are in substantial compliance with Federal financial system requirements, Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. Based on a review of the auditors' report and other relevant information, OPM has determined that for FY 2006, OPM substantially complies with all FFMIA requirements regarding financial management systems, financial accounting standards, and application of the USSGL at the transaction level. OPM also determined that there were other matters where the Revolving Fund Programs and the Salaries and Expenses fund system were not consistent, specifically, the applicable Federal accounting standards and the application of the USSGL.

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

FFMIA Remediation Activities. The OPM's FY 2006 assessment of its Revolving and Salaries and Expenses Funds disclosed that it was not consistent with FFMIA. Specifically, the system was not consistent with Federal accounting standards and does not support the requirement that transactions be posted in accordance with the USSGL. The OPM has devoted a great deal of time and resources to resolving this inconsistency, having analyzed abnormal and illogical account balances and related financial transactions to identify problems and take corrective actions. As a result, OPM strengthened internal controls over transaction processing and entry into the core financial system, including automated interfaces with pertinent "feeder"/program systems. Also, OPM modified the core financial system to correct erroneous general ledger postings and to ensure that resulting transactions are consistent with Federal requirements. OPM will continue to strengthen its budgetary accounting controls to be consistent with FFMIA requirements. OPM expects to implement by March 2009 a new core financial system that will provide financial and procurement functions including: general ledger, accounts payable, disbursing, accounts receivable, budget execution, acquisition/procurement, and financial reporting (internal and external).

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

Enhance Financial Management Systems. Notwithstanding efforts to upgrade its financial system's capabilities and controls, OPM management determined that the financial system was based on outdated architecture and technology and should be replaced. During FY 2005, OPM launched a financial management modernization initiative to implement a new core financial system for the Agency's Administrative Funds accounts. To oversee and direct the initiative, OPM established a Financial Modernization Project Office. The Office will conduct a public-private competition, in accordance with the FMLoB Migration Guidance, to acquire software, integration, hosting and application management for the new financial management and procurement systems. The solicitation will be published by the end of the second quarter of FY 2007. OPM expects to implement a new core financial system for the Agency's administrative funds accounts by March 2009.

Compliance with the Federal Managers' Financial Integrity Act

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

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

On August 31, 2006, OPM submitted its Appendix A *Implementation Plan* to the OMB. As a result, OPM was one of only eight Federal agencies to receive an OMB scorecard rating of GREEN. The *Implementation Plan* was revised and updated on February 13, 2006, and submitted with a summary of key OPM decisions and determinations concerning Appendix A planning to OMB. On March 28, 2006, OPM implemented its Appendix A, *Evaluation and Test Plan for Internal Control over Financial Reporting* and submitted the plan to OMB. In addition, OCFO's CICRM developed Chapter 22, *Internal Control Program* and Chapter 24, *Audit Follow-Up* of OPM's Financial Management Manual. Both chapters were approved and issued by the CFO on April 14, 2006. The entire Manual was issued on June 30, 2006.

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

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

Prior Year Administrative Material Weakness. For FY 2005, OPM reported an administrative (non-financial) material weakness on its compliance with the Fair Labor Standards Act (FLSA). Specifically, the Agency did not have adequate controls in place to classify positions properly as exempt or non-exempt from FLSA, and that additional training and controls were needed to improve compliance. Based on a follow-up review conducted by the CICRM, the Agency believes that progress has been made in improving FLSA determination controls and that decisions on classifying positions for FLSA purposes are adequately supported. Therefore, OPM is no longer reporting FLSA compliance as a material weakness under FMFIA.

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

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

Compliance with the Prompt Payment Act

The Prompt Payment Act (Public Law 100-496), as amended, requires Federal agencies to pay vendors transacting business with them in a timely manner. With certain exceptions, the Act requires agencies to make payments within 30 days of the later of (1) receipt of properly prepared invoices or (2) the receipt of goods or services. For amounts owed and not paid within the specified payment period, agencies are obligated to pay interest on the amount owed at a rate established by the Department of the Treasury.

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

OPM's highly successful performance under the Prompt Payment Act is achieved as a result of the large number and dollar magnitude of payments it makes to its investigative services contractors. Based on requests from Federal agencies, OPM processes several hundred thousand transactions per month for a variety of personnel background investigations that require payments to contractors. In accordance with payment provisions of OPM's contracts with its investigative services contractors, OPM annually remits tens of millions of dollars representing partial payments (i.e., advances for investigative services to be performed) and final payments for each of the thousands of personnel investigations requested by agencies. OPM daily consolidates all of the individual amounts owed—both advances and final payments—to investigative contractors and makes a single payment to each contractor that represents the total amount currently owed. OPM, in computing its FY 2006 prompt payment metrics, did not include advance payments to investigative contractors since such payments are not subject to the Prompt Payment Act provisions. Per the table below, only final payments to the contractors are included in the calculations. Table 12 summarizes OPM's FY 2006 prompt payment metrics by investigative services contractors and non-investigative services vendors.

Table 12—FY 2006 Prompt Pay Act Metrics

	No. of Payments (Thousands)	No. of Payments Made Timely (Thousands)	Percentage by Payment Actions (%)	Payments ($ Million)	Timely Payments ($ Million)	Percentage by Payment Dollars (%)
Investigative services contractors (final payments)	2,281.9	2,281.9	100.0%	$361.1	$361.1	100.0%
Non-investigative service vendors	31.2	26.2	84.0%	$301.8	$205.3	68.0%
Totals	2,313.1	2,308.1	99.8%	$662.9	$566.4	85.4%

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

Compliance with the Debt Collection Improvement Act

In response to a steady increase in the amount of delinquent debt owed to the United States, and concern that appropriate actions were not being taken to collect this delinquent debt, Congress passed the DCIA of 1996 (Public Law 104–134). The purpose of the Act was to strengthen overall controls over collections due the Government from private parties, including Federal employees. The Act has had a major impact on the way OPM makes its payments and collects the monies owed to it. Table 13 summarizes OPM's debt management activity for FY 2006 and FY 2005. OPM complies with the DCIA in the following ways:

Cross-Servicing

Under the Act, all Federal agencies must refer past due, legally enforceable, non-tax debts that are more than 180 days delinquent to Treasury's Financial Management Service (FMS) for collection through the Treasury Offset Program (TOP). OPM has established an agreement with FMS to cross-service its debts, which allows FMS to refer automatically the debts to TOP as part of its collection effort. A debt is considered delinquent if it is 180 days past due and is legally enforceable. A debt is legally enforceable if there has been a final agency decision that the debt, in the amount stated, is due and there are no legal bars to collection action. Accordingly, OPM has referred 13,289 debts totaling more than $4.5 million to FMS for collection.

Table 13—Debt Management Activity

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

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

Data-Matching

OPM believes that it is important to prevent debts initially. Thus, OPM maintains an aggressive and active program integrity function to prevent waste, fraud, and abuse of Retirement Program benefit payments. One of the primary tools supporting this function is the use of database matching between Federal agencies. As such, OPM exchanges payment information with other benefit-paying agencies to identify individuals who have died or are otherwise no longer eligible for benefits. In FY 2006, OPM's data-matching activities identified more than $117.0 million in overpayments and prevented an additional $89.3 million from being overpaid.

Electronic Payments

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

Table 14—Electronic Payments

Payment Type	Percentage(%) 2006	Percentage(%) 2005
Retirement benefits	94.9%	94.5%
Salary	98.8%	95.2%
Health Benefits and Life Insurance Carrier Programs	100.0%	100.0%
Other vendors	99.8%	99.9%

Travel and Purchase Card Usage

OPM measures its effectiveness in travel and purchase card usage by monitoring the percentage of the total outstanding balances for each that is 61 or more days old. Tables 15 and 16 compare OPM's percentages that are 61 or more days old to Governmentwide rates.

Table 15—Travel Card Usage

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

Table 16—Purchase Cards

($ in Thousands)	FY 2006	FY 2005
Outstanding Balance	$727.8	$562.4
Outstanding more than 61 days	$0.0	$0.0
% outstanding more than 61 days (OPM)	0.0%	0.0%
% outstanding more than 61 days (Governmentwide)	.44%	1.80%

As shown in the above charts, OPM's percentage of travel and purchase card outstanding balances that are outstanding 61 days or more are less than the related Governmentwide averages.

Compliance with the Inspector General Act

The Inspector General Act, as amended, requires agencies to report on the final action taken with regard to audits by its OIG. OPM is reporting on audit follow-up activities for the period October 1, 2005 through September 30, 2006. Table 17—Inspector General Audit Findings provides a summary of OIG's audit findings and actions taken in response by OPM management during this period.

Table 17—Inspector General Audit Findings

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

Compliance with the Civil Monetary Penalty Act

A civil monetary penalty is any penalty, fine, or other sanction that is assessed or enforced by an agency pursuant to law, administrative proceeding, or a civil action in the Federal courts. OPM neither assessed nor collected a civil monetary penalty during FY 2006.

Compliance with the Improper Payments Information Act Summary

The Improper Payments Information Act of 2002 (Public Law 107-300) requires agencies to review annually all programs and activities to identify those susceptible to significant improper payments; estimate the annual improper payments in the susceptible programs and activities; and report the results of their improper payment reduction plans and activities.

Due to their size, OMB has deemed that OPM's three benefit programs—Retirement, Health Benefits, and Life Insurance—are, by definition, susceptible to significant improper payments. OPM has an approved Improper Payment plan that discusses the causes of benefit program improper payments; sampling approaches; actions taken and underway to correct causes; results of actions; timelines for reducing improper payments; statutory barriers; and projected reduction targets. OPM plans to assess in FY 2007 whether any other agency payment streams are subject to improper payments and should be included in its improper payment plan. A description of the payments in each follows.

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

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

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

Two types of Health Benefit carriers participate in the Program. To reduce improper benefit payments, OPM's OIG is conducting audits that are more frequent and has already begun audits targeting coordination of benefits problems. Furthermore, the contracting official is taking a proactive approach by focusing on the most common causes of improper payments and charges of administrative expenses to reduce their frequency. OPM is working with a statistician to develop a methodology to capture and aggregate information from the Health Benefit Carrier IPAs to derive a statistically valid annual improper benefit payment rate. The information will be available in FY 2007.

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

OPM has had a process in place for many years to determine the improper payments made by MetLife to the beneficiaries of deceased annuitants. Using a data match analysis, OPM compares the eligibility and coverage data of virtually all covered annuitants who died during the fiscal year against the dollar amount of benefits paid to their beneficiaries by MetLife. This was the first full year for which the AutoCert system replaced the manual process for certifying Federal Employees Group Life Insurance (FEGLI) payments. AutoCert has dramatically reduced annuitant Improper Payments due to human error in processing claims. FEGLI payments to annuitants were 99.9 percent accurate through the fiscal year third quarter. Also, OPM has fully implemented review of a very specialized error type. All appropriate errors are now being captured.

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

Recovery Auditing

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

Reduce Improper Payments

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

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

Federal Information Security Management Act

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

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

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

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

Financial Management Systems

Financial Management Systems Framework

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

- The Government Financial Information System (GFIS), which was implemented using Momentum software package developed by CGI-AMS, which serves as OPM's core financial management system for its administrative funds accounts. GFIS was designed and implemented based on the Momentum software package developed by CGI-AMS. The system includes a general ledger, budget/funds management, revenue/ receipts management, procurement/payment management, and financial management reporting modules.
- The general ledger of the Employees Benefits System (EBS), which was implemented using Federal Financial System software and is used in administering the Retirement, Health Benefits and Life Insurance Programs. The EBS, which is based on CGI-AMS's Federal Financial Systems Software, complies with all Federal financial management systems requirements, Federal accounting standards, and the USSGL at the transaction level. The EBS has various subsidiary feeder systems that reside on the mainframe which, with the exception of the Annuity Roll, are interfaced.

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

Goals and Strategies

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

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

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

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

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

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

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

- Work with the agency's internal organizations to expand the scope of its routine data use to inform management decision-making in additional areas of operations;
- Improve internal controls over financial reporting through systems and processes, while meeting all internal and external financial reporting deadlines;
- Re-affirm processes, controls, and procedures to ensure that unqualified audit opinions continued to be received on the annual financial statements;
- Resolve the existing non-compliances with laws and regulations revealed by the FY 2006 financial audit, and avoid future material weaknesses, reportable conditions and non-compliances with laws and regulations;
- Enhance the core financial management information system and implement a single integrated financial infrastructure for the agency;
- Strengthen stewardship, accountability, and internal controls over financial reporting, as stipulated by revised OMB Circular A-123; and
- Reduce improper payments to target levels.

Limitations of the Consolidated Financial Statements

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


leadership

Part B—Performance Information

(Unaudited—See accompanying Independent Auditors' Report)

The Strategic and Operational Plan 2006–2010

As required by the Government Performance and Results Act of 1993, OPM updated its strategic plan during FY 2006 since its existing plan was three years old. More than an update, OPM's new Strategic and Operational Plan 2006–2010 is a complete re-statement of OPM's mission, vision, guiding principles, and strategic objectives.

In order for an organization to fulfill its mission, it is first necessary to have a clear understanding of that mission, with supporting strategic objectives and operational goals. These goals must be accompanied by strong oversight and accountability in order to reach optimal performance.

How the Plan Was Developed

With these guiding principles in mind, OPM's Senior Executives formed a strategy group which identified and reviewed the external and internal challenges and opportunities facing the agency over the next several years and outlined the agency's response to them in terms of strategic objectives and operational goals *(See Table 18)*. The work of this strategy group was guided by an advisory group consisting of executives and senior General Schedule employees with OPM knowledge and expertise. The advisory group reviewed strategic objectives and goals drafted by the strategy group, identified important program needs and milestones, and played a critical role in the development of the plan.

The result is OPM's new Strategic and Operational Plan 2006–2010, providing a new structure by which the agency holds itself accountable for ensuring the Federal Government has an effective civilian workforce *(See Table 19)*. The plan provides the framework for implementing OPM's simple and direct mission statement comprising seven strategic objectives, each of which is supported by a string of straightforward and

Table 18—OPM's Challenges and Strategic Response

External Challenges	Strategic Response
Increasing accountability for individual performance	Operational Goals A-1 through A-6; D-1 and D-2; D-6
Increasing retirement workload	Operational Goals B-3 through B-7
Attracting and retaining talent	Operational Goals C-1 through C-13; D-3 through D-5; and G-4
Providing relevant training	Operational Goals B-1 and B-2; E-21
Need for 21st century compensation	Operational Goal B-12
Rising health care costs	Operational Goals B-8 through B-11
Keeping pace with change	Operational Goals D-7 through D-10 and G-5 and G-6
Internal Challenges	**Strategic Response**
Need for increased efficiency	Operational Goals E-7 through E-12; E-14 through E-22; G-1 through G-3
Succession planning	Operational Goals E-2
Need for forward thinking	Operational Goals E-13
Maintaining team spirit among OPM staff	Operational Goals E-1 through E-6
Increasing demand for OPM services	Operational Goals E-23 through E-29; G-7 and G-8
Keeping pace with change	Operational Goals F-1 through F-5

Table 19—OPM Strategic Structure 2006–2010

Strategic Objective A	Strategic Objective B	Strategic Objective C	Strategic Objective D	Strategic Objective E	Strategic Objective F	Strategic Objective G
Six Operational Goals	Twelve Operational Goals	Thirteen Operational Goals	Ten Operational Goals	Twenty-nine Operational Goals	Five Operational Goals	Eight Operational Goals
PART Measures	PART and Other Measures	PART Measures	PART Measures	PART and Other Measures	No Additional Measures Used	No Additional Measures Used

readily identifiable operational goals. Supplementing the Strategic and Operational Plan are program performance measures stemming from OPM's PART assessments. Additional performance measures are used for activities not covered by the Strategic and Operational Plan, or a PART assessment.

The Impact on This Performance and Accountability Report

The operational goals supersede the annual performance goals and many of the performance indicators that appeared in the FY 2006 and FY 2007 Congressional Budget Justifications. Thus, the operational goals pertinent to FY 2006 comprise the performance information included in this Performance and Accountability Report. In this part of the report, the status of all of the operational goals scheduled for FY 2006 is disclosed. Because many of OPM's operational goals represent new initiatives, there is no historic performance information available for them. Performance results for all PART measures and information concerning the disposition of the FY 2006/2007 annual goals and performance indicators are provided in Appendix A.

The Strategic and Operational Plan 2006–2010 Results

OPM achieved all 53 operational goals scheduled for FY 2006 and an additional five goals scheduled for FY 2007, resulting in 58 goals completed. The operational goals reported in this section are organized first by strategic objective and then by program activity.

Strategic Objective A: The Federal Civilian Workforce will be Focused on Achieving Agency Goals

Strategic Objective A is critical in bringing about a culture of performance within the Federal workforce. The research supporting the Human Capital Accountability and Assessment Framework (HCAAF) indicates that organizational success is contingent upon everyone within the organization being focused on the organization's goals. OPM views this outcome as so critical to the future of the Federal workforce that it established this as its first strategic objective in the Strategic and Operational Plan. The strategy group identified three areas and developed operational goals addressing key milestones to achieving the objective: performance-based pay in the Senior Executive Service; evaluating the human resources reforms underway in the Departments of Defense and Homeland Security; and other agency reforms.

OPM completed both operational goals scheduled for FY 2006 and achieved ahead of schedule one goal for FY 2007 for this strategic objective.

Program: Human Capital—Performance Culture	**Program Outcome:** Promote an efficient and effective, merit-based Federal civil service			
Operational Goals	Met		Date	Date
	Yes	No	Scheduled	Achieved
HCLMSA Operational Goal A-1 (SES): Review and assist, where needed, agencies in ensuring performance appraisal systems focus on goal achievement by October 1, 2006	√		10/01/2006	**09/15/2006**
SHRP Operational Goal A-2 (SES): Report on SES performance-based systems results each calendar year.	√		12/31/2006	**08/09/2006**
HCLMSA Operational Goal A-4 (DOD/DHS): Establish performance measurement criteria by July 1, 2006, and collect data for determination that DOD may implement NSPS beyond initial 300,000 employee limitation	√		07/01/2006	**06/22/2006**

OPM Actions:
OPM continues to assist Federal agencies in improving their Senior Executive Service (SES) performance appraisal systems. IN FY 2006 OPM reviewed 36 SES performance appraisal systems to ensure SES performance agreements were focused on achieving their agencies' goals. By the end of FY 2006 1 appraisal system had been fully certified and 27 agencies had provisional certification. OPM conducted a rigorous review of all requests for certification of senior employee appraisal systems covering CY 2006. Agencies were required to submit information on employees' summary performance ratings, pay, and awards showing the improvements the agency had made.

The agency issued a Report on Senior Executive Pay for Performance for FY 2005 in July 2006. This report shows that agencies are making meaningful distinctions in performance ratings and pay, reflecting the differences in mission accomplishment across Government agencies.

OPM established performance measurement criteria in June 2006 for DoD's National Security Personnel Security (NSPS) and is collecting data for implementing the system beyond the current scope. These criteria cover nine fields, including, among others: adherence to merit systems principles; fair, creditable, and transparent employee performance appraisal systems; and, linkages between performance management systems and agency strategic plans.

Public Value:
OPM involvement in the SES performance appraisal system helped the Federal Government adopt human capital practices to ensure employees are focused on results by deploying enabling tools. The evaluation of new personnel systems provides the foundational knowledge and experience that will be used to transform other pay and performance systems – the results are mission focused, results-oriented, and market-based agencies.

OPM's involvement has helped agency stakeholders to think seriously about the future and thereby to develop, select and manage the SES cadre. As a result, agencies are able to produce the executives needed to meet the leadership challenges of the 21st century.

Strategic Objective B: The Federal Civilian Workforce will have Opportunities, Benefits, and Service Delivery that Compares Favorably to Other Employers

OPM recognizes that Federal employment must be competitive with other job opportunities if agencies are to recruit and retain people with the talent—skills, qualifications, competencies, etc.—and capacity to implement their missions and serve and protect American citizens. This competitiveness involves fringe benefits for retirement, health benefits, life and other insurance Federal employees earn as a condition of their employment, as well as opportunities for training and development throughout their career. The operational goals established for Strategic Objective B demonstrate OPM's commitment to providing opportunities and benefits so agencies can place the right people, in the right job, at the right time.

OPM completed all eight of the operational goals scheduled for FY 2006 and achieved, ahead of schedule, one goal for FY 2007 for this strategic objective.

Program: Leadership Capacity Services	**Program Outcome:** Develop leaders committed to public service values through learning that measurably transforms individuals and organizations, while providing a public sector forum for networking and knowledge sharing.			
Operational Goals	Met		Date	Date
	Yes	No	Scheduled	Achieved
HRPS Operational Goal B-1 (Professional Development): Issue a comprehensive catalogue of Federal Government-offered professional development opportunities by October 1, 2006.	√		10/01/2006	**09/29/2006**
HCLMSA Operational Goal B-2 (Professional Development): Evaluate/update OPM educational curricula for relevance and effectiveness in the current HR environment by October 1, 2006.	√		10/01/2006	**09/14/2006**

OPM Actions:
OPM updated the curricula for the Management Development Centers and the Federal Executive Institute and issued a catalogue of development opportunities available to Federal employees—the result, the focus of the training provided at these facilities meets the standards established under the Human Capital Assessment and Accountability Framework (HCAAF) as well as current OPM initiatives such as Career Patterns.

Public Value:
These development centers provide critical training for current and future leaders of the Federal community, instilling common human capital standards and practices across agencies. The HCAAF is the guiding document in the assessment and evaluation of human capital programs. Through the HCAAF, agencies ensure they have a high performing workforce that meets citizens' expectations for efficient and effective services.

Program: Federal Employees Retirement	**Program Outcome:** Provide Federal employees options and tools for retirement planning for their and their families' financial future.			
Operational Goals	Met		Date	Date
	Yes	No	Scheduled	Achieved
HRPS Operational Goal B-3 (Retirement Benefits Administration): Award RSM contracts and begins administration of Defined Benefit Technology Solution and Business Transformation/Information Technology Service by May 1, 2006, and June 1, 2006, respectively.	√ √		05/01/2006 06/01/2006	**04/28/2006** **05/23/2006**
HRPS Operational Goal B-4 (Retirement Benefits Administration): Make final 90 percent of initial retirement benefits in 30 days by October 1, 2006.	√		10/01/2006	**09/28/2006**
HRPS Operational Goal B-5 (Retirement Benefits Administration): Complete and mail notices in 10 working days for 80 percent of subsequent change requests by October 1, 2006.	√		10/01/2006	**09/14/2006**
HRPS Operational Goal B-6 (Retirement Benefits Administration): Answer 85 percent of general inquiries within 72 hours by October 1, 2006.	√		10/01/2006	**09/28/2006**
HRPS Operational Goal B-7 (Retirement Benefits Administration): Develop pilot program for eliminating interim payments; identify two agency participants in pilot program by April 1, 2006.	√		04/01/2006	**03/30/2006**

OPM Actions:
OPM awarded contracts and began implementation on schedule for the Retirement Systems Modernization (RSM) for the Defined Benefit Technology Solution (DBTS) and the Business Transformation)/Information Technology Services. These are the first two steps in OPM's three-prong approach towards implementing RSM, which establishes the electronic format to compute and expedite the payment of Federal retirement benefits. OPM signed a contract for DBTS to improve the storage, retrieval and transfer of employment and benefits information, and to develop models designed to complement the agency's transition to an electronic retirement system, in terms of people, processes, organization and technology to achieve maximum benefits and efficiencies of the DBTS solution.

A main priority for FY 2006 has been improving the retirement claims process. For operational goal B-4, initial retirements for FY 2006 continue to be processed through October 30 to achieve this goal; over 91 percent of claims received in September have been processed in 30 days. Over 95 percent of change requests received since August 1 are processed and confirmed in less than 10 days, significantly exceeding the goal of 80 percent. Over 93 percent of general inquiries received since August 1 are answered within 72 hours of receipt, notably exceeding the goal of 80 percent.

For operational goal B-7, the pilot was established as planned with four agency participants, exceeding the goal of two agency participants.

Public Value:
Federal annuitants and their survivors received improved services and the groundwork was laid to establish a new system which enhances the financial security of new retirees and dramatically improved the process of computing Federal retirement benefits.

Program: **Health Benefits and Other Insurance**	**Program Outcome:** Federal employee benefits are competitive and support agencies' efforts to recruit and retain the workforce they need to meet their mission and Provide Federal employees, retirees, and their families with health benefits coverage meeting their individual health insurance needs.			
Operational Goals	Met		Date	Date
	Yes	No	Scheduled	Achieved
HRPS Operational Goal B-9 (Health and Other Benefits): Implement limited-expense health care flexible spending accounts by August 1, 2006.	√		08/01/2006	**07/14/2006**
SHRP/HRPS Operational Goal B-10 (Health and Other Benefits): Promote affordable FEHB Program options, which may include additional health savings plan options each year during the strategic planning period.	√		12/31/2006	**04/04/2006**
OPM Actions: In FY 2006, OPM implemented limited-expense health care flexible spending accounts for enrollees participating in High-Deductible Health Care Plans (HDHP) with Health Savings Accounts (HSA). IRS guidelines do not allow employees enrolled in HDHPs with HSAs to participate in a regular health care flexible spending account. As HSAs are a key consumer option for OPM customers, OPM introduced a limited-expense health care flexible spending account for eligible dental and vision out-of-pocket expenses for employees with an HSA. The Office of Personnel Management has sent a legislative proposal to Congress seeking to increase the options in the FEHBP. If passed into law, it would lift the cap on the number of options insurance providers can offer; now set at two. This Action would allow the Service Benefit Plan to offer a third option. OPM has mandated this option be a high deductible health plan option. These kinds of plans include health savings accounts that participants can use to cover current or future medical costs. High deductible health plans encourage consumers to take more responsibility for their own health care costs.				
Public Value: A benefits package that meets the needs of current and potential Federal employees can lead to lower turnover and the recruitment of better performers, as well as aiding employees and annuitants to maintain good health. Customer satisfaction surveys indicate that the overall package of benefits and the level of services provided meet the needs of participants.				

Strategic Objective C: Federal Agencies will be Employers of Choice

If Federal agencies are to be employers of choice, they must anticipate the needs and characteristics of the workforce both now and into the future, create recruiting opportunities to attract job seekers, and streamline their hiring processes to bring them on-board as quickly as other major employers. OPM developed 13 operational goals to bring about these outcomes and scheduled six of these goals for FY 2006.

OPM completed all six of the operational goals scheduled for FY 2006 and achieved, ahead of schedule, one goal for FY 2007 for this strategic objective.

Program: Human Capital	**Program Outcome:** Promote an efficient and effective, merit-based Federal civil service.			
Operational Goals	Met		Date	Date
	Yes	No	Scheduled	Achieved
HCLMSA Operational Goal C-1 (Workforce of the Future): Identify Federal Government Workforce Career Patterns for the future with accompanying requirements/impact by June 1, 2006.	√		06/01/2006	**05/26/2006**
HCLMSA Operational Goal C-4 (Recruiting Opportunities): Work with CHCO Council to roll out a more targeted (by learning institution, profession) job fair process in 2006 and expand it through the Strategic and Operational Plan period.	√		12/13/2006	**08/22/2006**
SHRP Operational Goal C-5 (Recruiting Opportunities): Update Executive Core Qualifications by October 1, 2006 and complete development of enhanced automated examining by April 1, 2007.	√		10/01/2006	**08/10/2006**
SHRP Operational Goal C-6 (Recruiting Opportunities): Streamline and improve the examination rating schedules for common occupations by July 1, 2006.	√		07/01/2006	**06/12/2006**
HCLMSA & HRPS Operational Goal C-7 (Recruiting Opportunities): Develop and roll out a plan with the CHCO Council to work with the PMF program to recruit top talent for positions in management by July 1, 2006.	√		07/01/2006	**06/19/2006**
HCLMSA Operational Goal C-8 (Hiring Process): Decrease hiring decision timeframes to 45 days from close of job announcement to date of offer for 50 percent by the end of FY 2006, increasing by 10 percent each year thereafter to 90 percent in FY 2010.	√		10/01/2006	**09/15/2006**
SHRP Operational Goal C-13 (Effective Leadership): Set guidelines for managerial development by October 1, 2006.	√		10/01/2006	**09/12/2006**

OPM Actions:
OPM identified Federal Government workforce career patterns. OPM launched on OPM.gov, a resource center that features a Career Patterns Guide. OPM's Human Capital Officers worked with Federal agencies on the next Operational Goal which is to categorize their positions using career patterns.

In addition to the implementation of a recruitment strategy, OPM participated in eight job fairs this fiscal year. Each of these events is targeted at mission critical jobs and will include keynote speakers on Federal employment topics; workshops on navigating USAJOBS, résumé-writing and interviewing; internship opportunities; presentations by agencies that are recruiting for mission-critical occupations/skills); and an exhibit booth area with representatives from OPM and other Federal agencies speaking to students/alumni about employment opportunities.

OPM completed updating the Executive Core Qualifications in June 2006, well ahead of the target date.

OPM developed in concert with the Chief Human Capital Officer (CHCO) Council a Presidential Management Fellows (PMF) program to recruit talent for management positions. This program will be ready for the 2007 PMF recruitment cycle.

Working with the CHCO Council and the PMF Program, OPM initiated a marketing plan to attract highly qualified applicants with preferred degrees to Federal service. This program will continue through FY 2007.

OPM worked with the Chief Human Capital Officer (CHCO) Council to implement a recruitment strategy that identifies specific national organizations and learning institutions to partner with for Federal career outreach.

OPM successfully worked with Federal agencies in the past three years as initiative owner in the President's Management Agenda to improve hiring timeframes. Through programs such as Hiring Makeover and eGovernment initiative, Human Resources Line of Business, hiring processes are becoming not only streamlined, but include the capability to interact with applicants providing up-to-date status on applications. At the end of FY 2006, 67 percent of agency hires (24,452 of 36,320 reported during the 4th fiscal quarter for the April–June 2006 period) were made within the 45 day timeframe and the average time to hire ranged between 34-39 days from the close of the announcement to offer. OPM is partnering with agencies to have ninety percent of hires made within 45 days by 2010.

Public Value:
OPM involvement in helping agencies develop workforce career patterns enable agencies to incorporate into their human capital plan and workforce analysis the types of employees (students, new professional, retirees, mid-career, highly mobile, excreta) and work environments necessary to attract and retain the right talent for their job categories. The OPM Career Patterns Guide will serve as the primary source for agencies to familiarize themselves with career patterns and helping them learn how to incorporate career patterns in the organizations. The long term results will help agency managers to strategically align workforce plans to keep pace with changing employee demographics and market conditions in order to compete successfully and thus sustain a high performing environment into the future. As Government keeps pace with other high performing human capital practices, citizens will be increasing satisfied with Government performance.

Through outreach efforts such as the PMF, citizens will have a better opportunity to evaluate the broad range of opportunities and consider the Federal Government as an employer and as a career whether they are a new professional or an established one looking to make a change.

OPM actions to implement a recruitment strategy establishes a strong partnerships along a diverse spectrum of association—a result—the Federal community can ensure that job opportunities will reach high potential applicants even in areas where such recruitment efforts have not been as visible.

OPM's work to improve hiring timeframes, through programs such as Hiring Makeover and eGovernment initiative, and Human Resources Line of Business, realize streamlined hiring processes; the improve hiring processes provides applicants the capability to receive up-to-date status on applications.

Through the achievement of these goals, OPM's strategic objective—Federal agencies will be employers of choice—is being advanced.

Success Story—Career Pattern Initiative at Work in the Patent and Trademark Office

The Office of Personnel Management has helped human resources officials to identify which jobs could be done by people working non-traditional work schedules or career paths. OPM launched OPM.gov and provided agencies with an online tool to guide the analysis of jobs for nontraditional work arrangements. "We believe that this is a change of mindset," Springer said. "Our job is to work with managers…to get them to embrace it, to understand it. It does make sense." The aim is to reverse the notion that the typical federal job is performed in an office from 8 or 9 in the morning to 4 or 5 in the afternoon by an employee who devotes his or her entire career to a single agency—ultimately, help Federal agencies win talent. A specific example highlighting how OPM has helped federal agencies promote an efficient and effective merit-based workforce is available from the Patent and Trademark Office (Federal Times, June 12, 2006): Lauren Ailes, a budget analyst at the Patent and Trademark Office, splits the workday with her husband Benjamin, who is a patent examiner. Benjamin works early in the morning and late in the evenings; Lauren goes to work while her husband is off. Splitting their schedule allows the couple to look after their 7-month-old daughter without needing day care while both parents work full-time shifts at the office. "This is wonderful for us. We're so lucky. I get my mornings and evenings with her. And my husband—which not many dads get to do—spends the bulk of his day with her at home," Lauren Ailes said. The Patent and Trademark Office, for example, has 224 patent examiners working from home four days a week under a program that began in March, and it expects to have 3,000 telecommuting by 2011, said Vickers Meadows, chief administrative officer for the Commerce Department bureau.

Strategic Objective D: Federal Agencies will be Recognized as Leaders in having Exemplary Human Resources Practices

Improving the management and performance of the Federal Government is the impetus behind the President's Management Agenda (PMA). In the Strategic Management of Human Capital reform initiative, linking organizational mission, vision, goals and objectives to human capital strategies was essential in ensuring the workforce understood and was accountable for achieving mission outcomes.

OPM achieved all six of the operational goals scheduled for FY 2006 for this strategic objective.

Program: Human Capital	**Program Outcome:** Promote an efficient and effective, merit-based Federal civil service.			
Operational Goals	**Met**		**Date**	**Date**
	Yes	**No**	**Scheduled**	**Achieved**
HCLMSA Operational Goal D-1 (Performance Development and Management): Develop and operate beta sites at 18 CHCO agencies by October 1, 2006.	√		10/01/2006	**08/22/2006**
HCLMSA Operational Goal D-3 (Staffing): Have written succession plans in place at 15 CHCO agencies by October 1, 2006, and meet milestones; all other agencies by October 1, 2007.	√		10/01/2006	**09/15/2006**
HCLMSA Operational Goal D-5 (Human Resources Leadership): Set targets for closing competency gaps in Human Resources Management Specialists occupation by October 1, 2006 in all CHCO agencies.	√		10/01/2006	**09/14/2006**
HR LOB Operational Goal D-8 (e-Government): Obtain commitment from three agencies for migration to HR LOB shared service centers by October 1, 2006.	√		10/01/2006	**05/03/2006**
SHRP Operational Goal D-10 (e-Government): Develop policy and functional requirements for nine non-core HR LOB sub-functions by October 1, 2006.	√		10/01/2006	**06/08/2006**

OPM Actions:

OPM helped 25 agencies establish operational beta sites, well above the target of 18. The increasing retirements anticipated among Federal employees has focused attention on succession strategies and agencies are putting such plans are in place. Ensuring agencies have a cadre of potential leaders ready to assume management positions during times of transition or vacancy is critical to maintaining organizational integrity and a focus on mission. OPM's Human Capital Officers provided technical assistance and helped agencies develop written succession plans that sets targets and includes milestones to track progress.

OPM, through the CHCO Council implemented an HR competency assessment tool for human resources management specialist occupation staff.

The vision of the HR LOB is to create Governmentwide, modern, cost effective, standardized, and interoperable human resource solutions providing common core functionality to support the strategic management of human capital. Five agencies migrated to shared service centers; this exceeded the goal of 3 agencies.

SHRP established a workgroup composed of staff from HR LOB, Federal agencies and shared service centers to develop policy and functional requirements for HR LOB sub-functions. Policy and functional requirements for HR LOB sub-functions cover the data standards related to HR, payroll and training information. The objectives of policy and functional requirements are to effectively maintain and protect Federal civilian personnel data and to avoid unnecessary duplication and incompatibility in the collection, processing, and dissemination of such data. Once all policy and functional requirements were written, this information was incorporated into the "Guide to HR Reporting" which is available on www.opm.gov. Agencies rely on this guide to properly submit HR, payroll and training data to OPM.

Public Value:
OPM's actions for succession planning ensure leaders are ready to assume a position during times of transition or vacancy are critical to maintaining organizational integrity and continues focus on mission.

Improving the management and performance of the Federal Government is the impetus behind the PMA. Linking organizational mission, vision, goals and objectives to human capital strategies is essential in ensuring the workforce understands and is accountable for achieving mission outcomes. The concept of the Beta site is that agencies demonstrate through an organizational unit within the agency the linking of performance-related outcomes and accountability down through all levels of that unit. Based upon the actions of OPM, agencies now show linkage and accountability through their appraisal system and evaluate appraisal results to improve performance management practices using a performance appraisal system. By focusing the workforce on mission results and holding them accountable, citizens will recognize improved Government service and performance.

OPM, through the CHCO Council and the implementation of a HR competency assessment tool helped all agencies meet their HRM competency targets in FY 2006. OPM helped human resources specialist staff, Governmentwide, develop the right competencies and level of proficiency to ensure that they are providing the level of expertise that is demanded of them.

Shared services enable departments and agencies to work more effectively to meet the human capital goals of the PMA. The 5 shared services centers provide technology solutions to support multiple agencies with HR management and back office activities, allowing the agencies to benefit from economies of scale, standardized approaches, and maximizing automation of processes, thereby improving the efficient use of resources.

Program: Merit System Compliance	**Program Outcome:** Ensure executive agencies exercise their delegated personnel management authorities in accordance with Merit System Principles, civil service laws and regulations, and OPM standards.			
Operational Goals	Met		Date	Date
	Yes	No	Scheduled	Achieved
HCLMSA Operational Goal D-6 (Accountability): Implement a human capital accountability system, including compliance with Merit Systems Principles, laws, rules, and regulations in accordance with OPM standards at eight CHCO agencies by October 1, 2006; 16 by October 1, 2008; and all agencies by October 1, 2010.	√		10/01/2006	09/15/2006

OPM Actions:
Twenty-three agencies developed and implemented OPM-approved accountability systems in FY 2006.

Public Value:
Accountability is an essential part of an agency's human capital system and the evaluation of program results that contributes to improving the alignment between strategic planning and program performance. Under the President's Management Agenda, OPM as owner of the Strategic Management of Human Capital Initiative has been assisting agencies in the development of their own accountability systems for human capital. The accountability system provides agency leadership with a consistent means to monitor and analyze agency performance on all aspects of human capital management policies, programs, and activities, which must themselves support mission accomplishment and be effective, efficient, and compliant with Merit System Principles.

Success Story—HR LOB Initiative at work in HUD

Human Resources Line of Business Initiative at Work in HUD:
OPM Human Resources Line of Business (HR LoB) initiative has helped Federal agencies to link organizational mission, vision, goals and objectives to help the workforce achieve mission outcomes. OPM HR LoB shared services is an effective strategy to consolidate human resource information systems and business operations. mission outcomes. OPM HR LoB shared services is an effective strategy to consolidate human resource information systems and business operations. The OPM established a workgroup helped agencies to migrate to shared service centers and to develop policy and functional requirements for HR LOB sub-functions. OPM developed the "Guide to HR Reporting" which is available on www.opm.gov. Agencies rely on this guide to properly submit HR, payroll and training data to OPM A specific example highlighting how OPM has helped federal agencies promote an efficient and effective merit-based workforce is available from the Department of Housing and Urban Development (HUD), (Federal Times, June 23, 2006): HUD recently aligned its human resources systems to a shared-service provider "line of business." Keith Nelson, assistant secretary for administration at the Housing and Urban Development Department, described the impact of HUD Integrated Human Resources and Training System (HIHRTS – pronounced "high hearts"). A key reason for selecting the Treasury Department's line of business over an in-house HR system was the promise of $10 million in cost savings over 10 years. In fact, the latest projections show that savings will be significantly higher, including accelerated retirements of some legacy systems. HUD has shut down six legacy systems and s capability continues to be added to HIHRTS, five more legacy systems will be retired. All HUD employees can get direct access to their personal information and make corrections or changes. At the time of this writing, 72 percent of HUD employees are registered on HIHRTS. Since implementing HIHRTS, HUD has been able to reduce the number of human resources employees through attrition by 10. The HR employees who have remained have shed many of their clerical tasks and are better able to provide more consultative, substantive customer support.

Strategic Objective E: OPM will be a Model of Performance for Other Federal Agencies

Improving management and performance of the Federal Government is the advancement behind the President's Management Agenda (PMA). In the Strategic Management of Human Capital Initiative, linking organizational mission, vision, goals and objectives to human capital strategies is essential in ensuring that the workforce is accountable for achieving mission outcomes. To achieve this objective OPM not only set the highest standards for itself to be a model of performance for other Federal agencies, but will provide expertise mentoring other agencies with best practices in implementing performance elements, professional development programs, and recognition programs for all employees.

OPM achieved all twenty-four of the operational goals scheduled for FY 2006 for this strategic objective.

Program: **Internal Management**	**Program Outcome:** These are enabling goals that ultimately support OPM performance across all programs.			
Operational Goals	**Met**		**Date**	**Date**
	Yes	**No**	**Scheduled**	**Achieved**
All Operational Goal E-1 (Employee Satisfaction and Development): Implement performance elements and standards for all OPM employees that support the OPM Strategic and Operational Plan by July 1, 2006.	√		07/01/2006	**06/29/2006**
All Operational Goal E-2 (Employee Satisfaction and Development): Implement a professional development program for OPM employees by October 1, 2006.	√		10/01/2006	**09/29/2006**
All Operational Goal E-3 (Employee Satisfaction and Development): Implement an employee recognition program at OPM by July 1, 2006.	√		07/01/2006	**06/19/2006**
HCLMSA Operational Goal E-5 (Employee Satisfaction and Development): The OPM Beta site will be operational by June 1, 2006.	√		06/01/2006	**05/31/2006**

OPM Actions:
In FY 2006, OPM was one of 25 agencies Governmentwide to establish an operational Beta site. In FY 2007 and beyond, OPM will expand the beta site across the entire agency. By December 2006, OPM's evaluation of the beta site as reported through OPM's Performance Appraisal Assessment Tool will be concluded. The results from this evaluation will help strengthen the existing Beta site and support the successful implementation of a similar appraisal system throughout the agency.

By focusing the workforce on mission results and holding them accountable, citizens will recognize improved Government service and performance.

Public Value:
Operational goals E-1 through E-5 focus on improving OPM employees' job satisfaction and development. OPM believes that achieving these goals will result in OPM employees performing at a higher level and thus deliver better human resources policy, advice and assistance to agencies, better services to Federal employees, perspective employees, and retirees. In turn, these individuals will provide improved services and protections to the American people.

Program: Internal Management					Program Outcome: These are enabling goals that ultimately support OPM performance across all programs.
Operational Goals	**Met**		**Date**	**Date**	
	Yes	**No**	**Scheduled**	**Achieved**	
MSD, OCFO Operational Goal E-7 (Customer Satisfaction and Timeliness): Develop performance standards for OPM common services by July 1, 2006, and implement by October 1, 2006.	√ √		07/01/2006 10/01/2006	**06/15/2006** **09/01/2006**	
All Operational Goal E-8 (Financial Management and Internal Control): Maintain agency prompt payment performance at 98 percent; improve divisional performance (non-Investigative Services) 10 percent by October 1, 2006.	√		10/01/2006	**09/29/2006**	
All Operational Goal E-9 (Financial Management and Internal Control): Complete all routine OPM clearances in seven business days starting April 1, 2006.	√		04/01/2006	**03/31/2006**	
All Operational Goal E-10 (Financial Management and Internal Control): Operate under a fully implemented set of delegated authorities and clearance protocols by May 1, 2006.	√		05/01/2006	**04/28/2006**	
OD Operational Goal E-11 (Financial Management and Internal Control): Use the agency-wide Document Management System in a 250-person pilot group by March 1, 2006, and extend through the agency by October 1, 2006.	√ √		03/01/2006 10/01/2006	**02/27/2006** **07/31/2006**	
OD, SHRP Operational Goal E-12 (Financial Management and Internal Control): Publish eight proposed/final human resources regulations during FY 2006.	√		10/01/2006	**05/08/2006**	
OD Operational Goal E-13 (Financial Management and Internal Control): Support Administration strategies to address pandemic threats throughout the planning period.	√		**Recurring**	**09/29/2006**	

OPM Actions:
As a part of its commitment to help create an effective and efficient Federal Government, OPM recognizes that the same quality of service put forth to its external customers is required internally. In April 2006, OPM convened a working group to determine the most equitable basis from which to allocate common services expenses. The working group focused on identifying performance standards for common services organizations, established a foundation for Service Level Agreements and developed costs for the services rendered to customer organizations. Program offices and common services organizations identified service levels needed and associated level of effort. Common Services supports the operational capability necessary for managerial direction, external communication, legal guidance, and basic business operations providing management with greater information on which to base financial decision making.

OPM continued to meet the performance standards embodied in the Prompt Pay Act, making nearly all vendor payments on time. In addition, the agency received its seventh consecutive unqualified audit opinion on its consolidated financial statements for FY 2006, and reported no material weaknesses in internal controls.

OPM implemented the Executive Correspondence Tracking system (ECTS) to track and control correspondence within its organization. It provides on-line review of controlled documents, data inputs, suspense dates, and progressive updates to boost responsiveness and productivity. The success has improved the control and timely handling of agency actions and correspondence. The new system has now been extended beyond the pilot phase to full implementation to new users throughout all divisions and offices at OPM.

Public Value:
Common services performance standards were negotiated and developed to focus more clearly on the quality of service levels needed to allocate resources and organize as close as possible with desired outcomes and less on organization structure to support the agency in meeting its goals to better align to an efficient, effective, and results-oriented agency.

Program: Internal Management					Program Outcome: These are enabling goals that ultimately support OPM performance across all programs.
Operational Goals	Met		Date	Date
	Yes	No	Scheduled	Achieved
OCFO Operational Goal E-14 (Financial Management and Internal Control): Develop new common services methodologies by July 1, 2006; implement by October 1, 2006.	√ √		07/01/2006 10/01/2006	**06/23/2006** **09/01/2006**
OCFO Operational Goal E-15 (Financial Management and Internal Control): Issue new internal control guidelines by July 1, 2006.	√		07/01/2006	**04/24/2006**
OCFO Operational Goal E-16 (Financial Management and Internal Control): Receive an unqualified audit opinion and report no material weaknesses every year.	√		11/15/2006	**11/15/2006**
OCFO Operational Goal E-18 (Financial Management and Internal Control): Set up a Capital Investment Committee that will review and approve major capital expenditures by July 1, 2006.	√		07/01/2006	**04/19/2006**

OPM Actions:
OPM developed a new common services methodology. The Common Services account provides funding to organizations that provide governance, support and administrative functions for the rest of OPM. This funding covers these organizations' salaries and benefits and other object expenses related to their day-to-day administration and operation. The Center for Financial Services produces a "cost distribution" based on each organization's Full Time Equivalent (FTE), building square footage occupied, relative share of program obligations and estimates of services received. Non-common service organizations have an understanding of the formulas used to determine costs for services received.

OPM developed the Charter of the Agency's Capital Investment Committee (CIC) to identify capital assets necessary for achieving goals. The CIC has established a review threshold for investments of $250,000 or more and for high risk or high visibility investments of any value that would reduce and eliminate performance gaps. Training sessions focused on the CIC exhibit requirements and linking importance to the strategic and performance goals.

Public Value:
OPM is accountable and actively accepts the role as stewards of the public trust to make operations and results transparent and continually strive to improve value delivery, and respond to new challenges and opportunities.

Program: Federal Employees Health Benefits	Program Outcome: Federal employee benefits are competitive and support agencies' efforts to recruit and retain the workforce they need to meet their mission and provide Federal employees, retirees, and their families with health benefits coverage meeting their individual health insurance needs.			
Operational Goals	Met		Date	Date
	Yes	No	Scheduled	Achieved
SHRP/HRPS Operational Goal E-19 (Financial Management and Internal Control): Develop guiding principles to be updated, published and required for FEHBP carriers by the FY 2007 Call Letter mailing.	√		04/01/2006	03/24/2006

OPM Actions:
OPM developed guiding principles to be updated, published and required for Federal Employee Health Benefits Program (FEHBP) carriers by the FY 2007 Call Letter mailing. The agency's annual Call Letter, a blueprint of priorities for carriers participating in the FEHBP Program, urges carriers to expand their plan options and make benefits, coverage and costs more transparent to simplify plan comparisons for health care consumers. The FEHB with 278 plan options in 2006, covers approximately eight million Federal employees, Federal retirees and their dependents. The Call Letter includes initiatives that carriers should focus on for the 2007 contract year including:

- Offering High Deductible Health Plans and Health Savings Accounts;
- Expanding their use of health IT to automate enrollee medical information, with the long- term goal of improving patient care and reducing medical errors:
- Promoting health-care cost and transparency by asking carriers to put provider quality and prices on their web sites, including information to compare the cost of network versus non-network procedures:
- Solicit proposals on enhanced drug management.

Public Value:
OPM is committed to positioning the Federal Government as a model employer by ensuring employees have access to a broad range of health benefits plan choices with affordable premiums.

Program: Internal Management	**Program Outcome:** These are enabling goals that ultimately support OPM performance across all programs.			
Operational Goals	Met		Date	Date
	Yes	No	Scheduled	Achieved
OCFO Operational Goal E-22 (Financial Management and Internal Control): Revalidate requirements for financial management system migration to the Bureau of Public Debt by May 1, 2006, complete implementation by February 1, 2007.	√		05/01/2006	**04/28/2006**
MSD, OCPL Operational Goal E-27 (Financial Management and Internal Control): Redesign the OPM web site by October 1, 2006.	√		10/01/2006	**08/31/2006**
OCPL Operational Goal E-28 (Financial Management and Internal Control): Inform OPM customers of the agency's success in meeting the stated customer goals in the 2006-2010 OPM Strategic and Operational Plan within two weeks of each success.	√		Recurring	**07/07/2006**
MSD, OCPL Operational Goal E-29 (Financial Management and Internal Control): Develop and post on the internal OPM web site a functional organizational directory by July 1, 2006.	√		07/01/2006	**05/11/2006**

OPM Actions:
OPM redesigned its web site, OPM.gov, offering a more contemporary, attractive, and user-friendly and competitive source to deliver its products and services. The format of the site was overhauled to improve navigation through streamlined, graphically appealing pages for a more targeted user experience. More than 5,000 pages of information have been restructured to this new format, providing significantly improved service to public users. As the major agency for human resources information and policy for the Federal Government, OPM.gov was launched offering a contemporary, attractive, user-friendly and competitive website to deliver its products and services. The format of the site has been overhauled to improve navigation through stream-lined graphically appealing pages for a more targeted user experience.

The Federal agency human capital program page is a gateway to practical tools and resources such as laws, regulations, guidance, operating manuals, forms, and much more. It is a beneficially easy and efficient function as the portal to the important programs managed at OPM. It also facilitates communication and directory information to inform the customer of OPM's success in meeting the stated customer goals in the new Strategic and Operational Plan 2006-2010 to be a model agency.

Public Value:
OPM understands the importance of organizational effectiveness as part of a larger Government system and works in collaborative ways using the website to cultivate working relationships with other agencies, organizations, and the public as stakeholders.

Program: Center for Talent Services	Program Outcome: Provide agencies with relevant, cost-effective reimbursable human capital products and services, based upon Merit System Principles, needed to build high-quality workforce and become high-performance organizations.			
Operational Goals	Met		Date	Date
	Yes	No	Scheduled	Achieved
HRPS Operational Goal E-6 (Employee Satisfaction and Development): Develop a new employee incentive program (group incentive plan) for HRPS that factor in the uniqueness of HRPS as a reimbursable business operation by July 1, 2006 implement pilot program in CTS by October 1, 2006.	√ √		07/01/2006 10/01/2006	06/26/2006 09/28/2006
HRPS Operational Goal E-21 (Financial Management and Internal Control): Achieve full cost recovery annually for each Revolving Fund Program.	√		End of each fiscal year	10/01/2006

OPM Actions:

OPM developed a new group incentive program covering employees who perform reimbursable business operations. This program will be piloted in FY 2007. Employees will be eligible for business development incentives for generating new business for the organization, and incentives will be tied to achievement of financial and customer satisfaction goals. These incentives will be distributed at three levels; Center, Group, and individual. This approach maximizes motivation and fosters cooperation and collaboration, and leads to better services being provided to agency customers.

Public Value:
OPM is committed to a high-performance agency by fostering a performance culture commensurate with rewards and reflective of enthusiasm for delivering public value.

Program: Federal Investigative Services	Program Outcome: Carry out high-quality, timely background investigations which will be used by Federal agencies to determine individuals' suitability for Federal, military or Federal contract employment, and to determine individuals' eligibility for access to classified national security information.			
Operational Goals	Met		Date	Date
	Yes	No	Scheduled	Achieved
FISD Operational Goal E-21 (Financial Management and Internal Control): Achieve full cost recovery annually for each Revolving Fund Program.	√		End of each fiscal year	10/01/2006
FISD Operational Goal E-26 (Investigative Services): Achieve rate of no more than one percent of completed investigations returned from agency security/adjudication offices each year.	√		End of each fiscal year	10/01/2006

OPM Actions:
OPM achieved full cost recovery in its Investigations Program in FY 2006. The agency undertook a number of actions to lower future costs and to improve performance. These included major investments in technology to reduce costly manual processes and standardization of training delivered to all Federal and contract investigators. Very few cases (0.13 percent) were returned by agencies for correction.

Public Value:
By pricing investigative services appropriately and minimizing errors, OPM ensures taxpayer dollars are used efficiently and that agencies can begin their adjudication process without delay.

Strategic Objective F: OPM will be a Leader in the Human Resources Professional Community and have Positive Name Recognition Outside the Federal Government

The human resources community looks to OPM for leadership and guidance as the central human resources policy agency for the Federal Government. OPM recognizes the importance of this role and pursued a two-pronged strategy during FY 2006. First, OPM sought to increase public awareness of the importance of public service in general. Second, OPM sought leadership positions in national professional organizations through which it will provide leadership to the various communities of practice involved in human resources management.

OPM achieved both operational goals scheduled for FY 2006 for this strategic objective.

Program: Internal Management	**Program Outcome:** This is an enabling goal that ultimately supports OPM performance across all programs			
Operational Goals	Met		Date	Date
	Yes	No	Scheduled	Achieved
OCPL Operational Goal F-1 (Public Awareness): Implement a plan to increase the public awareness of the importance of service in the Federal workforce by July 1, 2006.	√		07/01/2006	**05/02/2006**
SHRP Operational Goal F-4 (Professional Organizations): Identify two national professional organizations for human resources policy, benefits, and employee development and achieve leadership positions in them during FY 2006 and each year thereafter.	√		10/01/2006	**08/31/2006**

OPM Actions:
One of the key goals for June was to implement a plan to increase public awareness of professional opportunities and the importance of service in the Federal workforce. This project included using television ads to promote service in the Federal Government and encouraged viewers to visit www.USAJOBS.gov. It included four television ads featuring actual Federal workers and showcasing the Government's vast array of jobs. The media campaign entered its seventh television market. With 22,000 openings throughout the Federal Government talented and dedicated workers are needed and OPM wants them to recognize its name as a leader in human resources.

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

Public Value:
This ensures the agency stays on top of current thinking in fields relating to human capital issues and introduces initiatives in the private sector and State and local governments into the Federal Government.

Strategic Objective G: OPM will have Constructive and Productive Relationships with External Stakeholders

OPM recognizes the benefits of partnerships in fulfilling its mission. Congress, Veterans, Unions and Employee Advocacy Groups, the Combined Federal Campaign, and the media are all examples that are part of the responsive communication plan to be a model of performance and a leader in the human resources professional community with positive name recognition outside and inside the Federal Government.

OPM completed all five of the operational goals scheduled for FY 2006 and achieved ahead of schedule two goals for FY 2007 for this strategic objective.

Program: **Internal Management**	**Program Outcome:** This is an enabling goal that ultimately supports OPM performance across all programs.			
Operational Goals	Met		Date	Date
	Yes	No	Scheduled	Achieved
OCR Operational Goal G-1 (Congress): Acknowledge receipt of all Congressional inquiries with 24 hours by July 1, 2006.	√		07/01/2006	**05/16/2006**
OCR Operational Goal G-2 (Congress): Provide communications of OPM positions on routine issues within two days by July 1, 2006.	√		07/01/2006	**06/12/2006**
OCR Operational Goal G-3 (Congress): Identify and initiate at least one project on which to work with members of Congress by March 1, 2006.	√		03/01/2006	**03/01/2006**
HCLMSA Operational Goal G-4 (Veterans Outreach): Expand the Walter Reed Army Medical Center post-service employment support model to one additional hospital in both 2006 and 2007	√		12/31/2006	**09/25/2006**
All Operational Goal G-5 (Union and Employee Advocacy Groups): Identify at least one initiative per year to partner and implement beginning in 2006.	√		12/31/2006	**09/27/2006**
All Operational Goal G-7 (Union and Employee Advocacy Groups): Respond to routine inquiries within two hours 95 percent of the time.	√		Recurring	**09/15/2006**
All Operational Goal G-8 (Union and Employee Advocacy Groups): Hold Director media briefings twice per year.	√		Recurring	**08/08/2006**

OPM Actions:
As of May 16, 2006, OPM improved its inquiry tracking system to ensure the agency could acknowledge receipt of such inquiries within 24 hours. OPM formed a partnership with Local 32, AFGE, to develop and implement a group incentive program for employees in an organization funded through reimbursable services, and also in developing a Communications Plan and a Staff Development Plan for this unit.

Public Value:
Constructive relationships with OPM's stakeholders and customers are seated in responsiveness. Operational goal G-1 (see table above) embodies one aspect of this as it commits the agency to a high standard of responsiveness when OPM is contacted by Members of Congress through the thousands of written inquiries, and telephone, and personal contacts from members or their staff.

The combined efforts of the partnership between the Local 32, AFGE and OPM create and simplify the classification system for greater flexibility in classifying work and paying employees. The group incentive program will establish a performance management and rewards system to improve individual and organizational performance and improve recruitment and retention to attract highly qualified candidates. The success will foster constructive and productive relationships with all participants.

The Completeness and Reliability of Performance Data

The performance information used by OPM in this Performance and Accountability Report for FY 2006 is reasonably complete and reliable, as defined by the Government Performance and Results Act. Since all data are imperfect in some fashion, pursuing perfection in agency performance data may consume substantial public resources without achieving appreciable value. OPM has chosen an approach to data collection and analysis that provides sufficient accuracy and timeliness within reasonable cost constraints.

OPM's performance measures deal with the achievement of an operational goal within the timeframes established in the FY 2006-2010 Strategic and Operational Plan. The nature of these measures varies widely, from readily quantifiable outputs, such as the issuance of regulations and reports or the awarding of contracts, to recurring actions, such as the timeliness of responding to inquiries and retirement applications, to less quantifiable issues, such as providing advice and assistance to agencies on an as needed basis and promoting policy options. The first two types of measures are routinely the product of internally maintained databases and/or external publications. The third type of measure is generally tied to customer satisfaction surveys and/or indicators of results of the services provided, such as agency scores on the President's Management Agenda.

Completeness of Data

Most data in this report are produced on an annual cycle tied to the fiscal year, often with quarterly updates which make it easier to track progress during the year. In some instances in which fiscal year data are unavailable, calendar year data have been substituted and so labeled. This occurred most often with data reported from outside sources.

Given the November 15 date for the submission of the Performance and Accountability Report, some data were not compiled and finalized. The Federal Human Capital Survey was conducted in August and September, but the results of the survey have not yet been completely analyzed. Therefore, performance measures tied to this instrument are incomplete. OPM routinely conducts a survey of agency customers of investigative services every 12 to 18 months. The next survey is scheduled for November 2006.

Reliability of Data

OPM performance data are generally reliable (useful to program managers and policy makers). However, in any given year some of these data elements are influenced by multiple factors over which OPM has little control. For example, the findings of merit systems evaluations of agency human capital practices may vary substantially from one year to the next, depending on which agencies are targeted for evaluation in each cycle. A single year's results accurately report what was uncovered in that year, but multi-year trends may be more reflective of the mix of agencies examined each year than of changes in practices across the Federal Government.

Assessing and eliminating sources of errors in data collection systems continues to be an important task for program managers. As a part of this ongoing task, program managers use quality control techniques to identify where errors can be introduced into the collection system. They use automated edit checks to minimize data entry errors and follow-up with reasonableness checks before the data are entered in the Performance and Accountability Report. These include verification of data collection techniques and coding, response and non-response rates, and computation of margins of error. OPM has a three-tiered approach over the completeness and reliability of performance information, collections, and reporting. Data quality standards are established by the agency's Chief Financial Officer, data evidence is validated and submitted to the Director for approval, and OPM uses findings from audits by the OIG, the GAO, and independent auditors. Collectively, these tools verify that the data presented in this Report are complete and reliable, and accurately reflect actual performance during FY 2006.

Program Evaluations Used During FY 2006

OPM's Research and Evaluation Plan is an ongoing agency-wide strategy intended to strengthen OPM's ability to assess and evaluate agency programs and initiatives. By using objective measurement and systematic analysis, the evaluation plan determines the method and extent to which programs achieve their intended objectives. OPM revisits annually planned research and evaluation proposals in the Congressional Budget Justification. This allows the Director to determine research priorities for the agency.

Evaluations play an integral role in the delivery and management of OPM programs and are an invaluable budget performance integration tool. Among the most frequently applied are: internal (conducted by OPM staff and OPM's Inspector General); independent, as in the case of programs that have undergone PART exercises and; Federal Government audits, studies and evaluations performed by agencies like the GAO and the Merit Systems Protection Board. Evaluations can also be carried out by a specific OPM program independent of the annual Research and Evaluation Plan.

During FY 2006 OPM was the focus of a GAO study considering the types of measures OPM was taking to strengthen its internal capacity in order to lead Governmentwide human capital reform; and Merit Systems Protection Board analysis of Federal hiring practices. The agency also benefited significantly from internal and independent evaluations of programs, including those having undergone PART exercise.

Program Assessment and Rating Tool (PART)

Developed to evaluate the effectiveness of Federal programs, the PART has become a practical component of OPM's Research and Evaluation Plan by incorporating the findings and recommendations of prescribed independent evaluations into overall program management. What results from each exercise is a set of dedicated actions that a program enacts to improve its performance. Since 2002, nine OPM programs have completed the PART process (see table 20). Human Capital, the Federal Personnel Background Investigations, and Leadership Capacity Programs were, in 2006, the most recent to have undergone the PART and are preparing to implement recommendations.

OPM has benefited by the PART process through program structural changes, improved performance measures and more efficient service and product delivery to agency customers. For example, the Center for Talent Services which provides Federal agencies with human capital products and services designed to build a high-quality workforce, has undergone a reorganization that has resulted in an upgrade in structure and performance. The Inspector General Oversight of Federal Health Benefits Program is completing a health benefits claims data warehouse to detect incorrect benefit payment transactions more efficiently which will allow the office to increase proactive investigations. Merit System Compliance has developed and is now refining standardized data collection systems and methodologies that will be used by OPM for improved Governmentwide analysis. An independent evaluation of the Human Capital Program is currently in progress.

Table 20—PARTs of OPM Programs

Program	Year	Actions taken
Center for Talent Services—HR Products and Services for Federal Agencies	2002	• Developing a three-year evaluation plan and conducting an independent evaluation for the whole business or independent evaluations for different lines of business • Refining annual and long-term measures to assess the direct impact (such as pre-and post-service) of the human capital services and products • Presenting the program resource needs in a transparent manner in the program's budget -- particularly how indirect costs assessments are developed
Inspector General Oversight of Federal Health Benefits Program	2002	• Developing evaluation capacity and analytical abilities through computer assisted audit techniques and tools. • Building a health benefits claims data warehouse to detect incorrect benefit payment transactions more efficiently and to allow the Office to conduct proactive investigations. • Incorporating independent evaluation into program management.
Merit System Compliance	2003	• Developing and refining standardized data collection systems and methodologies that will be used by OPM for improved Governmentwide analysis. • Evaluating whether an agency's compliance with veterans' preference laws can be used as a leading indicator to measure an agency's overall compliance with all other personnel laws and rules. • Identifying efficiency measures for review activities so that resources are used effectively.
Federal Employees Retirement	2004	• Establishing ambitious targets for the newly developed long-term goals and demonstrating adequate progress in achieving these performance goals. • Holding program managers and partners accountable for cost, schedule and performance results and demonstrating that the program and its partners are achieving their annual performance goals. • Conducting an independent program evaluation of sufficient scope and quality and using the information to demonstrate that the program is effective and is achieving results.
Federal Employees Health Benefits	2005	• Improving budget requests to show what results to expect with the requested funds and provide evidence to demonstrate how OPM holds program managers and partners accountable for results. • Establishing ambitious targets for long-term and annual measures and demonstrating adequate progress in achieving these performance targets. • Conducting an independent evaluation of sufficient scope and quality and using the information to improve performance or demonstrate that OPM is helping agencies recruit and retain quality employees.
Federal Employees Group Life Insurance	2005	• Establishing ambitious targets for the long-term goals and demonstrating adequate progress in achieving these performance goals. • Holding program managers and partners accountable for cost, schedule and performance results, and demonstrating that the program and OPM's partners are achieving its annual performance goals. • Conducting an independent evaluation of sufficient scope and quality to asses whether the program is meeting its intended purpose and is achieving results.
Human Capital	2006	• Establishing ambitious targets for the long-term goals and demonstrating adequate progress in achieving these performance goals. • Holding program managers and partners accountable for cost, schedule and performance results, and demonstrate that the program and OPM's partners are achieving its annual performance goals. • Conducting an independent evaluation of sufficient scope and quality to assess whether the program is meeting OPM's intended purpose and is achieving results.

Table 20—PARTs of OPM Programs (cont.)

Federal Investigations	2006	• Working with OMB to revise its customer satisfaction survey to gather information on all phases of OPM's investigations and interactions with customer agencies. • Developing additional performance indicators to focus its efforts on ensuring that all agencies develop better caseload projections, adopt automated information processing applications and adjudicate complete cases in a timely manner. • Arranging for an independent evaluation for its operations to determine if the program meets its goals.
Leadership Capacity	2006	• Conducting an independent evaluation of its training program values and impacts on trainees and their organizations. • Developing and achieve targets showing that the Presidential Management Fellows program continues in the federal government at high rates and that agencies are satisfied with the quality of the fellows hired. • Assessing the utility of new performance measures, together with the actual data collected in coming months and determine whether to revise current measures.

Government Accountability Office Reports

OPM is Taking Steps to Strengthen Its Internal Capacity for Leading Human Capital Reform. GAO-06-861T

There is general recognition exists of a need to continue to develop a Governmentwide framework for human capital reform to enhance performance and ensure accountability. Such reform will require OPM to assist, guide and certify agencies' readiness to implement reforms. The report addresses management challenges that could affect OPM's ability to lead Governmentwide human capital reforms. GAO concluded that OPM has made commendable efforts towards transforming itself to be a more effective leader of human capital reform.

Merit Systems Protection Board Reports

A study, by the Merit Systems Protection Board, concluded that despite efforts to alter the Federal hiring process, the process remains cumbersome.

Changes have largely resulted in short-term remedies that focus on making the hiring process faster and cheaper. While these are worthy goals, faster and cheaper are not always better. Hiring a poor performer faster and at a lower cost will not benefit the employer, the employee, or the public. To achieve significant reform, the Federal Government must not only attempt to meet the objectives of "faster" and "cheaper," but must also balance those objectives with "better."

The report provided specific recommendations to the Office of Personnel Management to make Governmentwide changes, including:

- Working with Chief Human Capital Officers, Congress and the administration to develop a Governmentwide framework for Federal hiring reform
- Streamlining and consolidating appointing authorities to simplify the hiring process
- Improving assistance to agencies by developing and implementing valid and practical assessment tools
- Working with the Attorney General to petition the district court to sunset the *Luevano* consent decree and its related special hiring program
- Expanding efforts to develop competency-based qualification standards

A copy of this report can be found at *http://www.mspb.gov/studies/rpt_09-06_reforming/reformingfederalhiring.htm* accountabili

A Message *from the* Chief Financial Officer

I take pleasure in joining the Director in presenting the FY2006 PAR for the U.S. OPM. The report provides information to the President and the Congress on our use of financial resources to provide human capital leadership to the Federal Government. We carry out our stewardship responsibilities over the $700 billion dollars in the Federal Employees earned benefit trust funds with pride, and are honored to safeguard these assets on behalf of Federal employees, retirees, their survivors and families against waste fraud and abuse.

Our continuing success in financial management results from the coordinated efforts of all of our program and financial managers supported by our accounting and actuarial teams. We work to provide accurate, timely and useful financial information to decision makers and our customers, and our consolidated financial statements have received an unqualified, or clean, audit opinion from our independent public accountants, KPMG LLP, for the seventh year in succession. Our Retirement, Health Benefits and Life Insurance financial statements also received clean opinions independently. These opinions show our financial status and results to be reported fairly and free of material misstatement. For the second consecutive year, we received a financial statement audit opinion with no material weaknesses in internal control over financial reporting.

This year, we successfully implemented the requirements of the revised OMB Circular A-123, Management's Responsibility for Internal Control. This required the timely completion of a rigorous assessment, documentation and testing of our procedures and controls over financial reporting that found no material internal control weaknesses.

For FY 2007, OPM will continue to work to improve our financial management and work with our partners to modernize our financial systems. The Agency is firmly on course toward achieving green in the Improved Financial Performance and Eliminating Improper Payments initiatives under PMA remains a high priority.

This is my last PAR as CFO of OPM. For the past 4 years I have greatly valued the opportunity to work with my financial management colleagues to succeed in meeting critical goals. I would also like to pay tribute to my former Deputy Evelyn Brown without whom the accomplishments of this past year would have been impossible. Together we are very proud of the improvements in financial management implemented at OPM and we expect those left behind to both maintain and build on our accomplishments.

Sincerely,

Clarence C. Crawford
Chief Financial Officer

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

November 13, 2006

Report No. 4A-CF-00-06-045

MEMORANDUM FOR LINDA M. SPRINGER
Director

FROM: PATRICK E. McFARLAND
Inspector General

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year 2006 Consolidated Financial Statements

This memorandum transmits KPMG LLP's (KPMG) report on its financial statement audit of the Office of Personnel Management's (OPM) Fiscal Year 2006 Consolidated Financial Statements and the results of the Office of Inspector General's (OIG) oversight of the audit and review of that report. OPM's consolidated financial statements include the Retirement Program (RP), Health Benefits Program (HBP), Life Insurance Program (LP), Revolving Fund Programs (RF) and Salaries & Expenses funds (S&E).

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

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires OPM's Inspector General or an independent external auditor, as determined by the Inspector General, to audit the agency's financial statements in accordance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States. We contracted with the independent certified public accounting firm KPMG LLP to audit the consolidated financial statements of OPM as of September 30, 2006 and for the fiscal year then ended. The contract requires that the audit be done in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) bulletin number 06-03, *Audit Requirements for Federal Financial Statements*.

KPMG's audit report for Fiscal Year 2006 includes: (1) opinions on the consolidated financial statements and the individual statements for the three benefit programs, (2) a

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

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

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

  However, KPMG's report did identify four reportable conditions:

  - Information systems general control environment;
  - Financial information received from experience-rated and life insurance carriers;
  - Financial management and reporting processes of the Office of the Chief Financial Officer (OCFO); and
  - Managerial cost accounting to determine full cost associated with strategic goals and major outcomes.

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

- KPMG's report on compliance with certain provisions of laws and regulations disclosed the following instances of non-compliance or other matters:

  - Prompt Payment Act of 1982 (OPM), and
  - Other matters related to the Federal Financial Management Improvement Act of 1996 (RF and S&E only).

OIG Evaluation of KPMG's Audit Performance

In connection with the audit contract, we reviewed KPMG's report and related documentation and made inquiries of its representatives regarding the audit. To fulfill our audit responsibilities under the CFO Act for ensuring the quality of the audit work performed, we conducted a review of KPMG's audit of OPM's Fiscal Year 2006 Consolidated Financial Statements in accordance with GAS. Specifically, we:

- reviewed KPMG's approach and planning of the audit;
- evaluated the qualifications and independence of its auditors;
- monitored the progress of the audit at key points;

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

Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls or on whether OPM's financial management systems substantially complied with FFMIA or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated November 6, 2006, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted GAS.

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

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

cc: Clarence C. Crawford
Chief Financial Officer

KPMG LLP
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 balance sheets of the United States (U.S.) Office of Personnel Management (OPM) as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements"), for the years then ended. We have also audited the individual balance sheets of the Retirement, Health Benefits, and Life Insurance Programs (hereinafter referred to as the "Programs") as of September 30, 2006 and 2005, and the related individual statements of net cost, changes in net position, budgetary resources, and financing (hereinafter referred to as the Programs' "individual financial statements"), for the years then ended.

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

SUMMARY

As stated in our opinion on the financial statements, we concluded that OPM's consolidated financial statements and the Programs' individual financial statements as of and for the years ended September 30, 2006 and 2005, as presented in OPM's *Fiscal Year 2006 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 and performance measures resulted in the following conditions being identified as reportable conditions:

1. Information systems general control environment. (OPM and the Programs)
2. Financial information received from experience-rated and life insurance carriers. (OPM and the Health Benefits and Life Insurance Programs)
3. Financial management and reporting processes of the Office of Chief Financial Officer (OCFO). (Revolving Fund Program (RF Program) and Salaries and Expenses (S&E) Fund
4. Managerial cost accounting to determine full cost associated with strategic objectives and major outcomes. (RF Program and S&E Fund)

However, none of the reportable conditions are believed to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts, disclosed the following instances of non-compliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin Number (No.) 06-03, *Audit Requirements for Federal Financial Statements*:

5. Prompt Payment Act (OPM)
6. Other matters related to Federal Financial Management Improvement Act (FFMIA) (RF Program and S&E Fund)

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Office of Personnel Management as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources for the years then ended. We have also audited the individual balance sheets of the Programs as of September 30, 2006 and 2005, and the related individual statements of net cost, changes in net position, budgetary resources, and financing for the years then ended. The Programs' individual financial statements are included in the consolidating financial statements presented in the Consolidating Financial Statements section of OPM's *Fiscal Year 2006 Performance and Accountability Report*.

In our opinion, 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, 2006 and 2005, and the consolidated and individual Programs' net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 12 to the financial statements, OPM changed its method of reporting earmarked funds to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, effective October 1, 2005. Also, as discussed in Note 13 to the financial statements, OPM changed its method of accounting for its annual transfer-in from the U.S. Treasury, effective October 1, 2005.

The information in the Management Discussion and Analysis and Required Supplementary Information sections of OPM's *Fiscal Year 2006 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 and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of OPM taken as a whole and on the Programs' individual financial statements. The individual financial statements of the RF Programs and S&E Funds included in the Consolidating Financial Statements section of OPM's *Fiscal Year 2006 Performance and Accountability Report* (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 financial statements of the Funds have been subjected to the auditing procedures applied in the audit of the consolidated financial statements of OPM and, in our opinion, are fairly stated in all material respects in relation to OPM's consolidated financial statements taken as a whole.

In addition, the statement of net cost information of Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) included in the consolidating statement of net cost (Schedule 2) and the changes in net position and budgetary resources of the Retirement and Retirement Feeder funds included in the consolidating statement of changes in net position and the combining statement of budgetary resources (Schedules 6 and 7) are presented for purposes of additional analysis of the consolidated financial statements of OPM and the individual financial statements of the Retirement Program rather than to present the net costs of the CSRS and FERS funds and the change in net position and budgetary resources of the Retirement and Retirement Feeder funds. The consolidating information of the CSRS and FERS and the Retirement and Retirement Feeder funds have been subjected to the auditing procedures applied in the audit of OPM's consolidated financial statements and the individual financial statements of the Retirement Program, in our opinion is fairly stated in all material respects in relation to OPM's consolidated statements of net cost and changes in net position and combined statement of budgetary resources and the individual statements of net cost and changes in net position and combining statement of budgetary resources of the Retirement Program taken as a whole.

FY 2006 Performance Information (Part B), Other Accompanying Information (Part D), and Appendices A, B and C are an integral part of OPM's *Fiscal Year 2006 Performance and Accountability Report*. However, this information is not a required part of the financial statements and is presented for purposes of additional analysis. The information in the FY 2006 Performance Information, Other Accompanying Information, and Appendices A, B and C has not been subjected to the auditing procedures and, accordingly, we express no opinion on it.

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 consolidated and Programs' individual 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. Because of inherent limitations in internal controls, misstatements due to error or fraud may nevertheless occur and not be detected.

In our fiscal year 2006 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 are believed to be material weaknesses. Exhibit I presents the status of prior year reportable conditions.

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1. **Information systems general control environment**

The OCFO continues to make progress in enhancing its technology and information security infrastructure for OPM and the Programs. However, the OCFO needs to strengthen certain entity-wide security controls, access controls, and change control processes to strengthen their IT General Controls.

Recommendation

We recommend that the OCFO continue the implementation of planned enhancements to its information technology infrastructure. The continued implementation of planned enhancements will assist in enhancing agency-wide monitoring of critical IT resources to prevent and detect unauthorized use.

Management Response

OPM concurs with the recommendation and will continue to implement security controls, to include entity-wide security controls, access controls, and change control processes in accordance with FISMA and National Institute for Standards and Technology, Special Publication 800-53.

2. **Financial information received from experience-rated and life insurance carriers**

OPM relies on unaudited financial information from experience-rated and life insurance carriers to include in its consolidated and Health Benefit and Life Insurance Programs' individual financial statements. While we were able to satisfy ourselves with regard to this information, we noted that:

a. OPM lacks documented policies and procedures to timely validate the completeness, accuracy, existence and valuation of financial information received from experience-rated and life insurance carriers;
b. OPM lacks policies and procedures to assess the internal controls over processing and reporting transactions of the experience-rated and life insurance carriers.

According to OMB Circular A-123, Federal agencies are responsible for the stewardship of Federal resources and establishing and maintaining effective internal controls. Without appropriate policies, procedures and internal controls, the financial information from the experience-rated and life insurance carriers may be misstated.

Recommendation

We recommend that OPM develop, document and implement policies and procedures, to include internal controls, to assess and validate financial information received from experience-rated and life insurance carriers included in its fiscal year end consolidated and Health Benefit and Life Insurance Programs' individual financial statements, before issuance of the fiscal year Performance and Accountability Report (PAR).

These policies and procedures should include a review of the experience-rated and life insurance carriers to assess whether appropriate internal controls are in place and effective as of and for the fiscal year end, before the issuance of the PAR.

Management Response

OPM concurs with the recommendation and will strengthen the process to monitor the accuracy and completeness of amounts reported by MetLife and the ERCs in the Schedule of Selected Balances, and will perform analytical procedures during the year to assess those analyses. OPM will work with the carriers to

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ensure there is sufficient reporting to assess carrier controls over accounting and reporting, and will properly document the resulting policies and procedures.

3. **Financial Management and Reporting Process of the Office Chief Financial Officer**

Certain deficiencies in the operation of the OCFO's internal control over financial management and reporting, affecting the accuracy of the RF Programs and S&E Funds, continue to exist at OPM. Specifically:

a. The Government Financial Information System (GFIS) does not properly capture certain financial information and is not properly configured to produce useful financial reports that provide accurate information regarding related intragovernmental activities and balances.
b. Reconciliations are not consistently or always clearly documented and are not always performed in a timely manner.
c. Manual entries are made to adjust for unidentified differences between the total trial balance as reported in GFIS and the balance as reported on the Undisbursed Appropriation Account Trial Balance (FMS 6533).

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

Deficiencies in the ability to record, process, summarize and report financial data for the RF Programs and S&E Fund may misstate the financial statements.

Recommendation

The OCFO should continue implementation of its corrective action plan. Further, we recommend that:

a. OPM consider implementing a new accounting system or modify the existing accounting system, as appropriate, to ensure that all financial information is properly captured and is properly configured to produce useful financial reports that provide accurate information regarding related intra-governmental activities and balances.
b. OPM continue to identify and correct existing differences between OPM's internal data and the information reported by Treasury.
c. OPM OCFO management actively enforce procedures regarding the documentation and timely performance of reconciliations in accordance with guidelines outlined in the "Treasury Financial Manual" and OPM's "Cash Management Policy and Procedures".

Management Response

OPM acknowledges the deficiencies in its internal control over financial management and reporting as it pertains to the RF Programs and S&E Funds and concurs fully with each of our recommendations. Many of these deficiencies are attributable, as the report correctly points out, to GFIS, which cannot be effectively configured to capture essential financial information and generate useful accurate financial information related to intragovernmental activities and balances. The deficiencies in GFIS have prompted OPM to work with OMB to recompete the software, integration hosting and application of a new financial system to support RF Programs and S&E Funds. In the meantime, OPM will take the necessary actions to correct each of the specific deficiencies.

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4. **Managerial cost accounting to determine full cost associated with strategic objectives and major outcomes**

OPM's information technology systems are not designed or configured in a way that allows the accumulation of RF Programs and S&E Funds costs from the responsibility segment "Provide Human Resource Services" to its seven strategic objectives. Instead, OPM manually aggregated data within the system to derive the amount of costs for each strategic objectives. According to SFFAS No. 4, *The Managerial Cost Accounting Concepts and Standards for the Federal Government*, "costs may be accumulated through the use of cost accounting systems or through the use of cost finding techniques. A cost accounting system is an organized grouping of methods and activities designed to consistently produce reliable cost information."

Recommendation

We recommend that OPM utilize its integrated information systems to capture and report the costs of services and products that each responsibility segment produces and delivers. The costs should be aligned with OPM's strategic objectives including the major objectives and outputs of the programs and activities.

Management Response

OPM concurs with the recommendation. The GFIS financial system cannot be reconfigured to meet fully the management cost accounting standards. OMB has given OPM to recompete software, integration, hosting and application management to support the RF Programs and S&E Funds. During the migration to a new system, OPM will provide for managerial cost accounting in its requirements definitions.

INTERNAL CONTROLS OVER PERFORMANCE MEASURES

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. 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 caused by error or fraud, in amounts that would be material in relation to a key performance measure or aggregation of related key performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the design and operation of internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the internal control and its operation related to the design and operation of the internal control over the existence and completeness assertions related to key performance measures that might be reportable conditions.

In our fiscal year 2006 audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

We also noted other matters involving internal control over financial reporting and its operation and performance measures that we have reported to the management of OPM in a separate letter dated November 6, 2006.

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COMPLIANCE AND OTHER MATTERS

Our tests of compliance with certain provisions of laws, regulations, and contracts as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03, and is described below.

5. **Prompt Payment Act**

OPM does not have adequate controls to ensure a properly determined prompt payment date. As such, OPM did not make certain payments for property or services, excluding payments to their contractors associated with performing investigations and purchase and travel card transactions, within the proper time period in accordance with the Prompt Payment Act. In certain instances, OPM did not pay the interest penalty due to the improper determination of the prompt payment date.

The cause for noncompliance is due to several factors, which include lack of:

- Designed and implemented controls to ensure that the receipt of each invoice and the corresponding acceptance of goods and services is properly documented and recorded in the GFIS; and
- Adequate training to responsible personnel on a periodic basis.

Recommendation

We recommend OPM:

- Enforce documented policies and procedures which include internal control, regarding the Prompt Payment Act and specifically ensure that the program offices document the date the invoice is received and the date of acceptance of goods, and
- Provide regular training on the application of Prompt Payment Act policies and procedures.

Management Response

OPM concurs with the recommendations and agrees that the Prompt Payment Act area is one for which additional attention is required. OPM will continue its training and work with program offices and financial staff to optimize its performance in this critical area.

The results of our tests of compliance with certain provision of other laws and regulations, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

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

6. **Other matters related to Federal Financial Management Improvement Act of 1996 (FFMIA)**

a. Federal Accounting Standards –

In accordance with FFMIA, as amended, OPM is to prepare financial statements and related disclosures, budget reports, or other financial information for agency management decision-making purposes that are consistent with Federal accounting standards. The reportable conditions noted above,

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"Financial Management and Reporting Process of the OCFO" and *"Managerial Cost Accounting to determine full cost associated with strategic objectives and major outcomes",* resulted in OPM preparing financial statements and related disclosures, along with other financial information for agency management decision-making, related to the RF Programs and S&E Funds accounts that are not consistent with Federal accounting standards, specifically the SFFAS No. 1, *Accounting for Selected Assets and Liabilities* and No. 4, *The Managerial Cost Accounting Concepts and Standards for the Federal Government.* The RF Programs and S&E Funds are immaterial to the consolidated financial statements as a whole.

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

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

Recommendation

We recommend OPM review the GFIS system and related processes and procedures to enable the OCFO to account for the RF Programs and S&E Funds' transactions in accordance with the USSGL at the transaction level in fiscal year 2007. The OCFO should develop policies and procedures to prepare financial statements and related disclosures, budget reports, or other financial information for agency management decision-making purpose that are consistent with Federal accounting standards.

Management Response

OPM concurs with the recommendation. The GFIS financial system cannot be reconfigured to meet fully the requirements of FFMIA. OMB has given OPM approval to recompete software, integration, hosting and application management to support the RF Programs and S&E Funds. For its migration to a new system, OPM will ensure that its requirements definitions and implementation are consistent with FFMIA

RESPONSIBILITIES

Management's Responsibilities

The United States Code Title 31 Section 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, OPM prepares and submits annual financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the financial statements, including:

- 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;
- Preparing the Management Discussion and Analysis (including the performance measures), and Required Supplementary Information;
- Establishing and maintaining internal controls;
- Complying with laws, regulations, and contracts, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2006 and 2005 consolidated financial statements of OPM and the individual financial statements of the Programs based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OPM's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2006 audit, we considered OPM's and the Programs' internal control over financial reporting by obtaining an understanding of OPM's and the Programs' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on OPM's consolidated financial statements and the individual financial statements of the Programs. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. 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. 06-03, in our fiscal year 2006 audit, we considered OPM's and the Programs' internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determine whether these controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether OPM's fiscal year 2006 consolidated and the Programs' fiscal year 2006 individual financial statements are free of material misstatement, we performed tests of OPM's and the Programs' compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin

No. 06-03, 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 with all laws, regulations, and contracts applicable to OPM and the Programs. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audits and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether OPM's and the Programs' 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 solely for the information and use of OPM's management, OPM's Office of the Inspector General, OMB, the Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 6, 2006

Exhibit I

No.	Title of Finding from FY05 Report	Program/ Fund	Prior Year Status	Current Year Status	Factors Affecting Current Year Status
1	Financial Management Reporting Processes of the Office of the Chief Financial Officer (OCFO)	Salaries and Expenses (S&E), Revolving Fund (RF) Program	Reportable Condition	Reportable Condition - See FY 2006, condition 3	OPM has made improvements, however, deficiencies still exist because of system limitations.
2	Information Systems General Control Environment	All[1]	Reportable Condition	Reportable Condition – See FY 2006, Condition No. 1	OPM has made continual annual improvements on a whole to Information Systems General Control Environment, however, deficiencies still exist.
3	Managerial cost accounting to determine full cost associated with strategic goals and major outcomes	S&E and RF	Reportable Condition	Reportable Condition – See FY 2006 condition No. 4	OPM has made improvements, however, deficiencies still exist because of system limitations.

[1] Includes the Retirement Program, Health Benefits Program (HBP), Life Insurance Program, Revolving Fund (RF) Programs and Salaries and Expenses Funds.

Consolidated Financial Statements

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED BALANCE SHEET
As of September 30, 2006
(In Millions)

	2006
ASSETS	
Intragovernmental:	
Fund Balance with Treasury [Note 2]	$1,254
Investments [Note 3]	745,341
Accounts Receivable [Note 4]	1,391
Total Intragovernmental	747,986
Accounts Receivable from the Public, Net [Note 4]	1,090
General Property and Equipment, Net	12
Other [Note 1L]	637
TOTAL ASSETS	$749,725
LIABILITIES	
Intragovernmental	$662
Federal Employee Benefits:	
Benefits Due and Payable	8,758
Pension Liability [Note 5A]	1,286,600
Postretirement Health Benefits Liability [Note 5B]	286,279
Actuarial Life Insurance Liability [Note 5C]	33,556
Total Federal Employee Benefits	1,615,193
Other [Notes 6 and 11]	1,050
Total Liabilities	1,616,905
NET POSITION	
Unexpended Appropriations–Other Funds	85
Cumulative Results of Operations–Earmarked Funds [Note 12]	(867,285)
Cumulative Results of Operations–Other Funds	20
Total Net Position	(867,180)
TOTAL LIABILITIES AND NET POSITION	$749,725

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

U.S. OFFICE OF PERSONNEL MANAGEMENT CONSOLIDATED BALANCE SHEET As of September 30, 2005 *(In Millions)*	
	2005
ASSETS	
Intragovernmental:	
Fund Balance with Treasury [Note 2]	$1,189
Investments [Note 3]	712,050
Accounts Receivable [Note 4]	1,366
Total Intragovernmental	714,605
Accounts Receivable from the Public, Net [Note 4]	1,036
General Property and Equipment, Net	12
Other [Note 1L]	732
TOTAL ASSETS	$7 16,385
LIABILITIES	
Intragovernmental	$586
Federal Employee Benefits:	
Benefits Due and Payable	8,572
Pension Liability [Note 5A]	1,214,900
Postretirement Health Benefits Liability [Note 5B]	281,558
Actuarial Life Insurance Liability [Note 5C]	32,263
Total Federal Employee Benefits	1,537,293
Other [Notes 6 and 11]	1,025
Total Liabilities	1,538,904
NET POSITION	
Unexpended Appropriations	82
Cumulative Results of Operations	(822,601)
Total Net Position	(822,519)
TOTAL LIABILITIES AND NET POSITION	$716,385

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2006 and 2005
(In Millions)

		2006	2005
Provide CSRS Benefits	Intragovernmental Gross Costs [Note 1D]	–	–
	Gross Costs with the Public	$93,296	$68,461
	Total Gross Costs	93,296	68,461
	Intragovernmental Earned Revenue	(27,829)	(28,381)
	Earned Revenue with the Public	(2,908)	(3,112)
	Total Earned Revenue	(30,737)	(31,493)
	Total Net Cost	*$62,559*	*$36,968*
Provide FERS Benefits	Intragovernmental Gross Costs [Note 1D]	–	–
	Gross Costs with the Public	$36,293	$26,629
	Total Gross Costs	36,293	26,629
	Intragovernmental Earned Revenue	(27,021)	(25,413)
	Earned Revenue with the Public	(1,027)	(958)
	Total Earned Revenue	(28,048)	(26,371)
	Total Net Cost	*$8,245*	*$258*
Provide Health Benefits	Intragovernmental Gross Costs [Note 1D]	–	–
	Gross Costs with the Public	$35,945	$49,766
	Total Gross Costs	35,945	49,766
	Intragovernmental Earned Revenue	(16,157)	(15,174)
	Earned Revenue with the Public	(9,112)	(8,448)
	Total Earned Revenue	(25,269)	(23,622)
	Total Net Cost	*$10,676*	*$26,144*
Provide Life Insurance Benefits	Intragovernmental Gross Costs [Note 1D]	–	–
	Gross Costs with the Public	$3,515	$3,585
	Total Gross Costs	3,515	3,585
	Intragovernmental Earned Revenue	(1,642)	(1,651)
	Earned Revenue with the Public	(2,088)	(1,907)
	Total Earned Revenue	(3,730)	(3,558)
	Total Net Cost	*($215)*	*$27*
Provide Human Resource Services	Intragovernmental Gross Costs	$106	$136
	Gross Costs with the Public	934	754
	Total Gross Costs	1,040	890
	Intragovernmental Earned Revenue	(890)	(687)
	Earned Revenue with the Public	(2)	(1)
	Total Earned Revenue	(892)	(688)
	Total Net Cost	*$148*	*$202*
Total Net Cost of Operations	Intragovernmental Gross Costs	$106	$136
	Gross Costs with the Public	169,983	149,195
	Total Gross Costs	170,089	149,331
	Intragovernmental Earned Revenue	(73,539)	(71,306)
	Earned Revenue with the Public	(15,137)	(14,426)
	Total Earned Revenue	(88,676)	(85,732)
	Total Net Cost	*$81,413*	*$63,599*

The accompanying notes are an integral part of the financial statements

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2006 and 2005
(In Millions)

	Earmarked Funds	All Other Funds	2006 Consolidated Total	2005 Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	($822,612)	$11	($822,601)	($792,814)
Budgetary Financing Sources:				
Appropriations used	36,552	124	36,676	8,070
Transfers-in Without Reimbursement	0	0	0	6
Other	33	0	33	34
OTHER FINANCING SOURCES				
Transfer-in from General Fund	0	–	0	25,618
Other	7	33	40	84
Total Financing Sources	36,592	157	36,749	33,812
Net Cost of Operations	81,265	148	81,413	63,599
Net Change	(44,673)	9	(44,664)	(29,787)
Cumulative Results of Operations	($867,285)	$20	($867,265)	($822,601)
UNEXPENDED APPROPRIATIONS				
Beginning Balance	–	$82	$82	$49
Budgetary Financing Sources:				
Appropriations Received	$36,867	124	36,991	8,019
Appropriations Used	(36,552)	(124)	(36,676)	(8,070)
Other Budgetary Financing Sources	(315)	3	(312)	84
Total Budgetary Financing Sources	0	3	3	33
Total Unexpended Appropriations	–	85	85	82
Net Position	($867,285)	$105	($867,180)	($822,519)

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2006 and 2005
(In Millions)

	2006	2005
BUDGETARY RESOURCES		
Unobligated Balance–Brought Forward, October 1:	$39,283	$36,083
Recoveries of Prior-Year Unpaid Obligations	16	34
Budget Authority:		
Appropriations:		
Received [Note 13]	36,991	8,019
Other	(320)	58
Appropriated Trust Fund Receipts	87,164	83,691
Spending Authority from Offsetting Collections:		
Collected	38,621	35,841
Change in Receivables from Federal Sources and Unfilled Customer Orders	334	66
Subtotal	38,955	35,907
Nonexpenditure Transfers, Net, Actual	0	6
Temporarily Not Available Pursuant to Public Law	(28,903)	(28,649)
Total Budgetary Resources	$173,186	$135,149
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred: [Note 9 and 13]		
Direct	$128,419	$95,182
Reimbursable	1,289	684
Subtotal	129,708	95,866
Unobligated Balance:		
Apportioned	322	126
Unobligated Balance not Available	43,156	39,157
Total Status of Budgetary Resources	$173,186	$135,149
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	$10,332	$9,885
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	2,042	1,984
Total Unpaid Obligated Balance, Net	8,290	7,901
Obligations Incurred, Net [Note 13]	129,708	95,866
Less: Gross Outlays [Note 13]	129,206	95,387
Obligated Balance Transferred, Net	0	10
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	16	34
Change in Uncollected Customer Payments from Federal Sources	334	66
Obligated Balance, Net, End of Period		
Unpaid Obligations	10,818	10,332
Less: Uncollected Customer Payments from Federal Sources	2,376	(2,042)
Total Unpaid Obligated Balance, Net, End of Period	8,442	8,290
NET OUTLAYS		
Net Outlays:		
Gross Outlays [Note 13]	129,206	95,387
Less Offsetting Collections	38,621	35,841
Less: Distributed Offsetting Receipts	28,184	25,652
Net Outlays	$62,401	$33,894

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENTS OF FINANCING
For the Years Ended September 30, 2006 and 2005
(In Millions)

	2006	2005
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	$129,708	$95,866
Less: Spending Authority from Offsetting Collections and Recoveries	38,971	35,941
Less: Appropriated Trust Fund Receipts	87,164	83,691
Obligations Net of Offsetting Receipts and Recoveries	3,573	(23,766)
Less: Offsetting Receipts	28,184	25,652
Net Obligations	(24,611)	1,886
Other Resources	40	84
Total Resources Used to Finance Activities	(24,571)	1,970
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS		
Transfer -in From the General Fund [Note 13]	28,151	0
Other	310	(34)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	28,461	(34)
Total Resources Used to Finance the Net Cost of Operations	3,890	1,936
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	77,714	61,835
Exchange Revenue not in the Budget	(204)	(225)
Total Components of Net Cost of Operations that Will Require or Generate Resources in the Future Period	77,510	61,610
Components not Requiring or Generating Resources:		
Other	13	53
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	13	53
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	77,523	61,663
NET COST OF OPERATIONS	$81,413	$63,599

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

Part C: Financial Information

Notes to Financial Statements

September 30, 2006 and 2005
[In millions]

Note 1—Summary of Significant Accounting Policies

A. Reporting Entity

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

The accompanying financial statements present OPM's financial position, net cost of operations, change in net position, 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 (CFO Act) and the Government Management Reform Act of 1994 (GMRA). 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 comprise the following major programs administered by OPM. The funds related to the operation of the Retirement Program, the Health Benefits Program, and the Life Insurance Program are "earmarked funds," as defined by Statement of Federal Financial Accounting Standards (SFFAS) No. 27—*Identifying and Reporting Earmarked Funds*. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. See Note 12 – Earmarked Funds for additional information.

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

Health Benefits Program. The Program provides hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. The Program, implemented in 1960, is operated through two trust revolving funds: the Employees Health Benefits Fund and the Retired Employees Health Benefits Fund. Title 5, United States Code, Chapter 89, provides a complete description of the funds' provisions. To provide benefits, OPM contracts with two types of health benefits carriers: *fee-for-service*, whose participants or their health care providers are reimbursed for the cost of services, and *health maintenance organizations* (HMOs), 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 trust revolving fund, and is administered, virtually in its entirety, by the Metropolitan Life Insurance Company under contract with OPM. Title 5, United States Code, Chapter 87 provides a complete description of the fund's provisions. The Program provides Basic life insurance (which includes accidental death and dismemberment coverage) and three packages of optional coverage.

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

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

B. Basis of Accounting and Presentation

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

OPM has presented comparative financial statements for the Consolidated and Consolidating Balance Sheets, Consolidated and Consolidating Statements of Net Cost, Consolidated and Consolidating Statements of Changes in Net Position, Combined and Combining Statements of Budgetary Resources, and Consolidated and Consolidating Statements of Financing, in accordance with OMB financial statement reporting guidelines. Certain prior year amounts have been reclassified to conform to current year presentation.

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

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

C. Use of Management's Estimates

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

D. Financial Statement Classifications

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

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

Exchange vs. Non-exchange Revenue. Exchange or earned revenue is an inflow of resources to a Government entity that the entity has earned; it arises when each party to a transaction sacrifices value and receives value in return. All of OPM's revenues are classified as exchange revenues. Federal reporting standards require that earnings on investments be classified in the same manner as the entity's "predominant source of revenue;" OPM, therefore, classifies it as earned revenue. Employing agency 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 disclosed 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 disclosed as being "not covered by budgetary resources." With minor exception, all other OPM liabilities are disclosed as being "covered by budgetary resources."

Net Position. OPM's Net Position is classified into two separate balances. The *Cumulative Results of Operations* comprises OPM's net results of operations since its inception. *Unexpended Appropriations* is the balance of appropriated authority granted to OPM against which no outlays have been made. Beginning in fiscal year 2006, OMB Circular No. A-136, *Financial Reporting Requirements*, requires a new columnar display for the Statement of Changes in Net Position—one column for earmarked funds and another column for all other funds, showing separately earmarked nonexchange revenue and other financing sources, including appropriations, as well as net cost of operations and cumulative results of operations attributable to earmarked funds.

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

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

E. Net Cost of Operations

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

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

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

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

F. Program Funding

Retirement Program. Service cost represents an estimate of the amount of contributions which, if accumulated and invested over the careers of participants, will be sufficient to fund fully their future CSRS or FERS benefits. For fiscal years 2006 and 2005, the service cost for most or "regular" CSRS participants is 25.0 percent of pay; for most or "regular" FERS participants, 12.0 percent of pay. Federal accounting standards require that employing agencies recognize an imputed cost for the difference between the amount contributed by and for their participating employees and the service cost of the CSRS and FERS.

CSRS. Both CSRS participants and their employing agencies are required by statute to make contributions to CSRS coverage. Regular CSRS participants and their employers each contributed 7.0 percent of pay in both fiscal years 2006 and 2005. The combined 14.0 percent of pay does not cover the service cost of a CSRS benefit. To lessen the shortfall, the Treasury is required by statute to transfer an amount annually from the General Fund of the United States to the CSRDF [See Note 1G.]; for fiscal years 2006 and 2005, this amount was $28.2 and $25.6, respectively. Additionally, the USPS is required by statute to contribute an amount equal to the service cost of the CSRS less the amount actually contributed by USPS participants. Accordingly, the USPS contributed 18.0 percent of the pay of its participating employees in both 2006 and 2005. The statute also requires the USPS to contribute annually an amount that would amortize over 40 years the "supplemental liability" that has resulted from the CSRS benefits earned by its employees.

FERS. Both FERS participants and their employing agencies are required by statute to make contributions for FERS coverage. The FERS participant contribution rate is equal to the CSRS participant contribution rate less the prevailing Old Age Survivor and Disability Insurance deduction rate; 0.8 percent for most participants for fiscal years 2006 and 2005. The employer contribution rate is equal to the FERS service cost less the participant contribution rate [11.2 percent of pay in fiscal years 2006 and 2005 for most participants]. The total contributions by and for FERS participants [12.0 percent], therefore, fully funded the FERS service cost in both fiscal years 2006 and 2005.

Health Benefits Program. The Program is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions on approximately a one-quarter to three-quarters basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation). The Program continues to provide benefits to active employees (or their survivors) after they retire (postretirement benefits). With the exception of the USPS, agencies are not required to make contributions for the postretirement coverage of their active employees. These agencies, therefore, must recognize the service cost of providing postretirement health benefits for active employees [$5,229 and $4,903 per participant for fiscal years 2006 and 2005, respectively] as an imputed cost.

Life Insurance Program. The Program is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation). The Program is funded by means of the "level premium" method, where contributions paid by and for participants remain fixed until age 65, but overcharge during early years of coverage to compensate for higher rates of expected outflows at later years. A portion of postretirement life insurance coverage (0.02 percent of the pay of participating employees in fiscal years 2006 and 2005) is not funded. Employing agencies must recognize this amount as an imputed cost.

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

G. Financing Sources Other Than Earned Revenue

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

Transfer-in from the General Fund. The U.S. Treasury is required by law to transfer an amount annually to the Retirement Program from the General Fund of the U.S. to subsidize in part the under-funding of the CSRS. The fiscal year 2006 presentation of this transfer for the Retirement Program in the Statement of Budgetary Resources reflects the change in accounting based on guidance provided by the OMB. Previously, OPM treated this transfer-in as direct financing of the CSRDF on the Statement of Budgetary Resources. See Note 13 for further details.

Appropriations Used. By an act of Congress, OPM receives appropriated authority allowing it to incur obligations and make expenditures to cover the operating costs of the agency ("Salaries and Expenses") and the Government's share of the cost of health and life insurance benefits for Retirement Program annuitants. In addition, the U.S. Treasury General Fund transfers an amount annually to the OPM CSRDF to subsidize, in part the under-funding of the CSRDF. OPM recognizes appropriations as "used" at the time it incurs these obligations against its appropriated authority.

H. Budgetary Resources

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

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

Trust Fund Receipts. The amounts collected by OPM and credited to the CSRDF generate budgetary resources in the form of trust fund receipts. Trust fund receipts are considered to be immediately appropriated and available to cover the valid obligations of the Retirement Program as they are incurred. At the end of each fiscal year, the amount by which OPM's collections have exceeded its incurred obligations are temporarily precluded from obligation and added to OPM's trust fund balance [See Note 7].

Spending Authority from Offsetting Collections. The amount collected by OPM and credited to the Health Benefits, Life Insurance and Revolving Fund Programs 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 is generally unavailable for obligation.

I. Fund Balance with Treasury

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

J. Investments

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. OPM invests the excess FBWT for the earmarked funds associated with the Retirement, Health Benefits, and Life Insurance Programs in securities guaranteed by the United States as to principal and interest. Retirement 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 Program monies are invested in "market-based" securities that mirror the terms of marketable Treasury securities. In addition, OPM invests Health Benefits and Life Insurance Program monies that are immediately needed for expenditure in "overnight" market-based securities.

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

K. Accounts Receivable, Net

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

L. Other Assets

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

M. 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 using the straight-line method over five years. The cost of minor purchases, repairs and maintenance is expensed as incurred.

N. Benefits Due and Payable

Benefits due and payable is comprised of two categories of accrued expenses. The first reflects claims filed by participants 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.

O. Actuarial Liabilities and Associated Expenses

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

P. Cumulative Results of Operations

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

Q. Tax Status

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

Note 2—Fund Balance With Treasury

Fund Balances. OPM's FBWT balances by account type at the end of fiscal years 2006 and 2005 are:

2006	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Trust Fund	$17	–	–	–	$17
Revolving Fund	–	–	–	$295	295
Appropriated Funds	–	$847	$5	86	938
Trust Revolving Funds	–	3	1	–	4
Total	*$17*	*$850*	*$6*	*$381*	*$1,254*
2005					
Trust Fund	$23	–	–		$23
Revolving Fund	–	–	–	$233	233
Appropriated Funds	–	$826	$4	99	929
Trust Revolving Funds	–	3	1	–	4
Total	*$23*	*$829*	*$5*	*$332*	*$1,189*

Status of Unexpended Balances. OPM's unexpended balances are comprised of its FBWT and its investments, (at par, net of original discount). The following table presents the portions of OPM's unexpended balances that are obligated, unobligated and precluded from obligation at the end of fiscal years 2006 and 2005:

2006	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$17	$850	$6	$380	$1,253
Investments	689,936	14,771	30,784	-	735,491
Total, Unexpended Balances	*$689,953*	*$15,621*	*$30,790*	*$380*	*$736,744*
STATUS OF UNEXPENDED BALANCES					
Unobligated:					
Available	-	-	-	$322	$322
Unavailable	-	$12,532	$30,449	175	43,156
Obligated not yet Disbursed	$5,129	3,089	341	(117)	8,442
Precluded (See Note 7)	684,824	-	-	-	684,824
Total, Status of Unexpended Balances	*$689,953*	*$15,621*	*$30,790*	*$380*	*$736,744*

2005	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$23	$829	$5	$332	$1,189
Investments	660,749	12,506	29,050	-	702,305
Total, Unexpended Balances	*$660,772*	*$13,335*	*$29,055*	*$332*	*$703,494*
STATUS OF UNEXPENDED BALANCES					
Obligated	$4,851	$3,219	$338	($118)	$8,290
Unobligated:					
Available	-	-	-	126	126
Unavailable	-	10,116	28,717	324	39,157
Precluded (See Note 7)	655,921	-	-	-	655,921
Total, Status of Unexpended Balances	*$660,772*	*$13,335*	*$29,055*	*$332*	*$703,494*

Note 3—Investments

All of OPM investments are in securities issued by other Federal entities and are therefore classified as intragovernmental. See Note 1J for further explanation, including the amortization method.

All of OPM's investments are in U.S. Treasury securities held by earmarked funds—the Retirement, Health Insurance, and Life Insurance Programs. The Federal Government does not set aside funds to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for earmarked funds are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to OPM as evidence of its receipts. Treasury securities are an asset to OPM and a liability to the U.S. Treasury. Because OPM and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. They are eliminated in consolidation for the U.S. Government-wide financial statements.

Treasury securities provide OPM with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When OPM requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

The following tables summarize OPM's investments by Program (all earmarked funds) at the end of fiscal years 2006 and 2005.

As of September 30, 2006	Cost	Amortized Discount/ (Premium)	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Retirement Program:					
Par-value GAS securities	$645,846	-	$645,846	-	$645,846
Certificates of Indebtedness	30,090	-	30,090	-	30,090
FFB Securities	14,000	-	14,000	-	14,000
Subtotal	689,936	-	689,936	-	689,936
Interest Receivable	-	-	9,153	-	-
Total Retirement Program	689,936	-	699,089	-	689,936
Health Benefits Program:					
GAS securities	14,841	($13)	14,828	$3	14,647
Interest Receivable	-	-	55	-	-
Total Health Benefits Program	14,841	($13)	14,883	3	14,647
Life Insurance Program:					
GAS securities	30,857	180	31,037	(246)	30,619
Interest Receivable	-	-	332	-	-
Total Life Insurance Program	30,857	180	31,369	(246)	30,619
Total Investments	*$735,634*	*$167*	*$745,341*	*($243)*	*$735,202*

As of September 30, 2005	Cost	Amortized Discount/ (Premium)	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Retirement Program:					
Par-value GAS securities	$619,277	-	$619,277	-	$619,277
Certificates of Indebtedness	27,473	-	27,473	-	27,473
FFB Securities	14,000	-	14,000	-	14,000
Subtotal	660,750	-	660,750	-	660,750
Interest Receivable	-	-	8,967	-	-
Total Retirement Program	660,750	-	669,717	-	660,750
Health Benefits Program:					
GAS securities	12,576	($13)	12,563	$31	12,412
Interest Receivable	-	-	43	-	-
Total Health Benefits Program	12,576	($13)	12,606	31	12,412
Life Insurance Program					
GAS securities	29,129	303	29,432	(53)	29,102
Interest Receivable	-	-	295	-	-
Total Life Insurance Program	29,129	303	29,727	(53)	29,102
Total Investments	*$702,455*	*$290*	*$712,050*	*($22)*	*$702,264*

Note 4—Accounts Receivable, Net

Intragovernmental. The balances comprising OPM's intragovernmental accounts receivable as of September 30, 2006 and 2005 are:

2006	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	$708	$532	$16	-	$1,256
Other	-	-	-	$135	135
Total	*$708*	*$532*	*$16*	*$135*	*$1,391*
2005					
Employer contributions receivable	$717	$520	$16	-	$1,253
Other	-	-	-	$113	113
Total	*$717*	*$520*	*$16*	*$113*	*$1,366*

From the Public. The balances comprising the accounts receivable OPM classifies as "from the public" at September 30, 2006 and 2005 are presented, in the following table. See Note 1J. for the methodology used to determine the allowance.

2006	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	$146	$558	$110	-	$814
Overpayment of benefits *[net of allowance of $53]*	131	-	-	-	131
Due from carriers *[net of allowance of $2]*	-	39	-	-	39
Other	-	-	-	$106	106
Total	*$277*	*$597*	*$110*	*$106*	*$1,090*
2005					
Participant contributions receivable	$154	$528	$103	-	$785
Overpayment of benefits *[net of allowance of $52]*	122	-	-	-	122
Due from carriers *[net of allowance of $2]*	-	44	-	-	44
Other	-	-	-	$85	85
Total	*$276*	*$572*	*$103*	*$85*	*$1,036*

Note 5—Federal Employee Benefits

A. Pensions

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

Economic Assumptions. The economic assumptions used to calculate the Pension Liability and related expense were changed for the valuations performed in FY 2006. The following presents the significant economic assumptions used to compute the Pension Liability in fiscal years 2006 and 2005:

	2006	2005
Interest rate	6.25%	6.25%
Rate of inflation	3.50%	3.25%
Rate of increases in salary	4.25%	4.00%

Pension Expense. The following tables present Pension Expense by cost component for fiscal years 2006 and 2005:

2006	CSRS	FERS	TOTAL
Service cost	$10,635	$14,652	$25,287
Interest cost	61,054	13,858	74,912
Actuarial loss	21,607	7,783	29,390
Pension Expense	*$93,296*	*$36,293*	*$129,589*
2005			
Service cost	$11,145	$13,833	$24,978
Interest cost	60,137	12,341	72,478
Actuarial (gain)/loss	(2,821)	455	(2,366)
Pension Expense	*$68,461*	*$26,629*	*$95,090*

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

2006	CSRS	FERS	TOTAL
Pension Liability at October 1, 2005	$999,000	$215,900	$1,214,900
Plus: Pension Expense	93,296	36,293	129,589
Less: Costs applied to Pension Liability	54,896	2,993	57,889
Pension Liability at September 30, 2006	*$1,037,400*	*$249,200*	*$1,286,600*
2005			
Pension Liability at October 1, 2004	$982,700	$191,800	$1,174,500
Plus: Pension Expense	68,461	26,629	95,090
Less: Costs applied to Pension Liability	52,161	2,529	54,690
Pension Liability at September 30, 2005	*$999,000*	*$215,900*	*$1,214,900*

Costs Applied to the Pension Liability. In accordance with Federal accounting standards, the Pension Liability is reduced by the total operating costs of the Retirement Program. The following table presents the costs applied to the Pension Liability in fiscal years 2006 and 2005:

2006	CSRS	FERS	TOTAL
Annuities	$54,546	$2,864	$57,410
Refunds of contributions	231	96	327
Administrative and other expenses	119	33	152
Costs applied to the Pension Liability	*$54,896*	*$2,993*	*$57,889*
2005			
Annuities	$51,840	$2,400	$54,240
Refunds of contributions	204	89	293
Administrative and other expenses	117	40	157
Costs applied to the Pension Liability	*$52,161*	*$2,529*	*$54,690*

B. Postretirement Health Benefits

OPM's actuary, in computing the Postretirement Health Benefits (PRHB) Liability and associated expense, 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 presents the significant economic assumptions used to compute the PRHB Liability as of the September 30 measurement date:

	2006	2005
Interest rate	6.25%	6.25%
Increase in per capita cost of covered benefits	7.00%	7.00%

PRHB Expense. The following presents the PRHB Expense by cost component for fiscal years 2006 and 2005:

	2006	2005
Service cost	$11,617	$11,074
Interest cost	16,809	16,532
Actuarial (gain)/loss	(12,609)	2,955
PRHB Expense	*$15,817*	*$30,561*

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

	2006	2005
PRHB Liability at the beginning of the year	$281,558	$261,556
Plus: PRHB Expense	15,817	30,561
Less: Costs applied to the PRHB Liability	11,096	10,559
PRHB Liability at the end of the year	*$286,279*	*$281,558*

Costs Applied to PRHB Liability. In accordance with Federal accounting standards, OPM reduces the PRHB Liability by applying certain Program costs. The following the costs that have been applied to the PRHB Liability in fiscal years 2006 and 2005:

	2006	2005
Current benefits	$8,130	$7,726
Premiums	2,161	2,078
Administrative and other expenses	805	755
Total costs applied to the PRHB Liability	*$11,096*	*$10,559*

Effect of Assumptions. The increase in the per capita cost of covered benefits assumed by OPM's actuaries (7.0 percent in fiscal years 2006 and 2005) has a significant effect on the amounts reported as the PRHB Liability and associated expense. A one percentage point change in the per capita cost of covered benefits assumption would have the following effects in fiscal years 2006 and 2005:

	2006		2005	
	8.0% [One Percent Increase]	6.0% [One Percent Decrease]	8.0% [One Percent Increase]	6.0% [One Percent Decrease]
Interest cost component	$19,146	$14,844	$18,868	$14,575
Service cost component	14,452	9,388	13,818	8,923
PRHB Liability	$328,752	$250,715	$323,940	$246,216

C. Life Insurance

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

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

	2006	2005
EPV of future benefits	$71,486	$68,365
EPV of future contributions by participants	(37,930)	(36,102)
ALIL	*$33,556*	*$32,263*

Life Insurance Expense. The following presents the Life Insurance Expense by cost component for fiscal years 2006 and 2005:

	2006	2005
New Entrant Expense	$256	$327
Interest cost	2,008	1,921
Actuarial (gain)	(454)	(313)
Life Insurance Expense	*$1,810*	*$1,936*

Future Life Insurance Benefits Expense. The following presents the Life Insurance Expense by cost component for fiscal years 2006 and 2005:

	2006	2005
Life Insurance Expense	$1,810	$1,936
Less: Net Costs applied to Life liability	517	503
Future Life Insurance Benefits Expense	*$1,293*	*$1,433*

Note 6—Other Liabilities

The following liabilities, all current and "with the public," are classified as "other" on the Balance Sheet as of September 30, 2006 and 2005:

2006	Withheld from benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued administrative expenses	Contingencies	Total
Retirement	$585	-	-	-	$585
Health Benefits	-	$336	-	$5	341
Revolving Fund	-	-	$77	-	77
Salaries and Expenses	-	-	47	-	47
Total Other Liabilities	*$585*	*$336*	*$124*	*$5*	*$1,050*
2005					
Retirement	$529	-	-	-	$529
Health Benefits	-	$374	-	$7	381
Revolving Fund	-	-	$76	-	76
Salaries and Expenses	-	-	39	-	39
Total Other Liabilities	*$529*	*$374*	*$115*	*$7*	*$1,025*

Note 7—Availability of Unobligated Balances

Retirement Program. Historically, OPM's trust fund receipts have exceeded the amount needed to cover the Retirement Program's obligations. The excess of trust fund receipts over incurred obligations is classified as being temporarily precluded from obligation. These receipts, however, remain assets of the CSRDF and will become immediately available, if circumstances dictate, to meet obligations to be incurred in the future. See Note 13 for further explanation. The following table presents the unobligated balance of the CSRDF that is temporarily precluded from obligation as of September 30, 2006 and 2005:

	2006	2005
Temporarily precluded from obligation at the beginning of the year	$655,921	$627,272
Plus: Trust fund receipts during the year	87,164	83,691
Plus: Appropriations Received	28,151	–
Less: Obligations incurred during the year	86,412	55,042
Excess of trust fund receipts over obligations incurred during the year	28,903	28,649
Temporarily Precluded from Obligation at the End of the Year	*$684,824*	*$655,921*

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

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

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

Note 8—Health Benefits/Life Insurance Program Concentrations

During fiscal years 2006 and 2005, approximately half of the Health Benefits Program's benefits were administered by the Blue Cross and Blue Shield Association, a fee-for-service carrier that provides experience-rated benefits. For the Life Insurance Program, virtually all of the benefits were administered by the Metropolitan Life Insurance Company.

Note 9—Apportionment Categories of Incurred Obligations

An apportionment is a distribution by OMB of amounts available for obligation. OMB apportions the Revolving Fund and Salaries and Expense account on a quarterly basis [Category A]. Most other accounts under OPM's control are apportioned annually [Category B], with the exception being the transfer-in from the U.S. Treasury General Fund to the Retirement Fund, which is not subject to apportionment [Category C]. The following chart details the direct and reimbursable obligations that have been incurred against each apportionment category during fiscal years 2005 and 2005:

FY 2006 Program/Fund	Category	Direct	Reimbursable	Total
Retirement	B	$58,261	–	$58,261
Retirement	C	28,151	–	28,151
Subtotal		$86,412		$86,412
Health Benefits	B	39,540	–	39,540
Life Insurance	B	2,199	–	2,199
Revolving Fund	A	–	$1,215	1,215
Salaries and Expense	A	268	74	342
Total		*$128,419*	*$1,289*	*$129,708*

FY 2005 Program/Fund	Category	Direct	Reimbursable	Total
Retirement	B	$55,042	–	$55,042
Health Benefits	B	37,646	–	37,646
Life Insurance	B	2,202	–	2,202
Revolving Fund	A	–	$622	622
Revolving Fund	B	25	–	25
Salaries and Expenses	A	267	62	329
Total		*$95,182*	*$684*	*$95,866*

Note 10—Intragovernmental Gross Costs And Earned Revenue

The following table presents the portion of OPM's gross costs and earned revenue that was classified as intragovernmental and "with the public" in FY 2006 and FY 2005:

FY 2006	Gross Costs			Earned Revenue		
	Intragov-ernmental	With the Public	Total	Intragov-ernmental	With the Public	Total
Provide CSRS Benefits	–	$93,296	$93,296	$27,829	$2,908	$30,737
Provide FERS Benefits	–	36,293	36,293	27,021	1,027	28,048
Provide Health Benefits	–	35,945	35,945	16,157	9,112	25,269
Provide Life Insurance Benefits	–	3,515	3,515	1,642	2,088	3,730
Provide Human Resources Services	$106	934	1,040	890	2	892
Total	*$106*	*$169,983*	*$170,089*	*$73,539*	*$15,137*	*$88,676*
FY 2005						
Provide CSRS Benefits	–	$68,461	$68,461	$28,381	$3,112	$31,493
Provide FERS Benefits	–	26,629	26,629	25,413	958	26,371
Provide Health Benefits	–	49,766	49,766	15,174	8,448	23,622
Provide Life Insurance Benefits	–	3,585	3,585	1,651	1,907	3,558
Provide Human Resources Services	$136	754	890	687	1	688
Total	*$136*	*$149,195*	*$149,331*	*$71,306*	*$14,426*	*$85,732*

Note 11 – Contingencies

Health Benefits Program Carriers. OPM is a party to litigation in which certain Health Benefits Program carriers are seeking relief for alleged underpayments of premiums. Although OPM is contesting these allegations, any underpayments that have occurred will have stemmed from inaccuracies in the amount of contributions by and for participants remitted to OPM by employing agencies and retirement systems. OPM has recorded a liability of $5 million and $7 million at September 30, 2006 and 2005, respectively for the estimated amount of losses it will probably incur from this litigation. In addition, OPM has determined that, at September 30, 2006, it is reasonably possible that an additional $0.3 million will result in losses. All losses involving this litigation will be paid from the Treasury Judgment Fund (TJF); OPM, however, does not have the budgetary resources to and is precluded by law from reimbursing the TJF. Although it is impossible to ascertain the ultimate legal liability with respect to contingent liabilities, OPM believes that the outcome of this litigation, either pending or known to be threatened, will not have a material adverse effect on OPM's financial position or results of operations.

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, either pending or known to be threatened, will have no material adverse effect on OPM's financial position or results of operations.

Note 12—Earmarked Funds

Funds' Purpose. Effective October 1, 2005, OPM adopted OMB Circular No. A-136, *Financial Reporting Requirements,* and the provisions of SFFAS No. 27—*Identifying and Reporting Earmarked Funds*. In accordance with SFFAS No. 27, OPM reported earmarked nonexchange revenue and other financing sources, including appropriations, and net cost of operations separately on the fiscal year 2006 Statement of Changes in Net Position and on the fiscal year 2006 Balance Sheet, and disclosed in the notes to the financial statements a description of the purpose of earmarked funds, accounting and reporting of the funds, sources of revenue or other financing and an explanation of the extent to which they are inflows of resources to the Government or the results of intragovernmental flows, authority to use revenues and other financing sources of the funds, changes in legislation significantly impacting the funds and condensed financial information for earmarked funds. In accordance with the Federal accounting and reporting standards, OPM did not apply the provisions of SFFAS No. 27 to the fiscal year 2005 statements and note disclosures and therefore, the fiscal year 2005 balance sheet, statement of changes in net position, and earmarked fund note disclosure are not comparable to the fiscal year 2006 balance sheet, statement of changes in net position, and earmarked funds note disclosure. The funds related to the operation of the Retirement Program, the Health Benefits Program, and the Life Insurance Program are "earmarked funds," as defined by SFFAS No. 27—*Identifying and Reporting Earmarked Funds*.

The statutory authority for OPM's earmarked funds can be found in Title 5, United States Code; Chapters 83 and 84 provide a complete description of the Civil Service Retirement and Disability Fund's provisions; Chapter 89, provides a complete description of the Employees Health Benefits Fund and the Retired Employees Health Benefits Fund provisions; and Chapter 87 provides a complete description of the Employees Group Life Insurance Fund provisions.

There have been no changes in legislation during or subsequent to the reporting period and before the issuance of the financial statements that significantly changes the purpose of the fund or that redirects a material portion of the accumulated balance.

The condensed version of the individual Programs' Balance Sheet follows:

September 30, 2006	Retirement Program	Health Benefits Program	Life Insurance Program	Total
ASSETS				
Fund Balance with Treasury	$17	$850	$6	$873
Investments	699,089	14,883	31,369	745,341
Accounts Receivable	985	1,129	126	2,240
Other Assets	-	47	590	637
Total Assets	*$700,091*	*$16,909*	*$32,091*	*$749,091*
LIABILITIES and NET POSITION				
Intragovernmental	$3	$254	-	$257
Benefits Due & Payable	4,545	3,527	$686	8,758
Pension Liability	1,286,600	-	-	1,286,600
Postretirement Health Benefits Liability	-	286,279	-	286,279
Actuarial Life				
Insurance Liability	-	-	33,556	33,556
Other Liabilities	585	341	-	926
Total Liabilities	*$1,291,733*	*$290,401*	*$34,242*	*$1,616,376*
Cumulative Results of Operations	(591,642)	(273,492)	(2,151)	($867,285)
Total Liabilities and Net Position	*$700,091*	*$16,909*	*$32,091*	*$749,091*

Sources of Revenue or Other Financing Sources. The following describes the sources of revenue and other financing sources for OPM's earmarked funds. Earmarked funds' revenues represent both inflows of resources to the Government (contributions by participants) as well as intragovernmental flows (contributions by employing agencies). Both CSRS participants and their employing agencies are required by statute to make contributions to CSRS coverage. Since the combined 14.0 percent of pay does not cover the service cost of a CSRS benefit, to lessen the shortfall, the Treasury is required by statute to transfer an amount annually from the General Fund of the United States to the CSRDF. Both FERS participants and their employing agencies are required by statute to make contributions for FERS coverage. The Health Benefits Program is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions on approximately a one-quarter to three-quarters basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation). The Life Insurance Program is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation).

A condensed version of the individual Programs' Statement of Net Cost follows:

September 30, 2006	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Gross Program Costs	$129,589	$35,945	$3,515	$169,049
Less Earned Revenues	58,785	25,269	3,729	87,783
Net Program Costs	70,804	10,676	(214)	81,266
Less Earned Revenues Not Attributable to Program Costs	-	-	1	1
Net Cost of Operations	*$70,804*	*$10,676*	*($215)*	*$81,265*

The condensed version of the individual Programs' Statement of Changes in Net Position follows:

September 30, 2006	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Net Position Beginning of Period	($549,022)	($271,183)	($2,407)	($822,612)
Budgetary Financing Sources:				
Appropriations Use	28,151	8,360	41	36,552
Other	33	-	-	33
Other Financing Sources	-	7	-	7
Net Cost of Operations	70,804	10,676	(215)	81,265
Change in Net Position	(42,620)	(2,309)	256	(44,673)
Net Position End of Period	($591,642)	($273,492)	($2,151)	($867,285)

Note 13—Transfer In from the Treasury General Fund

The U.S. Treasury General Fund transfers an amount annually to the OPM CSRDF to subsidize, in part the underfunding of the CSRDF. In fiscal year 2005, OPM presented this transfer-in as direct financing of the CSRDF on the Statement of Budgetary Resources. Effective October 1, 2005, OPM changed its accounting of this transfer-in based on guidance provided by the OMB to present the transfer-in from the Treasury General Fund, obligation, and disbursement of the funds to the CSRDF on the fiscal year 2006 Statement of Budgetary Resources. The impact of this change in accounting on the Retirement Program in the fiscal year 2006 Statement of Budgetary Resources is demonstrated by the addition of the Retirement Feeder column, as presented below:

Retirement Program Statement of Budgetary Resources for the Period Ended September 30, 2006	Retirement Fund	Retirement Feeder	Total Retirement Program
Budgetary Authority			
Appropriations Received	0	$28,151	$28,151
Appropriated Trust Fund Receipts	$87,164	–	87,164
Subtotal	87,164	28,151	115,315
Temporarily not Available Pursuant to Public Law	(28,903)	–	(28,903)
Total Budgetary Resources	$58,261	$28,151	$86,412
Status of Budgetary Resources			
Obligations Incurred - Direct	$58,261	$28,151	$86,412
Total, Status of Budgetary Resources	$58,261	$28,151	$86,412
Change in Obligated Balance			
Obligated Balance, Net			
Unpaid Obligations, Brought Forward, October 1	$4,851	–	$4,851
Obligations Incurred	58,261	$28,151	86,412
Less: Gross Outlays	57,983	28,151	86,134
Obligated Balance, Net End of Period			
Unpaid Obligations	5,129	–	5,129
Total Unpaid Obligated Balance, Net	5,129	–	5,129
Net Outlays			
Gross Outlays	$57,983	$28,151	$86,134
Less: Distributed Offsetting Receipts	28,184	0	28,184
Net Outlays	$29,799	$28,151	$57,950

This change in accounting also impacts corresponding lines on the fiscal year 2006 Statements of Changes in Net Position and Financing. The change in accounting was made to eliminate the note disclosure of the differences between the fiscal year 2006 Statement of Budgetary Resources and the fiscal year 2006 Budget of the U.S. Government (the "President's Budget") related to this transfer in.

Note 14—Comparison of Combined Statements of Budgetary Resources to the President's Budget

OPM reports information about budgetary resources on the accompanying Combined Statements of Budgetary Resources and for presentation in the "President's Budget." The President's Budget for fiscal year 2008, which will contain budgetary resources information for fiscal year 2006, will be published in February 2007. The President's Budget for fiscal year 2007, which contains budgetary resource information for fiscal year 2005, was released on February 3, 2006.

As shown below, OPM has reconciled its total budgetary resources, obligations incurred, and net outlays, as presented in the accompanying Combined Statement of Budgetary Resources, with the amounts presented in the President's Budget for fiscal year 2005:

	Statement of Budgetary Resources	President's Budget	Difference
Combined:			
Total budgetary resources	$135,149	$160,801	$(25,652)
Obligations incurred	95,866	121,518	(25,652)
Disbursements	95,387	121,039	(25,652)
Retirement Program:			
Total budgetary resources	$55,042	$80,694	$(25,652)
Obligations incurred	55,042	80,694	(25,652)
Disbursements	54,790	80,442	(25,652)

The $25,652 difference in total budgetary resources, obligations incurred and disbursements between the accompanying Combined Statement of Budgetary Resources and the President's Budget is associated with the presentation of the Transfer-in from the General Fund [the "transfer"]. The President's Budget reflects the transfer as a separate appropriation, including it in the budgetary resources, obligations incurred and disbursements of the separate appropriations as well as the CSRDF. The accompanying fiscal year 2005 Combined Statement of Budgetary Resources, on the other hand, reflects the transfer as direct financing of the CSRDF and, thus, includes it as budgetary resources, obligations incurred, and disbursements of the CSRDF *only*. In fiscal year 2006, OPM made a change in the accounting of this transfer-in from the Treasury General Fund on the Statement of Budgetary Resources based on guidance provided by the OMB (see Note 13). The effect of this change in presentation will eliminate the differences noted above between the fiscal year 2008 President's Budget and the fiscal year 2006 Combined Statement of Budgetary Resources.

Note 15—Net Cost By Strategic Objectives

The following chart summarizes OPM's Strategic Objectives for fiscal years 2006–2010:

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

The following table presents a cross-walk of OPM's net cost by responsibility segment to its net cost by strategic objective for fiscal year 2006. Total costs for this table were allocated based on the distribution of budgetary resources.

Strategic Objectives 2006		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
Objective A:	Total program cost	–	–	–	–	$19	$19
	Less earned revenue	–	–	–	–	11	11
	Net program cost	–	–	–	–	$8	$8
Objective B:	Total program cost	$56,325	$21,910	$21,701	$2,122	$90	$102,148
	Less earned revenue	18,557	16,933	15,255	2,252	82	53,079
	Net program cost	$37,768	$4,977	$6,446	($130)	$8	$49,069
Objective C:	Less earned revenue	–	–	–	–	$146	$146
	Net program cost	–	–	–	–	132	132
	Net program cost	–	–	–	–	$14	$14
Objective D:	Total program cost	–	–	–	–	$84	$84
	Less earned revenue	–	–	–	–	49	49
	Net program cost	–	–	–	–	$35	$35
Objective E:	Total program cost	$36,971	$14,383	$14,244	$1,393	$691	$67,682
	Less earned revenue	12,180	11,115	10,014	1,478	612	35,399
	Net program cost	$24,791	$3,268	$4,231	($86)	$79	$32,283
Objective F:[1]	Total program cost	–	–	–	–	–	–
	Less earned revenue	–	–	–	–	–	–
	Net program cost	–	–	–	–	–	–
Objective G:	Total program cost	–	–	–	–	$10	$10
	Less earned revenue	–	–	–	–	6	6
	Net program cost	–	–	–	–	$4	$4
Total	Total program cost	$93,296	$36,293	$35,945	$ 3,515	$1,040	$170,089
	Less earned revenue	30,737	28,048	25,269	3,730	892	88,676
	Net program cost	$62,559	$8,245	$10,676	($215)	$148	$81,413

[1] The amount expended in fiscal year 2006 was under the rounding threshold for this report.

The following chart summarizes OPM's Strategic Goals for fiscal year 2005:

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.
Management Strategy	OPM creates an environment that fosters the delivery of services to its customers and employees through effective communication and management of human capital, technology, financial resources, and business processes.

The following table presents a cross-walk of OPM's net cost by responsibility segment to its net cost by strategic goals for fiscal year 2005:

Strategic Goals 2005		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
I	Total program cost	–	–	–	–	$34	$34
	Less earned revenue	–	–	–	–	19	19
	Net program cost	–	–	–	–	$15	$15
II	Total program cost	–	–	–	–	$42	$42
	Less earned revenue	–	–	–	–	24	24
	Net program cost	–	–	–	–	$18	$18
III	Total program cost	$68,461	$26,629	$49,766	$ 3,585	$649	$149,090
	Less earned revenue	31,493	26,371	23,622	3,558	553	85,597
	Net program cost	$36,968	$258	$26,144	$27	$96	$63,493
Management Strategy	Total program cost	–	–	–	–	$164	$164
	Less earned revenue	–	–	–	–	92	92
	Net program cost	–	–	–	–	$72	$72
Total	Total program cost	$68,461	$26,629	$49,766	$ 3,585	$890	$149,331
	Less earned revenue	31,493	26,371	23,622	3,558	688	85,732
	Net program cost	$36,968	$258	$26,144	$27	$202	$63,599

Note 16—Undelivered Orders at the End of the Period

Beginning with FY 2006, the format of the Statement of Budgetary Resources changed and the amount of Undelivered Orders at the end of the period is no longer reported on the face of the statement. To comply with SFFAS No. 7, paragraph 79 (a), the amount of budgetary resources obligated for undelivered orders at the end of fiscal year 2006 and fiscal year 2005 is as follows:

Undelivered Orders	Revolving Fund Programs	Salaries & Expenses	Total
FY 2006	$328	$75	$403
FY 2005	$81	$71	$152

Consolidating Financial Statements

Schedule 1

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2006
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elimina-tions	2006
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$17	$850	$6	$295	$86	–	$1,254
Investments [Note 3]	699,089	14,883	31,369	–	–	–	745,341
Accounts Receivable [Note 4]	708	532	16	131	9	($5)	1,391
Total Intragovernmental	699,814	16,265	31,391	426	95	(5)	747,986
Accounts Receivable from the Public, Net [Note 4]	277	597	110	105	1	–	1,090
General Property and Equipment, Net	–	–	–	10	2	–	12
Other [Note 1L]	–	47	590	–	–	–	637
TOTAL ASSETS	$700,091	$16,909	$32,091	$541	$98	($5)	$749,725

Schedule 1 — continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2006
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elimina-tions	2006
LIABILITIES							
Intragovernmental	$3	$254	–	$407	$3	($5)	$662
Federal Employee Benefits:							
Benefits Due and Payable	4,545	3,527	686	–	–	–	8,758
Pension Liability [Note 5A]	1,286,600	–	–	–	–	–	1,286,600
Postretirement Health Benefits Liability [Note 5B]	–	286,279	–	–	–	–	286,279
Actuarial Life Insurance Liability [Note 5C]	–	–	33,556	–	–	–	33,556
Total Federal Employee Benefits	1,291,145	289,806	34,242	–	–	–	1,615,193
Other [Notes 6 and 11]	585	341	–	77	47	–	1,050
Total Liabilities	1,291,733	290,401	34,242	484	50	(5)	1,616,905
NET POSITION							
Unexpended Appropriations - Other Funds	–	–	–	3	82	–	85
Cumulative Results of Operations - Earmarked Funds [Note 12]	(591,642)	(273,492)	(2,151)	–	–	–	(867,285)
Cumulative Results of Operations - Other Funds	–	–	–	54	(34)	–	20
Total Net Position	(591,642)	(273,492)	(2,151)	57	48	–	(867,180)
TOTAL LIABILITIES AND NET POSITION	$700,091	$16,909	$32,091	$541	$98	($5)	$749,725

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, 2005
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elimina-tions	2005
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$23	$829	$5	$233	$99	–	$1,189
Investments [Note 3]	669,717	12,606	29,727	–	–	–	712,050
Accounts Receivable [Note 4]	717	520	16	116	2	($5)	1,366
Total Intragovernmental	670,457	13,955	29,748	349	101	(5)	714,605
Accounts Receivable from the Public, Net [Note 4]	276	572	103	84	1	–	1,036
General Property and Equipment, Net	–	–	–	9	3	–	12
Other [Note 1L]	–	78	654	–	–	–	732
TOTAL ASSETS	$670,733	$14,605	$30,505	$442	$105	($5)	$716,385

Schedule 1 – continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2005
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elimina-tions	2005
LIABILITIES							
Intragovernmental	$3	$249	–	$331	$8	($5)	$586
Federal Employee Benefits:							
Benefits Due and Payable	4,323	3,600	649	–	–	–	8,572
Pension Liability [Note 5A]	1,214,900	–	–	–	–	–	1,214,900
Postretirement Health Benefits Liability [Note 5B]	–	281,558	–	–	–	–	281,558
Actuarial Life Insurance Liability [Note 5C]	–	–	32,263	–	–	–	32,263
Total Federal Employee Benefits	1,219,223	285,158	32,912	–	–	–	1,537,293
Other [Notes 6 and 11]	529	381	–	76	39	–	1,025
Total Liabilities	1,219,755	285,788	32,912	407	47	(5)	1,538,904
NET POSITION							
Unexpended Appropriations	–	–	–	5	77	–	82
Cumulative Results of Operations	(549,022)	(271,183)	(2,407)	30	(19)	–	(822,601)
Total Net Position	(549,022)	(271,183)	(2,407)	35	58	–	(822,519)
TOTAL LIABILITIES AND NET POSITION	$670,733	$14,605	$30,505	$442	$105	($5)	$716,385

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

Schedule 2

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2006
(In Millions)

	Retirement Program			Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elimina-tions	2006
	CSRS	FERS	Total						
GROSS COSTS									
Intragovernmental [Note 1D]	–	–	–	–	–	$146	$223	($263)	$106
With the Public:									
Pension Expense [Note 5A]	$93,296	$36,293	$129,589	–	–	–	–	–	129,589
Postretirement Health Benefits [Note 5B]	–	–	–	$15,817	–	–	–	–	15,817
Future Life Insurance Benefits [Note 5C]	–	–	–	–	$1,293	–	–	–	1,293
Current Benefits and Premiums	–	–	–	19,305	2,220	–	–	–	21,525
Other	–	–	–	823	2	808	126	–	1,759
Total Gross Costs with the Public	93,296	36,293	129,589	35,945	3,515	808	126	–	169,983
Total Gross Costs	93,296	36,293	129,589	35,945	3,515	954	349	(263)	170,089
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	4,114	14,118	18,232	15,568	437	–	–	–	34,237
Earnings on Investments	23,715	12,903	36,618	589	1,205	–	–	–	38,412
Other	–	–	–	–	–	954	199	(263)	890
Total Intragovernmental Earned Revenue	27,829	27,021	54,850	16,157	1,642	954	199	(263)	73,539
With the Public:									
Participant Contributions	2,908	1,027	3,935	9,112	2,087	–	–	–	15,134
Other	–	–	–	–	1	2	–	–	3
Total Earned Revenue with the Public	2,908	1,027	3,935	9,112	2,088	2	–	–	15,137
Total Earned Revenue	30,737	28,048	58,785	25,269	3,730	956	199	(263)	88,676
Net Cost of Operations	$62,559	$8,245	$70,804	$10,676	($215)	($2)	$150	–	$81,413

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, 2005
(In Millions)

	Retirement Program			Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elimina-tions	2005
	CSRS	FERS	Total						
GROSS COSTS									
Intragovernmental [Note 1D]	–	–	–	–	–	$139	$229	($232)	$136
With the Public:									
Pension Expense [Note 5A]	$68,461	$26,629	$95,090	–	–	–	–	–	95,090
Postretirement Health Benefits [Note 5B]	–	–	–	$30,561	–	–	–	–	30,561
Future Life Insurance Benefits [Note 5C]	–	–	–	–	$1,433	–	–	–	1,433
Current Benefits and Premiums	–	–	–	18,377	2,150	–	–	–	20,527
Other	–	–	–	828	2	634	120	–	1,584
Total Gross Costs with the Public	68,461	26,629	95,090	49,766	3,585	634	120	–	149,195
Total Gross Costs	68,461	26,629	95,090	49,766	3,585	773	349	(232)	149,331
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	4,379	13,154	17,533	14,794	419	–	–	–	32,746
Earnings on Investments	24,002	12,259	36,261	380	1,232	–	–	–	37,873
Other	–	–	–	–	–	724	195	(232)	687
Total Intragovernmental Earned Revenue	28,381	25,413	53,794	15,174	1,651	724	195	(232)	71,306
With the Public:									
Participant Contributions	3,112	958	4,070	8,448	1,906	–	–	–	14,424
Other	–	–	–	–	1	1	–	–	2
Total Earned Revenue with the Public	3,112	958	4,070	8,448	1,907	1	–	–	14,426
Total Earned Revenue	31,493	26,371	57,864	23,622	3,558	725	195	(232)	85,732
Net Cost of Operations	$36,968	$258	$37,226	$26,144	$27	$48	$154	–	$63,599

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

Schedule 3

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2006
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Total Earmarked Funds	Revolving Fund Programs	Salaries and Expenses	Total All Other Funds	2006
CUMULATIVE RESULTS OF OPERATIONS								
Beginning Balance	($549,022)	($271,183)	($2,407)	($822,612)	$30	($19)	$11	($822,601)
Budgetary Financing Sources:								
Appropriations Used [Note 13]	28,151	8,360	41	36,552	2	122	124	36,676
Other	33	-	-	33	-	-	-	33
Other Financing Sources	0	7	-	7	20	13	33	40
Total Financing Sources	28,184	8,367	41	36,592	22	135	157	36,749
Net Cost of Operations	70,804	10,676	(215)	81,265	(2)	150	148	81,413
Net Change	(42,620)	(2,309)	256	(44,673)	24	(15)	9	(44,664)
Cumulative Results of Operations	($591,642)	($273,492)	($2,151)	($867,285)	$54	($34)	$20	($867,265)
UNEXPENDED APPROPRIATIONS								
Beginning Balance	-	-	-	-	$5	$77	$82	$82
Budgetary Financing Sources:								
Appropriations Received [Note 13]	$28,151	$8,674	$42	$36,867	0	124	124	36,991
Appropriations Used [Note 13]	(28,151)	(8,360)	(41)	(36,552)	(2)	(122)	(124)	(36,676)
Other Budgetary Financing Sources	-	(314)	(1)	(315)	-	3	3	(312)
Total Budgetary Financing Sources	-	-	-	-	(2)	5	3	3
Total Unexpended Appropriations	-	-	-	-	$3	$82	$85	$85
NET POSITION, END OF THE YEAR	($591,642)	($273,492)	($2,151)	($867,285)	$57	$48	$105	($867,180)

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

Schedule 3 — continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2005
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2005
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	($537,448)	($252,979)	($2,418)	$31	0	($792,814)
Budgetary Financing Sources:						
Appropriations Used	-	7,889	38	20	$123	8,070
Transfers-in Without Reimbursement	-	-	-	6	-	6
Other	34	-	-	-	-	34
Other Financing Sources						
Transfers-in from the General Fund [Note 13]	25,618	-	-	-	-	25,618
Other	0	51	-	21	12	84
Total Financing Sources	25,652	7,940	38	47	135	33,812
Net Cost of Operations	37,226	26,144	27	48	154	63,599
Net Change	(11,574)	(18,204)	11	(1)	(19)	(29,787)
Cumulative Results of Operations	($549,022)	($271,183)	($2,407)	$30	($19)	($822,601)
UNEXPENDED APPROPRIATIONS						
Beginning Balance	-	-	-	-	$49	$49
Budgetary Financing Sources:						
Appropriations Received	-	$7,831	$36	25	127	8,019
Appropriations Used	-	(7,889)	(38)	(20)	(123)	(8,070)
Other Budgetary Financing Sources	-	58	2	-	24	84
Total Budgetary Financing Sources	-	-	-	5	28	33
Total Unexpended Appropriations	-	-	-	$5	$77	$82
NET POSITION, END OF THE YEAR	($549,022)	($271,183)	($2,407)	$35	$58	($822,519)

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

Schedule 4

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2006
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2006
BUDGETARY RESOURCES						
Unobligated Balance–Brought Forward, October 1	–	$10,116	$28,717	$349	$101	$39,283
Recoveries of Prior-Year Obligations	–	–	–	10	6	16
Budgetary Authority:						
Appropriations:						
Received [Note 13]	$28,151	8,674	42	0	124	36,991
Other	–	(314)	(1)	–	(5)	(320)
Appropriated Trust Fund Receipts	87,164	–	–	–	–	87,164
Spending Authority from Offsetting Collections:						
Collected	–	33,549	3,855	1,021	196	38,621
Changes in Receivables from Federal Sources and Unfilled Customer Orders Without Advance	–	47	35	242	10	334
Subtotal	–	33,596	3,890	1,263	206	38,955
Temporarily not Available Pursuant to Public Law	(28,903)	–	–	–	–	(28,903)
Total Budgetary Resources	$86,412	$52,072	$32,648	$1,622	$432	$173,186
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred: [Note 9 and 13]						
Direct	$86,412	$39,540	$2,199	0	$268	$128,419
Reimbursable	–	–	–	$1,215	74	1,289
Subtotal	86,412	39,540	2,199	1,215	342	129,708
Unobligated Balance:						
Apportioned	–	–	–	265	57	322
Unobligated Balance Not Available	–	12,532	30,449	142	33	43,156
Total Status of Budgetary Resources	$86,412	$52,072	$32,648	$1,622	$432	$173,186

Schedule 4 — continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2006
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2006
CHANGE IN OBLIGATED BALANCE						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	$4,851	$4,607	$653	$132	$89	$10,332
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	–	1,388	315	248	91	2,042
Total Unpaid Obligated Balance, Net	4,851	3,219	338	(116)	(2)	8,290
Obligations Incurred [Note 13]	86,412	39,540	2,199	1,215	342	129,708
Less: Gross Outlays [Note 13]	86,134	39,623	2,161	959	329	129,206
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	–	–	–	10	6	16
Changes in Uncollected Customer Payments from Federal Sources	–	47	35	242	10	334
Obligated Balance, Net End of the Period						
Unpaid Obligations	5,129	4,524	691	378	96	10,818
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	–	1,435	350	490	101	2,376
Total Unpaid Obligated Balance, Net	5,129	3,089	341	(112)	(5)	8,442
NET OUTLAYS						
Net Outlays:						
Gross Outlays [Note 13]	86,134	39,623	2,161	959	329	129,206
Less Offsetting Collections	–	33,549	3,855	1,021	196	38,621
Less: Distributed Offsetting Receipts	28,184	–	–	–	–	28,184
Net Outlays	$57,950	$6,074	($1,694)	($62)	$133	$62,401

Schedule 4 — continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2005
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2005
BUDGETARY RESOURCES						
Unobligated Balance - Brought Forward, October 1	–	$8,408	$27,370	$242	$63	$36,083
Recoveries of Prior-Year Obligations	–	–	–	33	1	34
Budgetary Authority:						
Appropriations:						
Received		7,831	36	25	127	8,019
Other	–	58	2	0	(2)	58
Appropriated Trust Fund Receipts	83,691	–	–	–	–	83,691
Spending Authority from Offsetting Collections:						
Collected	–	31,307	3,516	819	199	35,841
Changes in Receivables from Federal Sources and Unfilled Customer Orders Without Advance	–	158	(5)	(129)	42	66
Subtotal	–	31,465	3,511	690	241	35,907
Nonexpenditure Transfers, Net Actual	–	–	–	6	–	6
Temporarily not Available Pursuant to Public Law	(28,649)	–	–	–	–	(28,649)
Total Budgetary Resources	$55,042	$47,762	$30,919	$996	$430	$135,149
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred: [Note 9]						
Direct	$55,042	$37,646	$2,202	25	$267	$95,182
Reimbursable	–	–	–	622	62	684
Subtotal	55,042	37,646	2,202	647	329	95,866
Unobligated Balance:						
Apportioned	–	–	–	70	56	126
Unobligated Balance Not Available	–	10,116	28,717	279	45	39,157
Total Status of Budgetary Resources	$55,042	$47,762	$30,919	$996	$430	$135,149

Schedule 4 — continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2005
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2005
CHANGE IN OBLIGATED BALANCE						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	$4,599	$4,340	$634	$212	$100	$9,885
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	–	1,230	320	377	57	1,984
Total Unpaid Obligated Balance, Net	4,599	3,110	314	(165)	43	7,901
Obligations Incurred	55,042	37,646	2,202	647	329	95,866
Less: Gross Outlays	54,790	37,379	2,183	704	331	95,387
Obligated Balance Transferred, Net	–	–	–	10	–	10
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	–	–	–	33	1	34
Changes in Uncollected Customer Payments from Federal Sources	–	158	(5)	(129)	42	66
Obligated Balance, Net End of the Period						
Unpaid Obligations	4,851	4,607	653	132	89	10,332
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	–	1,388	315	248	91	2,042
Total Unpaid Obligated Balance, Net	4,851	3,219	338	(116)	(2)	8,290
NET OUTLAYS						
Net Outlays:						
Gross Outlays	54,790	37,379	2,183	704	331	95,387
Less Offsetting Collections	–	31,307	3,516	819	199	35,841
Less: Distributed Offsetting Receipts	25,652	–	–	–	–	25,652
Net Outlays	$29,138	$6,072	($1,333)	($115)	$132	$33,894

Schedule 5

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF FINANCING
For the Year Ended September 30, 2006
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2006
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$86,412	$39,540	$2,199	$1,215	$342	$129,708
Less: Spending Authority from Offsetting Collections and Recoveries	_	33,596	3,890	1,273	212	38,971
Less: Appropriated Trust Fund Receipts	87,164	_	_	_	_	87,164
Obligations Net of Offsetting Collections and Recoveries	(752)	5,944	(1,691)	(58)	130	3,573
Less: Offsetting Receipts	28,184	_	_	_	_	28,184
Net Obligations	(28,936)	5,944	(1,691)	(58)	130	(24,611)
Other Resources	_	7	_	20	13	40
Total Resources Used to Finance Activities	(28,936)	5,951	(1,691)	(38)	143	(24,571)
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-in from General Fund [Note 13]	28,151	_	_	_	_	28,151
Other	66	26	190	32	(4)	310
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	28,217	26	190	32	(4)	28,461
Total Resources Used to Finance the Net Cost of Operations	(719)	5,977	(1,501)	(6)	139	3,890
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	71,700	4,721	1,293	_	_	77,714
Exchange Revenue not in the Budget	(168)	(30)	(7)	1	_	(204)
Total Components of Net Cost of Operations that Will Require *or Generate Resources in Future Period*	71,532	4,691	1,286	1	_	77,510
Components not Requiring or Generating Resources						
Other	(9)	8	_	3	11	13
Total Components of Net Cost of Operations that Will Not Require *or Generate Resources*	(9)	8	_	3	11	13
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	71,523	4,699	1,286	4	11	77,523
NET COST OF OPERATIONS	$70,804	$10,676	($215)	($2)	$150	$81,413

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

Schedule 5 — continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF FINANCING
For the Year Ended September 30, 2005
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2005
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$55,042	$37,646	$2,202	$647	$329	$95,866
Less: Spending Authority from Offsetting Collections and Recoveries	_	31,465	3,511	723	242	35,941
Less: Appropriated Trust Fund Receipts	83,691	_	_	_	_	83,691
Obligations Net of Offsetting Collections and Recoveries	(28,649)	6,181	(1,309)	(76)	87	(23,766)
Less: Offsetting Receipts	25,652	_	_	_	_	25,652
Net Obligations	(2,997)	6,181	(1,309)	(76)	87	1,886
Other Resources	_	51	_	21	12	84
Total Resources Used to Finance Activities	(2,997)	6,232	(1,309)	(55)	99	1,970
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Other	0	(85)	(85)	100	36	(34)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	0	(85)	(85)	100	36	(34)
Total Resources Used to Finance the Net Cost of Operations	(2,997)	6,147	(1,394)	45	135	1,936
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components of Net Cost of Operations that Will Require or Generate Resources *in Future Periods*						
Increase in Actuarial Liabilities	40,400	20,002	1,433	_	_	61,835
Exchange Revenue not in the Budget	(170)	(44)	(12)	1	_	(225)
Total Components of Net Cost of Operations that Will Require or Generate Resources in the Future Period	40,230	19,958	1,421	1	_	61,610
Components not Requiring or Generating Resources			_			
Other	(7)	39	_	2	19	53
Total Components of Net Cost of Operations that Will Not Require Or Generate Resources	(7)	39	_	2	19	53
Total Components of Net Cost of Operations that Will Not Require or Generate Resource in the Current Period	40,223	19,997	1,421	3	19	61,663
NET COST OF OPERATIONS	$37,226	$26,144	$27	$48	$154	$63,599

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

Schedule 6

U.S. OFFICE OF PERSONNEL MANAGEMENT
RETIREMENT PROGRAM
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2006
(In Millions)

	Retirement Fund	Retirement Feeder	Elimination	Total Retirement Program Earmarked
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance	($549,022)	–	–	($549,022)
Budgetary Financing Sources:				
Appropriation Used	–	$28,151	–	28,151
Transfer in Without Reimbursements	28,151		($28,151)	0
Transfer Out Without Reimbursements		(28,151)	28,151	0
Other Financing Sources	33	–	–	33
Total Financing Sources	28,184	–	–	28,184
Net cost of Operations	70,804	–	–	70,804
Net Change	(42,620)	–	–	(42,620)
Ending Balance	($591,642)	–	–	($591,642)
UNEXPENDED APPROPRIATIONS				
Budgetary Financing Sources:				
Appropriations Received	–	$28,151	–	$28,151
Appropriations Used	–	(28,151)	–	(28,151)
Total Financing Sources	–	–	–	–
Ending *Balance*	–	–	–	–
NET POSITION, END OF THE YEAR	($591,642)	–	–	($591,642)

Schedule 7

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
Retirement Program
For the Year Ended September 30, 2006
(In Millions)

	Retirement Fund	Retirement Feeder	2006 Combining
BUDGETARY RESOURCES			
Budgetary Authority:			
Appropriations: Received	–	$28,151	$28,151
Appropriated Trust Fund Receipts	$87,164	–	87,164
Subtotal	87,164	28,151	115,315
Temporarily Not Available Pursuant to Public Law	(28,903)	–	(28,903)
Total Budgetary Resources	$58,261	$28,151	$86,412
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred:			
Direct	$58,261	$28,151	$86,412
Total, Status of Budgetary Resources	$58,261	$28,151	$86,412
CHANGE IN OBLIGATED BALANCE			
Obligated Balance, Net			
Unpaid Obligations, Brought Forward, October 1	$4,851	–	$4,851
Total Unpaid Obligated Balance, Net	4,851	–	4,851
Obligations Incurred	58,261	$28,151	86,412
Less: Gross Outlays	57,983	28,151	86,134
Obligated Balance, Net End of Period			
Unpaid Obligations, Brought Forward, October 1	5,129	–	5,129
Total Unpaid Obligated Balance, Net	5,129	–	5,129
NET OUTLAYS			
Net Outlays:			
Gross Outlays	57,983	28,151	86,134
Less: Distributed Offsetting Receipts	28,184	–	28,184
Net Outlays	$29,799	$28,151	$57,950

Required Supplemental Information

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
for the Year Ended September 30, 2006
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2006
BUDGETARY RESOURCES							
Unobligated Balance–Brought Forward, October 1	–	$10,116	$28,717	$349	$101	–	$39,283
Recoveries of Prior_Year Obligations	–	–	–	10	6	–	16
Budgetary Authority							
Appropriations:							
Received [Note 13]	–	–	–	0	124	$36,867	$36,991
Other	–			–	(5)	(315)	(320)
Appropriated Trust Fund Receipts	87,164	–	–	–	–	–	87,164
Spending Authority from Offsetting Collections:							
Collected	–	33,549	3,855	1,021	196	–	38,621
Changes in Receivables from Federal Sources and Unfilled Customer Orders	–	47	35	242	10	–	334
Subtotal	–	33,596	3,890	1,263	206	–	38,955
Temporarily not Available Pursuant to Public Law	(28,903)	–	–	–	–	–	(28,903)
Total Budgetary Resources	$58,261	$43,712	$32,607	$1,622	$432	$36,552	$173,186
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred: [Note 13]							
Direct	$58,261	$31,180	$2,158	–	$268	$36,552	$128,419
Reimbursable	–	–	–	$1,215	74	–	1,289
Subtotal	58,261	31,180	2,158	1,215	342	36,552	129,708
Unobligated Balance:							
Available	–	–	–	265	57	–	322
Not available	–	12,532	30,449	142	33	–	43,156
Subtotal	–	12,532	30,449	407	90	–	43,478
Total, Status of Budgetary Resources	$58,261	$43,712	$32,607	$1,622	$432	$36,552	$173,186

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

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
for the Year Ended September 30, 2006 (Continued)
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2006
CHANGE IN OBLIGATED BALANCE							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward, October 1	$4,851	$3,781	$649	$132	$89	$830	$10,332
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	–	1,388	315	248	91	–	2,042
Total Unpaid Obligated Balance, Net	4,851	2,393	334	(116)	(2)	830	8,290
Obligations Incurred [Note 13]	58,261	31,180	2,158	1,215	342	36,552	129,708
Less: Gross Outlays [Note 13]	57,983	31,284	2,121	959	329	36,530	129,206
Less: Recoveries of Prior Year Unpaid Obligations, Actual	–	–	–	10	6	–	16
Changes in Receivables from Federal Sourcesand Unfilled Customer Orders	–	47	35	242	10	–	334
Obligated Balance, Net–End of the Period							
Unpaid Obligations	5,129	3,677	686	378	96	852	10,818
Less: Uncollected customer Payments from Federal Sources, Brought Forward, October 1	–	1,435	350	490	101	–	2,376
Total Unpaid Obligated Balance, Net	5,129	2,242	336	(112)	(5)	852	8,442
NET OUTLAYS							
Net Outlays							
Gross Outlays [Note 13]	57,983	31,284	2,121	959	329	36,530	129,206
Less: Offsetting Collections	–	33,549	3,855	1,021	196	–	38,621
Less: Distributed Offsetting Receipts	28,184	–	–	–	–	–	28,184
Net Outlays	$29,799	($2,265)	($1,734)	($62)	$133	$36,530	$62,401

LEGEND:

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

Required Supplemental Information

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
for the Year Ended September 30, 2005
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2005
BUDGETARY RESOURCES							
Unobligated Balance - Brought Forward, October 1	–	$8,408	$27,370	$242	$63	–	$36,083
Recoveries of Prior-Year Obligations	–	–	–	33	1	–	34
Budgetary Authority							
Appropriations:							
Received	–	–	–	25	127	$7,867	8,019
Other	–			–	(2)	60	58
Appropriated Trust Fund Receipts	$83,691	–	–	–	–	–	83,691
Spending Authority from Offsetting Collections:							
Collected	–	31,307	3,516	819	199	–	35,841
Changes in Receivables from Federal Sources and Unfilled Customer Orders	–	158	(5)	(129)	42	–	66
Subtotal	–	31,465	3,511	690	241	–	35,907
Nonexpenditure Transfers, Net Actual	–	–	–	6	–	–	6
Temporarily not Available Pursuant to Public Law	(28,649)	–	–	–	–	–	(28,649)
Total Budgetary Resources	$55,042	$39,873	$30,881	$996	$430	$7,927	$135,149
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	$55,042	$29,757	$2,164	$25	$267	$7,927	$95,182
Reimbursable	–	–	–	622	62	–	684
Subtotal	55,042	29,757	2,164	647	329	7,927	95,866
Unobligated Balance:							
Available	–	–	–	70	56	–	126
Not available	–	10,116	28,717	279	45	–	39,157
Subtotal	–	10,116	28,717	349	101	–	39,283
Total, Status of Budgetary Resources	$55,042	$39,873	$30,881	$996	$430	$7,927	$135,149

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

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
for the Year Ended September 30, 2005 (Continued)
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2005
CHANGE IN OBLIGATED BALANCE							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward, October 1	$4,599	$3,580	$649	$212	$100	$764	$9,904
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	–	1,230	339	377	57	–	2,003
Total Unpaid Obligated Balance, Net	4,599	2,350	310	(165)	43	764	7,901
Obligations Incurred	55,042	29,757	2,164	647	329	7,927	95,866
Less: Gross Outlays	54,790	29,556	2,145	704	331	7,861	95,387
Obligated Balance Transferred, Net	–	–	–	10	–	–	10
Less: Recoveries of Prior Year Unpaid Obligations, Actual	–	–	–	33	1	–	34
Changes in Receivables from Federal Sources and Unfilled Customer Orders	–	158	(5)	(129)	42	–	66
Obligated Balance, Net–End of the Period							
Unpaid Obligations	4,851	3,781	649	132	89	830	10,332
Less: Uncollected customer Payments from Federal Sources, Brought Forward, October 1	–	1,388	315	248	91	–	2,042
Total Unpaid Obligated Balance, Net	4,851	2,393	334	(116)	(2)	830	8,290
NET OUTLAYS							
Net Outlays							
Gross Outlays	54,790	29,556	2,145	704	331	7,861	95,387
Less: Offsetting Collections	–	31,307	3,516	819	199	–	35,841
Less: Distributed Offsetting Receipts	25,652	–	–	–	–	–	25,652
Net Outlays	$29,138	($1,751)	($1,371)	($115)	$132	$7,861	$33,894

LEGEND:

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

Required Supplemental Information

challenges

Management Challenges

As required by the Reports Consolidation Act of 2000, on October 20, 2006, OPM's Office of the Inspector General identified and reported to the Director the most serious management challenges facing the agency. OIG's report highlighted the key challenges facing OPM management going into FY 2007, as well as noting areas of improvement.

Though all of the challenges identified by OIG and summarized in the following pages are critical to the mission of OPM, the OIG believes that the strategic management of human capital is especially critical given OPM's Governmentwide leadership role in this area. OIG identified the top management challenges because they meet one or more of the following criteria:

1) The issue involves an operation that is critical to OPM's core missions;
2) There is a significant risk of fraud, waste, or abuse of OPM or other government assets;
3) The issue involves significant strategic alliances with other agencies, OMB, the administration, Congress, or the public;
4) The issue is related to the Presidential Management Initiatives; or
5) The issue involves a legal or regulatory requirement not being met.

Below are written summaries of each of the challenges, including a description of the efforts of OPM management to resolve them. OIG developed this information through its independent analysis and follow-up discussions with senior agency managers so that the most current, complete and accurate characterization of the challenges could be presented. It should be noted that the Recruitment-One-Stop portion of the e-Gov challenges reported in the FY 2005 PAR has been removed due to the successful implementation of USAJOBS. In addition, one challenge, Protection of Personally Identifiable Information (PII), has been added in this year's report.

Human Resources Management

OPM, the Federal human resource management agency, establishes human resource policies that enable federal agencies to improve their ability to build a successful, high-performance organization. In addition, OPM provides advice to federal agencies and promotes best practice human resource solutions and strategies while monitoring the effectiveness of their implementation by federal agencies.

Given this leadership role, human resources management continues to be one of the top management challenges for OPM. It is essential to the success of any personnel system that it be merit-based, ensure fair and equitable treatment of employees and applicants, and that policies and procedures for implementing civil service systems allow for open and equal opportunity for compensation, training and development, and career advancement. Part of the task lies in educating federal managers about the human resource flexibilities available and monitoring the use of these flexibilities.

In August 2006, the Human Resources Products & Services' Center for Talent Services opened a Human Resources Consulting Program. The new organization, located at OPM's headquarters, offers such things as staff acquisition, HR strategy, and nationwide testing services on a cost-reimbursable basis in an effort to assist Federal agencies. OPM also plans to assist agencies by publishing eight human resources regulations; assisting agencies to ensure that their performance appraisal systems focus on goal achievement; and, setting guidelines for managerial development.

OPM continues to be confronted with assisting in the improvement of the personnel systems of both DHS and DoD while protecting the merit system principles, avoiding prohibited personnel practices, and allowing DHS and DoD to successfully achieve their missions of national security. OPM is expecting to produce its first implementation assessment by May 1, 2007 and has included it as a goal in the agency's *Strategic and Operational Plan*.

OPM's leadership role requires significant attention and resources. The following are some of the areas in which OPM is facing this challenge, and the progress being made by OPM to improve human capital management throughout the government:

- OPM is working on ways to effectively handle the potential loss of thousands of federal employees who are or will soon be of retirement age. OPM estimates that 60 percent of the federal government's workforce will be eligible to retire over the next 10 years. In addition, OPM is faced with the need to create a new work environment that takes into consideration the needs of the future workforce. In May 2006, OPM announced the launch of a major media campaign, consisting of four commercials, to highlight the diverse and exciting work available in the federal government and to highlight the government's USAJOBS website. The media launch is an effort by OPM to fill positions using a 21st Century hiring mindset and approach, in which prospective workers desire more diverse employment arrangements and seek employer-employee relationships that vary across many dimensions and are not limited to traditional career patterns.
- 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. OPM's impact on assisting agencies is demonstrated in the most recent scores for the human capital initiative under the Presidents Management Agenda, with 15 of 26 agencies receiving a status rating of Green and 11 of 26 receiving a status rating of Yellow as of June 30, 2006. No agencies received a Red status rating. This is an improvement from last year, when only 11 agencies had a status rating of Green.
- OPM published regulations and guidance dealing with the new Senior Executive Service (SES) pay-for-performance (PFP) system, although the Senior Professional System has received criticisms from the SES members it's supposed to serve. OPM also updated the Executive Core Qualifications and reported on the Senior Executive Service performance-based pay system. OPM will continue to report on SES performance-based pay system results each calendar year by December 12, 2006.

Background Investigations

OPM conducts background investigations for Federal agencies so they can make suitability and national security decisions regarding personnel. Since February 20, 2005, OPM has had responsibility for about 90 percent of all personnel background investigations for the Federal government. The Federal Investigative Services Division (FISD), headquartered in Boyers, Pennsylvania, supports over 100 Federal agencies with thousands of security offices worldwide. OPM is expected to process over 1.7 million investigations in 2006. In July of this year, OPM awarded contracts to five companies to perform background investigations on current and prospective federal employees, military personnel and contractors. In addition, OPM awarded a contract to USIS in July of this year to provide a range of administrative services in support of the investigations program. FISD is currently staffed with over 8600 contractors and employees and expects the staffing level to reach over 9000 by the end of calendar year 2006. OPM has been working closely with the Office of Management and Budget and other clearance granting agencies to improve the performance of its investigative program. A number of agencies involved in providing security clearances as well as OMB and OPM makeup the Security Clearance Oversight Steering Committee. This committee first met in August 2005 and is committed to improving the investigative work done by OPM. OPM's achievements in improving the background investigations program are noted below.

Personnel Security Clearance Process

Since the enactment of the Intelligence Reform and Terrorism Prevention Act of 2004 (IRTPA), the administration has taken steps to improve the security clearance process. Executive Order 13381 assigns OMB the responsibility for improving the security clearance process. OPM is charged with the day-to-day supervision and monitoring of the background investigations and clearance functions. This order was set to expire on July 1, 2006; however, the President extended the order by one year. The extension of the Executive Order reinforces the administration's commitment to improving the clearance process. However, challenges remain in order to meet the deadlines imposed by the IRTPA.

The first deadline, set for the end of December 2006, would require that 80 percent of initial background investigations for security clearances be completed within 90 days of receiving the necessary information. While OPM is improving the amount of time it takes to complete investigations for initial security clearances, it is still well short of the mandated 90 days. In April 2006, investigations supporting a Top Secret clearance averaged 171 days to process. In June 2005, these investigations averaged 284 days to process. Improvements in timeliness can be attributed to FISD's staffing increase and increased productivity of field agents. In addition, the increased use of electronic Questionnaires for Investigations Processing (e-QIP) has improved agency submission of investigation information. In June 2005, 27 agencies were using e-QIP with over 17,000 investigations requested electronically. In 2006, over 50 agencies are using e-QIP and over 221,000 investigations have been requested through this process.

Another deadline set for the end of December 2006 requires that 80 percent of adjudications be completed within 30 days of receipt of a completed background investigation. During the second quarter of 2006, agencies reported their investigative actions to OPM on approximately 39 percent of their investigations. Of those reported, agencies averaged 78 days to adjudicate their investigations, with only 9 percent done within 30 days of completion of the investigation. OPM is working with agencies to improve the time it takes to deliver completed investigations and report their adjudicative actions. One effort includes electronically transmitting the completed investigation to the adjudications facility and linking an agency's in-house record system to OPM's data base for electronic updating of their actions.

Reciprocity

The strain on the security clearance process would be diminished greatly if reciprocity was followed. Reciprocity means that for individuals transferring from one agency to another where a clearance of the same level is required, an agency may not: 1) request a new security questionnaire, 2) review existing background investigations, 3) review existing security questionnaires, and 4) initiate any new investigative checks. Narrow exceptions must be present in order for an agency to require additional investigative actions. Clay Johnson, Deputy Director of Management for OMB, issued a memorandum to agency heads on December 12, 2005 identifying factors inhibiting reciprocity and actions to be taken by agencies to address them. A follow-up memorandum was issued on July 17, 2006 addressing actions to further reciprocity with respect to special access programs (SAPs). OMB is working on ways to measure agency compliance with the reciprocity guidelines in order to hold them accountable for abiding by the new conditions under which reciprocity should be honored. Agencies are moving to adopt clearer conditions under which clearance reciprocity should be granted.

Challenges Remain

Agencies responsible for granting clearances will have an even bigger task when the government's aging workers begin to retire in large numbers. As much as 60 percent of the federal workforce could retire within the next decade. OPM is going to be very busy doing background investigations as the new hires come to work. One of the biggest difficulties facing FISD is accurate projections of workload. FISD has asked agencies to re-evaluate their workload projections for the remainder of FY 2006. Accurate workload projections are necessary to staff the investigative program responsibly. Based on changes in workload, FISD may need to increase Federal and contractor staff to keep pace with demand.

OPM must meet the mandates of the IRTPA—and the demand for investigations will increase as increasing numbers of the federal workforce retire over the next decade—making the mandates even harder to meet. Even so, OPM is making significant progress in improving the performance of the investigations and clearance program and with OMB's oversight, is committed to making security clearance reforms one if its biggest priorities.

Background Investigations Conducted for OPM Employees

Internal reviews at OPM in past years identified numerous concerns regarding the management of this program. The Center for Security and Emergency Actions (CSEA) spent a great deal of FY 2005 addressing and correcting the deficiencies. The OIG audited the background investigations process at OPM in 2004 and noted that some employees had been working at OPM without ever having a background investigation performed, while some had an investigation performed, but it was not correct for their position description and risk level. Per a CSEA representative, all of the required reinvestigations have been initiated; however, as of June 2006, they were still experiencing problems receiving completed background investigations paperwork from some employees. They are working with Employee Relations to take disciplinary action against those who have failed to submit necessary paperwork. OPM has also populated its position description database and continues to work with the Center for Human Capital Management Services (CHCMS) to ensure position descriptions are rated appropriately and populated in the database. CSEA has also updated its procedures manual as of April 2006 and sends out updates via email to the staff. OPM has improved the state of its internal personnel background investigations program and has developed internal procedures and policies to help improve controls over ensuring compliance with background investigations laws and regulations.

A new requirement last year was the Homeland Security Presidential Directive 12 (HSPD-12). OPM successfully developed a plan to address the requirements of the directive in compliance with the October 27, 2005 deadline. CSEA has developed procedures addressing the HSPD-12 requirements and has also developed a spreadsheet to track investigations for new hires for employees and contractors noting various dates throughout the investigative process, including the entry-on-duty (EOD) date. The EOD eligibility is not issued to OPM human resources until, at a minimum, the individual successfully completes all investigative paperwork and a favorable adjudication of the National Criminal History Check has been made. National Security positions require additional items to be completed and favorably adjudicated prior to the EOD eligibility being issued.

The second part of the HSPD-12 requires OPM to begin issuing and requiring the use of identity credentials for new employees and contractors by October 27, 2006. On September 29, 2006, OPM entered into a Memorandum of Understanding (MOU) with GSA for management and service support for personal identification verification (PIV) II compliant identity credentials through a shared service solution. This MOU provides for the issuance of at least one PIV compliant credential to a new employee or contractor by October 27, 2006. Funding was provided for the first 1,000+ cards to be produced over the ensuing months by GSA and its contractor.

Reducing the Time Required to Determine Full Annuity Payments

A letter sent to OPM Director Linda Springer in FY 2005 by several House members expressed their concern over delays in the determination of the full pension payment for new retirees. More specifically, the letter stated that "The discrepancy in their annuity can harmfully affect retirees' financial management plans and impair their ability to earn interest on accounts or investments, or in some cases even affect their ability to pay current living expenses."

Until retirement claims' processing is completed, OPM provides annuitants with interim payments averaging about 85 percent of the full annuity payment. Reasons for delays in processing retirement claims vary, but include increased processing times for retirees with more complicated work histories, incomplete documentation submissions and retirement laws and regulations. For example, if a retiree worked at several different agencies during his or her career, there is an increased likelihood that incomplete documentation submissions may occur and each agency must then be contacted to ensure that the retirees' records are complete to process payment. In addition, delays in processing retirement claims are the result of retirement laws and regulations which require that information be obtained from the Social Security Administration or Office of Workers Compensation Programs. Once the final annuity payment is determined, a lump-sum payment is made to the annuitant to cover the difference between the final annuity and the interim payments. No interest is payable by law on the lump sum difference paid.

Retirement claims have increased about 10 percent annually for several years and coupled with processing delays resulted in approximately 20,000 claims to be processed as of September 30, 2005. To address this issue OPM initiated a pilot program in FY 2006 that strives to eliminate interim payments for retirees of four agencies. Retirees from these agencies will receive their annuities on-time, the day it is due.

OPM also put together a plan to not only eliminate the backlog, but also to attempt to reduce the processing time of new claims received to an average of 30 days. The Center for Retirement and Insurance Services (CRIS) formed a project team to eliminate backlogged claims and process claims received in FY 2006 within 30 days.

During FY 2006, OPM received and processed more than 100,000 retirement claims with an average processing time of about 30 days.

The challenge still remains for OPM to meet its Operational Goals of completing the following:

- Adjudicate 90% of initial retirement benefit applications within 30 days of Agency receipt by October 1, 2006.
- By January 1, 2007, completion of a pilot program to process 50% of claims from two agencies before the first payment is scheduled to be made. Four agencies have been participating in the pilot since April 2006 and well over 50% have been processed within the target through September. Following completion of the pilot, the program will be evaluated and recommendations made regarding its expansion.

Retirement System Modernization

The Retirement Systems Modernization (RSM) Program is a long-term initiative targeted at improving the efficiency and effectiveness of OPM's Retirement Program. RSM is critical for two reasons: 1) the workload of the Retirement Program staff has grown over the years and will continue to grow as up to 60 percent of the federal workforce will become eligible to retire in the next ten years; and 2) the Retirement Program's existing systems and paper-based processes cannot support the most fundamental needs of the program—providing timely and accurate benefit payments to more than 2.4 million annuitants and their families. Over the past year, OPM has made significant progress in building a contemporary retirement processing system by awarding three contracts and selecting a program Director to coordinate the RSM initiative. However, RSM will continue to be a management challenge over the next several years as the program transitions to the new technology and moves from paper to electronic recordkeeping.

One of the three major components of the modernization is acquiring a modern technology solution from an existing commercial administrator of defined-benefits retirement plans. On April 28, 2006, OPM awarded a 10-year contract to develop the electronic environment for the retirement system. The Defined Benefits Technology Solution (DBTS) moves OPM and federal agencies to an electronic environment which gives employees, retirees, and authorized agency officials open and immediate online access to retirement records and benefits elections.

The second major component of the modernization is moving from paper to electronic recordkeeping. Today, most of the data used to pay retirement benefits is stored electronically in Federal agencies' payroll and Human Resources systems or on paper and is forwarded to OPM as paper records when an employee retires, transfers to another agency, or separates from Federal service. These paper records will be converted to recurring electronic feeds from Federal agencies' payroll offices and historical paper records will be converted to electronic data by a commercial data conversion company. OPM awarded a contract to convert retirement-related paper records on all active federal employees into electronic form, which will feed into the technology solution. The three-year contract was awarded in September 2006.

The third major component of the modernization is transforming the business processes to maximize the effectiveness of the modern technology, communicating change to stakeholders and plan members to prepare them for change, training program administrators as they assume new roles and responsibilities, and aligning the organization with the new processes and enhanced customer focus. On May 23, 2006, OPM awarded a contract to Accenture to develop Business Transformation (BT) and Information Technology (IT) models. The first component of the contract, BT, will align the people, processes, and organization to achieve maximum benefits and efficiencies of the solution. It will include organization and process redesign, training, communication, and competency assessment. The second component, IT, will ensure all supporting technology allows people processes, and organizations at OPM to utilize DBTS capabilities to the fullest extent possible.

OPM's plan is to build the technology and organize the transition to the technology solution through 2008. The plan is to "go live" with the system by February 2008. Migration of current employees' retirement records will take place through the end of calendar year 2009. OPM faces several management challenges as the modernization moves into the implementation stage, including maintaining acceptable levels of customer service during the modernization, as processes and technology changes, and support for the implementation strains program delivery resources. The entire transformation will involve changing or re-engineering processes, loading annuity calculation formulas into the technology, converting and transitioning historical legacy systems information into the new technology, and converting paper records into an electronic format. In addition, many OPM offices are involved in the RSM initiative and they all have to work together to ensure the modernization will deliver the results intended. As the modernization progresses, OPM's retirement system accounting activities will require enhancement to support the new retirement system.

Maintaining and Improving the Performance of the Federal Employees Health Benefits Program

OPM faces ongoing difficulties in ensuring the FEHBP contracts with insurance carriers to offer comprehensive healthcare benefits at a fair price. As administrator of the FEHBP, OPM has responsibility for negotiating contracts with insurance carriers covering the benefits provided and premium rates charged for approximately 8 million Federal enrollees and dependents. There are several key factors that affect the program's performance, such as an aging population; increases in the use of prescription drugs and medical services; advances in medical technology; and overall inflation related to general health care and prescription drug services.

These factors have also contributed to ever increasing premium rates for health plans nationwide. For 2007, however, OPM was able to hold the average FEHBP premium increase to 1.8 percent, the lowest premium increase in 10 years. Next year, 63 percent of FEHBP enrollees will see no increase in their premium. Controlling these costs is an area of great concern to the government (which is responsible for 71 percent of the total premium), FEHBP enrollees, and OPM management.

Effective December 31, 2006, OPM will offer dental and vision benefits to current and retired federal employees, as well as their beneficiaries. Prospective enrollees will be able to choose from seven dental providers and three vision providers. This new coverage will be voluntary and does not have any subsidy from the government. OPM is tasked with negotiating with health insurance providers for the new program to keep costs low enough to attract enrollees to the program.

Further, OPM will have responsibilities and challenges as insurance carriers begin to implement Health Information Technology (HIT) initiatives proposed during 2006. HIT covers a broad range of initiatives including electronic personal health records, ePresciptions, and disease management programs. It is hoped that these initiatives will reduce health care costs and improve the quality of care; the thinking is that manual tasks and unnecessary procedures will be avoided, and medical errors from incomplete information will be reduced. OPM will have at least some responsibility in each of these areas as the concept matures.

A proposed amendment to the Federal Family Health IT Act of 2006, introduced in March 2006, will promote electronic health records for federal employees. The legislation will require that FEHBP health plans provide electronic health records for 8 million federal workers and their dependents within four years. Within five years, the plans would have to provide integrated carrier and provider records in digital format upon the request of the federal employee.

Health plans will provide grants and incentives to health professionals to promote the implementation of the technology needed to establish electronic health records. OPM will also administer a trust fund to receive grants and donations intended to encourage the use of electronic health records. Under the amendment, carriers will be required to credit savings generated by the electronic health records to the FEHBP. This implies that OPM will have at least some oversight responsibility associated with managing the proposed trust fund and ensuring that carriers credit cost savings to the program.

OPM has already taken steps to promote health information technology. Since 2005, OPM's annual call letter to carriers has addressed the HIT initiatives. The letters have instructed carriers to enhance educational efforts among FEHBP members, offer personal health records based on existing data and technology, encourage pharmacy benefits managers to promote ePrescribing, and use HIT to improve disease management programs. OPM has also identified the need to adequately protect the security of personally identifiable health care information.

As it stands now, OPM appears to be ahead of the curve on health information technology. However, this area will clearly be a major task for OPM management and will require continuing attention if the effort is to be a success.

Implementing e-Government Projects

The e-government (e-Gov) initiative began as a collection of 24 agency projects. The projects were spread across four categories: government-to-citizen, government-to-business, government-to-government and internal efficiencies and effectiveness. Since then, the administration has added nine "line of business" initiatives aimed at consolidating agency back-office systems. The "line of business" initiatives are designed to consolidate the systems and services in areas common across government such as human resources and financial management. The OPM e-Gov initiatives consist of inter-related systems that support a government worker's life cycle. They are the Human Resources Line of Business (HR LOB), Enterprise Human Resource Integration (EHRI), e-Clearance, e-Training, e-Payroll and USAJOBS. The initiatives have made the transition from concepts and ideas to fully deployed systems. The OPM e-Gov initiatives of USAJOBS and e-Clearance are operational and are being managed by their respective program offices, HRPS and CFIS. OPM received a red rating for the scorecard ending 7/30/06 and received a yellow rating for progress in implementing e-Gov initiatives due to the Congressional prohibition on transferring OPM funds to other Federal agencies to support their e-Gov initiatives. But now the effort faces its greatest challenge to date, from lawmakers who are less interested in the cultural changes e-Gov could bring to federal operations and more concerned about concrete cost savings. In August 2006, OMB told agencies to begin documenting the savings associated with e-Gov initiatives by Sept. 30.

HR LOB

The Human Resources Line of Business (HR LOB) vision is to implement a common solution that identifies systems, best practices, migration strategies and key interfaces to develop common business processes and system solutions in the human resource area. The current suite of the e-Government initiatives managed by OPM will be transitioned and integrated into the HR LOB. The HR LOB initiative has established Federal Shared Service Centers (SSCs) to provide technology solutions to support multiple agencies with human resource activities. Five Federal SSCs have been selected to leverage economies of scale, reduce costs, and increase the quality and consistency of services provided. Private SSCs will be established during FY 2007.

In September 2006, OPM established the complete set of target requirements for SSCs, to include performance management, compensation management, labor relations, etc. Also, the HR LOB has developed the enterprise architecture for the HR functions in line with the Federal Enterprise Architecture (FEA) to assist SSCs and agencies in standardizing their human resource processes and technology. The HR LOB EA Models created in 2006 are: the Business Reference Model v.2, the Data Model, the Service Component Model and the Performance Reference Model.

Although the HR LOB has made significant process towards the development of a common solution, establishing standardization and governance, many milestones remain. These include: establishing a private sector SSC schedule, continued migration of agencies to SSCs, and completing the migration of agencies to payroll providers. In addition, the other e-Gov initiatives such as EHRI, e-Clearance, e-Training Service Providers, and USAJOBS will be expected to interface with Shared Service Center systems as dictated by the HR LOB concept of operations. This may present challenges in ensuring that the current set of e-Gov initiative systems are able to operate in an SSC environment. OPM is also challenged with working with OMB and GSA to establish a Private Sector SSC schedule, managing the resultant competitions and providing management and oversight of agency migrations to SSCs.

Enterprise Human Resource Integration (EHRI)

EHRI is a collaborative e-Gov initiative to transform human resource processes from paper-based processes to electronic-based processes. By working with a large inter-agency stakeholder group, EHRI has established reporting requirements and standards for human resource data and records management and developed a consolidated EHRI data warehouse containing human resources data on 1.8 million Executive Branch civilian employees.

Operational elements of the current EHRI system include a portal, the EHRI data warehouse, business intelligence/analytical tools, the Central Employee Record system (CER) and the eOPF system that houses Federal employees' digitized paper OPFs. In FY 2006, 355,000 OPFs were created. In addition, an eOPF module was created for 11 agencies in FY 2006. Performance metrics have been developed to increase the number of personnel records converted and to increase the number of agencies with an eOPF module. The metrics are contingent on the agencies ability to provide funding for their conversions.

OPM is challenged with integrating EHRI with the other OPM e-Gov initiatives and the Retirement Systems Modernization effort. In addition, OPM is challenged with interfacing with agency data systems and managing the data and paper migration to the EHRI environment.

e-Clearance

The e-Clearance initiative streamlines and improves the quality of the current security clearance process through automation and deployment of common systems and policies to manage the security clearance process. E-Clearance seeks to ensure sensible policies and procedures are in place to improve the current security clearance process. The initiative's first component is the Electronic Questionnaire for Investigations Processing (e-QIP), an automated on-line version of security clearance application form SF-86. With e-QIP, current work processes have started to move from a paper-based to an electronic environment, with information requested and transmitted remaining the same. All agencies are currently set up and submitting investigation requests to OPM via e-QIP. However, only about half of the requests for investigations were submitted via e-QIP in 2006. The second component entails the development and implementation of a cross-agency Clearance Verification System (CVS). The CVS provides OPM and all partnering agencies access to the clearance data of each participating agency database. By increasing the availability of each agency's database and making clearance information more accessible, CVS has improved agency accountability and supported the transfer of clearances from one agency to another.

As of March 31, 2006, all agencies are providing daily updates to the CVS database. OPM is making good progress in increasing usage of e-QIP, but is still slow in getting all investigative requests submitted using the application.

e-Training.

The e-Training initiative supports the development of the Federal workforce through a one-stop access to e-Learning products, tools, and services. The e-Training initiative is now referred to as the HR LOB Human Resources Development Program (HRD). As of September 2005, 132 Government entities migrated to e-Training. In FY 2006, courses were available to the foreign affairs community through a memorandum of understanding signed between OPM and the State Department's Foreign Service Institute (FSI). OPM's GoLearn, the National Security Agency's FasTrac, and the Commerce Department's National Technical Information Service contribute general content and services, including learning management systems, systems integration and contracting vehicles, to the e-training initiative. FSI marks the first participant brought in for its specialized content.

e-Payroll.

Payroll has been identified as one of the core business processes within HR LOB, and is now part of that greater initiative. The e-Payroll providers furnish core payroll services to the HR LOB SSCs. As part of the HR LOB, the e-Payroll initiative plays a key role in replacing legacy technology and integrating human resources and payroll systems as the HR SSCs come online. By 2008, all agencies will have migrated to an e-payroll provider and the e-Payroll initiative will be fully operational under the SSC environment.

While OPM has made great progress in moving forward with its e-Gov initiatives, many difficulties still lie ahead. In general, e-government projects are suffering from funding shortages. The OPM e-Gov solutions must continue to evolve as the Federal Human Resources environment and agency needs change and as technology advances. In addition, OPM is challenged with documenting real savings with the e-Gov initiatives as migrations to common solutions continue and legacy systems are retired.

Financial Management System and Internal Controls: RF and S&E

Faced with the need to upgrade its current Revolving Fund (RF) and Salaries and Expenses (S&E) accounts financial system or identify an alternative, OPM decided in FY 2005 to use a service provider to host its core financial management and procurement systems for its administrative accounts beginning in FY 2007. OPM selected the Bureau of Public Debt's (BPD) Administrative Resource Center (ARC), designated by OMB as a Center of Excellence, to provide financial management systems support services. However, BPD conference room pilots indicated that significant flaws existed in the plan and the accounting package with BPD was not implemented. OPM is in the process of establishing new guidance to rebid the contract, with the assistance of OMB, and BPD has returned the funds they received for the project. OPM is tasked with ensuring and validating that any firm proposing to provide a new accounting system address the S&E and Revolving fund, as well as the Trust Fund assuming a move to a consolidated system occurs after the S&E and Revolving fund Implementation.

Developing and implementing strong internal control procedures in OPM's financial management systems for the RF and S&E accounts has been a top agency challenge for several years. The weaknesses in this area have been reported not only in previous management challenges letters, but also in the CFO Act audit reports and FMFIA reports over the past years as well. Using a financial management service provider does not diminish OPM's role in developing and implementing strong internal control procedures. In fact, OPM has begun to change the way it currently processes many transactions and develop and implement new internal control procedures that support the technical and functional requirements of the new financial and procurement systems. In addition, instituting a service provider forces OPM to reengineer business processes, as well as conducting a data clean up, security access clean up and other business process analysis to ensure implementation is smooth and effective. To deal with these challenges, OPM established a Financial Modernization Project Office to coordinate the transition.

In KPMG's November 14, 2005 report on OPM's financial statements, they cited a reportable condition in which significant deficiencies in the OCFO's internal control over financial management and reporting, affecting the accuracy of the RF and S&E accounts still existed even after OPM implemented corrective actions to remedy the conditions. In an effort to correct this condition, as well as prepare for the transition to a service provider, OCFO management has established a project management office to lead, direct and coordinate all processes and activities to modernize financial systems and reengineer business processes. The following is a brief discussion of the deficiencies and the corrective actions taken by OCFO:

- The Government Financial Information System (GFIS) does not properly capture certain financial information and is not properly configured to produce useful financial reports providing accurate information regarding related intragovernmental activities and balances. During FY 2006, OPM did finalize requirements definitions for the transition to the Bureau of Public Debt's system, however no further implementation efforts for the new system were completed. Further, accounts balance clean-up efforts will continue to ensure only valid data are converted into the new systems and will be completed during FY 2007.
- Reconciliations were not consistently or always clearly documented and were not always performed in a timely manner. OPM actively began enforcing procedures regarding documentation and timely performance of reconciliations in accordance with Treasury Financial Manual guidelines and OPM's Cash Management Policy and Procedures in June 2006.
- Supervisory reviews of financial statements and other financial reports submitted to oversight agencies were not documented for mathematical accuracy and receipt of appropriate support. OPM established formal procedures and a checklist for supervisory review of the financial statements and other financial reports in March 2006.

OMB Circular A-123, Appendix A, Internal Control over Financial Reporting

Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control, requires that agencies and Federal managers take a systemic and proactive approach in developing and implementing appropriate, cost effective internal controls. Appendix A of the Circular further prescribes a strengthened management process for specifically assessing internal control over financial reporting. The Appendix requires the agency head to provide an assurance statement addressing the effectiveness of the internal control over financial reporting based on the results of management's assessment.

OPM's management team successfully completed its assessment of the internal controls in place over its financial reporting and operations as required by Circular A-123 during FY 2006. The Senior Assessment Board (Board) approved 87 recommendations for improving financial reporting and operations and designated 6 reportable conditions. Absent the determination of any related material weaknesses, the Board recommended the Director issue an unqualified statement of assurance that internal control over financial reporting as of June 30, 2006, was operating effectively.

OPM's commitment to the implementation of OMB Circular A-123 is apparent in the internal control infrastructure that was established over the past year. However, it will be critical that OPM puts forth an extensive effort to monitor the design of the controls identified for improvement and testing whether those controls are working as intended. The Agency will continue to be further challenged in effecting the cultural changes necessary to continue the success achieved in implementing this Circular.

Monitoring Performance Results for Competitive Sourcing

OMB Circular A-76, "Performance of Commercial Activities," requires agencies to develop performance work statements (PWS) for all public/private competitions and identify the methods that will be used to measure performance. Regardless of the selected provider, after implementing a performance decision, an agency must monitor performance for all performance periods stated in the solicitation and implement the quality assurance surveillance plan (QASP). The QASP is the Government's inspection plan, which documents the methods used to measure performance of the service provider against the requirements in the PWS. The criteria call for assigning accountability to both managers and staff for performance of activities.

There is a structured oversight process to ensure the service provider's performance is at an acceptable level and the costs incurred in performing the activity are in line with the proposals upon which the service provider was selected. For each completed competition, a QASP is developed with detailed quantifiable performance measures and standards which are monitored throughout the performance period. Additionally, costs incurred in performing the activity are monitored to ensure it is being performed for the amount specified in the winning proposal. For in-house performance, an agency tender official is appointed by the Contracting Officer who has the direct responsibility for monitoring performance against the performance measures and standards using the QASP. Costs incurred by OPM's employees are tracked by receiving quarterly payroll reports from OPM's GSA payroll system. For competitions won by the private sector, OPM employees are appointed and trained as contracting officer's technical representatives and quality assurance evaluators whose responsibility it is to track and measure the performance of the work against the quantifiable performance measures and standards. Costs of contractor performance are monitored by the contracting officer's representative. Improvements in the oversight process include better quality cost reports coming from the GSA payroll system and stronger quantifiable performance measures and standards which are tracked closely over the performance period whether the service provider is OPM's employees or a private contractor.

OPM has completed 19 public/private competitions. OPM's employees have won 17 of the 19 competitions. Managing the performance measurement process for each of these competitions involves OPM developing, implementing, and documenting surveillance methods to monitor and analyze the measures and tasks in the PWS. Documentation supporting performance results and the monitoring of performance must be maintained, including any changes to the performance measures on the PWS. Each of these steps in the process presents a challenge, and with the number of public/private job competitions increasing, the amount of effort and management attention required will be significant.

Protection of Personally Identifiable Information (PII)

Following numerous incidents involving the compromise or loss of sensitive personal information, the Office of Management and Budget (OMB) issued memorandum M-06-16 on June 23, 2006. The memorandum stressed the need for all Federal agencies to take necessary and reasonable measures to protect their sensitive data. It required agencies to take certain actions to ensure that safeguards are in place and appropriately reviewed within 45 days (August 7, 2006) from the issuance of the memorandum.

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

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

FISMA also requires Agencies to implement standards and guidelines developed by the National

Institute of Standards and Technology (NIST), including Special Publication 800-53, *Recommended Security Controls for Federal Information Systems*. This guidance forms the basis for the OMB M-06-16 Security Checklist covering protection of remote information. OMB's memorandum conveys the intent of implementing the checklist and specific required actions to be taken by Federal agencies for the protection of sensitive information.

OPM has made significant progress in strengthening its information technology (IT) security program since the FISMA requirements of 2002. OPM management is clearly committed to developing and maintaining strong IT security controls. However, a number of difficulties remain, including updating policy and implementing the technical solutions required to protect the Agency's PII data. Although OPM has not fully implemented the requirements of OMB Memorandum M-06-16, there is an implementation plan that should enable the agency to be compliant by March 31, 2007.

Improper Payment Information Act Reporting Details

An improper payment is any payment that should not have been made or was made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements. The President has made the development of management controls to detect and prevent improper payments a major focus of his Management Agenda. The Congress followed the President's lead by enacting the Improper Payments Information Act of 2002 (Public Law 107-300). The Act requires agencies to review annually all programs and activities to identify those susceptible to significant improper payments; estimate the annual improper payments in the susceptible programs and activities; and report the results of their improper payment reduction plans and activities. In Appendix C to OMB Circular A-123, a program was defined as being susceptible to significant improper payments if it has improper payments that exceed both 2.5 percent and $10 million of program spending. OPM's estimated improper payments for FY 2006 are $253 million in retirement benefits; $62.5 million in health benefits; and $0.8 million in life insurance benefits, for a total of $317.2 million dollars.

Due to their size, OMB has deemed that OPM's three earned benefit programs—Retirement, Health Benefits and Life Insurance—are, by definition, susceptible to significant improper payments. OPM has an approved Improper Payment Plan that discusses the causes of benefit program improper payments; sampling approaches; actions taken and underway to correct causes; results of actions; timelines for reducing improper payments; statutory barriers; and projected reduction targets. To ensure compliance with the recently issued Appendix C to Circular A-123, OPM will assess in FY 2007 whether any other agency payment streams are susceptible to improper payments and expand the Agency's Improper Payment Plan accordingly. A description of the payments in the currently covered earned benefit programs follows:

Program Descriptions

Retirement Program

The Retirement Program pays nearly $57.9 billion per year in defined pension benefits to most Federal retirees and their survivors and families. The Program is comprised of the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). In addition, when covered employees leave the Federal service before they are eligible for benefits, their retirement contributions, if so requested, will be returned to them in a lump-sum refund payment.

Health Benefits Program

The Program is administered through contracts with participating carriers that provide hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. Two types of carriers participate in the Program: experience-rated carriers (ERCs) and community-rated carriers (CRCs). ERCs maintain separate accounting for the Program contract and, hence, must disclose their expenses. CRCs, on the other hand, do not maintain separate accounting and receive a premium based on the average revenue needed to provide benefits to their members. ERCs incur benefit and administrative expenses of over $25 billion on behalf of the Program and the Program paid $6.1 billion in premiums to CRCs.

Life Insurance Program

The Program provides life insurance benefits of $2.23 billion in FY2006 to over 90,000 survivors of Federal employees and annuitants. It is administered through a contract with the Metropolitan Life Insurance Company (MetLife), which oversees the processing and payment of benefit claims. The Program provides basic life insurance coverage as well as three life insurance options and living benefits.

Improper Payment Sampling

Retirement Program

As is the usual practice, for FY 2006 improper payment analysis, OPM contracted with its statistician to analyze the improper payment rate embedded in its benefits payments. There are two distinct retirement systems (CSRS and FERS); as such, the statistician stratified the sample to adequately sample each retirement system. OPM reviewed pension and survivor cases over a span of nearly four decades. Statistically valid samples were chosen proportional to payment size, because larger payments are more material to improper payment analysis than are smaller payments. To minimize the potential errors correlated to anomalies within the sample months selected, cases are selected from three randomly determined months from the sampling universe. For each retirement system, 75 cases were selected for each of the three sample months, or 225 cases per retirement system, and 450 cases overall. This was done to maximize confidence in the sampling methodology. Projections are based on a 95% confidence that the size of the Improper Payments we estimated is within the upper and lower limits identified in the report.

Health Benefits Program

As is it did for FY 2005, OPM will use the results of historical audits of the premiums paid by OPM to CRCs and the expenses paid on behalf of the Program by ERCs. One hundred percent of FEHBP premium payments are subject to audit, and based upon selected criteria from OPM Management and themselves, the Health Plans selected for audit do in fact, exceed the sample size required by OMB in Appendix C to OMB Circular A-123. This sample is judgmental, not random, targeting the most likely areas of improper payments in the Program. In fact, it likely overstates erroneous payments in the Program because those carriers chosen for audit tend to be those more prone to improper payments.

OPM, for FY 2007, will continue to rely upon the existing audit procedures to estimate improper payments to CRCs. For ERCs, OPM will implement a process to estimate statistically the extent of improper payments of benefits by the ERCs as well as the charges to the Program they make for administrative expenses. In accordance with OPM reporting and auditing guidelines, all ERCs have for a number of years prepared annual financial statements and have subjected those financials to audit by independent public accounting firms (IPA). While OPM's guidelines require the IPAs to sample paid benefits and administrative expenses, they do not provide for detailed reporting of the results, nor do they prescribe sampling procedures that allow for the aggregation of those results. OPM is working with a statistician to develop a methodology to capture and aggregate information from the IPAs to derive a statistically valid annual improper benefit payment rate. The information will be available in FY 2007.

Life Insurance Program

OPM has had a process in place for many years to determine the improper payments made by MetLife to the beneficiaries of deceased annuitants. Using a data match analysis, OPM compares the eligibility and coverage data of virtually all covered annuitants who died during the fiscal year against the dollar amount of benefits paid to their beneficiaries by MetLife.

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

Causes of Improper Payments and Actions to Reduce Them

Retirement Program

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

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

To reduce improper payments, OPM currently takes several actions. OPM surveys benefit recipients annually to verify that they continue to meet eligibility requirements and administer active data-matching programs with Departments of Defense, Labor, Veterans Affairs (VA), and the Social Security Administration (SSA). OPM is also exploring alternate methods to learn in a timelier manner when eligibility for benefits has changed. For instance, OPM is piloting a process with the National Funeral Home Directors Association (NFDA) whereby funeral homes will provide notifications of death so that additional posthumous payments of benefits may be avoided. OPM has recently signed a memorandum of understanding with the NFDA. In addition, OPM will continue to pursue cost-effective methods to inform the recipients of benefits of the events that have the potential to affect the amount of their retirement benefits.

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

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

The increase in the estimated improper payment rate in the Retirement Program during FY 2006 (see table 22) resulted primarily from expanding the number of sample months used to derive the estimate. Underpayment amounts used in the estimate are based on statistically valid ranges, necessitated by the size of the disbursement, the nature of the sampling, and the previous year's improper payment rate. In 2005, 2 sample months were used and the dollar value of the errors identified was smaller than in 2006, where 3 months were used for projection purposes. OPM is converting to an approved monthly sampling methodology for 2007, which will reduce the variance of the annual estimated error projections.

Health Benefits Program

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

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

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

Life Insurance Program

The amount of benefits paid to the beneficiary of a participant is based upon an employing agency or Retirement Program (for annuitants) certification of the participant's eligibility and level of coverage. Most of the improper payments in the Program result from incorrect life insurance certifications. OPM has implemented a new, automated method to certify life insurance for deceased annuitants that has reduced improper payments significantly. This Automated Certification of Life Insurance (AutoCert) process has taken the place of hard-copy certification for most deceased annuitants.

FY 2006 was the first full year for which the Autocert system replaced the manual process for certifying FEGLI payments. Autocert has dramatically reduced annuitant Improper Payments due to human error in processing claims, driving the reduction shown in table 22 for the Life Insurance Program. FEGLI payments to annuitants were extremely accurate during FY 2006. OPM also fully implemented review of a very specialized error type (Error Codes "40-44") caused by the anomalies of implementing legislation that allowed annuitants for the first time to elect unreduced Option B and Option C after retirement. Errors associated with the implementation of these new coverages have been identified and are being reviewed for corrective action.

Table 21—Improper Payments (Recovery Audits Data)

OPM Fund	Dollar Amount Subject to IP Review (in Billions)	IP Amount Received and Reported (in Millions)	IP Amount Identified for Recovery (in Millions)	FY 2006 IP Amounts Recovered (in Millions)	Prior Year IP Amounts Recovered (in Millions)
Retirement	57.9	179.0	184.7	153.0	129.5 *
FEHB	31.7	59.6	39.3	36.1	32.3 *
Life Insurance	2.2	.3	.3	.6	.9 *

* FY2005

Table 22—Improper Payment Reduction Outlook

	2005 Outlays	2005 IPs	2005 IPs	2006 Outlays	2006 IPs	2006 IPs	2007 Outlays	2007 IPs	2007 IPs	2008 Outlays	2008 IPs	2008 IPs	2009 Outlays	2009 IPs	2009 IPs
	$ B	%	$ M	$ B	%	$ M	$ B	%	$ M	$ B	%	$ M	$ B	%	$ M
Retirement															
Total Program	54.8	0.28	153.0	57.9	0.44	253.5	60.8	0.44	267.1	64.0	0.44	281,2	67.3	0.44	296.1
Overpayments		0.27	147.9		0.31	178,9		0.31	188.2		0.31	198.1		0.31	201.9
Under Payments		0.01	5.1		0.13	74.6		0.13	79.0		0.13	83.1		0.13	87.5
Health Benefits															
All carriers	29.4	0.67	196.7	31.7	0.20	62.5									
Overpayments		0.65	190.9		0.20	61.9									
Under Payments		.0.02	5.8		0.002	0.6									
CRCs total *							*	*	*	*	*	*	*	*	*
Overpayments								*	*		*	*		*	*
Under Payments								*	*		*	*		*	*
ERCs total *							*	*	*	*	*	*	*	*	*
Overpayments								*	*		*	*		*	*
Under Payments								*	*		*	*		*	*
Life Insurance															
Total Program										*	*	*	*	*	*
Overpayments											*	*		*	*
Under Payments											*	*		*	*
Annuitant only	1.29M	*.27	*3.42	1.38M	0.06	.75									
Overpayments		*.12	*1.49		0.02	.27									
Under Payments		*.15	*1.93		0.04	.48									

* This data will be provided beginning in FY 2007 due to a change in methodology.

- OPM will re-examine overpayments in the Retirement Program to identify the potential for further improvements in targets and performance results after the implementation of the Retirement System Modernization initiative beginning in FY 2008.
- For the Health Benefits Program in FY2005 and 2006, the chart above presents a combined CRC/ERC improper payment rate and amount. Beginning with FY2007, separate rates and amounts will be presented for CRCs and ERCs, using divergent estimation methodologies.
- The Life Insurance Program improper payment data computation will change from "Annuitants Only," as reported in FY 2006 (through August 2006), to a program derived computation in FY 2007. *FY2005 has been recomputed to include "40-44" errors .

Recovery Auditing

For agencies with contracts with a total value of more than $500 million in a fiscal year, recovery audits are required as part of their system internal control. A recovery audit is a review of an agency's books and other information supporting its payments to identify overpayments to contractors. Table 22 reports disbursement, improper payment, and recovery activity across the benefit programs.

After passage of the Inspector General Act of 1978, as amended OPM realigned its audit resources with the OIG to administer audits in partnership and established an audit resolution function to validate audit findings and determine whether questionable charges are allowable per FEHBP regulation (e.g. FAR, FEHBAR). For instance, the $62.5 million in improper payments shown in table 22 for FY 2006 are the results of audits performed by OPM's OIG and are reported in OIG's Semiannual Report to Congress. The OIG audit reports are provided to program management for resolution and recovery. FEHB program management works with the health insurance carriers to determine whether and what portion of an audit finding is due the Government (in this case, the FEHB Program). The amount so determined is booked as a receivable in OPM's financial management system. As these amounts are recovered, the receivable is reduced and the amount is considered as a recovery. The results of the audit resolution process are reported in the Management Response to the Semiannual Report to Congress.

This process, described in OPM's approved Improper Payments Plan, has proven to be highly effective in detecting and recovering improper payments. It relies on judgmental, not random, sampling and provides a reasonable estimate of improper payments in the Program. In fact, it likely overstates erroneous payments in the Program because those carriers chosen for audit tend to be those more prone to improper payments.

OPM has a cost effective program of internal control to prevent, detect, and recover overpayments to contractors. As noted above, OPM conducts comprehensive audits of the FEHBP carriers to ensure compliance with contract provisions, provide program oversight and minimize fraud, waste and abuse. No contract recovery audit services are currently leveraged. The costs for this program include salary, administrative and other expenses across several Centers within the agency. All contracts negotiated by OPM are subject to audit and are included in audit universe. As part of OPM's day-to-day administration of the programs, corrective action plans are developed and implemented based upon the nature of the payment error identified in the audit. Corrective action plans are reviewed annually and may be incorporated into a Management Improvement Plan updated, as applicable, in our Improper Payments Plan.

While the Retirement and Life Insurance programs have robust procedures in place for identifying and recovering erroneous payments through various means and at different payment thresholds, each has nominal contract costs and internal staff perform audit and recovery functions, also described in the agency's Improper Payments Plan. Per OMB Circular A-136 (Revised July 2006), table 21 provides additional information on recovery efforts across the benefits programs.

Accountability for Reducing and Recovering Improper Payments

The Director has designated OPM's Deputy Associate Director for Retirement and Insurance Services, Human Resources Products and Services Division, as the official responsible for establishing policies and procedures to assess agency and program risks of improper payments for the benefit programs, taking actions to reduce those payments, and reporting the results of the actions.

Barriers to Reducing Improper Payments

Retirement Program

Once OPM learns of the death of an annuitant, it requests that the Treasury reclaim all posthumously-issued payments from the deceased's bank account. When there is insufficient money in the account, OPM would like to seek to collect from the individual who last withdrew money from the account. Based on current law and

Treasury's regulations, financial institutions are barred from providing OPM with the information necessary to recover these improper payments. The right to Financial Provacy Act (12-USC, 3401-3422) and regulations have specifically exempted the Social Security Administration, Railroad Retirement Board and Department of Veterans' Affairs from this prohibition, but not OPM. This situation has a substantial impact on OPM's ability to prevent and recover improper payments. OPM has determined that the Act will need to be amended to overcome this prohibition. The Department of the Treasury has drafted legislative language to address this issue.

FERS disability overpayments occur because the law (5 USC, 8452 and 5 CFR 844 sub chapter c) requires that individuals applying for FERS benefits must also apply for Social Security disability benefits. If the individual receives both forms of benefits, they will have incurred a debt to the Government. Since FERS disability benefits usually begin well before the claim for Social Security benefits is fully processed, FERS annuitants will receive several unreduced months of benefits before they begin to receive Social Security benefits. The annuitant will owe OPM for the cumulative amount of the reductions that should have been made to their FERS annuity. Currently, OPM seeks to recover the bulk of the amount overpaid via its "off-roll" collection process. OPM's experience is that, although FERS annuitants are notified of their obligation to repay, by the time OPM bills them, many recipients claim that they do not have the wherewithal to repay the debt. OPM has drafted legislation to address this issue. The issue was not resolved in FY 2006 but remains a component of OPM's legislative agenda for 2007.

Health Benefits

A pharmaceutical benefits manager (PBM) is a specialty managed care entity that administers or manages prescription drug benefits. Pharmaceutical benefits represent approximately 31 percent of the total benefits paid by participating carriers. OPM's OIG has begun an initiative to audit PBMs. In some cases, however, OIG has only limited audit rights based on the carriers' contracts with their PBMs. To remedy this situation, OPM is in the process of revising the Federal Employees Health Benefits Acquisition Regulations to require carriers to provide the OIG complete audit rights in all contracts entered into with PBMs.

Appendix A—Additional Performance Information

(Unaudited—See accompanying Independent Auditors' Report)

In addition to the operational goals covered in Part B of this report, OPM also used PART measures and the performance indicators shown below to assess program performance during FY 2006. These performance indicators are reflected in OPM's Congressional Budget Justifications and used for OPM's internal quarterly budget and performance status reviews.

The Human Capital Program

Program: **Human Capital Talent**		**Program Outcome:** Promote an efficient and effective, merit based Federal civil service.			
PART Measures	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Number of PMA agencies that have a process in place to account for Federal employees during an emergency.	No data	No data	No data	24	24
Number of the 26 PMA agencies meeting targets to for closing mission critical occupation gaps.	2	10	14	20	21

OPM Actions:
OPM closely monitored agency progress throughout the year, providing consulting on issues potentially impacting agency's ability to close their gaps. In addition, OPM provided training to all agencies on competency gap closure methods and strategies. OPM is currently developing guidance on selecting strategies for closing gaps that will be provided to agencies.

Public Value:
The occupations targeted in this initiative are directly related to agency success in achieving their mission. OPM's guidance, consulting, and monitoring efforts are critical to ensuring agency success.

Program: Human Capital Performance Culture		Program Outcome: Promote an efficient and effective, merit based Federal civil service			
PART Measure	FY 2003 Results	FY 2004 Results	FY 2005 Results	FY 2006 Target	FY 2006 Results
Percent of applicant systems from CHCO agencies whose SES performance plans are fully certified* (%).	n/a	5	4	5	5

OPM Actions:
The human capital (HC) program developed a 65 question template for assessing the most current strategic HC plans from agencies. Agencies were required to provide documented evidence that their strategic HC plans included goals, objectives and strategies, a workforce plan and performance measures and milestones. Eighty percent of Presidential Management Agenda (PMA) agencies have certified or provisionally certified SES pay-for-performance systems in place. Out of the 16 agency plans reviewed so far, only five agencies could answer positively to at least fifty percent of the questions on the template. Of that eighty percent, five percent have applied and met all OPM's criteria for a quality performance system. OPM and DoD jointly published regulations dealing with the new DoD National Security Personnel System (NSPS) covering pay policy and performance management.

OPM developed a certification process, based on statute and Federal regulations, to help agencies design and implement performance appraisal systems that ensure executives are paid according to their performance and the accomplishment of agency mission. Agency SES performance management systems are certified when that key elements of an effective pay-for-performance system are in place.

OPM ensures SES and Senior Level (SL) and Scientific Professional (ST) appraisal systems meet design and implementation criteria through the system certification process. Performance appraisal systems link executive performance to agency goals, focus executives on achieving results, hold them accountable for the performance management of subordinates, and provide for making distinctions in pay and ratings.

Public Value:
OPM actions strengthen the connection between individual employee performance and mission outcome and focus the Federal workforce on achieving agency goals and results in achievement of the Federal Government mission. As the Government's personnel systems begin recognizing pay and performance and adopting a market based approach, citizens in the long term will recognize improved services and program performance. Through the achievement of this goal, OPM's strategic objective—creating a Federal civilian workforce focused on achieving agency goals—is being advanced. Agencies will be more effective and successful in achieving organizational goals by implementing systems that meet certification criteria.

Performance management Certification allows for agencies to pay their SES staff above EXEC III pay levels. For an agency to receive full certification, pay and awards data from two full years, in addition to other requirements, must demonstrate that agencies are making distinctions in individual performance. For calendar year 2006, only one agency has met the requirements for full certification.

The Benefits Programs—Retirement

Program: Federal Employees Retirement Processing Claims and Improving Other Program Services		**Program Outcome:** Provide Federal employees options and tools for retirement planning for their and their families' financial future.			
PART Measures	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Claims processing unit cost	$99.54	$91.91	$91.21	$90.50	$91.95
Claims processing accuracy, CSRS annuity (%)	93	89	90	93	82
Claims processing accuracy, FERS annuity (%)	98	97	93	93	91
Improper payment rate (%)	0.50	0.38	0.36	0.28	0.32
Annuitants who received first payment before or when expected (%)	72	80	81	80	86
Percent of self-servicing	33	53	54	60	69
Call handling rate (%)	96	97	91	92	84
Percent of annuitants satisfied with overall retirement services	93	94	87	93	83

OPM Actions:
For FY 2006, OPM made substantial progress in improving its performance in processing retirement annuity claims compared to past years. For FY 2005, the processing timeliness for CSRS and FERS annuity cases were 80 and 93 days respectively. For FY 2006, the combined result was 30.6 days for average processing claims times. During the effort to more timely process claims, many workflow and organizational changes were made. In reducing the in-process claims by half, unit cost increased slightly and accuracy deteriorated slightly, while self-service transactions improved.

Planned Improvements:
Claims Processing Unit Cost: The entire cost allocation model is being reviewed in detail to make the date realistic. Accordingly, the results may change for FY2007 and may not be directly comparable to prior years. In addition, OPM will reduce staff allocated to claims processing somewhat in FY2007 because new processes developed in FY 2006 that will be applied for the entire fiscal year. Finally, during FY 2007, Retirement System Modernization will be fully implemented during the second half of FY 2008; and the investment will temporally increase unit cost.

Claims Processing Accuracy (CSRS & FERS): As a result of the effort to eliminate the backlog of claims and to reduce average processing time by two-thirds, some processing review resources were temporarily shifted to processing from reviewing. Now that these efforts have yielded the desired result, resources have been returned to the reviewing process to improve accuracy rates.

Call Handling Rate: The call handling rate decreased slightly because of a reduction of staffing coupled with increased pay expenses; while simultaneous increased call volume. Will the reduction of claims backlog, OPM may experience re-focus of staff effort during FY 2007. Additionally, the reduced backlog and increased focus on accuracy, OPM expects calls will be reduced. Finally, during FY 2008, with the implementation of RSM, call handling will no longer be tracked and reported as a performance indicator; and a new metric will need to be developed.

Public Value:
Federal annuitants and their survivors are receiving improved services and the groundwork is being laid to establish a new system which will dramatically improve the process of computing annuities.

Program: Federal Employees Retirement Providing Agency Benefits Officers Training and Development		**Program Outcome:** Provide Federal employees options and tools for retirement planning for their and their families' financial future.			
PART Measures	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Benefits Officers trained per year (%)	No Data	No Data	No Data	Establish baseline	47
Customers who rate satisfaction with consulting services as very satisfactory or better (%)	No Data	No Data	85	85	81
Training attendees who rate training as very good or higher (%)	No Data	No Data	83	85	90
Employee knowledge of benefits programs index	No Data	No Data	No Data	Establish baseline	Delayed until FY 2007
Employees who are at the appropriate stage of retirement planning according to the Retirement Readiness Index (%)	No Data	No Data	No Data	Establish baseline	Delayed until FY 2007

OPM Actions:
During FY 2006, OPM assessed the level of employee retirement readiness using the Retirement Readiness survey and implemented a training program for agency Benefit Officers so they could facilitate employee knowledge of health, retirement and life insurance benefits and improve employee satisfaction. In addition, OPM conducted 28 workshops at the agency's 2006 Federal Workforce Conference—a benefits-focused forum. The results of a training survey of benefits officers found that 47% had attended benefits training during the past 12 months. Plenary sessions included strategic benefit issues, retirement financial education and thrift savings. Breakout sessions included retirement readiness, insurance benefits, and balancing work/life. Also, OPM developed online decision support tools to help individual employees select appropriate levels of benefits coverage.

OPM presented 10 full day FERCCA workshops and trained more than 350 HR specialists. OPM also presented the *Power of Benefits* program at the 2006 OPM Federal Workforce Conference.OPM published an important summary of the employee retirement readiness survey results which is the basis for developing the retirement readiness index. Data collection for computing the Retirement Readiness Index and employee knowledge of benefits program index has been delayed until FY 2007.

Planned Improvements:
Continued development of benefits officer training courses and financial education materials.

Public Value:
The Program is integral in developing the retirement readiness profile and financial education tools that are useful to the general public.

The Benefits Programs—Health Benefits

Program: Federal Employees Health Benefits Benefits Policy		**Program Outcome:** Federal employee benefits are competitive and support agencies efforts to recruit and retain the workforce they need to meet their mission and Provide Federal employees, retirees, and their families with health benefits coverage meeting their individual health insurance needs.			
PART Measures	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Percent of new hires who say retirement, HB, and LI benefits are competitive and important in their decision to accept a Federal job.	n/a	69	n/a	75	75
Percent of tenured employees who say retirement, HB, and LI benefits are competitive and important in their decision to remain in a Federal job.	n/a	70	n/a	74	77
Percentage of enrollees (Federal employees) satisfied with retirement benefits.	n/a	66	n/a	66	Data Not Available
Percentage of enrollees (Federal employees) satisfied with health insurance benefits.	n/a	60	n/a	60	Data Not Available
Percentage of enrollees (Federal employees) satisfied with life insurance benefits.	n/a	62	n/a	62	Data Not Available

OPM Actions:
The FEHB Program, Retirement and FEGLI serve as an important component of employee compensation and support Federal agencies' recruitment and retention needs. These programs allow the government to remain competitive with other employers for highly qualified workers.

During FY 2006, OPM took steps to increase employee knowledge about their benefits as well as meet the individual needs of employees. For instance, OPM contracted with a consultant to conduct a benchmark study to compare health benefits, retirement and life insurance programs with non-federal benefit programs based on benefit design and cost. In addition, the agency conducted the Federal Benefits Survey on employee perceptions of the importance, competitiveness, value and understanding of their benefits. The first survey was conducted in 2004 and provided a baseline. The second survey was conducted in 2006. We will compare survey results and assess changes in employee perceptions. These results will be used for their potential to enhance and improve education on benefit programs.

Planned Improvements:
None necessary

Public Value:
A benefits package that meets the needs of current and potential Federal employees can lead to lower turnover and the recruitment of better performers, as well as aiding employees and annuitants to maintain good health. Customer satisfaction surveys indicate that the overall package of benefits and the level of services provided meet the needs of participants.

n/a—Data are collected in even numbered years only.

Program: Federal Employees Health Benefits Contract Administration		**Program Outcome:** Federal employee benefits are competitive and support agencies efforts to recruit and retain the workforce they need to meet their mission and Provide Federal employees, retirees, and their families with health benefits coverage meeting their individual health insurance needs.			
PART Measures	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
HB claims processing timeliness (% within 30 working days)	No Data	95	98	96	97
HB claims processing accuracy (%)	No Data	95	98	96	98
HB improper payment rate (%)	0.15	0.32	0.67	Establish baseline	TBD
Overall customer satisfaction scores for enrollees in FEHB plans meet or exceed industry standard (%)	FEHBP 65 Industry 61	FEHBP 70 Industry 62	FEHBP 73 Industry 64	FEHBP> Industry	FEHBP 73 Industry 65
Accredited FEHB plans (%)	69	74	78	79	79
FEHB customers satisfied with OPM's Open Season web site	No Data	No Data	76	76	43

OPM Actions:
Enrollee satisfaction with the Federal Employee Health Benefits Open Season web site was quite low. This may have largely been due to fact that brochures were not downloadable from that site. Overall responsiveness to benefits-related inquiries and processing of change requests were consistently up to standard.

Planned Improvements:
Not Necessary. All performance indicators are within acceptable contract performance parameters.

Public Value:
A benefits package that meets the needs of current and potential Federal employees can lead to lower turnover and the recruitment of better performers, as well as aiding employees and annuitants to maintain good health. Customer satisfaction surveys indicate that the overall package of benefits and the level of services provided meet the needs of participants.

The Benefits Programs—Life and Other Insurance

Program: **Federal Employees' Group Life and Other Insurance**		**Program Outcome:** Federal employee benefits are competitive and support agencies efforts to recruit and retain the workforce they need to meet their mission and provide Federal employees, retirees, and their families with health benefits coverage meeting their individual health insurance needs.			
PART Measures	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
FEGLI paid claims timeliness (days)	5.2	6.4	6.5	<10	6.9
FEGLI paid claims accuracy (%)	99.6	99.6	99.7	99.5	99.7
FEGLI improper payment rate (%)	0.23	0.22	0.17	0.25	0.10
FLTCIP service calls answered within 20 seconds (%)	86	88	88	85	88
FLTCIP Service Call Center handling rate (%)	99.5	98.8	99	97	99
FLTCIP customers satisfied with customer service (%)	90	95	98	90	97
New approved FLTCIP applications	200,229	11,023	8,543	7,500	8,268
Participation in FSAFEDS	31,000	125,000	163,115	200,000	193,481
"Clean" FSAFEDS claims reimbursed within five business days	No Data	No Data	91	90	95

OPM Actions:
OPM outsources claims administration to a single contractor, MetLife. OPM effectively administered the FEGLI contract. In FY2006, OPM implemented a two and a half month grace period for incurring eligible expenses for the FSAFEDS program and extended the claims filing deadline to May 31, 2006. The maximum annual health care FSA contribution increased to $5,000.

Public Value:
The Federal Employees' Group Life Insurance (FEGLI) Program is an employer-sponsored life insurance program under which benefit payments are made following the death or dismemberment of Federal employees and Federal retired employees. FEGLI offers Federal employees the opportunity to purchase group term life insurance which provides financial protection to beneficiaries in the event of enrollee death or dismemberment and is part of a compensation package that enables the government to remain competitive with other employers for highly qualified workers. Customer satisfaction surveys indicate that the overall package of benefits and the level of services provided meet the needs of participants.

The Compliance Program

Program: **Merit System Compliance**		**Program Outcome:** Ensure executive agencies exercise their delegated personnel management authorities in accordance with Merit System Principles, civil service laws and regulations, and OPM standards.			
PART Measures	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Percent of agencies with violations of veterans' preference laws, rules, and regulations	No data	40	18	30	21
Percent of agencies with severe problems in one or more delegated examining unit (DEUs) that demonstrate improvement within one year following completion of an audit	50	79	58	80	78
Percent of classification and job grading appeals decisions exceeding target timeliness	35	12	11	9	8

OPM Actions:
Percent of agencies with violations of veterans' preference laws, rules, and regulations: We tracked 14 agencies in FY 06 for this measure, 13 through our HR Operations Audits and one through the agency's internal audit process. While we met our target, we believe this is still a significant issue for agencies, and it will be a point of emphasis as we shift to oversight of agency accountability systems (see "Planned Improvements.").

Percent of agencies with severe problems in one or more DEUs that demonstrate improvement within one year following completion of an audit: In FY05, we identified nine agencies with severe problems in one or more DEUs. In FY-06, we followed up with seven of those agencies. In all cases, they took timely, appropriate action to address their severe problems. In two cases there were significant delays in reporting the final findings to the agencies, so we have deferred them to FY-07 for follow up.

Percent of classification and job grading appeals decisions exceeding target timeliness: We received 74 new cases in FY-06, of those 6 cases were over the time standard.

Planned Improvements:
Percent of agencies with violations of veterans' preference laws, rules, and regulations: In FY-06, OPM worked extensively with agencies on developing and implementing their own HC accountability programs, including compliance with laws and regulation. A critical part of this will be an emphasis on oversight of their delegated examining authority, particularly veterans' preference.

Percent of agencies with severe problems in one or more DEUs that demonstrate improvement within one year following completion of an audit: Due to delays in the reporting process, we had to defer two agencies to FY07. During FY-06, we made significant improvement to our reporting process through re-delegations, streamlined reporting, and improved tracking. We also established a report timeliness measure. These improvements should prevent future deferments due to untimely reports.

Percent of classification and job grading appeals decisions exceeding target timeliness: The program manager and CMSA management staff will continue to closely monitor appeal timeliness.

Public Value:
OPM's compliance program addresses both the Congress' and the President's continued interest in agencies upholding the merit system principles when filling positions and performing other personnel functions. OPM actions help Federal agencies maintain having a Federal personnel management system consistent with merit system principles and free from prohibited personnel practices.

The Center for Talent Services Program

Program: **Center for Talent Services**		**Program Outcome:** Develop leaders committed to public service values through learning that measurably transforms individuals and organizations, while providing a public sector forum for networking and knowledge sharing.			
PART Measures	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Agency acceptance rate of TMA project deliverables (%)	100	99	99	99	100
Overall customer satisfaction with Talent Service's produces and services (%)	95	95	95	≥90	96
CTS contribution to organizational effectiveness (% excluding "Don't Know")	96	95	98	≥96	93
Repurchase intention on CTS products and services (%)	95	96	96	≥90	92

OPM Actions:
Training and Management Assistance services continued to receive very high ratings from agency customers, the vast majority of whom reported that they intend to continue to use these services in the future.

In those instances in which customer satisfaction dropped below the FY 2005 level, the change was within the seven percent survey margin of error.

Planned Improvements:
Not Necessary. Only one target was missed and that was within the seven percent margin of error for the survey used to collect this data. Any positive response rate between 89 percent and 100 percent (seven percentage points above or below the target level) is not statistically significant.

Public Value:
Talent Services' products and services make it possible for agencies to recruit, retain, and manage the best talent by providing high-value human resources consulting and support services, thus allowing these customers to achieve significant positive results on the President's Management Agenda and in meeting specific agency goals.

The Center for Leadership Capacity Services Program

Program: Center for Leadership Capacity Services		**Program Outcome:** Develop leaders committed to public service values through learning that measurably transforms individuals and organizations, while providing a public sector forum for networking and knowledge sharing.			
Performance Indicators	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Evaluation ratings for the Management Development Centers, Centers for Executive Leadership, and Presidential Management Fellows programs (level 1, all programs)	4.5	4.6	4.5	4.6	4.7
Evaluation ratings for PMF (level 1)	3.9	4.0	4.1	4.1	4.4
Evaluation ratings for MDC and FEI. COP programs (level 2)	4.0	4.6	4.5	4.6	4.4
Evaluation ratings for FEI Leadership for a Democratic Society (level 2)	4.0	4.3	4.6	4.6	4.6
Evaluation ratings for PMF programs (level 2)	No data	No data	3.9	4.1	4.2
Number of training sessions	356	396	429	450	459
Number of participants	10,984	12,071	12,476	12.500	12,467
Number of participant training days	84,049	92,559	101,784	≥102,100	88,371

OPM Actions:
Leadership training programs continued to receive high marks across the board and attracted a large number of participants. Changes in training schedules, away from longer sessions to shorter ones, resulted in a drop in the number of participant training days from FY 2005.

Planned Improvements:
Level 2 evaluation ratings for MDC and FEI COP programs did not meet the target. A new measure as a result of the PART process will replace the current indicator with more meaningful data, as it will show the percentage difference between knowledge before and knowledge gained after participation in the program.

Public Value:
These products and services make it possible for agencies to recruit, retain, and manage the best talent by providing high-value human resources consulting and support services, thus allowing these customers to achieve significant positive results on the President's Management Agenda and in meeting specific agency goals.

The Federal Investigative Services Program

Program: Federal Investigative Services		**Program Outcome:** Carry out high quality, timely background investigations which will be used by Federal agencies to determine individuals suitability for Federal, military or Federal contract employment, and to determine individuals eligibility for access to classified national security information.			
Performance Indicators	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Percent of background investigations closed within contract delivery date	40	17	27	80	32
Percent of pending BI cases exceeding one year in process	No data	15	12	6	7.1
Percent applicant suitability determinations completed within contract timeframes	99	92	88	95	71
Percent of suitability determinations sustained when appealed to MSPB	>99	>99	100	>99	99.8
Percent of customers satisfied with investigations products and services	95	No survey	95	95	No survey

OPM Actions:
The Intelligence and Terrorism Prevention Act of 2004 Section 3001(g) mandates performance requirements relating to timeliness and quality of Federal personnel investigations. The investigations program is striving to meet these requirements by expanding its electronic initiatives and significantly increasing its capacity to conduct background investigations. Many of these mandates are not required until the end of the calendar year 2006 and when met, these requirements will ensure the program is meeting its purpose of providing high-quality and timely investigations to the Federal agency community.

Case submissions during FY 2006 exceeded customers' workload projections and FISD continues to adjust resources to address the backlog of cases inherited due to the merger with the Defense Security Service. FISD continues to prioritize pending case processing to focus resources on initial clearance investigations while eliminating pending background investigations that are overdue. As OPM continues to close more of the oldest cases in our inventory, it will have a negative effect on the overall average case timeliness.

An audit of all outstanding Applicant Suitability Determination cases was completed and an internal database was created to provide weekly management data for coordination with the Contract Management Branch. There will be continuous examination of the investigative and review process to improve suitability determination timeliness. FISD is committed to the constant monitoring and adjusting of resources to improve the quality and timeliness of background resources to meet this goal.

FISD worked through its prime contractor during the latter part of fiscal year 2006 to provide 31 staff to assist the Federal Bureau of Investigation (FBI) in reducing its backlog of pending name searches. The goal is to eliminate the majority of this backlog to fewer than 10,000 pending searches by December 15, 2006. At the end of FY 2006, the backlog of name searches at the FBI had been reduced from 69,450 pending searches to 55,608 on hand. Both OPM and the FBI are dedicated to achieving the project goal of fewer than 10,000 pending searches by the December 15, 2006 deadline.

Planned Improvements:
FISD continues to target overage cases to close-out the total backlog inventory. Federal staff has been detailed to locations where overdue work exists and the agency has established a hiring goal of approximately 200 new agents by the end of the calendar year 2006. Workload managers have been assigned to monitor OPM's contractor staff to ensure cases are being closed in a timely manner.

FISD continues to increase the number of field agents detailed overseas. In an effort to increase overseas field agent resources, a training program will be initiated in November 2006 as a result of a memorandum of understanding with the U.S. Department of State. The MOU will allow for the Department of State to assist FISD in overseas coverage once properly trained. FISD is also preparing to establish contracts with investigative companies to conduct overseas leads.

Public Value:
By meeting these mandates, FISD can provide timely and quality information to Federal agencies for proper case adjudications. Achieving this goal helps to ensure the integrity and suitability of the Federal Government workforce and the security of the information it possesses.

Office of the Inspector General

Program: Office of the Inspector General/Audits		Program Outcome:			
Performance Indicators	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Return on investment ($)	4	7	8	10	4.5
Carrier audit cycle (years)	4.0	2.9	3.0	3.0	4.0
FEHB audit recovery rate (%)	92	87	96	70-75	76
Positive financial impact	$40M	$95M	$122M	$130M	$70M
Number of carriers not audited within five-year retention cycle	110	34	36	40	27
Average FEHB unaudited years	5.1	3.5	3.2	3.6	2.9

Program: Office of the Inspector General/Investigations		Program Outcome:			
Performance Indicators	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Arrests	10	7	38	40	53
Indictments	14	22	43	40	56
Convictions	13	25	20	25	43
Debarments and suspensions	3,405	3,797	2,279	1,300	1,113
Administrative sanction fact-finding hearings	n/a	n/a	n/a	n/a	n/a
Debarment inquiry responses	2,741	3,731	5,037	4,700	4,511

Dropped Performance Indicators

The FY 2006 Congressional Budget Justification (CBJ) was prepared in 2004. Since then the agency's executive leadership has substantially changed, a new Strategic and Operational Plan has been created, and the PART process has been applied to all major agency programs. As a result, many of the old performance measures that appeared in the CBJ have been replaced or modified, as noted in the Performance Section of this document. The measures that have been dropped as no longer relevant to the current strategic and operational goals are as follows:

Performance Measure	Reason for Drop
Response timeliness (for labor and employee relations issues)	Overtaken by measures developed during PART review of human capital program, replaced by agency-wide measure for response timeliness
Stakeholders view responses positively	Overtaken by measures developed during PART review of human capital program
Meet project milestones	Overtaken by measures developed during PART review of human capital program
Legislation enacted	Overtaken by measures developed during PART review of human capital program, action is beyond OPM's control
Stakeholder approval of dental/vision health benefits options	Overtaken by measures developed during PART review of human capital program, implementation of program has been delayed
Enrollment statistics for dental/vision health benefit options	Overtaken by measures developed during PART review of human capital program, implementation of program has been delayed
Agency satisfaction with results of new law enforcement officers pay system	Overtaken by measures developed during PART review of human capital program
Agency feedback on the usefulness of OPM information and assistance promoting Work/Life programs	Overtaken by measures developed during PART review of human capital program
Use/success of student loan repayments and 3Rs authorities	Overtaken by measures developed during PART review of human capital program, methodology for tracking use of student loan repayments substantially changed
Results of evaluations of new pay authorities and flexibilities	Overtaken by measures developed during PART review of human capital program
Percentage of employees at appropriate stage of retirement planning according to the Retirement Readiness Index	Overtaken by measures developed during PART review of human capital program, implementation of program has been delayed
Percentage of PMC agencies under audit	Overtaken by measures developed during PART review of human capital program
Number of SF-86 forms submitted through e-QIP and received by PIPS	Overtaken by measures developed during PART review of investigative services program
Percentage of Federal agencies that have deployed e-QIP	Overtaken by measures developed during PART review of investigative services program
Percentage of files submitted through e-QIP that were rejected	Overtaken by measures developed during PART review of investigative services program
Percentage of Federal job applicants applying on-line using USAJOBS	Superseded by operational goals
Percent availability of applicant status tracking data	Superseded by operational goals
Average number of visitors to USAJOBS web site daily	Superseded by operational goals
Number of applications/resumes on file annually	Superseded by operational goals
Number of calls (dealing with retirement) handled	Superseded by operational goals
Priority correspondence unit cost	Absorbed into overall retirement customer service unit cost

Performance Measure	Reason for Drop
Cholesterol management after acute cardiovascular events	Superseded by operational goals
Number of legacy and duplicative systems retired (after implementation of Shared Service Centers)	Overtaken by measures developed during PART review of human capital program
Percent of Federal employees covered by Shared Service Centers	Overtaken by measures developed during PART review of human capital program
Percentage of annual performance goals met	Superseded by structure of new strategic and operational plan
Implement a COTS-based audit follow-up tracking system that reports status of corrective actions for pending audits and reviews	Action completed
Number of reviews of OPM business operations and work processes	Superseded by operational goals
Number of instances of internal control and risk management orientation and training	Superseded by operational goals
Percentage of EEO and diversity reports completed and delivered on time	Superseded by operational goals
Number of days to complete (EEO) investigations	Superseded by operational goals
Number of days to complete final agency decisions (on EEO cases)	Superseded by operational goals
Number of days to complete final agency orders (on EEO cases)	Superseded by operational goals
Dollar savings on telecommunications	Superseded by operational goals
Cumulative FTE performing commercial activities competed	Superseded by operational goals
Percentage of contract actions competed	Superseded by operational goals
Percentage of contracts that are performance-based	Superseded by operational goals
Rating on Competitive Sourcing in the Executive Scorecard	Superseded by operational goals

Program: Human Capital/SHRP	Program Outcome: Promote an efficient and effective, merit based Federal civil service				
Performance Indicators	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
PMA agencies with certified or provisionally certified SES pay-for-performance systems in place (%)	No data	No data	70	80	80
PMA agencies whose executive resources points of contact are trained and informed on SES pay-for-performance systems (%)	No data	No data	No data	90	100
DHS implementation	No data	No data	Final regulations published	Coordinate implementing issuances within 30 days of formal request	No requested issuances received
NSPS implementation	No data	No data	Proposed regulations published	Publish joint final OPM/DoD regulations; coordinate implementing issuances	Coordinated implementing issuances on conversions to NSPS, classification, compensation, and other issues
Revised pay-banding criteria for IRS	No data	No data	No data	Publish proposed regulations on revised IRS pay-banding criteria	Proposed changes in pay banding criteria under review by IRS

Program: Human Capital Talent Pay Administration	Program Outcome: Promote an efficient and effective, merit based Federal civil service				
Performance Indicators	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Timeliness of statutory pay system pay tables issuance.	Within 24 hours of EO being signed	Within 24 hours of EO being signed	Within 24 hours of EO being signed	Within 24 hours of EO being signed	EO signed 12/22/05; pay tables posted same day
Pay Agent's report to the President on locality pay	Report issued	Report issued	Report issued	Issue report	Report issued
Development of proposed pay adjustment percentage for President's budget	Proposed adjustment figure developed	Proposed adjustment figure developed	Proposed adjustment figure developed	Develop proposed adjustment figure	Proposed adjustment figure developed 10/04/05
Appropriate regulations regarding Federal Wage System issues	Regulations issued	Regulations issued	Regulations issued	Issue regulations	Regulations issued
Appropriate regulations regarding pay, leave, or performance management systems	Regulations issued	Regulations issued	Regulations issued	Issue regulations	Regulations issued

Program: Human Capital Talent	Program Outcome: Promote an efficient and effective, merit based Federal civil service				
Performance Indicators	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Publish appropriate classification and qualification standards.	No data	No data	No data	5	8

Program: Human Capital Performance Culture				Program Outcome: Promote an efficient and effective, merit based Federal civil service.	
Performance Indicators	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Number of the 26 PMA agencies that have a performance appraisal system that meets OPM standards.	No Data	No Data	No Data	23	25

Program: Human Capital Talent Pay				Program Outcome: Promote an efficient and effective, merit based Federal civil service.	
Performance Indicators	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Timeliness of releasing new payroll data standards.	n/a	n/a	n/a	Complete within 210 days	None needed
Timeliness of releasing new systems standards.	n/a	n/a	n/a	9 new systems requirements	None needed

Program: Internal Management		Program Outcome:			
Performance Indicators	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Cost savings that result from competitions ($m)	2.1	2.1	0.5	3.5	3.5
Percent of hires within the 45-day model	No data	60	60	61	76
Percent of OPM's COOP team members trained to respond to emergencies	No data	No data	No data	60	100

Program: Human Capital Talent Workforce Information		Program Outcome: Promote an efficient and effective, merit based Federal civil service.			
Performance Indicators	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Percent of customers satisfied with workforce information products and services.	No data	No data	80	83	95
Percent of Federal employees who telecommute.	5.3	5.9	7.7	7.7	Survey is underway
Conduct Federal Human Capital Survey	n/a	Survey conducted	Results published	Conduct survey	Survey being conducted

Program: Internal Management		Program Outcome:			
Performance Indicators	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Number of reportable violations of the Anti Deficiency Act	0	0	0	0	0
Percent of time computer network available during agreed upon service hours	No data	99	99	99	99

Program: **Human Capital Performance Culture Employee and Labor Relations**		**Program Outcome:** Promote an efficient and effective, merit based Federal civil service.			
Performance Indicators	**FY 2003 Results**	**FY 2004 Results**	**FY 2005 Results**	**FY 2006 Target**	**FY 2006 Results**
Number of Unfair Labor Practices against OPM filed by unions granted Governmentwide consultation rights upheld by FLRA for failure to complete Governmentwide consultation.	No data	0	0	0	0
Accuracy of information coded into LAIRS	No data	Information accurately coded and entered	Information accurately coded and entered	Information accurately coded and entered	Information accurately coded and entered—98%
Review of third-party decisions to allow for intervention as necessary (average calendar days)	No data	No data	14	14	14

sources

Appendix B—Data Sources

(Unaudited—See accompanying Independent Auditors' Report)

FY 2006 Operational Goals

Operational Goal	Source	Frequency of Collection	Method of Verification
Objective A			
A-1: Review and assist, where needed, agencies in ensuring performance appraisal systems focus on goal achievement by October 1, 2006.	Agency submissions	Annual	OMB ratings on President's Management Agenda
A-2: Report on SES performance-based systems results each calendar year.	Copy of CLERP Report	Annual	Confirm with DAD quarterly
A-4: Establish performance measurement criteria by July 1, 2006, and collect data for determination that DoD may implement NSPS beyond initial 300,000 employee limitation.	Baseline Assessment Report	One-time Activity	DoD reporting on number of employees eligible for NSPS inclusion
Objective B			
B-1: Issue a comprehensive catalog of Federal Government-offered professional development programs by October 1, 2006.	Copy of Catalog	One-time Activity	OPM web site
B-2: Evaluate/update OPM educational curricula for relevance and effectiveness in the current human resources environment by October 1, 2006.	Copy of Curricula	Quarterly	Curriculum Committee meetings
B-3: Award Retirement Systems Modernization contracts and begin implementation for Defined Benefit Technology Solution and Business Transformation/Information Technology Service by May 1, 2006, and June 1, 2006, respectively.	Copies of contracts	One-time Activity	Procurement desktop database
B-4: Make final 90% of initial retirement benefits in 30 days by October 1, 2006	Document Case and Control System (DCCS).	Weekly	Comparisons with prior year data, balance of incoming and outgoing caseloads
B-5: Complete and mail notices in 10 working days for 80% of subsequent change requests by October 1, 2006.	Change Request work center log; DCCS database	Collected daily, reported weekly	Comparison between manual and automated system; sample review
B-6: Answer 85% of general inquiries within 72 hours by October 1, 2006.	Change Request work center log; DCCS database	Collected daily, reported weekly	Automated call distributor system tests
B-7: Develop pilot program for eliminating interim payments; identify two agency participants in pilot programs by April 1, 2006.	OPM web site	One-time Activity	Communications with participating agencies
B-9: Implement limited expense health care flexible spending account by August 1, 2006.	OPM public announcement	One-time Activity	OPM web site
B-10: Promote affordable Federal Employee Health Benefits Program options, which may include additional health savings plan options each year during the strategic planning period.	Cost and benefit proposals to carriers	Annually	Acceptance letters
Objective C			
C-1: Identify Federal Government workforce Career Patterns for the future with accompanying requirements/impact by June 1, 2006.	Published analysis of workforce career patterns	One-time Activity	OPM web site
C-4: Work with CHCO Council to roll out a more targeted (by learning institution, profession) job fair process in 2006 and expand it through the Strategic Plan period.	Schedule of job fairs	One-time Activity	OPM web site
C-5: Update Executive Core Qualifications by October 1, 2006.	Memo to agencies and responses	Quarterly	Confirmation with DAD
C-6: Streamline and improve the examination rating schedules for common occupations by July 1, 2006.	Updated examination rating schedules	One-time Activity	Announcements through OPM web site
C-7: Develop and roll out a plan with the CHCO Council to work with the Presidential Management Fellows Program to recruit top talent for positions in management by July 1, 2006.	List of targeted graduate schools identified by CHCO Council	One-time Activity	CHCO Council lists and program historic data

Operational Goal	Source	Frequency of Collection	Method of Verification
C-8: Decrease hiring decision time frames to 45 days from closing date of job announcement to date of offer for 50% of hires by the end of FY 2006.	Human capital scorecard updates from agencies	Quarterly	OMB ratings of agency achievements on human capital scorecards
C-13: Set guidelines for managerial development by October 1, 2006.	Published guidelines	One-time Activity	OPM web site
Objective D			
D-1: Develop and operate Beta sites at 18 CHCO agencies by October 1, 2006.	List of agencies with operational Beta sites	One-time Activity	OMB ratings on President's Management Agenda, on-site visits
D-3: Have written succession plans at 15 CHCO agencies by October 1, 2006, and meet milestones.	Copies of agency succession plans	One-time Activity	Copies of agencies' plans
D-5: Set targets for closing competency gaps in the Human Resources Management Specialist occupation by October 1, 2006, at all CHCO agencies.	Competency Assessment Tool	One-time Activity	Agency Chief Human Capital Office
D-6: Implement a human capital accountability system, including compliance with merit systems principles, laws, rules, and regulations in accordance with OPM standards, at eight CHCO agencies by October 1, 2006.	Human capital scorecard updates from agencies	Quarterly	OMB ratings of agency achievements on human capital scorecards
D-8: Obtain commitment from three agencies for migration to Human Resources Line of Business Shared Service Centers by October 1, 2006.	List of agencies participating in HR LOB Shared Service Centers	One-time Activity	OPM web site announcement and on-site visits
D-10: Develop policy and functional requirements for nine non-core HR LOB sub functions by October 1, 2006.	Transmittal letters	Quarterly	Hard copies of correspondence, control logbook
Objective E			
E-1: Implement performance elements and standards for all OPM employees that support the OPM Strategic and Operational Plan by July 1, 2006.	Performance Plans and Appraisals	Annually	Documentation of written plan
E-2: Implement a professional development program for OPM employees by October 1, 2006.	Written plan	One-time Activity	List of recipients, award ceremony
E-3: Implement an employee recognition program at OPM by July 1, 2006.	Announcement of award system	Bi-annually	Survey results
E-4: Implement action plan to ensure OPM is rated in the top 50% of agencies surveyed in the 2006 Federal Human Capital Survey.	Survey administered	One-time Activity	Documentation of Beta site, email, articles
E-5: Have the OPM Beta site operational by June 1, 2006.	OPM Momentum announcement	One-time Activity	Documentation of Beta site, email, articles
E-6: Develop a group employee incentive program for the Human Resources Products and Services Division that factors in the uniqueness of HRPS as a reimbursable business operation by July 1, 2006; implement pilot program in Center for Talent Services by October 1, 2006.	CTS Group Employee Incentive Pilot Program Plan	One-time Activity	Committee was monitored by an Executive sponsor throughout Plan development
E-7: Develop performance standards for OPM common services by July 1, 2006, and implement by October 1, 2006.	Negotiated agreements identifying level and standard of services	Annually	Documentation of common services performance standards.
E-8: Maintain agency prompt payment performance at 98%; improve divisional performance (non-Investigative Services) 10% by October 1, 2006.	CFO reconciliation report	Weekly	Tracking database
E-9: Complete all routine OPM clearances in seven business days starting by April 1, 2006.	Clearances completed on Activities Tracking system	As submitted	Reports on delinquent activities, email, quarterly reviews
E-10: Operate under a fully implemented set of delegated authorities and clearance protocols by May 1, 2006.	Reservation and Delegations of Authority document	Annually	Documentation of Letters of Authority, email

Operational Goal	Source	Frequency of Collection	Method of Verification
E-11: Use the agency-wide Document Management System in 250 person pilot group by March 1, 2006, and extend through the agency by October 1, 2006.	Documentation Management System website system	Daily	Operations of activity and workflow, copy of instructions, documents tracked
E-12: Publish eight proposed/final human resources regulations by October 1, 2006.	*Federal Register*	As published	Update tracking sheet and confirm with DAD
E-13: Support Administration strategies to address pandemic threats throughout planning period.	Guidance for planning for pandemic influenza	Annually	Preparedness plan posted on website
E-14: Develop new common services methodology by July 1, 2006; implement by October 1, 2006.	Developed a new methodology for determining the distribution of costs	Annually	Service level agreements
E-15: Issue new internal control guidelines by July 1, 2006.	Internal controls	Annually	OPM Financial Management Manual
E-16: Receive an unqualified audit opinion and report no material weaknesses every year.	Independent auditor's report	Annually	Published report
E-18: Set up a Capital Investment Committee that will review and approve major capital expenditures by July 1, 2006.	Approved Charter for the Agency's Capital Investment Committee (CIC) setup in early May.	One-time Activity	Charter, email, public announcements
E-19: Develop guiding principles to be updated, published, and required by FEHBP carriers by the FY 2007 call letter mailing.	Call letter to carriers	Annually	Responses from FEHB carriers
E-21: Achieve full cost recovery annually for each revolving fund program.	GFIS, Monthly status of funds Review of financial statements, workload statistics, and personnel reports	Data collected at the end of each training session and reported monthly, and Quarterly for MCFO Financial System (GFIS)	Service level agreements, analysis of LMS and GFIS software reports. Using LMS and GFIS reports, reconciliation and verification is completed using internal cuff records for expenses (procurement documents) and revenue (customer agreements and billable documentation). There are also formal monthly budget reviews with the financial office.
E-22: Reevaluate requirements for financial management system migration to Bureau of Public Debt by May 1, 2006; complete implementation by February 1, 2007.	OPM/BPD public announcement	One-time Activity	OPM web site
E-26: Achieve a rate of no more than one percent of completed investigations returned from agency security/adjudication offices each year.	Microsoft Access database with data compiled from agency request for reopening of cases	Daily	The data is verified upon completion of the reopened case when the closing date of the investigation is entered.
E-27: Redesign the OPM website by October 1, 2006.	Announcement on OPM Momentum	One-time Activity	OPM web site
E-28: Inform OPM customers of the agency's success in meeting the stated customer goals in the 2006-2010 OPM Strategic and Operational Plan within two weeks of each success.	Media articles, website, briefings publications	As disseminated	Announcements, Highlights, email, articles
E-29: Develop and post on OPM internal web site a functional organizational directory by July 1, 2006.	Director's email	One-time Activity	OPM web site

Operational Goal	Source	Frequency of Collection	Method of Verification
Objective F			
F-1: Implement a plan to increase public awareness of professional development opportunities in the Federal workforce by July 1, 2006.	OPM public announcement	One-time Activity	OPM web site
F-4: Identify two national professional organizations focusing on human resources policy, benefits and employee development and achieve leadership positions in them during FY 2006 and each year thereafter.	Managers are queried and provide email responses regarding their involvement in national professional organizations.	Quarterly	Quarterly updates are requested from managers to ensure their memberships are still active and that they still hold leadership positions.
Objective G			
G-1: Acknowledge receipt of Congressional inquiries within 24 hours by July 1, 2006.	Item date stamped and logged in word tracking system by number & name and forwarded to program office	Tracked by date upon receipt daily	Word tracking system
G-2: Provide communications of OPM positions [to Congress] on routine issues within two days by July 1, 2006.	Phone calls logged in log book, correspondence date stamped and faxed directly to program. Items logged in acknowledgement word document log	Daily upon receipt	Word tracking system and Phone call log book
G-3: Identify and initiate at least one project on which to work with Members of Congress by March 1, 2006.	Project listing reports from Document Management System by program offices	Daily upon receipt	Document Management System
G-4: Expand the Walter Reed Army Medical Center post-service employment support model to one additional hospital in both 2006 and 2007	OPM Momentum and web site announcement	Annually	On-site visit to San Antonio facility
G-5: Identify at least one initiative per year to partner and implement beginning in 2006.	Partnership committee rosters, deliverables and/or outcomes (ie., Group Incentive Plan, Communications Plan, Staff Development Plan)	Each time committees are formed	Committee rosters are reviewed for union representation. Roll-call is taken at committee meetings and the Chair is asked to verify union representation.
G-7: Respond to routine [media] inquiries within two hours 95% of the time.	Phone, email, and correspondence inquiries	Daily upon receipt	Response control log, time & date stamped
G-8: Hold Director media briefings twice per year.	Media briefings	Semi-annually	Articles, email, public announcements

PART Measures

Operational Goal	Source	Frequency of Collection	Method of Verification
Objective A			
PART Measure: Percent of applicant systems from CHCO agencies whose SES performance plans are fully certified	Submissions from agencies	Quarterly	OMB PART evaluations
Objective B			
PART Measure: Retirement claims processing unit cost	Employee Time and Attendance Management Systems	Bi-weekly	Comparison to data from previous years
PART Measure: Claims processing accuracy (all types)	Quality Assurance reviews	Biennially	Random samples of claims calculations
PART Measure: Improper payment rate	Sampling of retirement payments	Annually	Review by OCFO, OIG and independent auditors
PART Measure: Annuitants who receive first payments before or when expected	CRIS Client Satisfaction Survey	Annually	Manual data tracking system, internal audits
PART Measure: Percent of self-servicing	Automated Client Service Applications	Bi-weekly	Comparison to data from prior years
PART Measure: Call handling rate	Call Center activity reports	Weekly	Automated Call Distributor system tests
PART Measure: Percent of annuitants satisfied with overall retirement services	CRIS Client Satisfaction Survey	Annually	Manual data tracking system, internal audits
PART Measure: Benefits Officers trained per year	Survey of agency benefits officers	Annually	Raw survey data
PART Measure: Customers who rate satisfaction with consulting services as very satisfactory or better	Survey of agency headquarters benefits officers	Quarterly	Raw survey data
PART Measure: Training attendees who rate training as very good or better	Post-training session survey	Following each workshop	Raw survey data
PART Measure: Employee knowledge of benefits program index	TBD		
PART Measure: Employees who are at the appropriate stage of retirement planning according to the Retirement Readiness Index	TBD		
PART Measures: Percent of new hires and employees who say retirement, HB, and LI benefits are competitive and important in their decision to accept or remain in a Federal job.	Federal Benefits Survey	Biannually	Raw survey data
PART Measures: Percent of enrollees satisfied with retirement benefits, health benefits and life insurance benefits	Federal Human Capital Survey	Biannually	Raw survey data
PART Measure: HB claims processing timeliness	Quality Assurance Reviews and reports filed by HB carriers	Annually	Internal reviews and audits
PART Measure: HB claims processing accuracy	Quality Assurance Reviews and reports filed by HB carriers	Annually	Internal reviews and audits
PART Measure: HB improper payment rate	IOG audits of carriers, independent auditor reviews	Quarterly	FEHB Centralized Enrollment Clearinghouse system, OCFO rate calculation
PART Measure: overall customer satisfaction scores for enrollees in FEHB plans meet or exceed industry standard	Customer Assessment of Health Plans Survey	Annually	Independent HB Certifying Agency

Operational Goal	Source	Frequency of Collection	Method of Verification
PART Measure: Accredited FEHB plans	National Committee for Quality Assurance database	Annually	Independent HB Certifying Agency
PART Measure: FEHB customers satisfied with OPM Open Season web site	Survey of FEHB Open Season customers	Annually	Internal reviews and audits
PART Measure: FEGLI paid claims timeliness	OFEGLI Average Claim Processing Report	Quarterly	Independent audits of MetLife
PART Measure: FEGLI paid claims accuracy	Quality Assurance Reviews	Quarterly	Internal audits
PART Measure: FEGLI improper payment rate	Matches of Annuity Roll Processing System eligibility and coverage data with MetLife's paid claims	Quarterly	Internal audits
PART Measure: FLTCIP service calls answered within 20 seconds	Long Term Care Partners Report	Monthly	Independent audits contractor
PART Measure: FLTCIP Service Call Center handling rate	Long Term Care Partners Report	Monthly	Independent audits contractor
PART Measure: FLTCIP customers satisfied with customer service	Long Term Care Partners Report	Monthly	Independent audits contractor
PART Measure: New approved FLTCIP applications	Long Term Care Partners Report	Monthly	Independent audits contractor
PART Measure: Participation in FSAFEDS	SHPS, Inc. Report	Monthly	Independent audits contractor
PART Measure: "Clean" FSAFEDS claims reimbursed within five business days	SHPS, Inc. Report	Weekly	Independent audits contractor
Objective C			
PART Measure: Number of the 26 PMA agencies meeting targets for closing mission critical occupation gaps.	Human capital scorecard updates from agencies	Quarterly	OMB ratings of agency achievements on human capital scorecards
Objective D			
PART Measure: Percent of agencies with violations of veterans' preference laws, rules, and regulations	Merit system reviews of agency systems	Quarterly	Quarterly performance reviews with Director
PART Measure: Percent of agencies with severe problems in one or more delegated examining units that demonstrate improvement within one year following completion of an audit	Merit system reviews of agency systems	Quarterly	Quarterly performance reviews with Director
PART Measure: Percent of classification and job grading appeals decisions exceeding target timeliness	Appeals decision log book	Quarterly	HCLMSA database

Operational Goal	Source	Frequency of Collection	Method of Verification
Objective E			
PART Measure: Agency acceptance rate of TMA project deliverables	Deliverable Receipt Form provided by customer agencies	Monthly	Staff reviews with clients and contractors
PART Measure: Overall customer satisfaction with CTS products and services	CTS Customer Satisfaction Survey	Following delivery of each major contract	Random comparisons of information in electronic database with original submissions
PART Measure: CTS contribution to organizational effectiveness	CTS Customer Satisfaction Survey	Following delivery of each major contract	Random comparisons of information in electronic database with original submissions
PART Measure: Repurchase intention on CTS products and services	CTS Customer Satisfaction Survey	Following delivery of each major contract	Random comparisons of information in electronic database with original submissions
PART Measure: Evaluation ratings for MDCs, CEL, and PMF programs (all levels, all programs)	Kirkpatrick rating survey	At end of each session, reported monthly	Raw survey data
PART Measure: Number of training sessions, participants, and training days	CLCS Leaning Management System	Quarterly	Course-by-course attendance lists
PART Measure: Percent of background investigations closed within contract delivery date	Case Closing Timeliness Report	Monthly	Management reviews
PART Measure: Percent of pending BI cases exceeding one year in process	Case Information Request System Reports	On demand	Personnel Investigations Processing System
PART Measure: Percent applicant suitability determinations completed within contract time frames	Suitability Adjudication Group Card System	Quarterly	Manual review
PART Measure: Percent of suitability determinations sustained when appealed to MSPB	Office of the General Counsel forwards copies of appeals and MSPB decisions	As appeals are made	Hard copies of documents
PART Measure: Percent of customers satisfied with investigations products and services	Customer satisfaction survey	Every 12–18 months	Hard copies of survey responses

Additional Performance Indicators

Operational Goal	Source	Frequency of Collection	Method of Verification
PMA agencies with certified or provisionally certified SES pay-for-performance systems in place (%)	Submissions from agencies	Quarterly	Documentation of certification in OMB PMA evaluations
PMA agencies whose executive resources points of contact are trained and informed on SES pay-for-performance systems (%)	Training session attendance sheets	As sessions are completed	Documentation of reviews
DHS implementation	Project manager, emails, draft implementing directives	When received	Completed reviews of directives
NSPS implementation	*Federal Register*, project manager, emails, draft implementing directives	As published	Quarterly reviews with DAD
Revised pay-banding criteria for IRS	*Federal Register*	As published	Quarterly reviews with DAD
Timeliness of statutory pay system pay tables issuance	OPM web site	Annually	Availability of information on web site
Pay Agent's report to the President on locality pay	OMB	Annually	Formal submission of report by OMB to White House
Development of proposed pay adjustment percentage for President's budget	OPM Document Management System	Annually	Transmittal letter from Director to OMB
Appropriate regulations regarding Federal Wage System issues	*Federal Register*	As published	Quarterly reviews with DAD
Appropriate regulations regarding pay, leave, or performance measurement systems	*Federal Register*	As published	Quarterly reviews with DAD
Publish appropriate classification and qualification standards	Released on OPM web site	As published	Quarterly reviews with DAD
Number of PMA agencies that have a process in place to account for Federal employees during an emergency	Submissions from agencies	Quarterly	Documentation of certification in OMB PMA evaluations
Number of the 26 PMA agencies that have a performance appraisal system that meets OPM standards	Submissions from agencies	Quarterly	Documentation of certification in OMB PMA evaluations
Timeliness of releasing new payroll data standards	Log-in and log-out of requests	As received	Copies of correspondence
Timeliness of releasing new systems standards	Log-in and log-out of requests	As received	Copies of correspondence
Cost savings that result from competitions ($m)	Streamlined competition form: Most Efficient Organization; Contracts Awarded; GSA payroll records	Quarterly for GSA payroll records, monthly for contracts	Review of GSA payroll records for accuracy, review of month contract invoices

Operational Goal	Source	Frequency of Collection	Method of Verification
Percent of new hires within the 45-day model	Staffing log	Collected on an on-going basis, which is reported quarterly	Data are verified by team leaders and specialists
Percent of OPM's COOP team members trained to respond to emergencies	COOP exercise participant list and training sessions sign-in sheets	Training sessions—quarterly Exercise—annually	Data are verified by Office and Division heads
Percent of customers satisfied with workforce information products and services	Electronic customer survey	As each product is completed	Review of customer responses
Percent of Federal employees who telecommute	Telework survey	Annually	Copies of survey responses
Conduct Federal Human Capital Survey	Survey analysis	Biannually	Copies of survey responses
Number of reportable violations of the Anti Deficiency Act			OPM financial system and budget office
Percent of time computer network available during agreed upon service hours	Automatically generated reports of server operations	Collected weekly and reported quarterly	Outage reports are matched against network server logs
Number of Unfair Labor Practices against OPM filed by unions granted Governmentwide consultation rights upheld by FLRA for failure to complete Governmentwide consultation	FLRA reports	As issued	Review of decisions by DAD
Accuracy of information coded into LAIRS	Participating agencies	As submitted by agencies	Reviews by staff prior to data entry
Review of third-party decisions to allow for intervention as necessary (average calendar days)	Review of records indicating receipt of MSPB decisions and date of review	Quarterly	Review by Group manager

Appendix C—Acronyms & Abbreviations

(Unaudited—See accompanying Independent Auditors' Report)

AFGE	American Federation of Government Employees
ARPS	Annuity Roll Processing System
BPD	Bureau of Public Debt
CFS	Center for Financial Services
CHCO	Chief Human Capital Officer
CIC	Capital Investment Committee
CLCS	Center for Leadership Capacity Services
COOP	Continuity of Operations Plan
CRC	Community-Rated Carrier
CSRS	Civil Service Retirement System
CTS	Center for Talent Services
CY	Calendar Year
DAD	Deputy Associate Director
DBTS	Define Benefit Technology Solution
DCIA	Debt Collection Improvement Act
DCCS	Document Case Control System
DEU	Delegated Examining Unit
DHS	Department of Homeland Security
DoD	Department of Defense
DSS	Defense Security Service
DVA	Department of Veterans' Affairs
EBS	Employees Benefits System
ECTS	Executive Correspondence Tracking System
EHRI	Enterprise Human Resources Integration
eOPF	Electronic Official Personnel Folder
eQIP	Electronic Questionnaire Investigations Processing
ERC	Experience-Rated Carrier
EVMS	Earned Value Management System
FBWT	Fund Balance With Treasury
FEGLI	Federal Employee Group Life Insurance
FEHB	Federal Employee Health Benefits
FEHBP	Federal Employee Health Benefits Program
FEI	Federal Executive Institute
FERS	Federal Employee Retirement System
FFMIA	Federal Financial Management Improvement Act
FISD	Federal Investigative Services Division
FISMA	Federal Information Security Management Act
FLRA	Federal Labor Relations Authority
FLSA	Fair Labor Standards Act
FLTCIP	Federal Long Term Care Insurance Program
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
FPRAC	Federal Prevailing Rate Advisory Committee
FSA	Flexible Spending Account
FTE	Full-time equivalent
FY	Fiscal Year
GAO	Government Accountability Office
GFIS	Government Financial Information System
GS	General Schedule
GSA	General Services Administration
HB	Health Benefits
HC	Human Capital
HCAAF	Human Capital Assessment and Accountability Framework
HCLMSA	Human Capital Leadership and Merit Systems Accountability Division
HDHP	High Deductible Health Care Plan
HR	Human Resources
HRD	Human Resources Development
HR LOB	Human Resources Line of Business
HRPS	Human Resources Products and Services Division
HSPC	Human Resources Service Provider Consortium
HSA	Health Savings Account
ICFR	Internal Control over Financial Reporting
IP	Improper Payment
IPA	Independent Public Accounting (firm)

IRS	Internal Revenue Service
IT	Information Technology
LAIRS	Labor Agreement Information Retrieval System
LI	Life Insurance
MD&A	Management Discussion and Analysis
MDC	Management Development Center
MetLife	Metropolitan Life Insurance Company
MSD	Management Services Division
MSPB	Merit Systems Protection Board
n/a	Not applicable
NFR	Notice of Finding and Recommendation
NRC	Nuclear Regulatory Commission
NSPS	National Security Personnel System
OCFO	Office of the Chief Financial Officer
OCPL	Office of Communications and Public Liaison
OCR	Office of Congressional Relations
OD	Office of the Director
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OMB	U. S. Office of Management and Budget
O/P	Overpayment
OPM	U. S. Office of Personnel Management
PAR	Performance and Accountability Report
PART	Program Assessment and Rating Tool
PBM	Pharmaceutical Benefits Manager
PMA	President's Management Agenda
PMF	Presidential Management Fellows
PRHB	Postretirement Health Benefits
PY	Prior Year
RF	Revolving Fund
RSM	Retirement Systems Modernization
SAOC	Spending Authority from Offset Collections
SES	Senior Executive Service
S&E	Salaries and Expenses
SGL	Standard General Ledger
SHRP	Strategic Human Resources Policy Division
SSA	Social Security Administration
TBD	To Be Determined
TMA	Training and Management Assistance
TOP	Treasury Offset Program
U/P	Underpayment
USC	United States Code

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