

UNITED STATES  
OFFICE OF PERSONNEL MANAGEMENT

Performance and Accountability Report  
**Fiscal Year 2007**

*Working for America*



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## Provide us your comments on how we can improve to:

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or email: Christopher.Brown@opm.gov or phone 202-606-2171.  
Hard copies of this report can be requested by contacting us at the above address.

*This report is also available on OPM's website at [www.opm.gov/gpra/opmgpra](http://www.opm.gov/gpra/opmgpra).*

United States  
of America



THE UNITED STATES OFFICE  
of PERSONNEL MANAGEMENT

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FISCAL YEAR 2007  
PERFORMANCE & ACCOUNTABILITY REPORT





## MESSAGE *from the* DIRECTOR

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I am pleased to present the U. S. Office of Personnel Management (OPM) Fiscal Year (FY) 2007 Performance and Accountability Report. As the central human resources agency for the Federal Government, we are accountable to the American people for ensuring the Federal Government has an effective civilian workforce. FY 2007 was a year of outstanding accomplishment and improved performance at OPM. We successfully completed 122 out of 123 operational goals contained in our Strategic and Operational Plan. Accomplishing these goals resulted in our meeting the targets for 57 of the 69, or 83 percent, performance measures for our programs—a 18 percentage point increase from FY 2006.

To accomplish our mission, OPM works closely with Federal agency partners to recruit, hire, develop, retain, and provide retirement benefits for a worldwide workforce of almost two million employees and 2.4 million retirees and their families. We provide leadership for the strategic management of human capital throughout the Federal Government, establish human resources policies, and promote best practice solutions and strategies. We hold Federal agencies accountable for implementing policies in accordance with the Merit System Principles, Veterans-Preference, and protection against prohibited personnel practices. In FY 2007, OPM made progress in all of these areas.

### *Leading the Strategic Management of Human Capital*

OPM is leading the Federal Government's efforts to meet the challenge of attracting, hiring, developing, and retaining a 21<sup>st</sup> century Federal civilian workforce focused on and capable of producing results for the American people. Working collaboratively with our Federal agency partners, we are implementing the Strategic Management of Human Capital Initiative, one of the five management initiatives under the President's Management Agenda (PMA). When the original Executive Branch Management Scorecard was released in 2001, no agency was "Green" (the highest level) in the area of Strategic Management of Human Capital. Today, 16 agencies have achieved this standard, with several others poised to join their ranks.

Across Government, agency leaders are seeing the value of building strong and sustainable human capital programs and how these programs contribute to mission accomplishment. For instance, 92 percent of agencies have human capital programs aligned with their mission, 81 percent of agencies met their targets toward closing gaps in mission critical occupations, and the average time to hire someone into Federal service dropped to an average of 31 days. Going forward, OPM's focus is to ensure human capital management systems are fully institutionalized in agencies' business operations and organizational culture by 2010. By building on the systems in place today, we will work with our agency partners to achieve this.

## A MESSAGE *from the* DIRECTOR

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#### *Achieving High Performance in Retirement and Health Benefits Programs*

One of the great features of Federal service is the highly competitive benefits programs available to Government employees, including retirement and health benefits. Implementing Retirement System Modernization (RSM) continued to be one of OPM's top priorities in FY 2007. RSM is transforming retirement processing from a paper-based to an automated electronic system. It is critical to ensuring the continued timely, accurate administration of retirement benefits as the "retirement wave" builds, and the number of retirement applications increases. During this past year, the groundwork was laid to deliver services in the RSM environment. We tested new automated systems and prepared retirement program employees to transition to the new technology and business processes beginning in February 2008, RSM's "go-live" date. When fully implemented, RSM will bring about efficiencies that will improve performance in all aspects of retirement program services.

OPM administers the Federal Employees Health Benefits Program (FEHBP), the largest single employer-sponsored health insurance program in the world, with over 8 million covered individuals. The FEHBP offers quality health care choices at an affordable price. Federal retirees may continue enrollment at the same level and premium cost as employees—coverage rare in other employment sectors. This year, FEHBP offers 283 plan choices including national fee-for-service plans, HMOs, High Deductible Health Plans, and Consumer-Driven Health Plans.

OPM played a leadership role in FY 2007 by promoting health care price and quality transparency. Many carriers made cost and quality information, including the costs of common medical procedures, available on their websites, and over 30 FEHBP carriers were acknowledged for their best practices. OPM continued to meet timeliness and accuracy performance targets for FEHBP, and enrollee satisfaction continued to be higher in the FEHBP than the industry standard.

This past year, the Federal Employees Dental and Vision Insurance Program, a supplemental benefit for Federal employees and retirees, became effective. Enrollment in the program far exceeded projections. Over 700,000 elections were made from among seven dental carriers and three vision-benefit plans. Moving forward, we will continue to use our purchasing power to keep premiums down for this program.

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## A MESSAGE *from the* DIRECTOR

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#### *Recruiting and Hiring a New Generation of Federal Employees*

Implementing strategies to recruit and hire high-quality Federal employees was another priority for OPM in 2007. Approximately 60 percent of the Federal workforce will be eligible to retire in the next decade, and an estimated 40 percent actually will retire. Positions vacated by some of the most experienced employees will need to be refilled with qualified, capable employees to continue the critical work of the Federal Government. This year, OPM pursued multiple strategies to assist agencies in meeting their recruiting and hiring goals.

An integral part of this strategy is the USAJOBS website. USAJOBS has been designated by OMB as the Federal Government's best recognized and most effective Presidential Management Initiative. It exceeded all goals and expectations for FY 2007, and the public utilization of the site continued to increase. Out of 133,000 job-application Internet sites worldwide, USAJOBS is number five. In August 2007, USAJOBS set an all-time record with 8.5 million visitors who generated 122 million page hits.

Another part of OPM's strategy is our recruitment advertisement campaign on several mediums, featuring Federal employees carrying out their agencies' diverse missions. This campaign has created significant interest with additional visits to USAJOBS in the markets in which the advertisements ran. OPM also co-sponsored Federal Career Days at universities and several community colleges across the United States to showcase the thousands of career opportunities available in the Federal Government. This year, these forums were targeted to recruiting for mission-critical occupations.

To help agencies streamline their hiring processes, we made available the interactive web-based Hiring Toolkit. To respond to the changing profile and expectations of the 21st century workforce, we promoted the *Career Patterns* approach to recruiting. *Career Patterns* recognizes the emergence of new work patterns and incorporates recruiting strategies such as telework and flexible work schedules. OPM continued to offer many flexibilities to improve hiring timeliness and to fill critical skill gaps, including "category rating," which expands the pool of qualified applicants. We held over 50 presentations and trainings nationwide and produced web-based videos on category rating and other hiring flexibilities. We also introduced legislation which would allow Federal retirees to temporarily return to work to assist with short-term, time-sensitive projects and to help train the next generation of Federal employees.

## A MESSAGE *from the* DIRECTOR

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As a result of successfully completing 16 operational goals focused on promoting effective recruitment and hiring strategies, OPM made outstanding progress helping Federal agencies achieve their hiring goals. Twenty-one of the 26 President's Management Agenda (PMA) agencies met their annual targets for closing mission-critical occupation/competency gaps, and hiring timeliness improved. Seventy-eight percent of new employees in the PMA agencies were hired within the 45-day time frame, 18 percentage points above the FY 2007 target and 14 points higher than FY 2006. The average time to hire now in these agencies is a highly competitive 31 days.

#### *Building a Performance Culture in the Federal Government*

The Federal Government can be fully effective only if employees at all levels are focused on and accountable for achieving performance results for the American people. In FY 2007, OPM's efforts to build a performance culture throughout the Federal Government included sharing best practices for implementing results-oriented performance appraisal and performance management systems. OPM also reported on implementation of performance-based pay systems at the Department of Defense National Security Personnel System and Department of Homeland Security and other agencies, supported new demonstration projects, and developed a comprehensive results-oriented performance culture strategy for Federal agencies to use.

During FY 2007, OPM completed all operational goals and met all performance targets for its Human Capital—Performance Culture program. Intensive OPM support and technical assistance provided to agencies during FY 2007 led to significant advances in agencies' performance appraisal and performance management systems. The percentage of all non-SES performance appraisal systems scoring at least 80 points on the Performance Appraisal Assessment Tool (20 percent) significantly exceeded the FY 2007 target (10 percent) and FY 2006 results (8 percent). In addition, by the end of the fiscal year, 33 percent of agency applicant SES appraisal systems received full certification. OPM also surpassed its goal of 12 agencies improving their performance management systems as measured by the PAAT.

#### *Building Leadership Capacity*

In December 2006, OPM provided to agencies the Management Competency Assessment Tool (MCAT), a web-based tool for assessing the skill levels of managers, supervisors, and others in key leadership and performance management positions. Agencies can use the results to support

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## A MESSAGE *from the* DIRECTOR

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leadership competency gap analyses, and succession management and leadership development. In January 2007, OPM hosted a briefing on the MCAT for agency Chief Human Capital Officers and provided follow-up, individualized consultative sessions.

OPM's Center for Leadership Capacity Services (CLCS) delivered high-quality training to meet Federal agency and employees customers' leadership, management development, and succession planning needs. High customer satisfaction levels were maintained, and the percent increase in perceived learning (52 percent) exceeded the FY 2007 target (41 percent). Open enrollment programs that were not financially viable were eliminated, the custom programs line of business experienced significant growth, and the Presidential Management Fellows program increased the number of fellows hired by 14 percent, while reducing expenses by about 50 percent. CLCS fully recovered its operating costs for the first time in several years and is positioned for continued success in FY 2008.

OPM met both of its Human Capital Leadership Capacity program performance targets. Twenty of 26 PMA agencies met their annual targets for closing leadership competency gaps (exceeding the target of 15 agencies); and 65 percent of these agencies' leadership development program graduates were placed into positions of higher responsibility (exceeding the target of 55 percent).

#### *Providing Human Resources Solutions and Strategies*

OPM continued to achieve excellent performance results for the Talent Services Program, which in FY 2007, provided integrated, customized products and services for dozens of Federal agencies. These included automated staffing solutions; individual and organizational assessment; recruitment, selection, and retention strategies; workforce and succession planning services; development, implementation, support, integration, and hosting of complex human resources information technology systems; and pre-qualified commercial vendors providing custom training, learning, and knowledge management solutions and human capital solutions.

#### *Ensuring Merit System Accountability*

Maintaining compliance with the nine Merit System Principles, veterans' preferences, and protecting the Federal workforce against prohibited personnel practices are the most basic aspects of OPM's mission. In FY 2007, OPM continued to implement human capital accountability

## A MESSAGE *from the* DIRECTOR

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systems in the PMA agencies and to carry out its statutory oversight responsibility through targeted audits of agency Human Resources operations and delegated examining units, and its classification appeals program. OPM met or exceeded all of the performance targets established for the Compliance Program in FY 2007. Twenty-five of 26 agencies have now implemented a system of internal compliance with Merit System Principles and laws, rules and regulations in accordance with OPM standards, an increase of 25 percent above FY 2006 and twelve-fold the number at the end of FY 2005.

#### *Providing Investigative Services*

Conducting background investigations is an integral part of the Federal staffing and security compliance process. OPM performs 90 percent of all background investigation services for the Federal Government—some 1.8 million investigations per year. Each year about a million new cases come to our agency requesting investigations ranging from basic suitability to top secret clearances. The timeliness of processing initial background investigations improved significantly during FY 2007, well below the average of 90 days target, while also maintaining processing accuracy virtually at FY 2006 levels.

#### *Modernizing HR Business Processes*

OPM continued to achieve the goals of the Human Resources Line of Business—to develop and implement secure, efficient, modern human resources solutions allowing Federal agencies to transform their human resource emphasis from administrative processing to strategic support for agency leadership and improved customer service. In FY 2007, four additional agencies committed to migrating to Shared Service Centers. OPM also furthered the Enterprise Human Resources Integration (EHRI) initiative, which is transforming how human resource information is accessed by Federal employees and Human Resource specialists and managers. When fully implemented, EHRI will replace the current Official Personnel File (OPF) with an electronic employee record—an “eOPF.” By the end of FY 2007, 46 percent of Federal agencies were using eOPFs, with 618,808 OPFs having been converted from paper to electronic format.

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## A MESSAGE *from the* DIRECTOR

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#### *Fulfilling our Commitment to Veterans*

As part of fulfilling our commitment to our nation's veterans, OPM established veterans' outreach offices at Walter Reed Army Medical Center in Washington and Brooke Army Medical Center in San Antonio, Texas. The outreach offices provide Federal employment information and counseling to injured veterans in support of the Department of Defense Transition Assistance Program. In June 2007, OPM entered into an agreement to open a third office at Fort Carson, Colorado.

This report also describes our progress in the past year meeting the important management challenges identified by the Office of the Inspector General. I appreciate the OIG's insights and will continue to work on successfully addressing these areas.

I am pleased to report OPM received an unqualified audit opinion on its FY 2007 consolidated financial statements by the independent public accounting firm of KPMG LLP. OPM now has achieved this important milestone for eight years in a row. As reported in the independent auditor's report, OPM had no material weakness in internal control over financial reporting for FY 2007 and received an unqualified audit opinion 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 deficiencies regarding this data.

I am proud of the accomplishments of OPM's dedicated and talented employees during FY 2007. I am certain that OPM will continue to fulfill our vital mission of ensuring the Federal Government has an effective civilian workforce—for Federal employees, agency partners, and most importantly the American people whom we serve.

Sincerely,



Linda M. Springer

Director

November 15, 2007



# SECTION 1—MANAGEMENT’S DISCUSSION AND ANALYSIS

## *(Unaudited—See accompanying Independent Auditors’ Report)*

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### Performance and Accountability Report Overview

#### INTRODUCTION

The U.S. Office of Personnel Management (OPM) is the central human resources agency for the Federal Government. OPM’s mission is to ensure the Federal Government has an effective civilian workforce. To carry out this mission, OPM provides human capital advice and leadership to Federal agencies, supports these with human resources policies, and holds agencies accountable for their human capital practices and upholding the merit system principles. In addition, OPM delivers human resources products and services to agencies on a reimbursable basis, including personnel investigations, leadership development and training, examining, staffing, 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 operates from its headquarters in the Theodore Roosevelt Federal Office Building at 1900 E Street, NW, Washington, D.C., 20415, 16 field offices across the country, and operating centers in Pittsburgh and Boyers, Pennsylvania; Ft. Meade, Maryland; and Macon, Georgia. OPM’s website is [www.opm.gov](http://www.opm.gov).

#### USING THIS REPORT

The *Fiscal Year (FY) 2007 Performance and Accountability Report* meets a variety of reporting

requirements from numerous laws focusing on improved accountability among Federal agencies and guidance described in Office of Management and Budget (OMB) Circulars A-11, A-123, and A-136. It consists of four sections and two appendices, which together provide an accurate and thorough accounting of OPM’s accomplishments during FY 2007 in fulfilling its mission.

*Section 1: Management’s 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, providing an overview of OPM’s financial and program performance during FY 2007. 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 2007 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 Improvement Acts.

*Section 2: Performance Information* presents OPM’s performance results in comprehensive detail, expanding on the key performance information highlighted in the MD&A, and reports on all of OPM’s performance measures and operational goals pertinent to FY 2007. 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.

*Section 3: Financial Information*, of interest to anyone concerned with OPM's financial performance, opens with a message from OPM's Chief Financial Officer and 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 OPM's internal controls over financial reporting, and tests of OPM's compliance with certain provisions of applicable laws, regulations, and contracts. Section 3 also includes OPM's consolidated financial statements, footnotes, and other required supplementary information.

*Section 4: Other Accompanying Information* covers the agency's Management Challenges, as described by OPM's Office of the Inspector General (OIG). These are OIG's summary of the most significant challenges facing OPM as it carries out its mission. This section also includes detailed information concerning the agency's compliance with the Improper Payment Information Act.

OPM employees prepared this Performance and Accountability Report with limited contractor support. 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](http://www.opm.gov/gpra/opmgpra). Hard copies may be obtained by contacting the U.S. Office of Personnel Management, Center for Budget and Performance, Room 5416, 1900 E St., NW, Washington, D.C., 20415.

## OPM's Mission and Strategic Objectives

OPM's Strategic and Operational Plan 2006–2010 is the starting point for performance accountability. OPM's mission is simple and direct: to ensure the Federal Government has an effective civilian workforce. This mission is accomplished by achieving seven strategic objectives (see Table 1). Objectives A and B focus on the outcomes OPM is achieving for the Federal workforce. Objectives C and D focus on what OPM needs to achieve through Federal agencies, and Objectives E, F, and G, describe OPM's aspirations for its performance internally, and its reputation among its partners and stakeholders. As stated in the Strategic and Operational Plan, each of the strategic objectives is supported by a series of operational goals. OPM reviews its operational goals as a part of its annual budget planning and develops additional goals for the upcoming fiscal years to address emerging issues. These additional operational goals are published in Addendums to the Strategic and Operational Plan. In FY 2007, OPM published an Addendum to the Strategic and Operational Plan 2006–2010.<sup>1</sup>

The driving force of OPM's Strategic and Operational Plan are the operational goals extending

<sup>1</sup> The Strategic Plan and Operational Plan 2006–2010, Addendum 2007–2010, and status of operational goals is available on the OPM Website at [www.opm.gov/strategicplan](http://www.opm.gov/strategicplan).

TABLE 1—OPM MISSION AND STRATEGIC OBJECTIVES

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

from the strategic objectives. Operational goals are performance drivers—the specific actions OPM will undertake and the deliverables it will produce to improve program performance, achieve program outcomes, and enable OPM to meet its strategic objectives and fulfill its mission. The operational goals are straightforward, readily-identifiable, and action-oriented. Each operational goal has a date by which it must be accomplished and is assigned to an executive “owner” within OPM. Each owner’s operational goals are included in his or her Senior Executive performance agreement so that, under the new SES performance-based pay system, executive compensation is directly linked to successful execution of the operational goals. If OPM successfully completes its operational goals, program performance will improve, and the evidence of this improvement will be reflected in the measures used to assess and monitor program performance.

### Organizational Structure

OPM’s organizational structure reflects the primary business lines through which OPM carries out its programs and implements its strategic objectives 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 1, OPM is comprised of the following organizational components.

### SPECIFIC OFFICIALS ON THE DIRECTOR’S CORE MANAGEMENT TEAM

- The *Chief of Staff and Director of External Affairs* is responsible for advising the Director on issues affecting the agency and the Federal workforce, and for coordinating implementation of the Director’s decisions throughout the agency.
- The *Office of Program Management* oversees the development and implementation of new programs within OPM. Currently, the office is responsible for completing the transition to the new business processes and technology that support the administration of the retirement programs, comprised of the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS).

## EXECUTIVE OFFICES

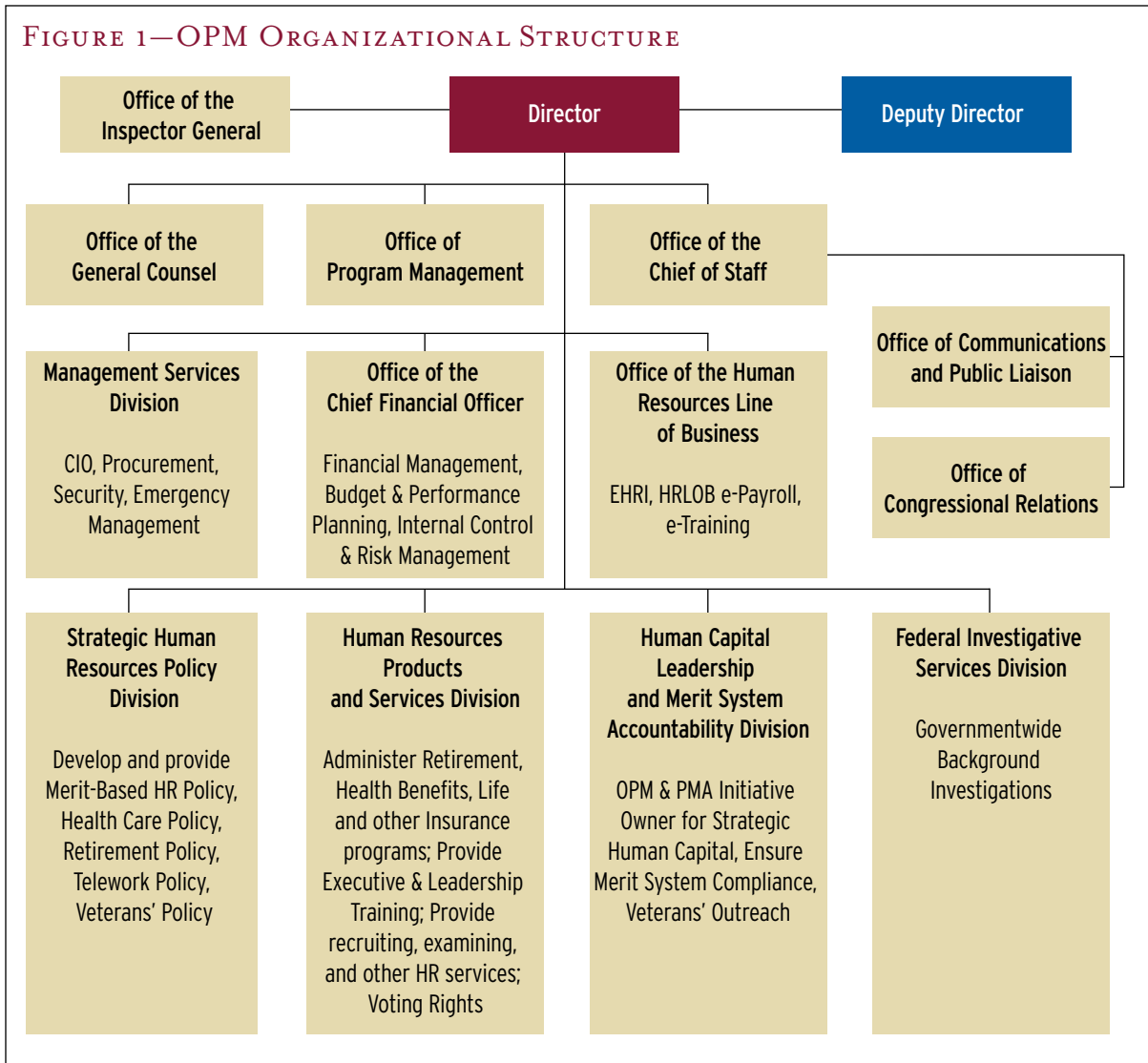
- The *Office of Communications and Public Liaison* advances and defends the heritage and principles of America's civil service. The office promotes the policies and directives of the President and of the OPM Director and ensures they are fully supported as they relate to the Human Capital Initiative. The office provides American citizens, Federal employees, agency customers, and pertinent stakeholders with accurate information to aid their planning and decision making.
- The *Office of Congressional Relations* oversees and coordinates all of OPM's congressional relations, provides strategic advice and legislative analysis to OPM's Director and program offices, and responds to congressional initiatives that affect Federal human resources management issues.
- The *Office of the General Counsel* 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.
- The *Office of the Inspector General* conducts comprehensive and independent audits, investigations, and evaluations relating to OPM programs and operations. It is responsible for administrative actions against health care providers that commit sanctionable offenses with respect to the Federal Employees Health Benefits Program (FEHBP) or other Federal programs. The OIG keeps the Director and Congress fully informed about problems and deficiencies in the administration of agency programs and operations, and the necessity for corrective action.

## PROGRAM DIVISIONS

- The *Federal Investigative Services Division (FISD)* houses the Investigations Program through which it provides Federal agencies personnel background investigative and employment suitability services on a reimbursable basis to ensure Federal employees meet critical personnel security standards. FISD strives to provide these services within the timeframes mandated by the National Intelligence Directive.
- The *Human Capital Leadership and Merit System Accountability Division (HCLMSA)* supports the Human Capital Program by leading the transformation of human capital management across Government by proactively engaging agencies in the implementation of the Human Capital Standards for Success and providing them with technical advice and assistance. HCLMSA also supports the Merit System Compliance Program by assessing and reporting agencies' adherence to the Merit System Principles, veterans' preference, and other Governmentwide standards.
- The *Human Resources Line of Business (HRLOB)* is responsible for the development of world-class, secure, modern, cross-agency, human resources solutions so 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. This will allow Federal agencies to change their focus from administrative processing to strategic planning support for agency leadership and improved customer service.



FIGURE 1—OPM ORGANIZATIONAL STRUCTURE



- The *Human Resources Products and Services Division* (HRPS) provides high-quality, cost-effective products and services that help OPM customers recruit and retain the best talent through the Talent Services Program; develops and maintains results-oriented leadership through the Leadership Capacity Services Program; and delivers benefits services to Federal employees, annuitants, and their families through the employee benefit programs.
- The *Management Services Division* (MSD) provides OPM offices with the full range of administrative services, including human capital and equal employment opportunity management, contracting and administrative management, information technology, 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) provides OPM offices with the full range of financial management, strategic planning, and budget services, and performs OPM's oversight of internal controls and risk assessments. It also is responsible for implementing the President's Management Agenda (PMA) within the agency.

FIGURE 2—STRATEGIC MANAGEMENT PROCESS



- The *Strategic Human Resources Policy Division* (SHRP) designs, develops, and leads the implementation of innovative, flexible, merit-based human resources policies and strategies that enable Federal agencies meet their missions and achieve their goals. Most of SHRP's activities support the Human Capital Program, but the division also provides policy leadership to the employee benefit programs (retirement, health benefits, life, and other insurance).

## Analysis of Program Performance

### OPM'S STRATEGIC MANAGEMENT PROCESS

OPM's strategic management process draws from two sources:

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

OPM has strategically aligned all of the elements of its management process to the agency's mission, as shown in Figure 2. The seven strategic objectives described in OPM's Strategic and Operational Plan 2006–2010 establish the overarching framework for how the agency fulfills its mission. OPM has used the PART process to define and assess the nine programs through which it achieves these objectives. These programs are: Human Capital, Merit System Compliance, Federal Civilian Retirement, Federal Employees Health Benefits, Federal Employees' Group Life Insurance, Federal Investigative Services, Talent Services, Leadership Capacity Services, and OIG FEHB Integrity.

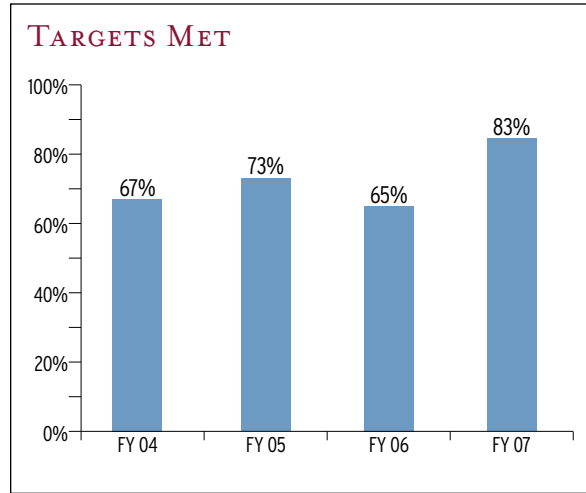
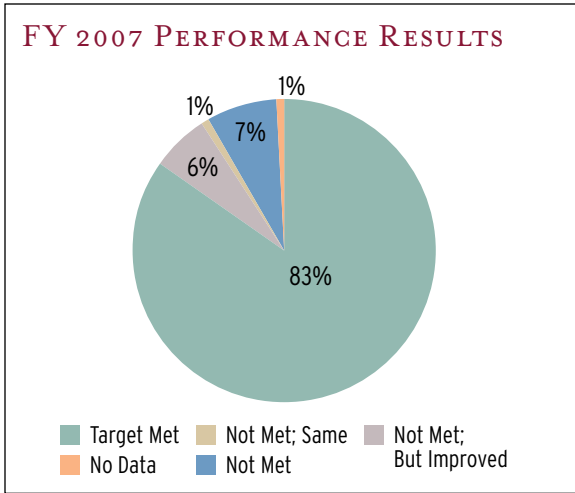
OPM has articulated the purpose, major program activities, and resulting outcomes for each of these programs and developed performance measures to assess their efficiency and effectiveness program. OPM has aligned these outcomes with its strategic objectives, and uses the resulting strategic management process to develop operational goals to drive program improvements.

SECTION 1—MANAGEMENT DISCUSSION AND ANALYSIS

TABLE 2—RELATIONSHIP BETWEEN STRATEGIC OBJECTIVES, PROGRAMS, AND PROGRAM ACTIVITIES

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

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



**FY 2007 PERFORMANCE HIGHLIGHTS**

OPM is reporting on 69 performance measures in this FY 2007 Performance and Accountability Report.

For **57** performance measures (83 percent of total measures), OPM met the FY 2007 target;

For **4** measures (nearly 6 percent), targets were not met, but performance improved over FY 2006; and

For **1** measure (approximately 1 percent), the target was not met, but performance stayed the same as in FY 2006.

For **6** measures (approximately 7 percent) targets were not met.

For **1** measure (approximately 1 percent), data is not available at this time.

Based on these measures, and the 122 operational goals OPM offices completed during FY 2007, OPM substantially achieved its program outcomes

and strategic objectives. This demonstrates OPM is fulfilling its mission of ensuring the Federal Government has an effective civilian workforce.

OPM programs are not only performing well, but improving. Improvement accelerated during FY 2007, with a 18 point increase in targets met between FY 2006 and FY 2007. This performance record is remarkable because achieving “targets met” has become more difficult. Through the PART process, all OPM programs have been assessed, and quantitative outcome-oriented and efficiency measures with ambitious targets have been established. Further development of long-term outcome measures continues (see PART Improvement Plans in Section 2), but the overall set of measures and targets has become more challenging during this period. OPM met the challenge in FY 2007, improving and reaching a high level of performance.

**TABLE 3—OPM PROGRAM PERFORMANCE IMPROVING SINCE FY 2004**

	FY 2004	FY 2005	FY 2006	FY 2007
Number of Performance Measures	107	159	46	69
Number of Targets Met	72	116	30	57
Percent of Targets Met	67%	73%	65%	83%

SECTION 1—MANAGEMENT DISCUSSION AND ANALYSIS

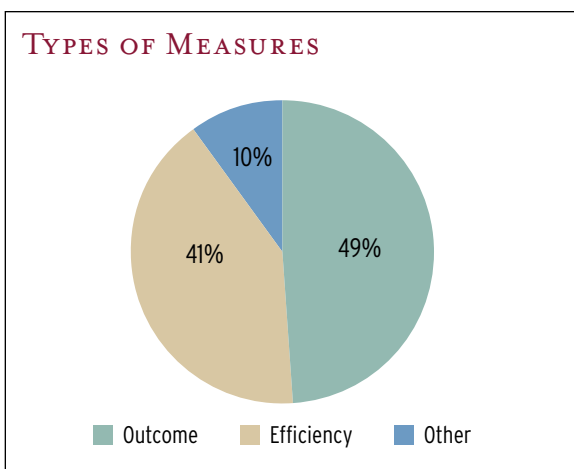
Table 4 shows OPM’s overall performance results and budgetary resources used to accomplish each strategic objective.

TABLE 4—FY 2007 OVERALL PERFORMANCE SUMMARY

Strategic Objective	Operational Goals		Performance Targets		Budgetary Resources Used *
	# Scheduled	# Completed	# Reported	# Met	
<b>Strategic Objective A:</b> The Federal civilian workforce will be focused on achieving agency goals.	10	10	3	3	\$8.621 M FTE: 65.6
<b>Strategic Objective B:</b> The Federal civilian workforce will have opportunities, benefits, and service that compete successfully with those of other employers.	27	27	35	30	\$162.842 M FTE: 987.7
<b>Strategic Objective C:</b> Federal agencies will be employers of choice.	18	18	10	7	\$246.417 M FTE: 698.8
<b>Strategic Objective D:</b> Federal agencies will be recognized as leaders in having exemplary human resources management practices.	19	19	15	11	\$25.866 M FTE: 144.7
<b>Strategic Objective E:</b> OPM will be a model of performance for other Federal agencies.	35	34	6	6	\$1,020.626 M FTE: 2,881.2
<b>Strategic Objective F:</b> OPM will be a leader in the human resources professional community and have positive name recognition outside the Federal Government.	4	4	-	-	\$ 4.434 M FTE: 34.0
<b>Strategic Objective G:</b> OPM will have constructive and productive relationships with external stakeholders.	10	10	-	-	\$1.094 M FTE: 7.8
<b>FY 2007 Totals</b>	<b>123</b>	<b>122</b>	<b>69</b>	<b>57</b>	<b>\$1,469.901M FTE: 4,819.8</b>

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

\*\* For Strategic Objectives F and G, separate performance measures (or targets) have not been defined. Comprised of internal management activities and facilitated by Executive Offices, completion of operational goals fully represents the level of performance for program activities carried out within these strategic objectives.



OPM’s success in meeting FY 2007 performance targets is especially noteworthy because the great majority—90 percent—of its performance measures are outcome-oriented and/or efficiency measures. Outcome measures describe the

intended result of carrying out a program or activity of direct importance to the intended beneficiaries and/or the public. Effective programs not only accomplish their outcome performance goals, but strive to improve their efficiency by achieving or accomplishing more benefits for a given amount of resources. Efficiency measures reflect the economical and effective utilization and management of resources to achieve program outcomes or produce program outputs. They may also reflect ingenuity in the improved design, creation, and delivery of services to reduce costs.<sup>2</sup> OPM effectively managed resources to provide real benefits and value to the American people.

<sup>2</sup> Source of definitions: OMB Circular A-11, July 2007: Section 200—Overview of Strategic Plans, Performance Budgets, and Performance and Accountability Reports

**SUMMARY OF PERFORMANCE RESULTS**

The summary below organizes OPM’s 69 performance measures according to their related Strategic Objective and program activity. Also, the summary shows OPM’s performance results for FY 2007 juxtaposed against their respective targets, and to the extent data is available, provides trend data back to FY 2004. A comprehensive report on all of OPM’s performance measures and operational goals is provided in *Section 2: Performance Information*.

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

**HUMAN CAPITAL—PERFORMANCE CULTURE**

During FY 2007, OPM completed 10 operational goals (see details on accomplishment of operational goals in *Section 2—Performance Information*), resulting in significant improvement in the three performance measures for the Human Capital—Performance Culture program activity. These goals were designed to increase the extent to which both SES and non-SES performance plans focused on agencies’ goals, and expand the use of pay-for-performance systems. As a result, significant improvement occurred in all three of the performance measures.

<b>Program:</b> Human Capital		<b>Program Activity:</b> Performance Culture				
<b>Outcome:</b> A culture of performance and accountability exists in all Federal agencies.						
<b>Performance Measures</b>	<b>FY 2004 Results</b>	<b>FY 2005 Results</b>	<b>FY 2006 Results</b>	<b>FY 2007 Target</b>	<b>FY 2007 Results</b>	
% of applicant systems whose SES performance plans are fully certified	5%	4%	3%	10%	33%	
% of all non-SES performance appraisal systems scoring at least 80 points out of 100 on the Performance Assessment Accountability Tool (PAAT)	No Data	No Data	8%	10%	20%	
# of civil service employees in a performance-based pay system	No Data	61,504	82,826	90,000	260,000	

No Data = Measure did not exist in this fiscal year and performance data cannot be reconstructed

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

**FEDERAL EMPLOYEES RETIREMENT—BENEFITS OFFICERS TRAINING AND DEVELOPMENT**

OPM completed the operational goal intended to improve agency benefits officers’ training and development and observed improved results in the two performance measures shown below.

<b>Program:</b> Federal Employees Retirement		<b>Program Activity :</b> Benefits Officers Training and Development			
<b>Program Outcome:</b> Federal employees have options and tools for retirement planning for their and their families’ financial future. Agency benefits officers are knowledgeable and Federal employees informed concerning their benefits					
<b>Performance Measures</b>	<b>FY 2004 Results</b>	<b>FY 2005 Results</b>	<b>FY 2006 Results</b>	<b>FY 2007 Target</b>	<b>FY 2007 Results</b>
% of benefits officers trained per year	No Data	No Data	47%	48%	52%
% of customers who rate satisfaction with guidance material as very good or better	No Data	91%	81%	85%	85%

No Data = Measure did not exist in this fiscal year and performance data cannot be reconstructed

**FEDERAL EMPLOYEES RETIREMENT—CLAIMS PROCESSING**

OPM continued to improve the efficiency and accuracy of processing new claims for retirement benefits, even as it completed operational goals focused primarily on its Retirement System Modernization (RSM) Project. Though OPM fell short of its aggressive target for the timeliness of processing new retirement claims, timeliness improved moderately during FY 2007. OPM’s current information system do not support achieving a target as ambitious as 90 percent. OPM’s strategy to ultimately achieve its long term and annual goals for the retirement program is the RSM project. OPM will begin implementing RSM’s new technology in FY 2008 and expects to have RSM fully operational by the end of FY 2010 (see details in Section 2).

<b>Program:</b> Federal Employees Retirement		<b>Program Activity :</b> Claims Processing			
<b>Outcome:</b> Benefits payments are timely, accurate, and delivered efficiently.					
<b>Performance Measures</b>	<b>FY 2004 Results</b>	<b>FY 2005 Results</b>	<b>FY 2006 Results</b>	<b>FY 2007 Target</b>	<b>FY 2007 Results</b>
% of initial claims processed within 30 days (FY 2006 Operational Goal)	No Data	14%	61%	90%	67%
Claims processing accuracy rate	93%	95%	89%	92%	95%
Claims processing unit cost	\$91.91	\$86.32	\$91.95	\$81.94	\$80.03
Improper payment rate	0.38%	0.28%	0.44%	0.44%	0.42%

No Data = Measure did not exist in this fiscal year and performance data cannot be reconstructed

## SECTION 1—MANAGEMENT DISCUSSION AND ANALYSIS

### FEDERAL EMPLOYEES RETIREMENT—ANSWERING INQUIRIES & MAINTAINING ANNUITY PAYMENT ACCOUNTS

OPM increased the volume of self-service transactions and responded to a greater percentage of inquiries within its 72-hour standard in FY 2007, while also reducing the cost per transaction (unit cost) for the wide range of services it provides these customers. These improvements were partly the result of retirement program employees working in customer service areas being crossed trained so they could be redeployed quickly in response to shifting workload demands. Also, OPM continued to review and streamline work processes to create efficiencies. OPM was unable to sustain improvements in all areas as the call handling rate did not improve to the 85 percent target set for FY 2007. However, performance for this measure remained at the FY 2006 level.

Program: Federal Employees Retirement		Program Activity : Answering Inquiries & Maintaining Annuity Payment Accounts			
Outcome: Services are delivered efficiently; annuitant rolls are accurate and current; annuitants are satisfied with overall program services.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
% of change notices mailed within 10 working days	No Data	No Data	95%	90%	93%
Customer services unit cost	\$6.63	\$5.37	\$4.54	\$4.63	\$4.42
% increase in self-services *	No Data	No Data	57%	50%	51%
% of inquiries answered within 72 hours	No Data	No Data	93%	85%	96%
Call handling rate	97%	91%	84%	85%	84%
% of customers satisfied with overall retirement services	94%	87%	83%	87%	87%

No Data = Measure did not exist in this fiscal year and performance data cannot be reconstructed



**FEDERAL EMPLOYEE HEALTH BENEFITS—CONTRACT ADMINISTRATION**

OPM completed all five of the operational goals scheduled in FY 2007. Four of these goals improve how the agency administers its contracts with the (approximately) 280 carriers participating in the health benefits program.

OPM met four of the six performance targets for this program activity and generally maintained its performance in administering contracts at the level achieved in FY 2006. Most significantly, enrollee satisfaction continues to be higher in the FEHBP than the industry standard. OPM will improve the functionality of its FEHB Open Season Web site to increase customer satisfaction with the site. The increase in improper payments is an anomaly caused by a one-time legal settlement. Therefore, the agency has no specific improvement plan concerning this performance measure.

Program: Federal Employee Health Benefits		Program Activity : Contract Administration			
Outcome: Federal employees, retirees, and their families have health benefits coverage meeting their individual health insurance needs.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Health benefits claims processing timeliness (% within 30 working days)	95%	98%	97%	95%	97%
Health benefits claims processing accuracy (%)	95%	98%	98%	96%	98%
Health benefits improper payment rate (%)*	0.32%	0.31%	0.20%	0.20%	0.78%
FEHBP overall enrollee satisfaction scores versus health care industry standard (%)	FEHBP: 70%; industry: 62%	FEHBP: 73%; industry: 64%	FEHBP: 73%; industry: 65%	FEHBP > Industry	FEHBP: 79%; industry: 63%
% of accredited FEHBP plans	74%	78%	79%	>2006 level	83%
Enrollee satisfaction with content and usability of OPM FEHBP Open Season Web site (%)	76%	79%	43%	79%	32%

SECTION 1—MANAGEMENT DISCUSSION AND ANALYSIS

FEDERAL EMPLOYEES GROUP LIFE INSURANCE AND OTHER INSURANCE—  
CONTRACT ADMINISTRATION

OPM met or exceeded all measures including the enrollment goal for the Federal Employees Flexible Spending Account (FSAFEDS) program. The percentage of FSAFEDS claims reimbursed within 5 days is nearly 100 percent. FEGLI claims are accurate 99.8 percent of the time. The call handling rate at the Federal Long Term Care Insurance Program (FLTCIP) call center is over 99 percent. FSAFEDS and the FLTCIP demonstrated successful performance with impressive records for customer satisfaction, timeliness and meeting enrollment goals.

Program: Federal Employees Group Life Insurance and Other Insurance		Program Activity : Contract Administration			
Outcome: Federal employees have the opportunity to purchase group term life insurance that provides financial protection to their beneficiaries.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
FEGLI paid claims timeliness (days)	6.4	6.5	6.9	< 10-days Industry standard	6.7
FEGLI paid claims accuracy (%)	99.6%	99.7%	99.7%	99.7%	99.8%
Improper payment rate (%)	0.22%	0.17%	0.06%	0.06%	0.06%
% of FLTCIP service calls answered within 20 seconds	88%	91%	88%	85%	88%
FLTCIP Service Call Center handling rate (%)	99%	99%	99%	97%	99%
% of FLTCIP customers overall satisfied with customer service	95%	98%	97%	97%	97%
# of employees participating in FSAFEDS	125,000	163,115	193,481	205,000	228,255
% of "clean" FSAFEDS claims reimbursed within 5 business days	No Data	91%	95%	95%	100%

No Data = Measure did not exist in this fiscal year and performance data cannot be reconstructed

SECTION 1—MANAGEMENT DISCUSSION AND ANALYSIS

**HUMAN CAPITAL—LEADERSHIP CAPACITY**

OPM completed four operational goals to strengthen the leadership capacity of the Federal workforce which brought about measurable results in FY 2007. Both measures of the leadership capacity outcome met the FY 2007 targets, and also showed improvement above FY 2006.

<b>Program:</b> Human Capital		<b>Program Activity :</b> Leadership Capacity			
<b>Outcome:</b> Improved agency management of SES recruitment, development, and retention					
<b>Performance Measures</b>	<b>FY 2004 Results</b>	<b>FY 2005 Results</b>	<b>FY 2006 Results</b>	<b>FY 2007 Target</b>	<b>FY 2007 Results</b>
# of 26 PMA agencies that meet their annual targets for closing leadership competency gaps	No Data	No Data	13	15	20
% of 26 large agency leadership development program graduates placed into positions of higher responsibility	No Data	No Data	53%	55%	65%

No Data = Measure did not exist in this fiscal year and performance data cannot be reconstructed

**LEADERSHIP CAPACITY SERVICES—FEDERAL EXECUTIVE INSTITUTE, MANAGEMENT DEVELOPMENT CENTERS, AND PRESIDENTIAL MANAGEMENT FELLOWS**

In FY 2007, the Center for Leadership Capacity Services (CLCS) met three of its four performance targets. First and foremost, the program achieved full cost recovery for the first time in several years. The Overall Customer Satisfaction was short of the FY 2007 target, but results remained at a high level. The percent increase in perceived learning exceeded the FY 2007 target with a 12 point increase above FY 2006. These results showed a continuation of the high quality standards that have characterized the Leadership Capacity Services Program over the years.

<b>Program:</b> Federal Employee Health Benefits		<b>Program Activity :</b> Contract Administration			
<b>Outcome:</b> Federal executives, managers, and supervisor’s have opportunity to receive high-quality training to meet the leadership, management development, and succession planning needs of their organizations and develop or renew their commitment to public service.					
<b>Performance Measures</b>	<b>FY 2004 Results</b>	<b>FY 2005 Results</b>	<b>FY 2006 Results</b>	<b>FY 2007 Target</b>	<b>FY 2007 Results</b>
Overall customer satisfaction, based on five point scale	4.70	4.61	4.68	4.68	4.60
% increase in perceived learning	41%	40%	40%	41%	52%
# of Presidential Management Fellow hires	403	366	355	400	403
Full cost recovery annual for each revolving fund program	No	No	No	Yes	Yes

## GOLEARN

OPM's GoLearn program continued its expansion during FY 2007 as its client agencies increasingly used this on-line facility, resulting in an increase in the number of GoLearn courses completed and registered users of the GoLearn site shown below. GoLearn's availability to all Federal agencies and employees makes it the ideal choice for addressing a wide range of training needs.

Program: GoLearn		Program Activity : GoLearn			
Outcome: The Federal workforce has increased opportunities for career development by utilizing high return on training investments.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
# of GoLearn courses completed annually (all Learning Management Systems)	178,207	136,878	2,009,267	2,100,000	2,278,513
# of eligible (registered) users of GoLearn sites	261,154	235,748	1,048,896	1,100,000	1,371,165
Full cost recovery for each revolving fund program	Yes	Yes	Yes	Yes	Yes

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

### TALENT SERVICES

OPM continued to achieve excellent performance results for the Talent Services Program during FY 2007. Although not all performance targets were met, all were within the margin of error for their respective collection methodology, and the results for four of the five measures represent sustained performance at the FY 2006 level, or an improvement.

Program: Talent Services		Program Activity : Talent Services			
Outcome: Effective and efficient staffing, training, assessment, and other human resources services that contribute to successful, high-performance organizations.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Customers satisfied with Center for Talent Services' products and services (ACSI Equivalent Index)	84	85	85	86	84
% of customer agencies expressing repurchase intention for CTS products and services	96%	96%	93%	≥96%	94%
% of training and management assistance deliverables accepted by customer agencies	99%	99%	99%	99%	99%
% of customers agreeing that CTS products and services contribute to Government effectiveness	95%	98%	93%	≥96%	94%
Achieve full cost recovery annually for each Revolving Fund program	Yes	Yes	Yes	Yes	Yes

## USAJOBS

OPM completed two operational goals in FY 2007 to improve the performance of its USAJOBS website. As a result, performance improved significantly regarding CHCO agencies adopting USAJOBS' position announcement templates, resume formats, and integrating online applications with agency assessment systems. In addition for the fourth straight year, USAJOBS recovered its costs.

<b>Program:</b> USAJOBS		<b>Program Activity :</b> USAJOBS			
<b>Outcome:</b> Federal agencies recruit effectively and efficiently for high-quality applicants to become employers of choice.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
% of CHCO agencies using USAJOBS position announcement template	No Data	No Data	35%	50%	78%
% of CHCO agencies using the USAJOBS resume format and integrating online applications with their assessment systems	No Data	No Data	86%	85%	98%
Full cost Recovery annually for each revolving fund program	Yes	Yes	Yes	Yes	Yes

No Data = Measure did not exist in this fiscal year and performance data cannot be reconstructed

## HUMAN CAPITAL—TALENT

OPM completed 16 operational goals scheduled for FY 2007, representing a comprehensive strategy to help Federal agencies develop and implement effective, targeted recruiting to attract the most highly qualified job applicants, to streamline hiring to bring them on board quickly, and to build attractive workplaces to retain valuable employees. OPM made progress helping Federal agencies achieve their hiring goals, as 21 of the 26 PMA agencies met their annual targets for closing mission-critical occupation/competency gaps. Also, OPM achieved outstanding results in its leadership and assistance to agencies in the area of hiring timeliness.

<b>Program:</b> Human Capital		<b>Program Activity :</b> Talent			
<b>Outcome:</b> Agencies successfully compete with other employers to recruit and retain top talent to achieve mission and goals.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
# of the 26 PMA agencies that meet their annual targets for closing mission-critical occupation/competency gaps	10	14	21	20	21
% of hires in each agency hired within the 45-day time frame, as described in OPM's hiring time frame model	No Data	No Data	64%	60%	78%

No Data = Measure did not exist in this fiscal year and performance data cannot be reconstructed

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

### HUMAN CAPITAL—STRATEGIC ALIGNMENT

OPM completed all nine of the operational goals scheduled to continue the expansion of the Human Resources Line of Business and improve the extent to which Federal agencies human capital programs are strategically aligned with their respective missions and strategic goals. These actions results in OPM meeting the targets established for the strategic alignment activity for FY 2007.

Program: Human Capital		Program Activity : Strategic Alignment			
Outcome: Federal agencies' human capital systems are aligned with their Strategic Plans.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
% of agencies that meet all 4 requirements of an effective strategic alignment system	42%	65%	88%	77%	92%
# of agencies migrated to HR LOB Shared Service Centers (including the migration of additional human resources functions)	No Data	No Data	5	3	4
% of hard copy official personnel files converted to electronic format	No Data	No Data	18%	33%	34%
# of hard copy official personnel files converted to electronic format	No Data	No Data	326,065	600,000	618,808

No Data = Measure did not exist in this fiscal year and performance data cannot be reconstructed

**MERIT SYSTEM COMPLIANCE**

OPM continued to implement human capital accountability systems in the PMA agencies and to carry out its statutory oversight responsibility through targeted audits of agency Human Resources operations and delegated examining units (DEUs), and its classification appeals program. OPM met or exceeded three of the four performance targets established for the Compliance Program in FY 2007. Twenty-five of 26 agencies have now implemented a system of internal compliance with Merit System Principles and laws, rules and regulations in accordance with OPM standards, an increase of 25 percent above FY 2006 and twelve-fold the number at the end of FY 2005. OPM’s oversight and on-going interactions with agencies regarding veterans’ preference violations did not bring about the expected improvement as the percent of agencies in which OPM has identified such violations increased four percentage points during FY 2007. OPM will continue to work with agencies to increase and improve agency accountability, including compliance with veterans’ preference laws, rules, and regulations.

Program: Merit System Compliance		Program Activity : Compliance			
Outcome: Federal agencies’ human resources programs are efficient, effective, and compliant with Merit Systems Principles.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
# of agencies that fully implement a system of internal compliance with Merit System Principles and laws, rules and regulations in accordance with OPM standards	0	2	20	25	25
% of agencies with violations of veterans’ preference laws, rules, and regulations	40%	18%	21%	20%	25%
% agencies with severe problems in one or more delegated examining units that demonstrate improvement within 1 year following completion of an audit	79%	58%	78%	80%	83%
% of classification and job-grading appeal decisions exceeding target time frames	12%	11%	9%	9%	2%

**FEDERAL INVESTIGATIVE SERVICES—BACKGROUND INVESTIGATIONS**

For FY 2007, OPM’s Federal Investigative Services Program established and completed ten operational goals, seven of which were focused on improving the timeliness of case processing. As a result, the timeliness of processing initial background investigations improved significantly during FY 2007, well below the average of 90 days target, while also maintaining processing accuracy virtually at FY 2006 levels. The inventory of unprocessed cases was reduced significantly. However, the age of the inventory missed the FY 2007 targets because many of the remaining cases were among the oldest, and require time consuming investigative work. OPM has not completed its annual customer satisfaction survey for the investigative services program, but will have these results by January 2008.

Program: Federal Investigative Services		Program Activity : Background Investigations				
Outcome: Federal agencies receive high-quality, timely background investigations to determine individuals' suitability for Federal civilian, military or Federal contract employment, and determine eligibility for access to classified national security information.						
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results	
Average # of days within which 80% of initial clearances are closed.	556	213	116	≤90	76*	
% of all other investigations closed within an average of their pre-determined number of days.	80%	84%	81%	80%	80%	
Case returns—% of cases returned by client agency for correction	0.056%	0.030%	0.127%	<1%	0.12%	
Average # days (initial clearances) in the 95th percentile of the aged inventory	570	463	475	425	630	
Average # days (all other investigations) in the 95th percentile of the aged inventory	994	552	650	575	610	
% of customers satisfied with quality and service of its products, policies and guidance	96%	95%	92%	95%	n/a	
Achieve full cost recovery annually for each Revolving Fund program	Yes	Yes	Yes	Yes	Yes	

n/a = Data not available at this time

\*Based on 80% of initial clearances completed during FY 2007. Results may be adjusted later as the remaining initial clearances received during FY 2007 are closed.



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

### INTERNAL MANAGEMENT—MANAGEMENT SERVICES

In FY 2007, OPM met all performance targets and completed 34 of 35 operational goals for the Management Services and Financial Services program activities. The operational goals focused on improving information resources, internal financial controls, and standardizing internal processes.

Program: Internal Management		Program Activity : Management Services and Financial Services			
Outcome: OPM is a model of performance for other Federal agencies					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
% of time computer network available during agreed-upon service hours	99%	99%	99%	99%	99%
% of hires within 45-day model	60%	60%	81%	85%	89%
Cost savings that result from competitions	\$2.1M	\$1.5M	\$2.7M	\$3.4M	\$7.6M
Independent auditors' opinion on annual financial statements	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
# of material weaknesses	0	0	0	0	0
% of payments within Prompt Pay Act guidelines	99.0%	99.9%	99.9%	98.0%	99.9%

For Internal Management program activities under Strategic Objectives F and G, see Section 2: Performance Information. Completion of operational goals fully represents performance levels for these activities.

### 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 2007 performance and is based on reasonably complete, accurate, and reliable data.

In FY 2007, OPM tightened controls over the collection and reporting of its performance information. For instance, each OPM program office documented its data collection, reporting, and verification procedures for program performance measures, establishing a control environment based on data quality standards established by the agency's Chief Financial Officer. Performance information pertinent to OPM's operational goals is validated with data evidence by the Chief Financial Officer to record the goal achieved and completed. These procedures are facilitated by internal quarterly financial and performance reviews. Through these reviews, data collection issues are identified and resolved before the PAR is due, and performance targets and goals can be adjusted if necessary. During FY 2008, the OCFO will test these data collection procedures, based on a sample comprised of the agency's key performance measures.

In addition to these internal controls, OPM uses findings from traditional reviews and audits by the OIG, the Government Accountability Office, independent auditors, and other outside groups 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.

### THE PRESIDENT'S MANAGEMENT AGENDA

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

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

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

As shown in table 5, OPM has achieved the standards for Human Capital, Competitive Sourcing, and Financial Performance, resulting in a green status for FY 2007. Five of the seven PMA initiatives are green in progress, showing advancements toward the standards for these initiatives. OPM continues to work to achieve the standards for Electronic Government, Performance Improvement, Improper Payments, and Health IT.

TABLE 5—OPM’S 2006 PROGRESS ON THE PRESIDENT’S MANAGEMENT AGENDA

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

### Addressing Demands, Risks, and Uncertainties

The Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standard No. 15 requires Federal agencies to discuss in the PAR the most significant existing, currently known demands, risks, uncertainties, events, conditions, and trends. Table 6 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 OPM’s Center for Internal Control and Risk Management and are monitored and reported to the Director monthly.

## SECTION 1—MANAGEMENT DISCUSSION AND ANALYSIS

**TABLE 6—SUMMARY OF OPM RISK AREAS**

Area of Risk/Assessment	Description
Department of Homeland Security (DHS) initiative  <i>OIG management challenges; Government Accountability Office (GAO) report</i>	In spite of progress to date, considerable work is required to fully institute the DHS human resources system, implement departmental processes and procedures, and demonstrate application to other Federal agencies and departments.
Department of Defense (DOD) initiative  <i>OIG management challenges; GAO reports</i>	Despite progress, more work is required to fully implement the National Defense Authorization Act of FY 2004. DOD's implementation of NSPS has occurred in a relatively small portion of the DOD workforce and data is not yet available to assess several progress elements. However, the preliminary data indicates that DOD is on track to meet milestones.
Retirement Systems Modernization  <i>OIG management challenges; GAO report; Internal Self-Assessment</i>	A February 2005 GAO report cited numerous challenges with RSM development and management. All 9 recommendations were closed by GAO in FY2007.  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.
Expanded Background Investigations  <i>OIG management challenges; GAO reports; Internal Self-Assessment</i>	The Intelligence Reform and Terrorism Prevention Act of 2004 mandates have made background investigations (BI) products and services more challenging to deliver timely. OPM is meeting the goal of completing 80% of initial clearance cases within an average of 90 days and has made or is planning major investments to its technology infrastructure supporting investigations processing.
Implementing the Human Resources Line of Business (HR LOB)  <i>OIG management challenges</i>	OPM's vision for HR LOB 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.
Financial Systems Modernization  <i>OIG/KPMG Audit Report; FY 2004 PAR; OCFO Self-Assessment</i>	Significant effort is required to improve OPM's financial management system including information system software, business processes and procedures, outsourcing support, and internal controls. OPM has developed a Capital Asset Plan on modernizing the current system. OPM is currently in the process of acquiring the services of either a public sector Shared Service Provider or commercial vendor with demonstrated experience in implementing and maintaining Financial Systems Integration Office certified COTS systems.

SECTION 1—MANAGEMENT DISCUSSION AND ANALYSIS

Impact	
On OPM	On Government or Public
Recent court decisions have hampered implementation of significant parts of the new system, which in turn may affect OPM's ability to propose similar legislation for the rest of the government.	Morale and effectiveness of DHS employees and the agency's ability to carry out its mission could be affected.
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 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 has continued to increase staff resources while moving forward with the Electronic Questionnaires for Investigations Processing (e-QIP) system, a web application that automates and facilitates processing of security questionnaires.	Federal hiring timeliness and quality of newly hired Federal employees could ultimately affect agency/Government performance and service to the public.
Many project milestones remain, including the continued migration of agencies to SSCs. Private SSCs will be established during FY 2008. Also, the other e-Gov initiatives such as EHRI, e-Clearance, e-Training providers, and USAJOBS will be expected to interface with Shared Service Center systems.	Governmentwide cost savings and process efficiencies in a wide range of human resources activities and retirement services will not be achieved if OPM is not successful in getting agencies to migrate to the SSCs.
Financial Systems Modernization will enhance OPM's financial stewardship; generate complete, accurate, reliable, and timely financial information for its managers and for external reporting; and implement recent Joint Financial Management Improvement Program certified enhancements.	Public confidence that OPM is properly managing and accounting for its assets, which include the hundreds of billions of dollars in the employee benefit Trust Funds.

## 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 audited by an independent certified public accountant, KPMG LLP. For the eighth 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. These consolidated and individual financial statements are the:

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

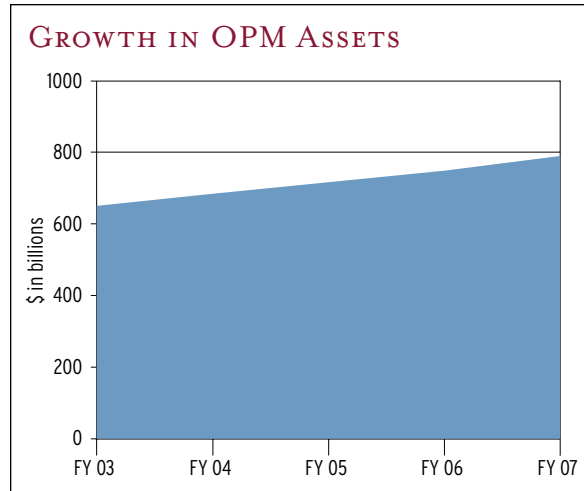
### BALANCE SHEET

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

#### Assets

At the end of FY 2007, OPM held \$790.1 billion in assets, an increase of 5.4 percent from \$749.7 billion at the end of FY 2006. The majority of OPM's assets are intragovernmental, representing claims against other Federal entities. The Balance Sheet separately identifies intragovernmental assets from all other assets.

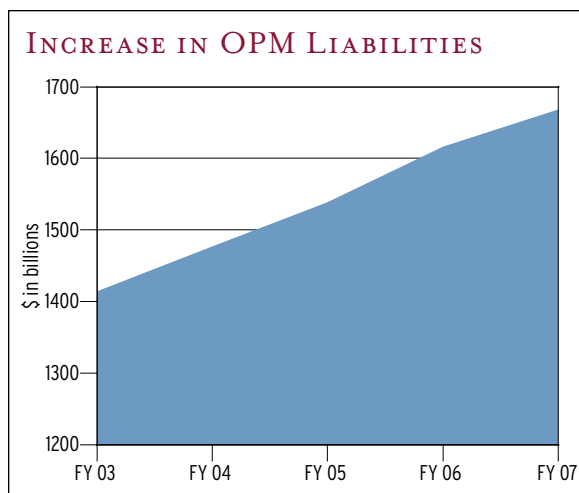
The largest category of assets is investments of \$785.4 billion, which represents 99.4 percent of all



OPM assets. OPM invests all Retirement, Health Benefits, and Life Insurance Program collections not needed immediately for payment in special securities issued by the U.S. Treasury. As OPM routinely collects more money than it pays out, its investment portfolio (and consequently, its total assets) continues to grow. In FY 2007, the investment portfolio grew by 5.4 percent. The largest increase for investments occurred in the Retirement Program; in FY 2007, the Total Earned Revenue was greater than the applicable Cost applied to the Pension Liability by \$2.5 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 \$36.6 billion for FY 2007, which resulted in an increase in the investment portfolio of more than \$11.7 billion for FY 2007 over FY 2006.

#### Liabilities

At the end of FY 2007, OPM's total liabilities were \$1,668.4 billion, an increase of 3.2 percent from \$1,616.9 billion at the end of FY 2006. Three line items—the Pension, Post-retirement Health Benefits, and the Actuarial Life Insurance Liabilities—account for 99.3 percent of OPM's liabilities. These liabilities reflect estimates by professional actuaries of the future cost, expressed in today's dollars, of



providing benefits to participants in the future. The Retirement Program's economic assumptions for the Rate of Inflation and the Rate of Increase in Salary were unchanged compared to FY 2006. The Health Benefits economic assumptions remain the same for the increase point in the per capita cost of covered benefits in fiscal years 2007 and 2006. In FY 2007, the Retirement and Health Benefits Program assumptions reflect an increase in actuarial liabilities by more than \$49.1 billion from FY 2006. 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 \$1,319.9 billion at the end of FY 2007, an increase of over \$33.3 billion, or 2.6 percent from the end of

the previous year. [See discussion of the Net Cost to Provide CSRS and FERS Benefits].

The *Post-retirement Health Benefits Liability*, which represents the future cost to provide health benefits to active employees after they retire, is \$302.1 billion at the end of FY 2007. This reflects an increase of approximately \$15.8 billion from the amount at the end of FY 2006, or 5.5 percent. [See discussion of the Net Cost to Provide Health Benefits].

The *Actuarial Life Insurance Liability* is different from the Pension and Post-retirement Health Benefits Liabilities. Whereas the other two are liabilities for "post-retirement" benefits only, the Actuarial Life Insurance Liability is an estimate of the future cost of life insurance benefits for both deceased annuitants and for employees who die in service. The Actuarial Life Insurance Liability increased by approximately \$1.6 billion in FY 2007 to \$35.2 billion, or 4.8 percent from the end of the previous year. [See discussion of the Net Cost to Provide Life Insurance Benefits].

### *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

## **Actuarial Gains and Losses**

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

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

Position is classified into two separate balances. The Cumulative Results of Operations comprises OPM’s net results of operations since its inception. Unexpended Appropriations is the balance of appropriated authority granted to OPM against which no outlays have been made. OPM’s total liabilities exceeded its total assets at the end of FY 2007 by \$878.2 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 7—Net Assets Available for Benefits shows that OPM’s net assets available to pay benefits have increased by over \$39.7 billion in FY 2007 to over \$778.9 billion.

**TABLE 7—NET ASSETS AVAILABLE FOR BENEFITS**

(\$ in Billions)	FY 2007	FY 2006	Change
Total Assets	\$790.1	\$749.7	\$40.4
Less “Non-Actuarial” Liabilities	11.2	10.5	0.7
Net Assets Available to Pay Benefits	\$778.9	\$739.2	\$39.7

**STATEMENT OF NET COST**

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

OPM’s Statement of Net Cost presents its cost of providing four major categories of benefits and services: Civil Service Retirement and Disability Benefits (CSRS and FERS), Health Benefits, and Life Insurance Benefits, as well as Human Resources Services. OPM derives its Net Cost by subtracting the revenues it earned from the gross costs it incurred in providing each of these benefits and services. OPM’s total FY 2007 Net Cost of Operations was \$50.9 billion, as compared with \$81.4 billion in FY 2006.

*Net Cost to Provide CSRS Benefits*

As presented in Table 8, OPM incurred a Pension Expense for the CSRS Benefits of \$64.7 billion compared with \$93.3, a decrease of \$28.6 billion from FY 2006. The primary component for the decrease is due to the actuarial gains from actual experience in FY 2007 general salary increases and rate of inflation were different from what had been assumed for FY 2006. The actual COLA was 3.3 percent for CSRS, while 3.5 percent had been assumed and the actual general salary was 2.2 percent, while 4.25 percent had been assumed. The change in assumptions decreased Gross Cost because both the COLA and the salary increase were lower than expected. These facts in its totality caused an actuarial gain. 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 2007 by \$2.1 billion from FY 2006 and OPM’s earnings on CSRS investments declined by approximately \$0.5 billion from FY 2006.



**TABLE 8—NET COST TO PROVIDE CSRS BENEFITS**

(\$ in Billions)	FY 2007	FY 2006	Change
Gross Cost	\$64.7	\$93.3	(\$28.6)
Associated Revenues	28.1	30.7	(2.6)
Net Cost	\$36.6	\$62.6	(\$26.0)

Due to accounting standards, current pension benefits paid are applied to the Pension Liability, and therefore, do not appear on the Statement of Net Cost. OPM paid CSRS benefits of \$57.4 billion, as compared to the \$54.9 billion in FY 2006. 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 9, the Net Cost to Provide FERS Benefits in FY 2007 decreased by \$9.0 billion from FY 2006. As with the CSRS, there are three prime determinants of OPM's net cost to provide FERS benefits: one cost category (the actuarially-computed Pension Expense) and two categories of earned revenue (contributions by and for participants and earnings on FERS investments). Under the Actuarial assumptions, the real interest rate, the difference between the interest rate and the rate of inflation, increase caused the Gross Cost to decrease.

The Pension Expense for the FERS is the amount of future benefits earned by participants during the current fiscal year. For FY 2007, OPM incurred a Pension Expense for the FERS of \$29.6 billion, as compared with \$36.3 billion in FY 2006. The primary component for the decrease is due to the actuarial gains from actual experience in FY 2007 general salary increases and rate of inflation were different from what had been assumed for FY 2006. The actual COLA was 3.3 percent for CSRS, while 3.5 percent had been assumed and the actual general salary was 2.2 percent, while 4.25 percent had been assumed. The change in assumptions decreased Gross Cost because both the COLA and the salary increase were lower than expected. These facts in its totality caused an actuarial gain 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 \$1.0 billion, or 6.7 percent from FY 2006, also due to the increasing number of FERS participants.

**TABLE 9—NET COST TO PROVIDE FERS BENEFITS**

(\$ in Billions)	FY 2007	FY 2006	Change
Gross Cost	\$29.6	\$36.3	(\$6.7)
Associated Revenues	30.3	28.0	2.3
Net Cost	(\$0.7)	\$8.3	(\$9.0)

Due to accounting standards, current pension benefits paid are applied to the Pension Liability, and therefore, do not appear on the Statement of Net Cost. In FY 2007, OPM paid FERS benefits of \$3.6 billion, compared with \$3.0 billion in FY 2006. 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 2007 increased by \$4.3 billion from that in FY 2006 (Table 10). There are three prime determinants of OPM's net cost to provide Health Benefits: two cost categories (the actuarially-computed Post-retirement Health Benefits Expense and Current Benefits and Premiums) and one earned revenue category (contributions by and for participants).

**TABLE 10—NET COST TO PROVIDE HEALTH BENEFITS**

(\$ in Billions)	FY 2007	FY 2006	Change
Gross Cost	\$49.7	\$35.9	\$13.8
Associated Revenues	34.8	25.3	9.5
Net Cost	\$14.9	\$10.6	\$ 4.3

The Post-retirement Health Benefits Expense (PRHB) is the amount of future benefits earned by participants during the current fiscal year. For FY 2007, OPM incurred a PRHB expense of \$27.4 billion, as compared with \$15.8 billion in FY 2006, due primarily to the recognition of a decrease in actuarial gain in FY 2007 than in FY 2006. The actual PRHB associated expense decreased from a gain of \$1.2 billion compared to a gain of \$12.6 billion in FY 2006. There was a reduction (actuarial gain) in the post retirement medical liability estimated, as of September 2006, because the starting population covered by health insurance had decreased and health insurance claims, net of retiree contributions were less than expected. These two factors partially offset by a change in the method of calculating the normal cost which resulted in a decrease in the normal cost and consequently a decrease in the present value of future normal contributions for actives and a corresponding increase in the accrued liability. Despite these gains, the liability for September 2007 is higher because there was an increase in the cost of health care.

Current Benefits and Premiums increased \$2.2 billion from FY 2006, 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 \$9.1 billion from FY 2006, due to the aforementioned increased premium rates. OPM's earnings on Health Benefits investments increased of over \$0.4 billion from FY 2006, as a larger Health Benefits investment portfolio offset the effect of lower returns.

Due to accounting standards, a portion of the costs to provide health benefits is netted against the PRHB Liability and not fully disclosed on the statement of Net Cost. The actual costs to provide health benefits are presented in Table 11.

**TABLE 11—DISCLOSED AND APPLIED COSTS TO PROVIDE HEALTH BENEFITS**

(\$ in Billions)	Disclosed	Applied to PRHB	Total FY 2007	Total FY 2006
Claims	\$17.5	\$8.5	\$26.0	\$23.4
Premiums	4.1	2.3	6.4	6.2
Administrative and other	0.9	0.8	1.7	1.6

### *Net Cost to Provide Life Insurance Benefits*

As shown in Table 12, the Net Cost (Excess of Revenue) to Provide Life Insurance Benefits increased from (\$215.0) million in FY 2006 to \$96.0 million in FY 2007. Gross cost increased \$506.0 million due to an increase primarily in Future Life Insurance Benefits (FLIB) of \$315 million and an increase of \$191.0 million paid to the principal carrier. Associated revenues increased \$195.0 million due to an increase in employee and employer contributions from higher claims experience, higher salaries largely due from the annual general pay increase, and an increase on earnings from a larger investment portfolio. The actuarial liability is expected to increase over the course of the fiscal year due to increases in salaries and corresponding amounts of insurance. The increase in FLIB also reflects a loss due to increased Basic enrollment and lower than projected fund earnings that is partially offset by lower than projected salary increases and improved demographic experience. The increase in payments to our principal carrier represents an increase due to higher claims experience.

TABLE 12—NET COST TO PROVIDE LIFE INSURANCE BENEFITS

(\$ in Millions)	FY 2007	FY 2006	Change
Gross Cost	\$4,021	\$3,515	\$506
Associated Revenues	3,925	3,730	195
Net Cost (Excess of Revenue)	\$ 96	(\$215)	\$311

### STATEMENT OF BUDGETARY RESOURCES

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

As presented in the Statement of Budgetary Resources, a total of \$201.8 billion in budgetary resources was available to OPM for FY 2007. OPM's budgetary resources in FY 2007 include \$43.4 billion carried over from FY 2006, plus three major additional sources:

- Appropriations Received = \$39.8 billion
- Trust Fund receipts of \$115.4 billion, less \$36.9 billion not available = \$78.5 billion
- Spending authority from offsetting collections (SAOC) = \$40.1 billion.

Total budgetary resources do not include \$11.4 billion of Trust Fund receipts for the Retirement obligations pursuant to public law. In addition, in accordance with Public Law 109-435, contributions for the Postal Service Retirement Health Benefits (PSRHB) Fund of the Health Benefits Program are precluded from obligations totaling \$25.5 billion and therefore temporarily not available.

*Appropriations* are funding sources resulting from specified Acts of Congress that authorize Federal agencies to incur obligations and to make payments for specified purposes. OPM's appropriations partially offset the increase in the Pension Liability in the Retirement Program, and fund contributions

for retirees and survivors who participate in the Health Benefits and Life Insurance Programs.

### SOURCES OF BUDGETARY RESOURCES

	FY 2007	FY 2006
Trust Fund Receipts	38.9%	33.7%
FY2005 Balance Brought Forward	—	22.6%
FY2006 Balance Brought Forward	21.5%	—
SAOC	19.9%	22.5%
Appropriations	19.7%	21.2%

*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 2007	FY 2006
Retirement Benefits	67.9%	57.4%
Health Benefits	29.5%	38.9%
Life Insurance Benefits	1.8%	2.2%
Other	0.8%	1.5%

From the \$201.8 billion in budgetary resources OPM had available during FY 2007, it incurred obligations of \$155.8 billion less the \$11.4 billion Retirement feeder for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs. The \$25.5 billion in the PSRHB Fund of the Health Benefits Program is precluded from obligations. Most of the excess budgetary resources OPM had available in FY 2007 over the obligations it incurred against those resources is classified as being "unavailable" for obligation at year-end.

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

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

- OPM Director's Federal Managers' Financial Integrity Act Assurance Statement
- Federal Financial Management Improvement Act (FFMIA) of 1996
- 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
- Financial Management Systems
- Federal Information Security Management Act (FISMA) of 2002

### COMPLIANCE WITH THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

**Financial Management Systems.** The FFMIA requires Federal agencies to implement and maintain financial management systems that are in substantial compliance with Federal financial system requirements, Federal accounting standards, and the United States Standard General Ledger (USSGL)

## Management Assurances

### FMFIA and FFMIA Assurance Statement

OPM is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the 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 and financial management systems, as of September 30, 2007, 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, 2007, 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 2007, 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 2007.



Linda M. Springer  
Director

November 13, 2007

at the transaction level. Based on a review of the auditors' report and other relevant information, OPM has determined that for FY 2007, 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, with the applicable Federal accounting standards and the application of the USSGL.

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

**FFMIA Remediation Activities.** OPM has devoted a great deal of time and resources to resolving the other matters that were applicable to the Revolving Fund Programs and the Salaries and Expenses fund system. The Center for Financial Services (CFS) staff analyzed abnormal and illogical account balances and related financial transactions to identify problems and take corrective actions. As a result, the Office of the Chief Financial Officer (OCFO) strengthened internal controls over transaction processing and entry into the core financial system, including automated interfaces with pertinent "feeder"/program systems. Also, CFS staff modified the core financial system to correct erroneous general ledger postings and to ensure that resulting transactions are consistent with Federal requirements. OPM will continue to strengthen its budgetary accounting controls. As discussed previously, by the beginning of FY 2010, OPM expects to implement a new core financial system that will provide financial and procurement functions including: general ledger, accounts payable, disbursing, accounts receivable, budget execution, acquisition/procurement and financial reporting (internal and external).

In preparation of financial statements, and related disclosures along with other financial information OPM is consistent with Federal accounting standards. In accordance with the Chief Financial Officers (CFO) Act of 1990, OCFO implemented policies and procedures to prepare financial statements and related disclosures, budget reports, and other financial information for agency management decision-making consistent with Federal accounting standards. A financial manual was developed and maintained to provide OPM offices with comprehensive policies and procedures for financial activities. The OPM plans to refine and update these procedures during the implementation of the new accounting system in FY 2009.

**Enhance Financial Management Systems.**

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

**COMPLIANCE WITH THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT**

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

OPM evaluated its systems of internal control, to ensure compliance with OMB Circular A-123, *Management's Responsibility for Internal Control*. OPM conducted an assessment of its internal control over Agency operations and compliance with applicable laws and regulations. As part of the assessment, the CFO also required office heads to submit an assurance statement and supporting documentation to report to the CFO if their internal control systems met the requirements of the FMFIA. Based on the results of this assessment, no material weaknesses were found or reported as of September 30, 2007.

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

OPM's A-123 Appendix A Implementation Plan for FY 2007 was developed in accordance with the Circular and with the Chief Financial Officer's Council Implementation Guide for A-123 Appendix A. OPM's A-123 Appendix A Implementation Plan was submitted for OMB's review in February 2007. As in the previous year, FY 2007 Appendix A planning, testing, evaluation and reporting for internal control over financial reporting were done under the direction of OPM's Senior Assessment Board for Internal Control over Financial Reporting. The Board is chaired by the Chief Financial Officer and includes senior representatives from OPM's major organizations. Testing and evaluation activities were conducted, under the Board's oversight, by the Office of the Chief Financial Officer's Center for Internal Control and Risk Management (CICRM).

No material weaknesses were found in the design or operation of the internal control over financial reporting during FY 2007. Consequently, OPM is able to provide reasonable assurance that its internal control

over financial reporting was operating effectively as of June 30, 2007. Additionally, no matters came to the attention of the Board during the remainder of the fiscal year that would change that assessment. OPM also reported no material weaknesses in internal control over financial reporting for FY 2006.

### COMPLIANCE WITH THE PROMPT PAY ACT

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

An agency's performance under the Act for any given period is measured by the percentage of payments paid within the specified timeframes out of all payments subject to the Act's provisions. For FY 2007, OPM reported that over 99.9 percent of its payments were made in accordance with specified Prompt Payment Act timeframes. OPM's FY 2007 performance objective was to continue to achieve the 98 percent performance metric. As of September 30, 2007, OPM's performance was 99.9 percent in terms of payment actions and 94.5 percent in terms of payment dollars.

OPM's highly successful performance under the Prompt Payment Act is achieved as a result of the large number and dollar magnitude of payments it makes to its investigative services contractors. Based on requests from Federal agencies, OPM processes several hundred thousand transactions per month for a variety of personnel background investigations that require payments to contractors. In accordance with payment provisions of OPM's contracts with its investigative services contractors, OPM annually remits tens of millions of dollars representing final

payments for each of the thousands of personnel investigations requested by agencies. OPM daily consolidates all of the individual amounts owed to investigative contractors and makes a single payment to each contractor that represents the total amount currently owed. Table 13 summarizes OPM’s FY 2007 prompt payment metrics by investigative services contractors and non-investigative services vendors. During the year, OPM paid \$162,597 in interest penalties related to late payments, a 22 percent decrease from FY 2006.

**TABLE 13—FY 2007 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)	4,326.4	4,326.4	100.0%	\$331.6	\$331.6	100.0%
Non-investigative service vendors	27.2	25.5	93.8%	\$364.6	\$326.0	89.4%
Totals	4,353.6	4,351.9	99.9%	\$696.2	\$657.6	94.5%

*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 14 summarizes OPM’s debt management activity for FY 2007 and FY 2006. 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. To date, OPM has collected more than \$5.3 million via FMS cross-servicing.

TABLE 14—DEBT MANAGEMENT ACTIVITY

Retirement Program (\$ in Millions)		
	FY 2007	FY 2006
Total receivables at beginning of year	\$184.7	\$174.8
New receivables and accruals	208.9	179.0
Less collections, adjustments, and amounts written-off	166.1	169.1
Total receivables at end of year	\$227.5	\$184.7
Total delinquent	\$36.6	\$37.0
Percent delinquent of total receivables	16.1%	20.0%

Health Benefits Program (\$ in Millions)		
	FY 2007	FY 2006
Receivables at beginning of year	\$39.3	\$46.4
New receivables and accruals	70.9	59.6
Less collections and adjustments	78.0	66.7
Receivables at the end of year	\$32.2	\$39.3
Less management decisions in appeal	2.1	8.7
Currently available for collection	\$30.1	\$30.6

### Data-Matching

It is important to prevent debts initially. 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. 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 2007, OPM's data-matching activities identified more than \$74.7 million in overpayments and prevented an additional \$82.3 million from being overpaid.

### Electronic Payments

OPM continues to increase its rate of payments made electronically, including over 95 percent of OPM's 2.5 million monthly Retirement Benefit Program payments via electronic funds transfer (EFT) (See Table 15).

TABLE 15—ELECTRONIC PAYMENTS

Payment Type	Percentage FY 2007	Percentage FY 2006
Retirement benefits	95.3%	94.9%
Salary	96.1%	98.8%
Health Benefits and Life Insurance Carrier Programs	100.0%	100.0%
Other vendors	99.9%	99.8%

### 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 16 and 17 compare OPM's percentages that are 61 or more days old to Governmentwide rates.



TABLE 16—TRAVEL CARD USAGE

(\$ in Thousands)	FY 2007	FY 2006
Outstanding Balance	\$734.8	\$664.1
Outstanding more than 61 days	\$6.9	\$15.0
% outstanding more than 61 days (OPM)	0.94%	2.3%
% outstanding more than 61 days (Governmentwide)	2.46%	2.9%

TABLE 17—PURCHASE CARDS

(\$ in Thousands)	FY 2007	FY 2006
Outstanding Balance	\$1,158.6	\$727.8
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)	1.08%	.44%

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

#### *Compliance with the Inspector General Act*

The Inspector General Act, as amended, requires agencies to report on the final action taken with regard to audits by its OIG. OPM is reporting on audit follow-up activities for the period October 1, 2006 through September 30, 2007. Table 18—Inspector General Audit Findings provides a summary of OIG's audit findings and actions taken in response by OPM management during this period.

TABLE 18—INSPECTOR GENERAL AUDIT FINDINGS

	Number of Reports	Questioned Costs (\$ in Millions)
Reports with no management decision on October 1, 2006	6	\$22.5
New reports requiring management decisions	38	70.8
Management decisions made during the year	28	69.3
Costs disallowed	—	61.1
Costs not disallowed	—	8.2
Reports with no management decision on September 30, 2007	16	\$24.0

#### *Compliance with the Civil Monetary Penalty Act*

A civil monetary penalty is any penalty, fine, or other sanction that is assessed or enforced by an agency pursuant to law, administrative proceeding, or a civil action in the Federal courts. OPM neither assessed nor collected a civil monetary penalty during FY 2007.

#### *Compliance with the Improper Payments Improvement Act Summary*

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

OPM's three benefit programs—Retirement, Health Benefits, and Life Insurance—are by definition susceptible to significant improper payment risk. OPM is currently analyzing and evaluating the risk to the much smaller agency administrative funds and in FY 2008 will complete all necessary risk assessments, develop and implement recommendations for process improvements, and establish testing schedules. An OMB approved Improper Payment Plan in place for the benefit funds discloses causes of program improper payments; proper sampling methodologies; corrective actions and the beneficial results of these actions; the timely reduction of IP; statutory barriers; and projected out year IP target reductions. OPM continually assesses the agency payment streams for IP.

The OPM Retirement Program is in the process of reengineering and modernizing its information systems and business processes. The RSM project will reengineer procedures to administer the Retirement Program. The RSM will fundamentally change Retirement's business and effect payments that are more accurate and avoid IP with automated interfaces. Also, Retirement is piloting a process with the National Funeral Home Directors Association (NFDA), whereby funeral homes will provide notifications of death so that posthumous payments can be avoided. To this end, OPM signed a memorandum of understanding with the NFDA. Further, the Program now has valid scientific statistical process in place across all months to detect IP, which is reliable and will be expanded.

Two different types of Health Benefit carriers also participate. The OIG is conducting audits that are more frequent and has audits targeting coordination of benefits problems. A statistician continues to develop a statistical valid methodology to capture and aggregate information from the Health Benefit Carrier IPAs to derive an improper benefit payment rate.

The Life Insurance Program has implemented a new, automated method to certify life insurance for

deceased annuitants to reduce significantly IP. This Automated Certification of Life Insurance (AutoCert) process has replaced hard-copy certification for most deceased annuitants. A process already in place for many years determines MetLife IP to beneficiaries of deceased annuitants. A data match analysis compares eligibility and coverage data for almost all covered annuitants who die during a fiscal year against the dollar amount benefits paid to MetLife beneficiaries. Also, OPM expanded its analysis to represent more fully FEGLI disbursements to include non-annuitants and matched this group of payments against the annuitant paid-claims. 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.

#### *Recovery Auditing*

The OIG administers audits in partnership with the FEHB Program, and the questionable charges in audit findings, in turn, are validated by the Audit Resolution committee under FEHB and other regulation. For the Health Benefits and Life Insurance Program carriers, OIG performs comprehensive contractual audits. To comply further, OPM continually reviews effective financial and programmatic controls to prevent, detect, and recover contractor overpayments. Further, corrective action plans based on identified payment error type are developed and implemented. Reviews of annual corrective action plans are incorporated, as applicable, into an updated management Improper Payments Plan.

Aggressive procedures are in place for identifying and recovering erroneous payments in Retirement and Life Insurance programs, but each program has nominal contract costs because internal staff perform audit and recovery functions.

#### *Financial Management Systems*

The OPM utilizes two core financial systems that are based upon commercial off-the-shelf packages supplied by CGI-Federal (formerly American

Management System-AMS) to support the financial management and accounting functions of the agency and its specific programs. The two systems are:

- The Government Financial Information System (GFIS) and Procurement Desktop (PD), which was implemented using Momentum software package developed by CGI-Federal, which serves as OPM's core financial management system for its administrative funds accounts. GFIS was designed and implemented based on the Momentum software release 3.7 developed by CGI-Federal. GFIS comprises multiple applications that are used for the following: collecting, processing, maintaining, transmitting, and reporting data about financial events; supporting financial planning and budgeting activities; accumulating and reporting cost information; and supporting the preparation of financial information.
- The general ledger of the Benefit Financial Management System (BFMS), which was implemented using Federal Financial System software release 5.4 and used to administer the Retirement, Health Benefits and Life Insurance Programs. The BFMS, which is based on CGI-Federal Financial Systems Software, complies with all Federal financial management systems requirements, Federal accounting standards, and the USSGL at the transaction level. The BFMS has various subsidiary feeder systems that are integrated through a common database and electronically interfaced to meet defined data and processing requirements.

OPM's intent is to conduct a public/private competition to procure software, integration, and application hosting services for the new financial management system using FMLoB Migration Guidance. This acquisition is to strengthen our financial data structures to produce more complete, accurate and timely financial information by modernizing and upgrading our financial

management line of business to design and implement a proven COTS solution (certified by OFFM/FSIO) using breakthrough technologies to automate OPM's core financial processes. This will allow for greater use of interoperable tools and technologies, while reducing operating and maintenance costs.

#### *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 and Privacy Management 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 OMB on the effectiveness of their Information Security and Privacy Management programs, which includes an independent evaluation by the Office of Inspector General (OIG).

OPM's FISMA Report for FY 2007, dated October 1, 2007, highlights the results of the Agency's annual Information Security and Privacy Management program review, and was completed by OPM's Chief Information Officer (CIO), Senior Agency Official for Privacy (SAOP), and the OIG. OPM's FISMA report indicates 100 percent certification and accreditation (C&A) of all major IT systems, and completion of annual security control testing and contingency plan testing. In addition, OPM has implemented a comprehensive C&A process, rated as excellent by the OIG, which includes oversight security reviews by the IT Security Officer that focus on quality and standardization of the C&A process.

The Information Security program focus areas for FY 2007 included improved contractor oversight, continued enhancements and refinements to the certification and accreditation process, and increased oversight of completion of mitigation strategies on POA&M. OPM is dedicated to protecting

information and information systems with a comprehensive Information Security program that continues to integrate operational security and information security programs monitored by performance metrics that are continually improving.

The accomplishments over the past year are key indicators of OPM's commitment to maintaining and enhancing the information security posture and will continue to work collaboratively with program offices to ensure that the agency's information and information systems are adequately protected.

### GOALS AND STRATEGIES

Improved financial performance is an initiative sponsored by the PMA and a strategy for improving the management of financial systems and resources across the Federal Government. During FY 2007, OPM had achieved the following "green" standards for success for this initiative:

- Receives an unqualified audit opinion on its annual financial statements and meets financial statement reporting deadlines;
- Reports in its audited annual financial statements that its systems substantially comply overall with the Federal Financial Management Improvement Act;
- Has no chronic or significant Anti-Deficiency Act Violations;
- Has no material auditor-reported internal control deficiencies; has no material non-compliance with laws or regulations;
- Has no repeat 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;
- Uses financial information to drive results in key program/areas; and
- Expands the routine use of financial information to make decisions.

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

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

- Ensure that all critical financial performance indicators are objective, understandable, and fair, fully measure required meaningful financial and other goals, are periodically reported, are fully quantifiable, when necessary, and possible, and are meaningful to all organizational levels, supervisors, team leaders, and individual employees;
- Continue to work with the agency's internal organizations to expand the scope of its routine data use to inform management decision-making;
- Improve internal controls over financial reporting through systems and processes, to include streamlining and re-engineering financial and accounting processes, to include the programs and other offices, while meeting all internal and external financial reporting deadlines;
- Re-affirm processes, controls, and procedures to ensure that continuing Independent Public Accountant (IPA) unqualified audit opinions will be received on the annual financial statements;
- Enhance the core financial management information system and implement a single integrated financial infrastructure for the agency. As a major systems initiative, OPM will procure and implement a state-of-art; off-the-shelf; transaction based accounting; fully Standard General Ledger (SGL) compliant, including

fully enhanced budgetary accounting; single data entry; fully compliant Federal financial reports with reconciliation capabilities and complete General Ledger preparation; custom report writing; and fully functional retrieval packages for a modern financial systems upgrade to its current systems;

- 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.



## SECTION 2—FY 2007 PERFORMANCE RESULTS

*(Unaudited—See accompanying Independent Auditors' Report)*

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### Introduction

In FY 2007, the Office of Personnel Management successfully carried out its mission to ensure that the Federal Government has an effective civilian workforce, meeting performance targets for 58 of 69 measures. Most of the performance measures OPM used to assess performance were established through Program Assessment Rating Tool (PART) reviews, which now have been completed for all OPM programs. Driving these results, OPM accomplished 122 of the 123 operational goals scheduled for completion during FY 2007. These goals can be found in the *OPM Strategic and Operational Plan 2006-2010* and *OPM Strategic and Operational Plan Addendum 2007-2010*.

Following is a comprehensive presentation of OPM's FY 2007 performance results, including all performance measures and operational goals, organized by Strategic Objective, Program, Program Activity and Outcome (see Tables 1 and 2 in Section 1: Management's Discussion and Analysis).

### Presentation of Results

Performance results will be presented as follows:

- A statement of the Strategic Objective and its importance to achieving OPM's mission;
- Identification of the OPM Programs and Program Activities dedicated to achieving this Strategic Objective; and for each Program/Program Activity:

- The Outcome, or end state, OPM seeks to achieve from the program activity;
- A table showing the performance results for all performance measures and operational goals; and
- A discussion of the performance results and their importance to achieving the Strategic Objective.

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

The Federal Government can be fully effective only if employees at all levels, including agency senior executives, are focused on and accountable for achieving results. In FY 2007, OPM's efforts to build a performance culture across the Federal Government included assessing and sharing best practices for implementing agency performance appraisal and performance management systems, assessing and reporting on implementation of performance-based pay systems at the Department of Defense (DOD) National Security Personnel System (NSPS) and Department of Homeland Security (DHS) and other agencies, supporting new demonstration projects, and developing and disseminating a comprehensive results-oriented performance culture strategy.

During FY 2007, OPM completed ten operational goals, resulting in significant improvement in three performance measures for the Human Capital—Performance Culture program activity.

## SECTION 2—FY 2007 PERFORMANCE RESULTS

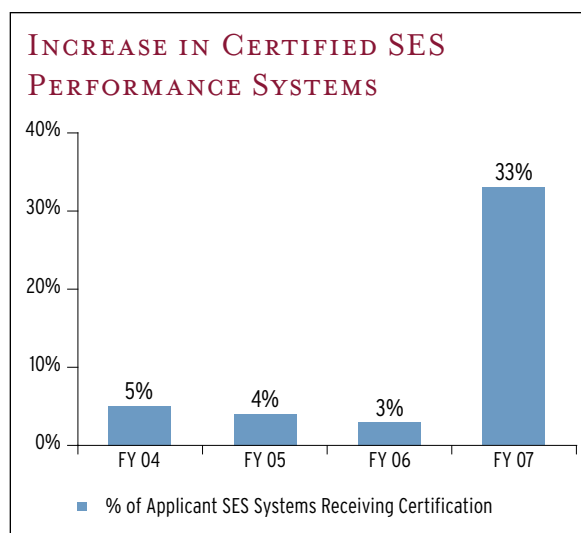
### Performance Results: Human Capital Program—Performance Culture

Results for the three performance measures and ten operational goals for this program/program activity are presented and discussed below.

Program: Human Capital		Program Activity: Performance Culture			
Outcome: A culture of performance and accountability exists in all Federal agencies.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Percent of applicant systems whose SES performance plans are fully certified	5%	4%	3%	10%	33%
Percent of all non-SES performance appraisal systems scoring at least 80 points out of 100 on the Performance Appraisal Assessment Tool (PAAT)	n/a	n/a	8%	10%	20%
Number of civil service employees in a performance-based pay system	n/a	61,504	82,826	90,000	260,000
Operational Goal				Date Completed	
Report on SES performance-based pay system results each calendar year.				June 2, 2007	
Work with CHCO Council to develop best practices regarding the administration of SES performance-based pay system by July 1, 2007.				June 28, 2007	
Improve performance management practices at 8, 12, 18 CHCO agencies during 2006, 2007, 2008, respectively, as measured by Performance Appraisal Assessment Tool.				December 29, 2006	
Expand accountability report requirements to include the application of the SES performance-based pay system by April 1, 2007. Report on results by January 1, 2008.				March 26, 2007	
Evaluate effectiveness of DOD National Security Personnel System (NSPS) and DHS human resources management system; produce first implementation assessments by May 1, 2007.				April 26, 2007	
Expand and publicize business case for introduction of reform legislation during calendar year 2006.				November 1, 2006	
Monitor and report on demonstration projects at agencies by January 1, 2007, and update each year thereafter.				December 29, 2006	
Support agency requests to establish pay-for-performance demonstration projects throughout the strategic plan period.				February 28, 2007	
Implement results-oriented performance culture strategy by October 1, 2007.				September 20, 2007	
Lay groundwork during FY 2007 for more refined market adjustments to pay.				August 27, 2007	

In FY 2007, OPM provided technical assistance to agencies and held them accountable for designing and implementing effective performance management systems at both the SES and non-SES levels.





For agencies to pay SES members at a pay rate above Executive level III and up to level II, OPM must certify their appraisal systems, with OMB concurrence, according to regulatory criteria. During FY 2007, 33 percent of agency applicant SES appraisal systems received full certification. This improvement was the result, in part, of significant OPM technical assistance to agencies.

In June 2007, OPM issued the *Report on Senior Executive Service Pay for Performance for Fiscal Year 2006*. This report includes rating, pay, and awards data for the third year of pay-for-performance for Federal executives in the Senior Executive Service. The report found that agencies use their SES appraisal systems to make distinctions in performance, to make appropriate pay and awards determinations based on individual and organizational performance, and to focus executive performance on achieving measurable results linked to organizational goals. OPM also worked with the Chief Human Capital Officers Council (CHCOC) to develop and share best practices and expanded accountability report requirements related to SES performance-based pay systems. In FY 2008, OPM will be issuing an SES-PAAT for SES system certifications.

OPM used the PAAT to evaluate agency non-SES employee performance appraisal systems. OPM provided intensive support to specific organizations,

called “beta sites,” to design and implement these systems. The PAAT uses a 100-point rating scale with a “passing” score of 80 required for the system to receive full certification. The percentage of all non-SES performance appraisal systems scoring at least 80 points was double the FY 2007 target and significantly exceeded the FY 2007 target. In FY 2008, OPM expects agencies to continue to improve their appraisal systems and scores at an expanded set of beta sites. OPM’s stretch target is to have all non-SES appraisal systems “pass” the PAAT and receive certification by the end of FY 2009.

OPM also surpassed its operational goal of 12 agencies improving their performance management systems, which include performance planning, appraisal and rewards policies and practices; as measured by the PAAT. Intensive OPM assistance to agencies led to significant advances in agencies’ performance.

### *Supporting Performance-Based Pay Systems*

Throughout 2007, OPM reported on the two major alternative personnel systems—the DOD/NSPS and DHS human resources management system (authorized by Congress); monitored and reported on active pay-for-performance demonstration projects, and supported additional demonstration projects. By the end of FY 2007, more than 260,000 Federal employees were in performance-based pay systems. The increase is primarily the result of the continuing rollout of the NSPS. NSPS incorporates both performance-based and market-sensitive principles; an occupational classification system; a fair, credible, and transparent employee performance appraisal system; a staffing and workforce shaping system; and labor relations, adverse actions, and employee appeals systems. To date, DOD has been moving its non-bargaining unit employees to the NSPS in groups. DOD intends to move about 21,000 more employees in NSPS in October and November, 2007.

In May 2007, OPM published its first implementation assessments of the NSPS and DHS systems.

The NSPS assessment concluded that:

- DOD effectively planned for implementing NSPS.
- DOD has implemented NSPS for a relatively small portion of the workforce, and the assessment data thus far indicate the Department is on track to meet milestones.
- The establishment of the Program Executive Office has been central to successful implementation of NSPS. DOD has structured a well-organized and integrated phased implementation approach.
- DOD should anticipate and plan for the risk of losing implementation momentum, given future senior leadership turnover.

The DHS assessment concluded that DHS:

- Effectively planned for the implementation of its performance management system.
- Should have taken the opportunity to implement its performance-based, market-sensitive pay system, and new classification, adverse actions, and appeals systems.
- Should anticipate and plan for the risk of losing implementation momentum, given significant senior leadership turnover.

In December 2006, OPM published *A Status Report on Personnel Demonstration Projects in the Federal Government* on several active demonstration projects (established under OPM's authority) at the Department of Commerce and the other covering the Department of Defense Acquisition Workforce. The report reviewed eight personnel demonstration projects, known collectively as the Science and Technology Laboratory Demonstration Program, now conducted under DOD's authority but originally created under a joint authority with OPM. The report found that although each personnel

demonstration project is unique, most projects employ two key alternative personnel interventions:

- Broadbanding, also referred to as pay banding or grade banding, which consolidates two or more General Schedule pay grades into a few broad bands, typically four or five. The main purpose of broadbanding is to simplify job classification, broaden pay ranges, and permit performance-oriented pay setting and adjustment.
- Performance-based pay, which involves making performance-sensitive adjustments within a pay range. Performance-based pay inherently requires performance assessment systems that make meaningful distinctions in levels of performance.

The report also found that the interventions employed have produced beneficial results, including:

- The agency's results-oriented performance culture improves;
- The ability to recruit and retain a high-quality workforce increases;
- Personnel processes and systems, in areas such as job classification, hiring, and compensation improve in timeliness and quality; over time, employees and supervisors adapt to them.

The report also stated that demonstration project interventions have not had a negative impact on other human capital measures, such as payroll costs or the upholding of merit system principles, avoidance of prohibited personnel practices, and protection of equal employment opportunity and safeguarding of veterans' preference rights.

In FY 2007, OPM supported the launching of three potential new demonstration sites at the Department of Energy/National Nuclear Security Administration (covering 2,000 employees); the Department of Veterans Affairs/Veterans Health Administration (covering nearly 100 Medical Center managers); and the Department of Education/Federal Student Aid Program (covering approximately 200 non-bargaining unit employees).

### *Developing and Implementing a Results-oriented Performance Culture Model and Strategy*

As a capstone achievement in the Human Capital—Performance Culture program, OPM released in September 2007 the report: *Results-oriented Performance Culture*. The report provided a results-oriented performance culture (ROPC) model and strategy which agencies can use to design their own systems. The report found that results-oriented performance cultures in both the public and private sectors are the result of performance management systems which differentiate between high and low performance and link individual, team and unit performance to organizational goals and desired results. The ROPC model has these critical elements:

- **Performance Management Processes** which encompass organizational and employee appraisal and awards systems used for planning, monitoring, developing, rating, and rewarding employee performance;
- **Performance Management Competencies** which enable all employees—from executives to HR practitioners and line employees to understand and play a productive role in the performance management system.
- **Performance Culture Practices** including support for diversity and inclusion, adherence to Merit System Principles, focus on organizational and individual results, and commitment to public service. These practices should permeate the daily operations of an organization and define in part the formal and informal organizational culture.

### *Laying the groundwork for more refined market adjustments to pay*

OPM took two actions during FY 2007 in support of the administration's compensation philosophy that Federal pay rates be based on labor market considerations. First, in accordance with

the President's FY 2008 budget, OPM drafted proposed legislation, which was cleared by OMB and transmitted to Congress on May 30, 2007, that would extend the General Schedule (GS) locality pay system to U.S. nonforeign areas, such as Alaska, Hawaii, Guam, Puerto Rico, and the U.S. Virgin Islands. Nearly 50,000 employees in these areas currently receive a Cost of Living Allowance (COLA), which is based on living costs relative to Washington, DC and which is not creditable for retirement benefit calculations. The proposed legislation would bring these employees under the market based GS locality pay system, phasing in GS locality pay and concurrently phasing out COLA. The proposed legislation comports with the administration's market-based pay philosophy and benefits employees by increasing the compensation on which retirement calculations are based and Thrift Savings Plan contributions are made.

Second, OPM developed a market-sensitive model for Federal pay in response to issues with the GS pay system identified by the President's Pay Agent, OPM's white paper—*A Fresh Start for Federal Pay: The Case for Modernization*, and stakeholder comments. These problems include system rigidity, over-reliance on internal equity at the expense of sensitivity to the market, and difficulty in comparing Federal occupations and work levels to those of the private sector. In addition, the GS pay system was developed and implemented when the Federal workforce was primarily clerical in nature, as opposed to the current knowledge-driven workforce. The study recommended the implementation of a pay system based on the roles of entry/developmental, full performance, and expert work levels. For each of these levels, the study recommended the development of market-sensitive pay ranges by occupational groups with similar labor market characteristics.

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

Employee benefits and services, including retirement, health and other insurance programs, are important competitive factors employees consider when comparing Federal employment with opportunities in other sectors. Training and other career development opportunities also are essential for maintaining a high-performing Federal workforce.

OPM achieved this objective through the efficient and effective administration of its employee benefit (Federal Civilian Retirement, Federal Employees Health Benefits, Federal Employees' Group Life Insurance and other insurance programs), and leadership development programs. For FY 2007, OPM established and completed 26 operational goals which, combined with other initiatives, brought about performance improvement in these programs.

### Performance Results: Federal Employees Retirement Services (FERS), Federal Employees Health Benefits (FEHB), and Federal Employees Group Life Insurance Benefits (FEGLI)—Retirement and Insurance Policy

Results for the six operational goals for this program/program activity are presented and discussed below.

Programs: FERS, FEHBP, FEGLI Benefits Programs		Program Activity : Retirement and Insurance Policy
Outcome: Federal employee benefits are competitive and support agencies' efforts to recruit and retain a high-quality workforce.		
Operational Goal	Date Completed	
Introduce model cost transparency requirements for FEHBP providers effective for FY 2007.	December 15, 2006	
Report on health information technology requirements results for FEHBP providers during FY 2007.	September 24, 2007	
Implement health care information technology initiatives, including price and quality transparency, pursuant to Executive Order (E.O.) 13410. Include initiatives in FEHBP call letter by April 1, 2007.	March 7, 2007	
Develop legislation to offer Short-Term Disability Insurance to Federal employees. Proposal submitted to OMB by April 1, 2007.	March 2, 2007	
Issue 2007 FEHBP community rated reconciliation instructions by April 1, 2007. Partner with OIG to address community rating recommendations and issue 2008 FEHBP community rate instructions by April 30, 2007.	February 21, 2007 March 27, 2007	
Include Government contributions to benefits in pay statement disclosures by October 1, 2007.	June 10, 2007	

During FY 2007, OPM's FEHBP, through its 284 health benefits choices, provided health care benefits to approximately 8 million people around the world, including Federal employees, retirees, and covered family members. Health benefits, as well as retirement and life insurance benefits have been shown in the most recent Federal Benefits and Human Capital surveys to be an important factor for attracting and retaining Federal employees, and that the majority of enrollees are satisfied with these benefits.

OPM completed six operational goals designed to continue enhancing the insurance options available to Federal employees, retirees, and survivor annuitants, make health care information, easier for customers (enrollees and others covered by the program) to understand, promote the efficient exchange of information between health care providers, and inform customers of their own and the Government's share of the cost of their health care coverage.

For instance, OPM promoted the use of health care information technology, as required by Executive Order 13410, *Incentives for the Use of Health Information Technology and Establishing the Position of the National Health Information Technology Coordinator*. The purpose of the Executive Order is to improve how health care information is shared among health care providers, thereby reducing costs, and making information regarding the benefits covered and the cost of those

benefits easily understood by customers. OPM instructed carriers to adopt standards to improve the sharing of health information records, and to provide OPM quality of care reports. OPM published carriers' cost and quality information on OPM's Federal Employees Health Benefits website.

OPM also issued instructions to the community-rated plans (HMOs) requiring them to provide information OPM will use to compare what the health care carrier charged the private sector with what it charged other groups for similar benefits. Comparing benefit packages in this manner verified whether the private sector received a discount for the same services the carrier provided the FEHBP. A continual review of rates, and verification that health care carriers complied with OPM rating principles, mitigated premium increases, maintained the competitiveness of the health benefits the Government offers its employees, and continued high level of customer satisfaction within the FEHBP.

OPM emphasized flexibility and consumer choice as very important features of a competitive health benefits program. However, such flexibility and choice can be limited if employees do not understand the total cost of their benefit packages. Thus, in FY 2007, OPM required all four e-Payroll Providers to include both the Government and employee contributions (previously only the employee contribution has been shown) to benefits on employees' pay statements.

## SECTION 2—FY 2007 PERFORMANCE RESULTS

### Performance Results: Federal Employees Retirement Program—Benefits Officers Training and Development

Results for the two performance measures and one operational goal for this program/program activity are presented and discussed below.

Program: Federal Employees Retirement		Program Activity : Benefits Officers Training and Development			
Program Outcome: Federal employees have options and tools for retirement planning for their and their families' financial future. Agency benefits officers are knowledgeable and Federal employees informed concerning their benefits.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Percent of benefits officers trained per year	n/a	n/a	47%	48%	52%
Percent of customers who rate satisfaction with guidance material as very good or better	n/a	91%	81%	85%	85%
Operational Goal				Date Completed	
Produce Retirement Process educational Video for Executive Branch by April 1, 2007.				March 26, 2007	

OPM continued to carry out its statutory responsibilities to ensure that Federal agency benefits officers receive the training they need to assist employees in making good choices regarding their retirement and insurance benefits, and are preparing for retirement as they should. OPM increased the percent of benefits officers receiving benefits training from 47 percent in FY 2006 to 52 percent in FY 2007. In addition, OPM continued to receive high satisfaction ratings about this training from these program partners.

OPM offered two major training events and sponsored three network meetings for benefits officers to ensure that agencies and independent Federal organizations had essential and pertinent information concerning Federal benefits. The training enables benefits officers to understand the retirement process and the documentation needed to file a complete retirement application. This knowledge assists agency personnel to completely and accurately prepare retirement applications, which allows for expedited processing.

Providing accurate and timely information to Federal employees concerning benefits and retirement helps them make better decisions about structuring their benefits package and to prepare for the transition from employment to retirement. OPM produced a 45-minute video providing an overview of the basic retirement benefits under the Civil Service Retirement and the Federal Employees' Retirement systems. The video covered retirement eligibility, how monthly retirement benefits are computed, survivor benefits, and requirements to continue health and life insurance benefits into retirement as well as Social Security and Thrift Savings Plan withdrawal options.

## SECTION 2—FY 2007 PERFORMANCE RESULTS

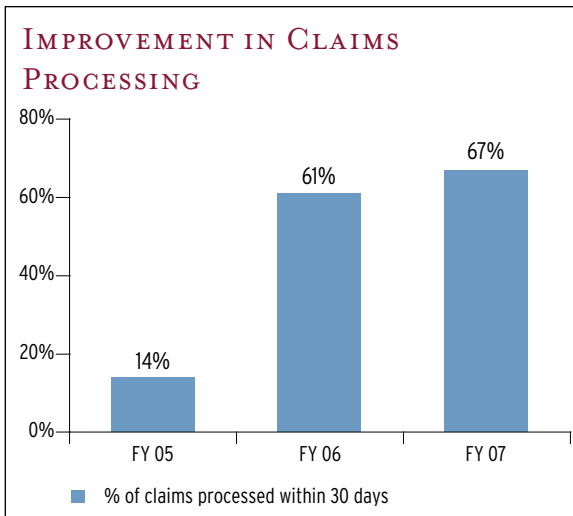
### Performance Results: Federal Employees Retirement Program—Claims Processing

The four performance measures and seven operational goals for the Claims Processing activity are presented and discussed below.

Program: Federal Employees Retirement		Program Activity : Claims Processing			
Outcome: Benefits payments are timely, accurate, and delivered efficiently.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Percent of initial claims processed within 30 days (FY 2006 Operational Goal)	n/a	14%	61%	90%	67%
Claims processing accuracy rate	93%	95%	89%	92%	95%
Claims processing unit cost	\$91.91	\$86.32	\$91.95	\$81.94	\$80.03
Improper payment rate	0.38%	0.28%	0.44%	0.44%	0.42%
Operational Goal				Date Completed	
Develop pilot program for eliminating interim payments; identify two agency participants in pilot program by April 1, 2006; finalize 50% of initial retirement benefits by first payment due date (eliminating interim payments) by January 1, 2007; and evaluate program and expand pilot to additional agencies in 2007				March 30, 2006 December 18, 2006	
Make final 95% of disability retirement applications, on which the applicant's life expectancy is a year or less, within ten days by March 2007.				February 27, 2007	
Build and test the RSM program components in support of the February 2008 go-live objective.				January 30, 2007	
• Make data element dictionary available for Government Shared Service Centers by January 31, 2007.				April 25, 2007	
• Complete development of licensed technology–employee/client application by April 30, 2007.				May 29, 2007	
• Begin RSM training by May 30, 2007.				July 30, 2007	
• Develop licensed technology for GSA active employees by July 30, 2007.				September 25, 2007	
• Complete Active Employee Folder imaging in the Retirement Operations Center by September 30, 2007.					

The Federal Employees Retirement Program has established very aggressive performance targets for its claims processing activity. The program sought to process 90 percent of new retirement claims within 30 days of being received at OPM, while also maintaining a high accuracy rate (92 percent), lower cost per processed claim (unit cost), and reducing the already low rate of improper payments.

Implementing RSM was one of OPM's top priorities in FY 2007; five of the seven operational goals for processing retirement claims are milestones for the RSM project. OPM will begin transitioning to new RSM business processes and technology in February 2008. During FY 2007, OPM began testing RSM systems and preparing retirement program employees to transition to the new system. About ten percent of claims processing employees served as subject matter experts for testing RSM systems and all retirement program employees were presented with pertinent information about how RSM will affect their work environment. A committee of employees, managers, and union representatives was created to ensure that employees' questions were answered and their needs were considered prior to the implementation and transition to the new organization and computer systems.



OPM maintained claims processing timeliness and accuracy performance levels while preparing to transition to the new technology and business processes. In FY 2006, OPM established a target to process 90 percent of new retirement claims within 30 days. Though OPM achieved the 90 percent target for a short time at the end of FY 2006, this level of performance was not sustainable given the

current business processes and technology. Though performance in FY 2006 and FY 2007 was below the aggressive 90 percent target—61 percent during FY 2006 and 67 percent in FY 2007, the percent of new claims processed within 30 days has been significantly improved when compared to FY 2005. In addition, processing accuracy improved by six percentage points, from 89 percent in FY 2006 to 95 percent in FY 2007.

OPM expects that claims processing time rates will significantly improve as the share of work handled by RSM increases. When fully implemented, RSM will bring about efficiencies that will improve performance in virtually all of the retirement program performance measures.

In addition, OPM instituted new procedures to achieve a 100 percent processing rate for disability retirement applications within ten days for cases in which the applicant's life expectancy is one year or less. First, these procedures identified specific medical conditions and diseases that were likely to

## Background on RSM

RSM is OPM's strategic initiative to improve the quality and timeliness of services to members of the Civil Service and Federal Employees Retirement Systems by modernizing business processes and the technology that supports them. RSM will automate 90 percent of retirement claims transactions over time using electronic data that has been transferred from paper records. This automated process will still require manual intervention for more complex cases. In addition, rather than retirement claims transactions being processed through over 100 legacy systems, RSM will consolidate these systems into a more centralized source of data. OPM began testing the new RSM environment in the beginning of FY 2007 and will "go-live" in February, 2008.

RSM will position OPM to address the increasing number of retirement claims it will receive as the baby-boom generation retires, and as the number of retirees in the newer Federal Employees Retirement System also increases. The benefit structure of FERS is more complicated and better information technology is needed to process these claims efficiently and accurately. In addition, RSM will give Federal employees and annuitants the service they desire as employees now want to take an active role in planning for retirement and they are expecting a higher level of service.

Planning for retirement in advance is an essential element for employees to meet their personal and financial goals. New self-service options and web based tools will be available on-demand for Federal employees to plan early for their retirement. Also, system administrators will have access to Federal employees' and annuitants' information in the system, allowing for enhanced retirement and post-retirement counseling. The automation of claims processing will be done more efficiently, consistently, and provide Federal employees and annuitants access to their retirement information that was not previously available.



## SECTION 2—FY 2007 PERFORMANCE RESULTS

result in death within one year or any application for which the medical documentation indicated a limited life expectancy. Second, procedures were established to expedite the handling of these applications at both the applicants' employing agency and in OPM disability claims processing offices. For instance, training was provided to agency benefit officers to ensure these claims would receive special handling. Retirement counselors were instructed to "pre-submit" claims by fax or email and notate the documents so they could be pre-screened for immediate processing. The pre-submissions were tracked so that when they were received at OPM they could be processed as soon as received. If a case was not sent for pre-submission, the case was tracked and processed as soon as a terminal illness was identified. All applications were screened to ensure that all cases that met the criteria received special handling and consideration.

### Performance Results: Federal Employees Retirement Program/Answering Inquiries & Maintain Annuity Payment Accounts Program Activity

Results for the six performance measures and two operational goals for this program/program activity are presented and discussed below.

Program: Federal Employees Retirement	Program Activity : Answering Inquiries & Maintaining Annuity Payment Accounts				
Outcome: Services are delivered efficiently; annuitant rolls are accurate and current; annuitants are satisfied with overall program services.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Percent of change notices mailed within ten working days	n/a	n/a	95%	90%	93%
Customer services unit cost	\$6.63	\$5.37	\$4.54	\$4.63	\$4.42
Percent increase in self-services *	n/a	n/a	57%	50%	51%
Percent of inquiries answered within 72 hours	n/a	n/a	93%	85%	96%
Call handling rate	97%	91%	84%	85%	84%
Percent of customers satisfied with overall retirement services	94%	87%	83%	87%	87%
Operational Goal				Date Completed	
Mail 100% of Federal Employee Retirement Coverage Corrections Act (FERCCA) election packages to eligible annuitants and employees and close out cases for all annuitants and employees who are ineligible at this time by March 1, 2007; complete FERCCA project by September 1, 2007.				February 27, 2007 August 29, 2007	
Track returned 1099s, and follow up on those that are not subsequently requested by the beneficiary to determine appropriate further action by June 1, 2007.				May 29, 2007	

\* Measure was modified in FY 2006 and new baseline (57%) established. No comparable data is available for FY 2004 and FY 2005.

## SECTION 2—FY 2007 PERFORMANCE RESULTS

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Federal annuitants and their survivors received improved services during FY 2007, while the groundwork was being laid to deliver even better services through RSM. OPM increased the volume of self-service transactions and responded to a greater percentage of inquiries within its 72-hour standard in FY 2007, while also reducing the cost per transaction (unit cost) for the wide range of services it provides these customers. These improvements were partly the result of retirement program employees working in customer service areas being cross trained so they could be redeployed quickly in response to shifting workload demands. At the same time, work processes were reviewed and streamlined to create efficiencies and managers constantly analyzed workload and resource reports and used this information to address proper time utilization for greater efficiency.

The call handling rate decreased slightly as more retirement program customer service employees began preparing to transition to the new business processes and technology associated with RSM. Once RSM is fully implemented, these staff will have greater access to the information they need to respond to the hundreds of thousands of written, electronic, and telephone inquiries the program receives each year, and to process the wide range of

transactions (i.e., address changes, insurance and tax withholding changes, etc.) pertinent to maintaining the payment accounts for the nearly 2.5 million beneficiaries who receive monthly retirement payments from OPM. Also, as RSM systems handle an increasing share of this work, staff will transition to customer service functions, which should return the call handling rate to the high performance levels achieved in FY 2004 and FY 2005.

OPM each year mails to annuitants and survivor annuitants Form 1099R for use in Federal income tax reporting, and also provide duplicate 1099R forms upon request. Sometimes the forms are returned as undeliverable because the annuitant is deceased. Upon report of an annuitant's death, OPM must stop payment of the annuity. In FY 2007, OPM began tracking returned 1099Rs to determine if these returned forms were a viable indicator for detecting annuitants and survivor annuitants who are deceased but whose death has not been reported to OPM. OPM identified nearly 17,000 accounts that needed to be further examined for death, change of address or possible fraud. Of the 17,000 accounts, 126 persons were documented as deceased. However, 58 were already identified through other processes, leaving 68 as possible fraud cases.

## SECTION 2—FY 2007 PERFORMANCE RESULTS

### Performance Results: Federal Employee Health Benefits Program—Contract Administration

Results for the six performance measures and five operational goals for this program/program activity are presented and discussed below.

Program: Federal Employee Health Benefits		Program Activity : Contract Administration			
Outcome: Provide Federal employees, retirees, and their families with health benefits coverage meeting their individual health insurance needs.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Health benefits claims processing timeliness (% within 30 working days)	95%	98%	97%	95%	97%
Health benefits claims processing accuracy (%)	95%	98%	98%	96%	98%
Health benefits improper payment rate (%)*	0.32%	0.31%	0.20%	0.20%	0.78%
FEHBP overall enrollee satisfaction scores versus health care industry standard (percent)	FEHBP: 70%; industry: 62%	FEHBP: 73%; industry: 64%	FEHBP: 73%; industry: 65%	FEHBP > Industry	FEHBP: 79%; industry: 63%
Percent of accredited FEHBP plans	74%	78%	79%	>2006 level	79%
Enrollee satisfaction with content and usability of OPM FEHBP Open Season Web site (%)	76%	79%	43%	79%	32%
Operational Goal				Date Completed	
Roll out new dental/vision plan by December 31, 2006				November 13, 2006	
Promote affordable FEHBP options, which may include additional health savings plan options, each year during strategic planning period (2006-2010).				September 13, 2007	
OPM will strengthen requirements for Medicare Coordination of Benefits (COB) including making carriers liable to return uncollected claims overpayments where carriers' failure to act timely caused the non-recovery. Carrier letter issued and contract language prepared for inclusion for next contract cycle by May 1, 2007.				April 26, 2007	
Implement plan to reduce FEHBP overpayments caused by carrier provider agreements which limit collection of refunds by September 1, 2007. Plan will be agreed to by the Office of the Inspector General.				August 29, 2007	
Issue guidance to assist FEHBP carriers in processing and paying Omnibus Budget and Reconciliation Act of 1990 health claims correctly by March 1, 2007.				February 28, 2007	

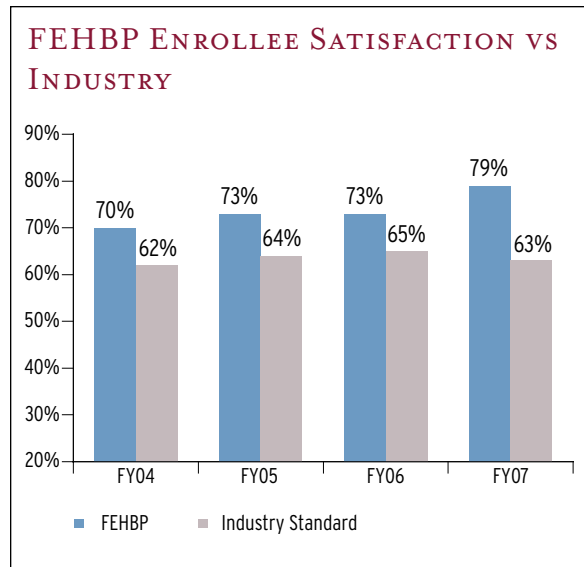
A health benefits package that meets the needs of current and potential Federal employees can lead to lower turnover and the recruitment of better performers, as well as aiding employees and annuitants to maintain good health. Customer satisfaction surveys indicate that the overall package of benefits and the level of services provided meet the needs of participants. OPM completed all five of the operational goals scheduled in FY 2007. Four of these goals improve how the agency administers its contracts with the (approximately) 280 carriers participating in the health benefits program.

As a tool to attract and retain talent across the Federal Government, OPM implemented the Federal Employee Dental and Vision Benefits Enhancement Act of 2004. The new Federal Employees Dental and Vision Insurance Program (FEDVIP) became effective December 31, 2006 as a voluntary, enrollee pay all

benefits program for Federal employees and retirees. Now in its first year of operation, enrollment in FEDVIP far exceeded pre-operational projections. There are more than 400,000 enrollments in the dental program and more than 300,000 enrollments in the vision program. As we move forward, we will be using our purchasing power to keep premiums down and allow the FEDVIP to remain an attractive supplemental benefit for Federal employees and retirees.

OPM issued specific guidance to make carriers liable to return uncollected claims overpayments in situations where their failure to act in a timely manner to recover the debt resulted in the overpayment not being recovered. This requirement is included in carrier contracts for contract year 2008. Carriers must also provide OPM detailed information regarding their policies and procedures for recovering improper payments. Finally, OPM clarified first-payer, second-payer responsibilities between the Center for Medicare and Medicaid Services and OPM. This also will reduce the occurrence of improper payments in the health benefits program.

OPM met four of the six performance targets for this program activity and generally maintained its performance in administering the 284 health carrier contracts at the level achieved in FY 2006. Most significantly, enrollee satisfaction continues to be higher in the FEHBP than the industry standard.



Customer satisfaction with OPM’s FEHBP Open Season web site declined for the second consecutive year. OPM is committed to taking actions that ensure that web-based health benefit information is easily accessible and has optimum usability. In FY 2008, OPM will revamp this website to provide greater customer satisfaction and ease of use. The health benefits improper payment rate more than doubled during FY 2007 due to an unanticipated legal settlement resulting in a \$97 million dollar improper payment being recognized in OPM’s financial system. Had this settlement not occurred, the improper payment rate for FY 2007 would have been 0.21%, just above the target. Since such events cannot be anticipated, OPM has not developed specific plans for improving performance in the future.

## SECTION 2—FY 2007 PERFORMANCE RESULTS

### Performance Results: Federal Employees Group Life Insurance and Other Insurance—Contract Administration

Results for the eight performance measures for this program/program activity are presented and discussed below.

Program: Federal Employees Group Life Insurance and Other Insurance		Program Activity : Contract Administration			
Outcome: Federal employees have the opportunity to purchase group term life insurance that provides financial protection to their beneficiaries.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
FEGLI paid claims timeliness (days)	6.4	6.5	6.9	< 10-days Industry standard	6.7
FEGLI paid claims accuracy (%)	99.6%	99.7%	99.7%	99.7%	99.8%
Improper payment rate (%)	0.22%	0.17%	0.06%	0.06%	0.06%
Percent of FLTCIP service calls answered within 20 seconds	88%	91%	88%	85%	88%
FLTCIP Service Call Center handling rate (%)	99%	99%	99.0%	97%	99%
Percent of FLTCIP customers overall satisfied with customer service	95%	98%	97%	97%	97%
Number of employees participating in FSAFEDS	125,000	163,115	193,481	205,000	228,255
Percent of "clean" FSAFEDS claims reimbursed within five business days	n/a	91%	95%	95%	100%

OPM met or exceeded all measures including the enrollment goal for the FSAFEDS program. The percentage of FSAFEDS claims reimbursed within five days is nearly 100 percent. FEGLI claims are accurate 99.8 percent of the time. The call handling rate at the FLTCIP call center is over 99 percent. FSAFEDS and FLTCIP demonstrated successful performance with impressive records for customer satisfaction, timeliness and meeting enrollment goals.

The 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 the opportunity to purchase group term life insurance which provides financial protection to beneficiaries in the event of enrollee death or dismemberment. It is part of a compensation package that enables the Government to remain competitive with other employers for highly qualified workers. The FSAFEDS program is a tax-favored program that allows employees who enroll to pay for health and/or dependent care programs with pre-tax dollars. The FLTCIP helps employees plan and pay for long-term care expenses that may be incurred in the future. Customer satisfaction surveys indicate that the overall package of benefits and the level of services for FLTCIP meets the needs of participants.

## SECTION 2—FY 2007 PERFORMANCE RESULTS

### Performance Results: Human Capital—Leadership Capacity

Results for the two performance measures and four operational goals for this program/program activity are presented and discussed below.

Program: Human Capital		Program Activity : Leadership Capacity			
Outcome: Improved agency management of SES recruitment, development, and retention					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Number of 26 PMA agencies that meet their annual targets for closing leadership competency gaps	n/a	n/a	13	15	20
Percent of 26 large agency leadership development program graduates placed into positions of higher responsibility	n/a	n/a	53%	55%	65%
Operational Goal				Date Completed	
Provide agencies with a competency assessment tool for management candidates by January 1, 2007.				December 29, 2006	
Co-host with agency partner(s) a thought leader forum to address SES performance and executive development by October 1, 2007.				April 10, 2007	
Work with CHCO council to host and lead a new forum, including private sector thought leaders, for exploring innovative human resources practices by October 1, 2007, and each year thereafter.				September 25, 2007	
Have written succession plans in place at 15 CHCO agencies by October 1, 2006, and meet milestones; all other agencies by October 1, 2007.				September 15, 2006 September 27, 2007	

OPM actions to strengthen the leadership capacity of the Federal workforce brought about measurable results in FY 2007. Both leadership measures met their targets and exceeded FY 2006 performance levels. As new performance measures developed through OPM's FY 2006 PART assessment of the Human Capital Program in FY 2006, there are no FY 2004 or FY 2005 data to report.

In December 2006, OPM provided to agencies the Management Competency Assessment Tool (MCAT), a web-based tool for assessing the skill levels of managers, supervisors, and others in key leadership and performance management positions. Agencies can use the results to support leadership competency gap analyses, and succession management and leadership development. In January 2007, OPM hosted a briefing for agency CHCOs to introduce and demonstrate the MCAT. OPM also provided one-on-one consultative sessions to assist agencies to deploy MCAT.

OPM continued its practice of convening "thought leaders forums" with experts from both the public and private sectors to share ideas on emerging human resources issues. During FY 2007, OPM conferred with approximately 100 leaders from Government, the military, academia, good-Government organizations, and the private sector on the topic of executive development. An outcome of these forums was OPM's new policy to review on a case-by-case basis the number of agency SES allocations allowed so that when a Federal executive is on a developmental detail to another agency, his or her organization can temporarily fill the position.

## SECTION 2—FY 2007 PERFORMANCE RESULTS

### Performance Results: Leadership Capacity Services

Results for the four performance measures and two operational goals for this program/program activity are presented and discussed below.

Program: Leadership Capacity Services		Program Activity : Federal Executive Institute, Management Development Centers, and Presidential Management Fellows			
Outcome: Federal executives, managers, and supervisors have available high-quality training to meet the leadership, management development, and succession planning needs of their organizations and develop or renew their commitment to public service.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Overall customer satisfaction, based on five point scale	4.70	4.61	4.68	4.68	4.60
Percent increase in perceived learning	41%	40%	40%	41%	52%
Number of Presidential Management Fellow hires	403	366	355	400	403
Full cost recovery for each revolving fund program	No	No	No	Yes	Yes
Operational Goal				Date Completed	
Work with CHCO Council to develop marketing and implementation guidance for agencies to maximize return on distance learning investments by October 1, 2007.				September 19, 2007	
Develop business case for Candidate Develop/Succession planning by August 1, 2007.				July 13, 2007	

OPM's Center for Leadership Capacity Services met three of its four performance targets, achieving full cost recovery for the first time in several years. Overall Customer Satisfaction was slightly below the FY 2007 target, but results remained at a high level. The increase in perceived learning exceeded the FY 2007 target by nearly 11 points. These results show a continuation of consistently high quality standards in OPM's leadership training programs. The Presidential Management Fellows (PMF) Program met its target, and increased the number of PMF appointments by approximately fourteen percent compared to FY 2006. OPM took many steps to achieve full cost recovery, including revamping the assessment process for the PMF Program to reduce expenses by approximately 50 percent and increasing the fee charged to agencies who hired the Fellows. In addition, open enrollment programs that were not financially viable were eliminated, and actions were taken to reduce costs and increase delivery of programs by staff versus contractors.

### *Open Enrollment Programs.*

OPM established a Curriculum Development Team in FY 2007 to review courses to better meet the needs of our customers and to make us more efficient and effective in the use of our resources. The review resulted in the elimination of non-productive or duplicative offerings and the realignment of courses between the three delivery centers to better balance the use of facility and staff resources. Open enrollment programs met the targeted sales and end of year goals. The SES Level Leadership for a Democratic Society program and several management programs were sold to capacity. Quality scores met performance targets for customer satisfaction and for the level of knowledge gained from a course. A refocusing on sales and marketing efforts during the year produced a significant increase in advanced registration for the first quarter of FY 2008.

### *Custom Programs.*

The custom programs line of business experienced significant growth in FY 2007, as a result of a more robust outreach program. At the Management Development Centers and the Federal Executive Institute eleven new multi-year partners were added including several large agencies with extensive leadership development needs such as the Department of Homeland Security, the U.S. Navy, the U.S. Army, the Department of Justice, National Oceanic and

Atmospheric Administration, and the Department of Energy. This “new” business significantly bolstered the custom business line strategy of developing long-term relationships that help sustain the financial baseline into the future. Also adding to the FY 2007 portfolio and custom revenue were several new clients with shorter term needs.

### *Succession Planning Programs.*

The Federal workforce is embarking upon a challenging era with 60 percent of the total workforce and 90 percent of senior civilian executives becoming eligible to retire in the next ten years. In response, OPM is offering services for attracting and training top-notch talent to the Federal workforce at both the executive and mid-career levels. In FY 2007, the PMF Program successfully evaluated and assessed more than 2,800 nominees to provide agencies with a hiring pool of more than 790 highly qualified and motivated individuals, from which 403 were hired. This program has an established reputation for being able to meet agencies’ mid-career level needs. In addition, OPM is gearing up to offer the SES Federal Candidate Development Program in the fall of 2007. In early July 2007, OPM briefed the CHCO Council on the benefits of using this program. Candidates who successfully complete the program will become certified through the Qualification Review Board process and can be hired for SES positions without further competition.



### Performance Results: GoLearn

Results for the three performance measures for this program/program activity are presented and discussed below.

Program: GoLearn		Program Activity : GoLearn			
Outcome: The Federal workforce has increased opportunities for career development by utilizing high return on training investments.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Number of GoLearn courses completed annually (all Learning Management Systems)	178,207	136,878	2,009,267	2,100,000	2,278,513
Number of eligible (registered) users of GoLearn sites	261,154	235,748	1,048,896	1,100,000	1,371,165
Full cost recovery for each revolving fund program	Yes	Yes	Yes	Yes	Yes

OPM's GoLearn program continued its expansion during FY 2007 as its client agencies increasingly used this on-line facility. GoLearn's availability to all Federal agencies and employees makes it the ideal choice for addressing a wide range of training needs. GoLearn provides multiple paths to its extensive training modules so employees and agency training officials can quickly and cost effectively enroll in, conduct, and report on their training activities.

For larger agencies, GoLearn facilitates the implementation of Learning Management Systems, enabling more effective management of Human Capital. By focusing on the strategic goals of the agency, and implementing tools that help to shape the Human Capital to meet those needs, GoLearn is helping to grow a more effective and productive Federal workforce. Significant expansion in the Department of Veterans Affairs, Health and Human Services and Homeland Security helped to expand these offerings in 2007.

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

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

Through its Human Capital–Talent, Talent Services program, and the USAJOBS website, OPM completed 19 operational goals and met targets and/or improved performance levels for eight of the ten performance measures for these programs.

## SECTION 2—FY 2007 PERFORMANCE RESULTS

### Performance Results: Human Capital Program—Talent

Results for the two performance measures and 15 operational goals for this program/program activity are presented and discussed below.

Program: Human Capital		Program Activity : Talent			
Outcome: Agencies successfully compete with other employers to recruit, hire and retain top talent.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Number of the 26 PMA agencies that meet their annual targets for closing mission-critical occupation/competency gaps	10	14	21	20	21
Percent of hires in each agency hired within the 45-day time frame, as described in OPM's hiring time frame model	n/a	n/a	64%	60%	78%
Operational Goal				Date Completed	
Close competency gaps in HR specialist occupations at 15 CHCO agencies by July 1, 2007.				June 28, 2007	
Decrease hiring decision timeframes to 45 days from closing date of job announcement to date of offer for 50% of hires by end of FY 2006, increasing by 10% per year thereafter to 90% in 2010.				September 7, 2007	
Categorize positions by new Career Patterns at all CHCO Agencies by January 1, 2007.				December 29, 2006	
Begin to operate and hire in the new Career Patterns environment by October 1, 2007, at all CHCO agencies and expand each year thereafter.				July 24, 2007	
Implement an applicant assessment decision tool/guide by October 1, 2007.				June 6, 2007	
Complete development of enhanced automated examination tool by April 1, 2007.				March 16, 2007	
Improve hiring practices, as measured by CHCO Council-approved applicant and manager surveys, at a total of eight CHCO agencies by July 1, 2007; 15 by October 1, 2008; and all agencies by 2010.				June 28, 2007	
Meet with CHCO Council to obtain and assess ideas on improving hiring and prepare appropriate action items by April 1, 2007.				March 14, 2007	
Design and Implement 21st century hiring flexibility educational tools to assist hiring officials and HR professionals in all CHCO agencies by October 1, 2007.				September 25, 2007	
Establish a category rating policy/plan by January 1, 2007, and use for hires by October 1, 2007, at all CHCO agencies.				December 29, 2006 September 28, 2007	
Draft and develop support for legislation allowing retirees to continue receiving annuity payments while performing part time Federal service by March 1, 2007.				January 12, 2007	
Work with CHCO Council to roll out a more targeted (by learning institution, profession) job fair process in 2006 and expand through strategic planning period.				August 22, 2006 September 14, 2007	
Expand job fair / career day program to include community colleges by June 1, 2007.				May 23, 2007	
Identify and recommend new types of outlets for advertising by March 1, 2007. Develop implementation plan for selected outlets by April 1, 2007.				February 28, 2007 March 26, 2007	
Produce and place six new recruitment advertisements by October 1, 2007.				September 7, 2007	

### *Preparing for the 21st Century Workforce*

Approximately 60 percent of the 1.6 million Federal civilian employees and 90 percent of the 6,000 senior executives who lead Federal agencies will be eligible for retirement over the next ten years. An estimated 40 percent are expected to actually retire. Who will be the next generation of Federal agency scientists, public health officers, engineers, investigators, inspectors, social workers, accountants, and a myriad of other highly-skilled, mission-critical occupations? How will Federal agencies assure that prospective and current employees have the necessary skills and competencies? In addition to the “retirement tsunami,” another great wave of change is the expectations and demands of today’s highly mobile, competitive workforce. The traditional profile of the employee who works full-time for an entire career in a single agency can change rapidly. OPM completed many operational goals in FY 2007 to meet these challenges.

OPM engaged in a comprehensive Talent strategy in FY 2007 to help Federal agencies develop and implement effective, targeted recruiting to attract the most highly qualified job applicants, to streamline hiring to bring them on board quickly, and to build attractive workplaces to retain valuable employees. Addressing the need to maintain and improve the overall talent of the Federal workforce was never more critical than it is today. This human capital challenge—the need to fill so many highly-skilled positions in an increasingly competitive, selective labor market—is unprecedented in the history of the Federal Government.

### *OPM Met Both Talent Program Activity Performance Targets*

During FY 2007, OPM made progress helping Federal agencies achieve their hiring goals. Twenty-one of the 26 PMA agencies met their annual targets for closing mission-critical occupation/competency gaps. Also, OPM achieved outstanding results in its leadership and assistance to CHCO agencies in the

area of hiring timeliness. The performance measure “new employees in each CHCO agency hired within the 45-day time frame,” as described in OPM’s hiring time frame model, reached 78 percent, 16 percentage points above the FY 2007 target and 12 points higher than FY 2006. The average time to hire is about 31 days.

### *Closing Competency Gaps*

In FY 2007, OPM completed several operational goals to support agencies’ efforts to close competency gaps in their workforces. OPM’s efforts to train Human Resources Managers and Program Hiring Managers on the use of hiring flexibilities such as Category Rating and the *Career Patterns* approach for recruitment and retention contributed to improved overall agency performance in hiring timelines and closing competency gaps.

To assess and build competencies in the portion of the workforce critical to leading the overall Human Capital agenda, OPM developed and disseminated a Human Resources Management Competency Model. This model outlined key competencies needed by the HRM workforce to perform both strategic and transactional work. OPM developed the Federal Competency Assessment Tool-Human Resources (FCAT-HR) to support agencies in gauging the skill level of their HRM workforce. Overall, the Government made moderate, but encouraging, improvements in FY 2007 in the skill areas of Client Engagement, Technical Competence, Workforce Planning, and Classification. OPM and the CHCOC will continue to examine and develop strategies for building competencies of the Federal HRM workforce.

### *Using the “Career Patterns” Approach to Improve Recruitment and Retention*

Finding and hiring the right people with the right skills are at the core of the Talent performance outcome and measures. *Career Patterns*, an OPM initiative rolled out to great enthusiasm in June 2007,

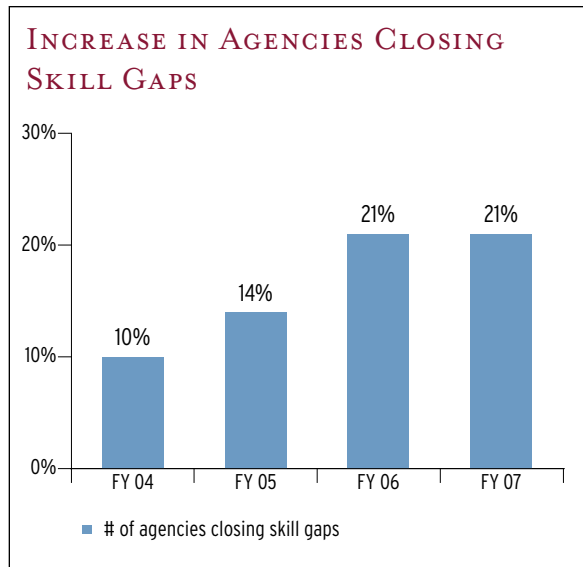
assists agencies to determine the work environments that need to be marketed, enhanced or built to fill mission-critical occupations. OPM exceeded its operational goal target in December 2006 with all CHCO agencies and nine smaller agencies categorizing positions using *Career Patterns*. By July 2007, also exceeding targets, all CHCO agencies and numerous small agencies had begun to operate and hire using the *Career Patterns* approach. OPM provided numerous briefings, trainings, and forums to share best practices on *Career Patterns* to CHCO agencies, small agencies and interested external organizations. OPM also integrated *Career Patterns* into a new leadership course—*Managing the 21st Century Workforce*—offered through our Center for Leadership and Capacity Development

### *Improving Hiring through Use of Enhanced Tools and Flexibilities*

Agency assessment strategies that effectively and efficiently target applicants with the right skills are essential for filling critical vacancies. During FY 2007, OPM expanded the approaches made available to Federal agencies to attract and hire high-quality employees, including the web-based *Assessment Decision Guide* offering practical information on traditional and state-of-the-art assessment methods, along with guidance on how to design a customized, effective assessment system.

To make the Federal job application process more efficient, OPM released the Assessment Delivery System (ADS) which includes streamlined versions of the Administrative Careers with America (ACWA) assessments. The ADS allows job applicants to complete an assessment and retains their score for future use. The new streamlined ACWA assessments and ADS tool will significantly simplify the process of applying for many entry-level Federal jobs and improve Federal agencies' ability to attract and hire.

OPM partnered with the CHCO Council to administer a survey to find out managers' and



applicants' perceptions of the hiring process. Governmentwide results were positive. OPM reached its performance target of eight agencies meeting their "improve-the-hire" goals. The survey also found that awareness and use of hiring flexibilities still need improvement. To address this, OPM conducted hiring flexibilities training for all CHCO agencies, including specific training for agencies on the use of category rating as a key flexibility; upgraded the web-based *Hiring Toolkit*, which helps agencies identify ways to improve the effectiveness, efficiency, and timeliness of their hiring processes; and developed videos, available on the OPM website, which instruct agencies on how to use hiring flexibilities to recruit and hire for difficult-to-fill positions.

### *A Useful Hiring Tool: Category Rating*

OPM continued to offer many flexibilities to improve hiring timeliness and to fill critical skill gaps, including "category rating," an alternative ranking and selection procedure which creates a much larger pool of qualified applicants than traditional rating methods. OPM encouraged its use in FY 2007 through over 50 briefings, presentations, and trainings nationwide, including a comprehensive category rating training course which received high marks from agency attendees.

To help agencies continue to develop skills using category rating, we provided extensive training materials at no cost. OPM also produced videos available on the OPM website on how to use existing hiring flexibilities, including category rating, for recruiting and hiring for difficult-to-fill positions.

### *Bringing Talented Retirees Back to Federal Service Part-time*

Another approach to filling mission-critical competency gaps is to mitigate against loss of some of our most experienced, knowledgeable workers; i.e., recent Federal retirees. In order to help agencies mentor and train new employees and complete sensitive, short-term projects on time, OPM submitted a legislative proposal to Congress which would authorize Federal agencies to reemploy retired Federal employees on a limited basis without offset of annuity from salary. The proposal was carefully drafted to make such reemployment both attractive to annuitants and easy for agencies to use, and to avoid possibilities for abuse.

### *Recruiting at Universities and Community Colleges*

As part of the Federal Government's overall strategy to fill mission-critical positions, OPM continued its efforts to conduct targeted recruiting at colleges and universities, partnering with five universities to plan Federal Career Days for Fall 2007 and Spring 2008. OPM partnered with schools with demonstrated commitment to supporting Federal employment opportunities for students and alumni and which have strong curricula in many of the Federal Government's mission critical occupations. These recruitment events provide opportunities to brand the Federal Government as a "first choice" employer. OPM included keynote speakers on Federal employment topics; workshops on navigating USAJOBS, understanding Knowledge, Skills, and Abilities and competencies, résumé-writing and interviewing, Federal internship

opportunities, and veterans' preference; and career fair booths staffed by Federal agencies to speak directly with students and alumni.

Building on the success of Federal Career Day events at four-year schools, OPM began reaching out to community colleges in 2007, in recognition of the increasingly important role of community colleges in providing traditional and continuing education students with skills needed for the Federal workplace. Northern Virginia Community College (NVCC) was an ideal partner for OPM's first community college recruitment event:

- Its enrollment of almost 60,000 students reflects the diversity Federal agencies are looking for in their recruiting efforts.
- It offers strong programs in such mission critical skills and occupations as medical and public health, engineering, program and project management, accounting, information technology and foreign languages.

### *Recruiting through Television Advertising and other Media*

OPM designed, produced, and placed televised Federal job recruitment ads featuring actual Federal employees in ten media markets across the country. OPM's *What Did You Do at Your Job Today?* television ads featured a wounded veteran of Operation Iraqi Freedom who found he could continue to serve his country as a security specialist with the U.S. Department of Homeland Security. Other new spots in the now 8-part trademark series feature a U.S. State Department Foreign Service Officer and a lead civilian engineer for the U.S. Navy's Advanced Hawkeye (airborne radar) Program. Since launching the campaign during FY 2006, OPM found each of the ads had a strong impact raising awareness and spurring interest in the spectrum of vitally important and rewarding careers available in the Federal Government. In addition to helping recruit new talent to the nation's civilian workforce, the advertising

## SECTION 2—FY 2007 PERFORMANCE RESULTS

campaign also has the added benefit of showcasing to the American people the impressive variety of services performed every day by Federal employees.

### Performance Results: Talent Services Program

Results for the five performance measures and one operational goal for this program/program activity are presented and discussed below.

Program: Talent Services		Program Activity : Talent Services				
<b>Outcome:</b> Federal agencies have effective and efficient staffing, training, assessment, and other human resources services available that contribute to their becoming successful, high-performance organizations.						
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results	
Customer satisfaction with Center for Talent Services' products and services (ACSI Equivalent Index)	84	85	85	86	84	
Percent of customer agencies expressing repurchase intention for CTS products and services	96%	96%	93%	≥96%	94%	
Percent of training and management assistance deliverables accepted by customer agencies	99%	99%	99%	99%	99%	
Percent of customers agreeing that CTS products and services contribute to Government effectiveness	95%	98%	93%	≥96%	94%	
Achieve full cost recovery annually for each Revolving Fund program	Yes	Yes	Yes	Yes	Yes	
Operational Goal				Date Completed		
Develop a plan to expand CTS Pilot Incentive program to include a quarterly individual/team sales recognition to incentivize business development in our reimbursable business by March 30, 2007; implement plan by July 1, 2007.				March 29, 2007 June 18, 2007		

OPM continued to achieve excellent performance results for the Talent Services Program. Although not all performance targets were met, all were within the margin of error for their respective collection methodology, and the results for four of the five measures represent sustained performance at the FY 2006 level, or an improvement. The satisfaction of OPM's customers can be attributed to the alignment of service offerings with those of the *Human Resources Line of Business Reference Model*. OPM is the managing partner of the HR LOB and led a taskforce of 22 agencies to formulate, verify, and validate the model. The Model provides a Governmentwide approach for modern, cost-effective, standardized, and interoperable HR solutions to support the strategic management of human capital.

The Talent Services Program provides integrated products and services in support of the HR LOB which include automated staffing solutions; individual and organizational assessment; recruitment, selection, and retention strategies; workforce and succession planning services; development, implementation, support, integration, and hosting of complex human resources information technology systems; and pre-qualified commercial vendors providing custom training, learning, and knowledge management solutions and human capital solutions. In FY 2007, OPM successfully implemented these products and services for dozens of Federal agencies by customizing them to meet each agency customer's specific human resource needs. Products and services span the entire human resources life cycle as identified in the HR LOB *Reference Model*.

## SECTION 2—FY 2007 PERFORMANCE RESULTS

To better capture customer feedback, more customer satisfaction surveys were distributed and follow-up measures were more aggressive in FY 2007. OPM's attempt to actively solicit feedback has resulted in more surveys collected and more information to isolate customer concerns. Analysis from the customer satisfaction surveys has identified specific areas for improvement in FY 2008. Program improvement efforts launched in FY 2007 include a strategic planning initiative, implementation of customer relationship management tools, and product and service business life cycle reviews.

### Performance Results: USAJOBS Program

Results for the three performance measures and two operational goals for this program are presented and discussed below.

Program: USAJOBS		Program Activity : USAJOBS			
Outcome: Federal agencies recruit effectively and efficiently for high-quality applicants to become employers of choice.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Percent of CHCO agencies using the USAJOBS resume format and integrating online applications with their assessment systems	n/a	n/a	35%	50%	78%
Percent of CHCO agencies using USAJOBS position announcement template	n/a	n/a	86%	85%	98%
Full cost Recovery annually for each revolving fund program	Yes	Yes	Yes	Yes	Yes
Operational Goal				Date Completed	
Increase number of CHCO agencies using the USAJOBS announcement format and integrating online applications with their assessment systems to 50% by April 1, 2007; 75% by April 1, 2008; and 100% by April 1, 2010.				March 21, 2007	
Increase number of CHCO agencies using the USAJOBS position announcement template to 85% by December 31, 2006				December 4, 2006	

OPM's USAJOBS website achieved the performance targets related to CHCO agencies adopting USAJOBS' position announcement templates, resume formats, and integrating online applications with agency assessment systems. For the fourth consecutive year, USAJOBS fully recovered its costs.

USAJOBS is the front facing portal for public notification of all Competitive Service and Senior Executive Service vacancies, providing equal access to and clear, concise application processes for Federal employment opportunities. Other than the IRS website during tax season, USAJOBS has become the Federal Government's principal public-facing entity. Additionally, the information on USAJOBS is also available nationwide via the web. USAJOBS has been designated by OMB as the Federal Government's best recognized and most effective Presidential Management Initiative. USAJOBS exceeded all goals and expectations; and, the public recognition and utilization of the site continues to increase. Out of 133,000 job-application Internet sites worldwide, USAJOBS is number five, and it only lists Federal Government jobs. In August 2007 USAJOBS set an all-time record with 8.5 million visitors who generated 122 million page hits. Also, the site generates two million requested monthly job-opportunity e-mails to job seekers.

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

To create throughout the Federal Government a performance culture where all employees are focused on achieving agency goals, provide competitive benefits and career development opportunities, and to effectively use recruitment and retention strategies to make the Federal Government a 21st century employer of choice; OPM supports exemplary human resources practices in Federal agencies. Chief among these are OPM's efforts to promote the strategic management of human capital; i.e., the alignment of Federal agencies' human capital plans with agency objectives, strategic goals, and missions. OPM also ensures that all Federal agencies comply with the nine merit principles (see Table 19) and provides Federal agencies with background information to determine the suitability of job candidates, new employees and contractors.

In FY 2007, OPM improved performance and completed 19 operational goals in its Merit System Compliance, and Federal Investigative Services programs.

TABLE 19. TITLE 5, UNITED STATES CODE, SECTION-2301.

Merit System Principles
<b>Federal personnel management should be implemented consistent with the following merit system principles:</b>
(1) Recruitment should be from qualified individuals from appropriate sources in an endeavor to achieve a work force from all segments of society, and selection and advancement should be determined solely on the basis of relative ability, knowledge and skills, after fair and open competition which assures that all receive equal opportunity.
(2) All employees and applicants for employment should receive fair and equitable treatment in all aspects of personnel management without regard to political affiliation, race, color, religion, national origin, sex, marital status, age, or handicapping condition, and with proper regard for their privacy and constitutional rights.
(3) Equal pay should be provided for work of equal value, with appropriate consideration of both national and local rates paid by employers in the private sector, and appropriate incentives and recognition should be provided for excellence in performance.
(4) All employees should maintain high standards of integrity, conduct, and concern for the public interest.
(5) The Federal work force should be used efficiently and effectively.
(6) Employees should be retained on the basis of adequacy of their performance, inadequate performance should be corrected, and employees should be separated who cannot or will not improve their performance to meet required standards.
(7) Employees should be provided effective education and training in cases in which such education and training would result in better organizational and individual performance.
(8) Employees should be—
(A) protected against arbitrary action, personal favoritism, or coercion for partisan political purposes, and
(B) prohibited from using their official authority or influence for the purpose of interfering with or affecting the result of an election or a nomination for election.
(9) Employees should be protected against reprisal for the lawful disclosure of information which the employees reasonably believe evidences—
(A) a violation of any law, rule, or regulation, or
(B) mismanagement, a gross waste of funds, an abuse of authority, or a substantial and specific danger to public health or safety.



SECTION 2—FY 2007 PERFORMANCE RESULTS

Performance Results: Merit System Compliance

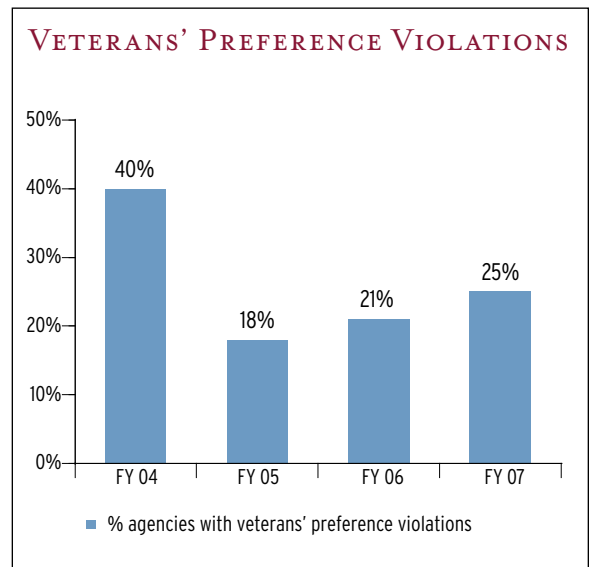
Results for the four performance measures and one operational goal for this program/program activity are presented and discussed below.

<b>Program:</b> Merit System Compliance		<b>Program Activity :</b> Compliance			
<b>Outcome:</b> Federal agencies' human resources programs are efficient, effective, and compliant with Merit Systems Principles.					
<b>Performance Measures</b>	<b>FY 2004 Results</b>	<b>FY 2005 Results</b>	<b>FY 2006 Results</b>	<b>FY 2007 Target</b>	<b>FY 2007 Results</b>
Number of agencies that fully implement a system of internal compliance with Merit System Principles and laws, rules and regulations in accordance with OPM standards	0	2	20	25	25
Percent of agencies with violations of veterans' preference laws, rules, and regulations	40%	18%	21%	20%	25%
Percent of agencies with severe problems in one or more delegated examining units that demonstrate improvement within 1 year following completion of an audit	79%	58%	78%	80%	83%
Percent of classification and job-grading appeal decisions exceeding target time frames	12%	11%	9%	9%	2%
<b>Operational Goal</b>				<b>Date Completed</b>	
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.				September 28, 2007	

\* Estimated, based on data through June 30, 2007.

OPM continued its collaborative efforts to implement human capital accountability systems in PMA agencies, fulfilling the requirements of the *Homeland Security Act of 2002* (P. L. No. 107-296). OPM integrated its assistance to agencies' with the design, implementation, and assessment of human capital accountability systems with its traditional oversight responsibility to ensure that Federal agencies are consistently honoring the Merit System Principles, Veterans' Preference and other standards, preventing and correcting non-compliance efficiently and effectively. In addition, OPM continued to carry out its statutory oversight responsibility through targeted audits of agency HR operations and DEUs and the classification appeals program.

OPM improved on three of the four performance measures for the Compliance Program. Twenty-five of twenty-six agencies have now implemented a system of internal compliance with Merit System Principles and laws, rules and regulations in



accordance with OPM standards, an increase of 25 percent above FY 2006 and twelve-fold the number at the end of FY 2005. OPM's oversight and on-going interactions with agencies regarding veterans' preference violations did not bring about the

## SECTION 2—FY 2007 PERFORMANCE RESULTS

expected improvement as the percent of agencies in which OPM has identified such violations increased four percentage points during FY 2007. OPM worked closely with the agencies which had the troubled DEUs, helping them bring resolution to identified issues improving performance in this measure to 83 percent.

Protecting the rights of veterans and ensuring that delegated personnel authorities are properly used by agencies is critical to sound Human Capital management and maintaining public confidence in Federal HR systems. Ensuring that troubled DEUs improve their delegated examining operations to comply with the Merit System Principles and the Veterans Preference Act of 1944, as amended, improves public confidence in Federal civil service hiring and ensures eligible veterans receive those preferences to which they are entitled. For example, at one DEU, eligible veterans preference were not properly referred for job consideration; after audit, those veterans received job offers from the agency to correct the previous loss of consideration.

### Performance Results: Human Capital—Strategic Alignment

Results for the four performance measures and eight operational goals for this program/program activity are presented and discussed below.

Program: Human Capital		Program Activity : Strategic Alignment			
Outcome: Federal agencies' human capital systems are aligned with their Strategic Plans.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Percent of agencies that meet all 4 requirements of an effective strategic alignment system	42%	65%	88%	77%	92%
Number of agencies migrated to HR LOB Shared Service Centers (including the migration of additional human resources functions)	n/a	n/a	5	3	4
Percent of hard copy official personnel files converted to electronic format	n/a	n/a	18%	33%	34%
Number of hard copy official personnel files converted to electronic format	n/a	n/a	326,065	600,000	618,808
Operational Goal					Date Completed
Obtain commitments from three additional agencies for migration to HRLOB Shared Service Centers by October 1, 2007.					June 4, 2007
Increase to 600,000 the total number (cumulative) of converted hard copy official personnel folders Government-wide to electronic format by October 1, 2007.					September 17, 2007
Develop a concept of operations for entry on duty system (EODS) by April 1, 2007.					March 15, 2007
Develop migration guidance for agency selection HRLOB public/private sector centers by March 1, 2007.					February 23, 2007
Complete private sector Shared Service Centers operational capabilities requirements by April 1, 2007.					March 23, 2007
Complete the final statement of work for private sector Shared Service Centers by April 1, 2007.					March 15, 2007
Issue updated guidance on use of Social Security Numbers on HR records by October 1, 2007.					June 18, 2007
Rollout results of the Federal Human Capital Survey report by March 1, 2007.					January 17, 2007

During FY 2007, OPM reassessed each agency's human capital plans to determine the extent to which they are strategically aligned with the agency's mission, vision, strategic goals and objectives. OPM coupled these reassessments with extensive technical assistance to assure that all human capital activities are strategically integrated. As a result, the percent of agencies meeting criteria for the strategic alignment of human capital improved to an all-time high of 92 percent by the end of the fiscal year.

OPM continued to achieve the goals of the HR LOB, as four additional agencies migrated to Shared Service Centers. The EHRI project continues the rapid conversion of hard copy Office Personnel Folders to electronic format according to plan.

During FY 2007, the HR LOB developed a Migration Planning Guidance document for Federal agencies to guide them in their transition to a selected HR LOB shared service center. In addition, it issued a best practices report for Human Resources shared services and service delivery, the Service Component Model (v.2) of the HR enterprise architecture and a concept of operations for the HR function of "Entrance-on-Duty". The HR LOB is a strategic and transformational initiative to improve HR services through the establishment of Shared Service Centers for Federal agencies. The HR LOB moves the administrative tasks of HR to shared service centers, allowing agencies to develop and use their HR staffs in more strategic and consultative ways and saves the Government money by eliminating duplicative technology and systems.

EHRI is a comprehensive electronic personnel recordkeeping and analysis system that supports human resources management across the Federal Government. The information in this system spans the careers of 1.8 million Federal employees—from hiring to retiring—and provides employees, managers, and human resources professionals

with desktop access to personnel records. The EHRI tool set and central data repository, when fully implemented, will provide comprehensive knowledge management, workforce analysis, forecasting, and reporting Government-wide. EHRI will replace the current Official Personnel Folder with an electronic employee record for all Executive branch employees, resulting in a comprehensive electronic personnel data repository covering the entire life cycle of Federal employment.

Pursuant to E. O. 13402, OPM provided guidance to executive branch agencies on eliminating the use of social security numbers in Official Personnel Folders, employee training requests, applications for employment, and in human resource management information systems. OPM will undertake activities in FY 2009 that will reduce executive branch agencies' reliance on social security numbers in Federal agency personnel, payroll, and other human resources systems.

OPM administered and agencies analyzed and developed action plans to address issues uncovered in the 2006 *Federal Human Capital Survey*. By providing reliable, comprehensive data about employee perceptions, the FHCS provides valuable insight into challenges and opportunities for ensuring the Federal Government has an effective civilian workforce. More than 220,000 Federal employees responded to the survey, previously administered in FY 2002 and 2004. The survey found that employees believe they understand their agencies' missions, their work is important, they have the necessary skills for contributing to mission accomplishment, and are delivering results. The survey also identified several areas requiring focused improvement efforts. These include building trust and communication throughout organizations to support performance-based rewards, recognition, and promotion systems and improving the perceived effectiveness of leadership.

## SECTION 2—FY 2007 PERFORMANCE RESULTS

### Performance Results: Federal Investigative Services—Background Investigations

Results for the seven performance measures and ten operational goals for this program/program activity are presented and discussed below.

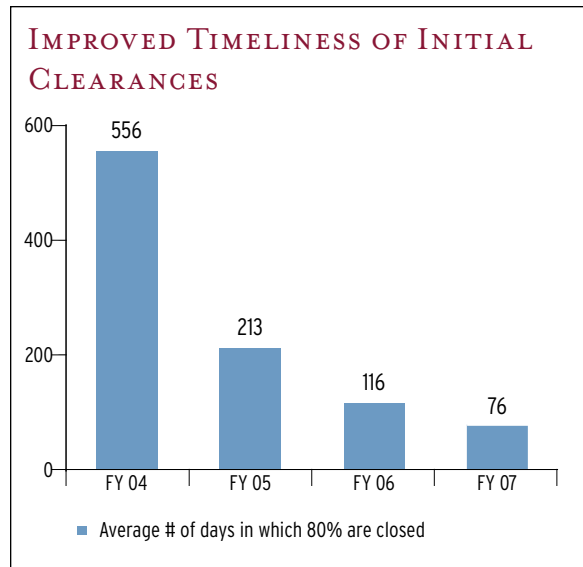
Program: Federal Investigative Services		Program Activity : Background Investigations			
Outcome: Federal agencies receive high-quality, timely background investigation services to determine individuals' suitability for Federal civilian, military or Federal contract employment, and determine eligibility for access to classified national security information.					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Average number of days within which 80% of initial clearances are closed.	556	213	116	≤90	76*
Percent of all other investigations closed within an average of their pre-determined number of days.	80%	84%	81%	80%	80%
Case returns—percent of cases returned by client agency for correction	0.056%	0.030%	0.127%	<1%	0.12%
Average number days (initial clearances) within the 95th percentile of the aged inventory	570	463	475	425	630
Average number days (all other investigations) within the 95th percentile of the aged inventory	994	552	650	575	610
Percent of customers satisfied with quality and service of its products, policies and guidance	96%	95%	92%	95%	n/a **
Achieve full cost recovery annually for each Revolving Fund program	Yes	Yes	Yes	Yes	Yes
Operational Goal				Date Completed	
Achieve a total staffing level of 9,500 (Federal employee and contractor combined) if workload projections are realized by October 1, 2007.				September 28, 2007	
Complete 80% of initial clearance investigations within 90 days by end of 2006.				December 29, 2006	
Support agency's HSPD12 hiring investigative requirement of 90% advance results within ten days by October 1, 2007.				September 24, 2007	
Maintain completed investigations in an imaged format, with agency option for full electronic receipt by October 1, 2007.				September 28, 2007	
Develop capacity to transmit completed investigations electronically to all clearance granting agencies by October 1, 2007.				September 28, 2007	
Operate e-QIP with capacity to receive and process 100% of all national security investigation requests through October 1, 2007.				September 28, 2007	
Operate fingerprint transmission system with sufficient capacity to receive and process electronically generated fingerprints in lieu of hard cards (Up to 100% of transmissions) October 1, 2007				September 28, 2007	
Achieve rate of no more than one percent of completed investigations returned from agency security/ adjudication offices each year.				December 15, 2006	
Achieve full cost recovery annually for each Revolving Fund Program.				September 28, 2007	
Conduct six educational programs for personnel security specialists on security and suitability topics by October 1, 2007.				September 24, 2007	

\* Based on 80% of initial clearances completed during FY 2007. Results may be adjusted later as the remaining initial clearances received during FY 2007 are closed. \*\* No data available as of this writing.

OPM continues to improve the timeliness of processing initial background investigations, while also maintaining processing accuracy virtually at FY 2006 levels. The investigations case inventory at the end of FY 2007 is the most current it has been in many years though missing the FY 2007 targets for the “aged” portion of the inventory. OPM reduced the oldest five percent of initial clearance cases from 8,572 at the end of FY 2006, to 7,470 at the end of FY 2007. Because many of the remaining cases were very old, the average age is greater. Many of these cases require information from overseas sources. OPM has entered into agreements with the Departments of State and Army to obtain this information, and expects the age of unprocessed investigations to improve now that the backlog has been eliminated.

To achieve these performance levels, OPM established and completed seven operational goals to improve the timeliness of case processing. Addressing the anticipated demand from agencies for investigative work (based on workloads agencies projected for FY 2007) and the need to decrease the pending inventory of aged cases, OPM increased its investigative staff to 9,400 employees (Federal and contractor personnel), and detailed on-board staff as needed to meet these needs. Also, OPM increased the number of field agents detailed overseas and signed a Memorandum of Understanding with the Department of State to assist with overseas investigations. OPM increased processing capacity so that it closed approximately 13,000 more investigations each month than received. As a result, OPM consistently met the timeliness target for initial security clearance investigations and decreased the number of overage cases to close-out the total backlog inventory.

OPM noted an increase of about 60,000 new National Agency Check and Inquiries (NACI) requests in FY 2007 which appears to be in support of Homeland Security Presidential Directive (HSPD)-12. (The NACI is the minimum level investigation required under HSPD-12.) The agency



may request the advance fingerprint results and advance results of the National Agency Checks (NAC) with the investigation request. This is a service OPM provides at no additional charge to the agency. Agencies may issue a Personal Identification Verification (PIV) credential once the national fingerprint-based criminal history check is completed provided the credential is electronically discernible from those issued after the full investigation has been completed.

OPM successfully implemented imaged investigations with electronic delivery to the first pilot agency and is working with two more pilot agencies. One hundred percent of e-QIP and FTS transmissions received are processed. Additional equipment has been identified to continue support of these goals. Agencies save time by submitting electronic investigative forms and electronic fingerprints. There is less chance of lost paperwork. Results from electronic fingerprint submissions are usually received within hours of submission. In addition there is a lower unclassifiable rate. Electronic investigative forms reduce turnaround for missing items. Electronic delivery of investigations will allow agencies more time to adjudicate cases. Currently, completed investigations are normally delivered through the U.S. mail or other hand

## SECTION 2—FY 2007 PERFORMANCE RESULTS

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delivery methods. Electronic transfer will reduce delivery time by as little as seven to as many as 13 days. There will also be a savings on postage and man-power costs. For NACI investigations processed in July 2007, OPM advanced the fingerprint results to the agency in an average of two days and advanced NAC results within an average of nine days.

In FY 2007, OPM held nine Educational Seminars in order to present learning opportunities for customer agencies. A wide variety of topics were covered that presented information used by both suitability and national security professionals. Approximately 100 security professionals attended each session. Also, OPM web cast the Educational Seminars in order to provide information to the security professionals working outside of the Greater DC area.

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

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

In FY 2007, OPM met all internal performance measures and completed 34 of 35 operational goals. The operational goals focused on improving information resources, internal financial controls, and standardizing internal processes.

#### Performance Results: Internal Management—Executive Offices

Results for the 11 operational goals are presented and discussed below.

Program: Internal Management	Program Activity : Executive Offices	
Operational Goal		Date Completed
Implement action plan to ensure OPM is rated in the top 50% of agencies surveyed in the 2006 Federal Human Capital Survey (FHCS) and in the top five agencies in the 2008 FHCS.		October 3, 2006 September 20, 2007
Implement work instruction letter regarding legal representation by February 1, 2007.		December 31, 2006
Educate OPM programs on new Federal civil procedure rules regarding e-discovery by February 1, 2007.		January 31, 2007
Conduct informational General Counsel meetings with Associate Directors and Office Heads quarterly—January 1, 2007; April 1, 2007; July 1, 2007; and October 1, 2007.		December 15, 2006 March 26, 2007 June 27, 2007 September 27, 2007
Develop standard operating procedures for the Office of General Counsel by August 1, 2007.		July 30, 2007
Create a centralized Combined Federal Campaign (CFC) database for the verification process that all CFC participating charities appear on the IRS Master File as tax-exempt, 501(c)(3) charities by July 1, 2007.		June 28, 2007
Redesign and implement THEO intranet website by June 1, 2007.		May 1, 2007
Develop method for routing and responding to general inquiry calls by June 1, 2007.		May 31, 2007
Complete the Office of Congressional Relations records management project by May 1, 2007.		In progress
Implement release two of Document Management System by May 1, 2007.		January 29, 2007
Develop OPM Pandemic Exercise After Action Report by December 15, 2006.		December 31, 2006

OPM's Executive Offices standardized internal operating procedures through focused effort on these operational goals. For instance, OPM responded to employee concerns identified in the Federal Human Capital Survey, and addressed internal performance management, supervision, and training issues.

OPM improved internal controls for quantifying the extent of the agency's pending and potential litigation claims liability. Through its OGC, OPM implemented enhanced guidance for preparing the annual legal liability letter and required updates. The resulting improved legal liability letter provides OPM with a better tool for determining material dollar impact on OPM's financial statements with regard to pending and potential litigation costs.

OPM also instructed program staff on new Federal Rules of Civil Procedure requirements regarding electronic discovery. These requirements deal with producing and preserving electronically stored information for purposes of litigation. OPM provided that guidance to program staff through informal instructional seminars conducted by OGC attorneys. OGC further provided OPM program staff with standardized procedures for handling e-discovery requests, identifying employee responsibilities concerning information technology and retention of records issues. The new procedure assisted the Department of Justice in defending OPM before the courts and better protected the agency from further litigation and litigation related costs. The enhanced procedures ultimately limit additional litigation costs for the agency.

The OGC implemented Standard Operating Procedures (SOPs), improving the internal assignment and review process. As a result, OGC staff work products were more consistent and uniform in format, response time, and delivery of

information. One of the first SOPs put into effect for OGC involved the uniformity of processing claims brought against OPM under the Federal Torts Claims Act (FTCA). These claims involved situations where members of the public allege that negligent actions of OPM employees resulted in personal injury and/or property damage. By implementing a SOP for FTCA claims, including uniform review procedures and settlement guidelines, the public utilizing the FTCA against OPM received more efficient and faster adjudication of their claims for damages.

OPM created a centralized Combined Federal Campaign (CFC) database which provided, for the first time, a single repository of all charitable organizations that applied to participate in the CFC. This information was previously decentralized among OPM and approximately 270 local campaigns across the country. A centralized database has allowed OPM to compare all charitable organizations that applied to participate in the CFC against the IRS Master File in order to determine whether each one was recognized by IRS as a Section 501(c)(3) tax exempt organization as required by the CFC regulations. In addition, OPM resolved recommendations the Government Accountability Office made in its report by creating a centralized database for the CFC program. Creation of the CFC database ensured that a key eligibility requirement was met by all of the charitable organizations participating in the 2007 campaign and it allowed OPM the ability to issue new five-digit codes to all of the charitable organizations. By taking these actions, OPM was able to remove geographical restrictions on contributions made by Federal employees. Federal employees can now contribute to any charity of his/her choice even if that charitable organization is outside of their work area.

## SECTION 2—FY 2007 PERFORMANCE RESULTS

### Performance Results: Internal Management—Financial Services

Results for the three performance measures and 8 operational goals for these program/program activities are presented and discussed below.

Program: Internal Management	Program Activity : Financial Management, Financial Systems and Modernization Services, Financial Services, Budget and Performance Services, Internal Control & Risk Management Services				
Outcome: OPM's financial management and financial systems and modernization, budget and performance, and internal control and risk management services provide a model of performance for Federal agencies					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Independent auditors' opinion on annual financial statements	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified *
Number of material weaknesses	0	0	0	0	0 *
Percent of payments within Prompt Pay Act guidelines	99.0%	99.9%	99.9%	98.0%	99.9%
Operational Goal				Date Completed	
Receive an unqualified audit opinion and report no material weaknesses every year				November 14, 2006	
Redesign and implement the budget formulation process for the FY 2009 budget cycle by June 1, 2007.				May 16, 2007	
Issue a Request For Information to determine the vendor pool for new accounting system by August 1, 2007, and issue a draft RFQ for the system by October 1, 2007.				July 20, 2007 September 10, 2007	
Comply fully with OMB Circular A-123 and achieve unqualified assurance for agency control over financial reporting every year by October 1 for the period ending June 30.				August 24, 2007	
Initiate corrective actions for prompt pay process by March 1, 2007, and implement actions by July 1, 2007.				January 31, 2007 June 25, 2007	
Maintain prompt payment performance at 98% and improve non-FISD performance by 10% over 4th quarter FY 2006 results by October 1, 2007 and an additional 10% by October 1, 2008.				September 21, 2007	
Develop acquisition strategy to procure software, integration, and application hosting services for new accounting system by April 1, 2007.				February 7, 2007	
Publish pre-solicitation notice on Fedbizops of OPM's intent to conduct a public/private competition to procure software, integration, and application hosting services for new accounting system by May 1, 2007.				April 25, 2007	



## SECTION 2—FY 2007 PERFORMANCE RESULTS

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OPM improved internal financial and process controls and financial systems to meet all FY 2007 performance targets for FY 2007. OPM also redesigned its internal budget formulation process for the FY 2009 budget request to further implement concepts of performance budgeting. OPM executives and senior managers developed budget requests with the starting point being their programs' contribution to achievement of agency strategic objectives and program performance outcomes, not current resource levels. They determined FY 2009 program performance goals and targets and the actions necessary to achieve them. These actions evolved into FY 2008 and FY 2009 operational goals clearly linked to performance and for which requested budget resources were allocated. OPM fully integrated performance planning and budgeting for the FY 2009 budget request developed in FY 2007.

OPM also pursued improvements in financial reporting and internal control. Specific details can be found in the Annual Assurance Statement Internal Control for Financial Reporting in Section 1: Management's Discussion and Analysis of this report. OPM conducted its assessment of the effectiveness of the Agency's Internal Control over Financial Reporting in accordance with Appendix A of OMB Circular A-123, Management's Responsibility for Internal Control.

In response to an OIG audit report on OCFO compliance with the Prompt Pay Act, OPM conducted a special internal control review of the accounts payable unit. The review was conducted

in two phases. Phase I focused on accounts payable operations and identified conditions which impact the agency's ability to timely and effectively process contractor invoices in accordance with the Prompt Pay Act. The review also provided 11 recommendations for improving Accounts Payable operations. By September 30, 2007, 9 of the 11 recommendations had been implemented. Phase II focused on other OPM operations and their impact on Prompt Pay Act compliance. An additional eight recommendations were made to improve internal controls and compliance with the Act. Of these recommendations, two have been implemented and corrective actions are underway for the remaining recommendations which will be tracked until completed.

In September 2005, OPM entered into an Interagency Agreement with the Department of the Treasury's Bureau of Public Debt to acquire the software, integration and application hosting services to replace and upgrade the OPM financial systems. The Bureau's financial system was unable to address OPM's Reimbursable Agreement requirements without significant and costly modifications and additional development. As a result, OPM terminated the agreement and initiated new procurement actions to obtain a financial management system that would fully meet its accounting and financial reporting needs. In 2007, OPM developed and approved the acquisition strategy to procure software, integration, hosting and application management to support Revolving Fund programs and the Salaries and Expenses (S&E) accounts and to define the requirements for a managerial cost accounting system.

## SECTION 2—FY 2007 PERFORMANCE RESULTS

### Performance Results: Internal Management—Management Services

Results for the three performance measures and 16 operational goals for this program/program activity are presented and discussed below.

Program: Internal Management		Program Activity : Management Services			
Outcome: OPM's management services provide a model of performance for Federal agencies					
Performance Measures	FY 2004 Results	FY 2005 Results	FY 2006 Results	FY 2007 Target	FY 2007 Results
Percent of time computer network available during agreed-upon service hours	99%	99%	99%	99%	99%
Percent of hires within 45-day model	60%	60%	81%	85%	89%
Cost savings that result from competitions	\$2.1M	\$1.5M	\$2.7M	\$3.4M	\$7.6M
Operational Goal				Date Completed	
Meet OMB data encryption requirements for protecting sensitive agency information—Encrypt all OPM Blackberry devices by April 1, 2007.				March 1, 2007	
• Encrypt all OPM server backup tapes that leave OPM facilities by July 1, 2007.				June 26, 2007	
• Establish the policy, procedure, and infrastructure to encrypt data on OPM laptop computers by August 1, 2007.				June 1, 2007	
• Successfully complete field testing of laptop data encryption by October 1, 2007.				September 27, 2007	
• Develop and publish a privacy policy by October 1, 2007.				September 28, 2007	
• Develop an OPM privacy training plan by October 1, 2007.				September 27, 2007	
Develop information technology roadmap and funding requirements to address future needs by June 1, 2007.				May 31, 2007	
Convert current resource center to electronic web-based research capability by October 1, 2007.				September 27, 2007	
Develop and implement internal rotational / professional development program by October 1, 2007.				September 28, 2007	
Expand the performance management beta site by June 1, 2007.				May 31, 2007	
Implement supervisory training for managers by October 1, 2007.				July 12, 2007	
Develop and implement a new employee orientation program by July 1, 2007.				June 22, 2007	
Complete progress reviews for OPM employees by May 1, 2007 and every year thereafter except for new staff that have not been under standards the requisite period of time.				April 30, 2007	
Begin to issue new HSPD 12 identification badges to current employees and contractors by October 1, 2007.				September 26, 2007	
Finalize comprehensive space management plan for the Theodore Roosevelt Building and implement for selected organizations by October 1, 2007.				March 25, 2007	
Implement new general inquiry call system by October 1, 2007.				August 13, 2007	

## SECTION 2—FY 2007 PERFORMANCE RESULTS

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OPM's Management Services Division provided a full range of administrative programs (human capital, equal employment opportunity, information technology, contracting, facilities, publications, security and emergency preparedness) to ensure a highly skilled, versatile, and diverse workforce; enhance agency operations and performance, and secure a safe and efficient working environment. OPM achieved each performance target for FY 2007 through focused effort on each of its 16 operational goals.

OPM continued improving the quality and timeliness of our own hiring processes, meeting the 45 day hiring model for 89 percent of new employees. We effectively managed Information Technology investments, provided ongoing information capabilities, including a 99 percent network availability enabling the agency to carry out mission activities, and maintained an information technology framework providing consistent, reliable, accurate and secure information to employees and customers.

Since FY 2003, OPM has conducted a wide range of commercial activity competitions which have generated significant performance improvements

and cost savings. In accordance with Attachment B of OMB Circular No. A-76 (Commercial Activities Cost Comparison) and OMB Memorandum Validating the Results of Public-Private Competition dated April 13, 2007, OPM conducted several independent validations of our competitive sourcing activities. OPM documented and verified that cost savings and performance improvements of the competitions were realized. OPM documented cost savings of \$7.6 million, more than double the FY 2007 target and nearly triple the amount reported in FY 2006.

OPM processes many types of sensitive and personally identifiable information including data relating to the privacy of active and retired Federal employees such as payroll and financial transactions, health, insurance and retirement benefits. OPM's Center for Information Services and the Chief Information Officer focused efforts on evaluating and improving the security of Federal employee personal information through enhancing the transmission of personal data throughout the life cycle of personnel processes.

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

OPM recognizes the benefits of leveraging partnerships and maintaining a leadership role in the human resources community to fulfill its mission. Human resource professionals both inside and outside of the Federal Government look to OPM for leadership and guidance as the central human resources policy agency for the Federal Government. Human resources professional organizations provide OPM an opportunity to share best practices and innovative approaches to meeting 21st century human resource challenges affecting not only the Federal—but the entire workforce.

### Performance Results: Internal Management—Executive Offices

Results for the four operational goals are presented and discussed below.

Program:	Program Activity :
Internal Management	Executive Offices
OPM is a leader in the human resources professional community and has positive name recognition outside the Federal Government.	
Operational Goal	Date Completed
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.	July 10, 2007
Redesign Labor Agreement Information Retrieval System (LAIRS) so users can search it using key words and terms, and create their own reports by October 1, 2007.	September 28, 2007
Add to LAIRS database OPM's publication, Negotiability Determinations by the FLRA (Federal Labor Relations Authority) including decisions through FY 2006 by October 1, 2007.	September 28, 2007
Conduct employee Information Road Shows regarding possible pandemic influenza with HSC/HHS/ CHCOs.	September 20, 2007

During FY 2007, OPM collaborated with other organizations within and outside the Federal Government to achieve its mission. First, OPM sought leadership positions in national professional organizations through which it provided leadership to the various human resources management communities of practice.

In FY 2007, OPM invited 11 labor organizations with national consultation rights on the project to redesign the LAIRS. LAIRS is a searchable database containing information on labor-management relations in the Federal Government. As major customers of the system, it was important to consider these organizations' perspectives and requirements. The American Federation of Government Employees, International Brotherhood of Electrical Workers, National Treasury Employees Union and the Professional Airways Systems Specialists accepted the invitation. Union representatives and OPM worked collaboratively to review, evaluate and make recommendations to improve the redesign of the system at various milestones. In addition, union project partners were given the opportunity to test the redesigned LAIRS and asked to evaluate it for navigation, intuitiveness, screen layout, content, query capabilities and report designs. OPM included in this redesign representational data on all bargaining units certified by the Federal Labor Relations Authority (FLRA), text of Federal sector collective bargaining agreements, and publications on labor relations issues, including *Negotiability Determinations by the FLRA*. Access to this information ensures the public that Federal employees are held accountable to standards of performance, conduct, and ethical behavior. Moreover, OPM customers now have a modern, web application which will enable them to rapidly search through an enormous amount of labor agreement information at any time.

OPM updated telework guides for use by Federal agencies in the event this country experiences a pandemic influenza outbreak. The guidance was an initiative assigned to OPM in President George W. Bush's Implementation Plan for the National Strategy for Pandemic Influenza. OPM established an internal pandemic workgroup which partnered with agencies and Chief Human Capital Officers to develop and provide the guidance to ensure Government services proceed without interruption should there be a pandemic influenza outbreak.

### **An OPM Success Story**

#### **OPM Leads Federal Executive Boards to Prepare for Pandemic and Other Emergencies**

OPM leads collaborative groups including the Federal Executive Boards (FEBs). FEBs serve as liaisons between agency headquarters and field operations, disseminating policy and management information from Washington, and providing feedback from the field. 28 FEBs operate in major metropolitan areas, including Chicago, Houston, Los Angeles, New York and San Francisco, which house large populations of Federal employees. OPM oversees FEB operations.

President Bush has assigned OPM a leadership role for the Federal Government with respect to pandemic preparedness. FEBs perform communications and coordination functions to help Federal agencies stay up and running during pandemic or other emergencies. OPM has developed human capital policies and mechanisms to keep agency operations up and running during a pandemic or other emergency, while keeping Federal employees safe. OPM also offered training to HR and emergency preparedness personnel on the human capital dimensions of threat preparedness and response.

In response to the 2001 terrorist attacks and subsequent weather emergencies that hit the Gulf Coast and southeastern United States, OPM elevated FEB activities in the areas of emergency preparedness, security, employee safety and human capital readiness. To this end, the success of FEBs in establishing communications systems and supporting agencies with their emergency planning helped prevent a disruption of Government services following this summer's bridge collapse in Minnesota. Thousands of Federal employees live and work in Minneapolis/St. Paul, the site of the collapse.

In response to the Government Accountability Office report published in May 2007 and its recommendations for enhancing the role of FEBs during emergencies, OPM and the Federal Emergency Management Agency (FEMA) are developing a Memorandum of Understanding laying out key FEB functions to support the agency's emergency planning and response efforts. Improved performance measures and accountability for emergency support will be in place for the FEB network by October 2008. OPM agrees with two additional GAO recommendations on integrating FEB emergency support responsibilities into national emergency response plans and frameworks, and exploring funding alternatives that would enhance FEB staffing and response activities.

## Strategic Objective G: OPM will have constructive and productive relationships with external stakeholders

OPM's programs designed to fulfill its mission of ensuring that the Federal Government has an effective civilian workforce involve high-profile issues impacting external stakeholders. These include the Congress, veterans, Federal employee unions, and employee advocacy groups. OPM works closely with stakeholders to develop, implement, and maintain effective communications about its programs and policies.

### Performance Results: Internal Management—Executive Offices

Results for the ten operational goals are presented and discussed below.

Program: Internal Management		Program Activity : Executive Offices
Outcome: OPM has constructive and productive relationships with external stakeholders.		
Operational Goal	Date Completed	
Expand the Walter Reed Army Medical Center post-service employment support model to one additional hospital in both 2006 and 2007	December 15, 2006	
Identify at least one initiative per year to partner with unions and employee advocacy groups and implement beginning in 2006.	August 23, 2007	
Simplify CFC participant eligibility rules for use in the 2007 campaign.	November 20, 2006	
Communicate the CHCO Council's mission and successes with stakeholders, including Congress, the media, and employee advocacy groups and stakeholders quarterly—January 1, 2007, April 1, 2007, July 1, 2007, and October 1, 2007.	December 14, 2006 March 15, 2007 June 15, 2007 September 10, 2007	
Work with CHCO Council to develop Federal employee guest lecturer program with post high school institutes of higher learning by May 1, 2007.	April 24, 2007	
Develop a plan by February 1, 2007 to encourage OPM employees to serve others as outlined in President Bush's Executive Order on Volunteerism, and implement throughout the year.	January 30, 2007 September 20, 2007	
Hold initial meetings with relevant members of Congress and/or staff by March 1, 2007.	February 26, 2007	
Update and inform relevant Congressional members and staff regarding RSM during FY 2007.	September 24, 2007	
Hold meetings to educate relevant Congressional members and/or staff regarding OPM's legislative agenda during FY 2007.	September 20, 2007	
Educate interested parties—in and out of Government—about high priority legislative initiatives during FY 2007.	September 20, 2007	

OPM established veterans' outreach offices at Walter Reed Medical Center in Washington and Brooke Army Medical Center (BAMC) in San Antonio, TX, where we provide Federal employment information and counseling to injured veterans. The office at Walter Reed opened in December 2005 while the BAMC office opened December 2006. In June 2007, OPM entered into an agreement with Fort Carson, Colorado, to open a third outreach office. OPM provided career counseling to approximately 1,000 military personnel and their family members at Walter Reed, including career counseling services to support DOD's Transition Assistance Program, which helps wounded veterans recover physically and psychologically to transition back to a normal civilian life. The OPM-led outreach offices provided the following services to wounded returning servicemen and women:

- Coordinated outreach activities with Transition Assistance Programs available at each hospital
- Provided information and counseling on Federal employment opportunities, assisting with the job search and application process
- Worked directly with Federal agencies to recruit qualified veterans directly from these facilities. Many of these veterans already possess the competencies Federal agencies need to close mission critical staffing gaps
- Promoted [www.USAJOBS.gov](http://www.USAJOBS.gov) as the Federal Government's one-stop employment information system
- Educated returning veterans on veterans preference and what it means for them

OPM issued revised CFC regulations in Title 5, Code of Federal Regulations on November 20, 2006. The revised regulations simplified CFC participant eligibility rules used in the 2007 campaign, while maintaining the core standards to provide Federal donors with assurance that the CFC participating charities provide real services and are fiscally accountable. For the first time in the last ten years, OPM issued the National/International Charity List. Each of the 265 local campaigns reproduce the National/International Charity List for their local campaigns and need that list completed by the June 30th deadline in order to reproduce it in time for the September 1st opening of the solicitation period. As a result, OPM was able to review all national/international federation and independent organization applications to participate in the 2007 CFC with existing resources. By simplifying the CFC eligibility rules, OPM improved its CFC operations as well as reduced the burden on charitable organizations applying to participate in the CFC.

OPM developed a plan to encourage OPM employees to provide service to others as part of President's Bush's Executive Order on Volunteerism. As part of that initiative, OPM created the *Volunteers*

*in Action* group. OPM employees partnered with active military service members of the *USS Theodore Roosevelt* to perform volunteer services, including a beautification and enhancement project at Theodore Roosevelt High School located in Washington, DC to help restore and enhance the school and to create a more positive learning environment for the faculty and students there.

### The Completeness and Reliability of Performance Data

The performance information used by OPM in this Performance and Accountability Report for FY 2007 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 to be useful to program managers and policy makers within reasonable cost constraints.

Most of OPM's performance measures were developed through PART assessments and are designed to assess the extent to which program outcomes are being achieved. The nature of these measures varies from readily quantifiable outputs, and recurring actions, such as the timeliness of responding to inquiries, processing retirement applications, and background investigations, 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 surveys of OPM customers and stakeholders and/or indicators of results of the services provided, such as agencies achieving the standards of success in the Human Capital Scorecard.

### COMPLETENESS OF DATA

Most data in this report are produced in an annual cycle tied to the fiscal year, often with quarterly updates which make it easier to track progress during the year. All performance data is representative of the entire fiscal year for which it is reported. Instances where full and complete data for a measure is not available until after OPM publishes its PAR, are noted and final data is reported in the Congressional Budget Justification the following February.

### RELIABILITY OF DATA

OPM performance data are generally reliable and are used regularly by OPM program managers to make both strategic and operational decisions.

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

## An OPM Success Story

### Chief Human Capital Officers Council Training Academy Extends Reach, Impact

During FY 2007, OPM significantly increased its efforts to leverage the experience and talent of the Human Resources community to achieve breakthroughs in human capital transformation. OPM collaborated with Federal agency Human Capital partners, including those on the Chief Human Capital Officers Council (CHCOC) to share information and best practices. OPM hosted inter-agency forums on Human Capital topics, including a CHCO Training Academy session on return-on-investment measures for Federal training; and a series of sessions on performance management and the *Career Patterns* initiative.

Attendance at sessions of the Chief Human Capital Officers Council Training Academy more than tripled during fiscal year 2007. More than 300 attendees—including Chief Human Capital Officers and their designated associates—attended the Academy's bimonthly series of training sessions this year, compared with attendance of less than 100 the previous fiscal year. The boost in attendance is partially due to last year's decision to allow each Council member to send up to three representatives to Academy sessions, which previously had been limited to Chief Human Capital Officers only.

"As a result of that decision, the Chief Human Capital Officers Council Training Academy is having a greater impact in the education of Federal human resource professionals, helping them to improve their skills, gain optimal guidance and share best practices as they confront today's major challenges and opportunities in human capital management," said John Salamone, Executive Director of the Chief Human Capital Officers Council.

Academy sessions this year covered such topics as "Best Practices in Telework", "Return on Investment for Training", "Most Efficient Organizations" and the most recent session on a Senior Executive Service Performance Appraisal Assessment Tool (SES-PAAT), designed to improve the appraisal process for SES certification and currently under development by OPM.

"The forum the Academy provides for sharing and disseminating cutting-edge information and best practices is one of the major successes of the Chief Human Capital Officers Council," said Salamone. "Now it's filtering down into the appropriate human capital staff within the agencies. We definitely intend to keep this up when the Academy resumes a new year of sessions in October," he concluded.



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 established a three-tiered approach to ensure the completeness and reliability of performance information. Data quality standards are established by the agency's Office of the Chief Financial Officer; data sources, collection and reporting procedures are documented by program managers (see Appendix A); and this documentation is reviewed by the Office of the Chief Financial Officer and is available for testing. Collectively, these tools verify that the data presented in this document are complete and reliable, and accurately reflect actual performance during FY 2007.

### **Program Evaluations Used During FY 2007**

OPM uses various sources of evaluative studies to improve the design and execution of agency programs. By using objective measurement and systematic analysis, program managers determine the extent to which programs achieve their intended outcomes. OPM revisits, annually, planned research and evaluation proposals in the Congressional Budget Justification. This permits the Director to determine research priorities for the agency. Evaluations play a role in the design and delivery of programs and serve as invaluable performance and budget integration tool.

### **INDEPENDENT PROGRAM EVALUATION**

PART assessments conducted over the past five years for each of OPM's programs (Retirement, Health Benefits, Life Insurance, Human Capital, Compliance, Investigations, Talent Services, and Leadership Capacity Services) identified the need to conduct rigorous independent evaluations of program outcomes and impacts. During FY 2007,

OPM had evaluations underway for the benefits programs, Human Capital, and Compliance programs. OPM is planning, contingent upon available funding, to conduct similarly rigorous outcome evaluations for the remaining programs to be completed from FY 2008 through FY 2010.

OPM is in the process of evaluating the benefits programs. The evaluation's first phase has laid the groundwork for progressive approaches to studying the program impact of benefits programs, not only in the public, but also private sector. An initial literature review found that relying on broad human resource measures (such as turnover rates and recruiting costs) has limited utility for assessing outcomes and impacts according to the rigorous program evaluation standards required for by PART. Measuring the true impact of OPM benefits programs on employee recruitment and retention requires extensive, and currently fiscally infeasible, primary research in the field of employer benefits. Additionally, such research would require fully automated human resource records for each employee. OPM's efforts pertinent to RSM and EHRI data warehouse and data mart systems may provide the underlying employee data necessary to develop future outcome-based recruitment and retention analytics.

Currently, assessments of benefits programs have used data from employee surveys, such as the Federal Benefits and Federal Human Capital surveys. OPM has developed a Strategic Framework encompassing a comprehensive group of three dimensions relevant to assessing the benefits programs' performance: 1.) Employer objectives, 2.) Customer satisfaction, and 3.) Program efficiency. As part of the benefits evaluation, OPM administered in FY 2006 a Federal Benefits Survey that measured employees' attitudes about the importance, value and competitiveness of the benefits programs.

OPM began an independent evaluation in FY 2006 to determine if the Compliance Program initiative to promote Governmentwide human

capital accountability meets the statutory intent, desired outcomes, and expectations of program participants, legislators, and program officials. The initial stages of the evaluation analyzed program objectives, outcomes, measures, strategic goals, and audit training and guidance services. Upcoming tasks will assess the overall accountability program's impact on Federal human capital management.

OPM is completing its independent evaluation of the Human Capital program, begun in FY 2006. The evaluation included an extensive literature review of possible approaches for evaluating outcomes and impacts of this unique Governmentwide program. A rigorous methodology focused on program impact was selected, data sources were identified, and a survey of agency human resource leaders and practitioners affected by OPM's Human Capital Program was conducted. Data analysis will be completed in November 2007.

### PROGRAM ASSESSMENT RATING TOOL (PART)

OPM uses PART assessments as a key component of its program performance improvement process. Since 2002, OPM has completed PART assessments for nine programs (see Table 20). Through these assessments, OPM has identified for each program its specific funding sources and parameters; major activities; intended program outcomes; and quantifiable outcome-oriented performance measures and efficiency measures and measurement processes. Stemming from the PART assessments, OPM is implementing aggressive performance improvement plans. The results of OPM's PART assessments can be found at *ExpectMore.gov* (<http://www.whitehouse.gov/omb/expectmore/agency/027.html>).

### PART ASSESSMENTS COMPLETED IN FY 2007

The Federal Employees Retirement Program underwent an extensive re-assessment in FY 2007. The most significant finding is that benefits

are effectively targeted and reach the intended beneficiaries. The Retirement Program has demonstrated improved efficiency and cost effectiveness over the last several years. OPM's improper payment rate (the total of both over and underpayment) remains very low, at just 0.44% of total benefit payment of nearly \$60 billion dollars each fiscal year. The PART assessment revealed the following additional findings:

- The program delivers its benefits very accurately. However, the program lacks aggressive targets for long-term measures, has not achieved long-term goals, and does not hold program managers accountable for key results.
- OPM conducts employee benefit surveys to measure the importance, value, and competitiveness of Federal retirement benefits. OPM compares Federal retirement benefits with those being offered by competing employers, and measures employees' knowledge about their retirement planning. This provides information on how the program helps recruiting and retention.
- OPM has been working to reduce annuity processing times to 30 days in 2007. Additionally, OPM's Retirement Systems Modernization effort will provide more cost-efficient and timely benefit payments and employee and retiree information services. This new system is planned to be available starting in February 2008, and will replace old paper-based technology with state-of-the-art modern technology.

OPM will take the following actions to improve the performance of the program:

- Establish ambitious targets for the long-term goals and demonstrating adequate progress in achieving these performance goals by 2008.
- Hold program managers and partners accountable for cost, schedule and performance results and demonstrating that the program

## SECTION 2—FY 2007 PERFORMANCE RESULTS

**TABLE 20—OPM PARTED PROGRAMS**

Program Title (PART Code)	Year PARTed	Summary Rating
Federal Employees Retirement (10000358)	FY 2002 FY 2004 FY 2007	Adequate Adequate Adequate
Federal Employees Group Life Insurance (10000360)	FY 2002 FY 2004	Results Not Demonstrated Adequate
Inspector General Oversight of Federal Health Benefits Program (10001168)	FY 2003	Effective
Federal Employees Health Benefits (10002328)	FY 2004	Adequate
Merit System Compliance (10004411)	FY 2005	Adequate
Center for Talent Services—HR Products and Services for Federal Agencies (10004410)	FY 2005	Moderately Effective
Human Capital Program (10004412)	FY 2006	Adequate
Leadership Capacity (10004413)	FY 2006	Results Not Demonstrated
Federal Personnel Background Investigations (10004414)	FY 2006	Adequate
PART Ratings are: Effective, Moderately Effective, Results Not Demonstrated, and Ineffective		

and its partners are achieving their annual performance goals by 2008.

- Complete independent evaluation and program performance comparisons, and conducting independent evaluations on a regular basis.

### PART IMPROVEMENT PLANS

OPM has been executing PART improvement plan recommendations as a set of specific actions, with due dates, for which programs are being held accountable for implementing. In FY 2007, OPM documented all PART improvement plans in a centralized planning tool and reviewed these plans to ensure their aggressiveness and that they in fact have or will produce the intended program improvements.

OPM's 9 PART assessments have resulted in 32 improvement plan recommendations. At the end of FY 2007, OPM has completed 13 of them and taken action on 19 items. Highlights include:

- As of June 2007 the FEHBP data warehouse includes claims paid information for approximately 76 percent of the premium dollars paid to carriers. Additional carriers are being added with a goal of 95 percent by September 30, 2010. Significant benefits have already been obtained from the data warehouse, including over \$50 million in questioned costs resulting from “global audits.”
- The Center for Talent Services completed its reorganization in FY2007 and as a result it has its second straight year of achieving full cost recovery; and
- The Human Resources Line of Business developed a revised efficiency measure: Human Resources IT Cost per Employee Served. This metric has been validated with all 5 Federal Shared Service Centers and will allow comparisons of costs between service centers.

SECTION 2—FY 2007 PERFORMANCE RESULTS

TABLE 21—OPM PART IMPROVEMENT PLAN

Program Title (PART Code)	OMB PART Program Improvement Recommendations	Status	2007 Highlights
Federal Employees Retirement (10000358)	Complete independent evaluations and program performance comparisons, and conduct independent evaluations on a regular basis.	On-going	OPM developed a Strategic Plan for Evaluation of Employee Benefits (2005-2008). OPM will employ a three pronged approach to program assessment. The first is the Federal Benefits Survey which measures consumer perceptions of benefit programs. The second is a comparative analysis of Federal programs with private sector and non-Federal public employee benefit programs (a benchmark study). The third is an independent evaluation of the three benefit programs.
	Demonstrate that the program and its partners are achieving their annual performance goals by 2008.	On-going	OPM developed operational goals designed to achieve the aggressive performance targets for FY 2008 and will include them in the performance agreements for its program managers.
	Establish ambitious targets for the long-term goals and demonstrate adequate progress in achieving these performance goals by 2008.	Completed	OPM implemented new performance measures in 2004 using the Federal Benefits Survey as a basis and conducted the survey again in 2006. Based upon this information the program revised its targets to be realistic and aggressive.
	Hold program managers and partners accountable for cost, schedule and performance results by 2008.	Completed	In FY 2007, the program ensured that all managers signed performance agreements which link their results to agency and program goals and performance metrics.

SECTION 2—FY 2007 PERFORMANCE RESULTS

TABLE 21—OPM PART IMPROVEMENT PLAN

Program Title (PART Code)	OMB PART Program Improvement Recommendations	Status	2007 Highlights
Federal Employees Group Life Insurance (10000360)	Establish ambitious targets for the long-term goals and demonstrate adequate progress in achieving these performance goals.	Completed	The program developed aggressive targets for two new long term measures: Increase enrollee knowledge and benchmark of FEGLI benefits.
	Hold program managers and partners accountable for cost, schedule, and performance results, and demonstrate that the program and its partners are achieving its annual goals.	Completed	In FY 2007, the program ensured that all managers signed performance agreements which link their results to agency and program goals and performance metrics.
	Conduct an independent program evaluation of sufficient scope and quality; OPM will use the information to demonstrate that the program is effective and is achieving results.	On-going	OPM developed a Strategic Plan for Evaluation of Employee Benefits (2005-2008). OPM will employ a three pronged approach to program assessment. The first is the Federal Benefits Survey which measures consumer perceptions of benefit programs. The second is a comparative analysis of Federal programs with private sector and nonFederal public employee benefit programs (a benchmark study). The third is an independent evaluation of the three benefit programs.
Inspector General Oversight of Federal Health Benefits Program (10001168)	Further develop evaluation capacity and analytical abilities through computer assisted audit techniques and tools, and develop a health benefits claims data warehouse.	On-going	As of June 2007 the FEHBP Data Warehouse includes claims paid information for BCBS and GEHA, totaling approximately 76% of the premium dollars paid to carriers. Work continuing to add additional carriers with a goal of 95% by September 30, 2010. Significant benefits already have been obtained from DW, including over \$50 million in questioned costs resulting from "global audits."
	Build a health benefits claims data warehouse to detect incorrect benefit payment transactions more efficiently and to allow the Office to conduct proactive investigations.	Completed	Recommendation completed. No additional actions planned for FY 2007.
	Incorporate independent evaluation into program management.	On-going	Program improvements were made based upon the June 2006 data collection and survey.

SECTION 2—FY 2007 PERFORMANCE RESULTS

TABLE 21—OPM PART IMPROVEMENT PLAN

Program Title (PART Code)	OMB PART Program Improvement Recommendations	Status	2007 Highlights
Federal Employees Health Benefits (10002328)	Improve future budget requests to effectively link resources to program performance and results/outcomes.	Completed	OPM defined program activity outputs and tracked program costs to specific outcomes and displayed cost for each of its annual performance goals. OPM's FY 2009 Budget Request to OMB reported on the cost of achieving each performance objective and improving meeting aggressive program performance targets.
	Hold program managers and partners accountable for cost, schedule and performance results, and demonstrate that the program and its partners are achieving its annual goals.	Completed	In FY 2007, the program ensured that all managers signed performance agreements which link their results to agency and program goals and performance metrics.
	Establish ambitious targets for the newly developed long-term goals and demonstrate adequate progress in achieving these performance goals.	Completed	OPM implemented new performance measures in 2004 using the Federal Benefits Survey as a basis and conducted the survey again in 2006. Based upon this information FEHB revised its targets to be realistic and aggressive.
	Conduct an independent program evaluation of sufficient scope and quality. OPM will use this information to demonstrate that program is effective and is achieving results.	On-going	OPM developed a Strategic Plan for Evaluation of Employee Benefits (2005-2008). OPM will employ a three pronged approach to program assessment. The first is the Federal Benefits Survey which measures consumer perceptions of benefit programs. The second is a comparative analysis of Federal programs with private sector and nonFederal public employee benefit programs (a benchmark study). The third is an independent evaluation of the three benefit programs.

SECTION 2—FY 2007 PERFORMANCE RESULTS

TABLE 21—OPM PART IMPROVEMENT PLAN

Program Title (PART Code)	OMB PART Program Improvement Recommendations	Status	2007 Highlights
Merit System Compliance (10004411)	Develop and refine standardized data collection systems and methodologies that will be used by OPM and agency self-accountability systems for Government wide analysis to better inform Federal human resource policy and practices.	On-going	MSCA completed a process diagram which outlined how OPM will modify its data collection methods to ensure that the number and type of agency violations are reported accurately and independently. In FY 2008, the program will design the database and begin its construction.
	Evaluate 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 civil service laws and regulations.	On-going	MSCA continues to evaluate data showing that agencies with veterans' preference violations also have numerous other violations. A final determination as to the validity of the measure is expected in FY2008.
	Identify efficiency measures for the audit activities so that program resources are used effectively. Provide at least two proposed efficiency measures for the audit activity by October 31, 2005. This follow up action will be completed when both OPM and OMB agree to the wording and use of the efficiency measures.	On-going	OPM provided three revised draft efficiency measures—one focusing on the timeliness of audit reports , a second one relating to average cost per audit site visit, and the third one on numbers of audit site visits per year. The travel costs associated with agency audits can be part of the average cost per audit site visit. OPM must continue to develop efficiency measures that will provide more meaningful targets (e.g. cost of audits) for program improvement.
	Conduct a rigorous and unbiased evaluation of the effectiveness and impact of the compliance program, comparing the program against others with similar purposes.	On-going	MSCA conducted an independent evaluation of its program in FY 2007 and expects the final report to be issued in the first quarter of FY2008.
	Collaborate with the Equal Employment Opportunity Commission on activities that overlap to improve overall Federal Government efficiency in the area of compliance reviews.	Completed	MSCA has a draft MOU for cooperation with EEOC and begun pre-review coordination between CMSA Evaluators and EEOC

SECTION 2—FY 2007 PERFORMANCE RESULTS

TABLE 21—OPM PART IMPROVEMENT PLAN

Program Title (PART Code)	OMB PART Program Improvement Recommendations	Status	2007 Highlights
Center for Talent Services—HR Products and Services for Federal Agencies (10004410)	Submit a draft three-year evaluation plan that covers most appropriate independent evaluations for different lines of CTS business.	Completed	CTS has an evaluation plan that was reviewed and approved by OMB. CTS developed an RFP for the external evaluation and received approval from OMB.
	Explore ways to measure the direct impacts of its products and services. For example, CTS should examine whether it is useful to tract pre—and post—“treatment” (before and after CTS services rendered) results for certain measures.	Completed	CTS administers customer satisfaction surveys that assess the impact of its products and services on agency effectiveness and performance. Survey results are used to make programmatic improvements.
	Address the deficiencies discussed in section 2.7 of CTS PART.	On-going	CTS improved its financial reporting and performance-based budgeting processes in FY07 by employing new internal processes for projecting revenue and expenses. Further analysis of expenses will occur in FY08 to include recalculation of the CTS overlay by business line (will include analysis of all indirect costs and common services charges).
	Submit an organizational restructuring plan including timeline and results. Also submit a periodic status report of implementing the restructuring plan.	Completed	CTS completed implementing its new organizational structure during FY 2007. The restructuring has contributed to CTS' positive retained earnings for FY 2007.
Human Capital Program (10004412)	Develop a revised efficiency measure for the HRLOB (the current measure is the cost to process a personnel action expressed on a per transaction basis).	Completed	HRLOB developed a revised efficiency measure: HRIT Cost per Employee Served. This metric has been validated with all five Federal HR LOB SSC providers, and can be directly mapped to the HR LOB vision and goals; specifically Cost Savings/Avoidance—Achieve or increase cost savings/avoidance from HR solution activities (reduced duplicative software/hardware/operations /labor resources, increased competitive environment).
	Periodically analyze or review the actual effects of the program's regulations.	On-going	The HC Program completed a plan that outlines evaluation methods and identifies the types of regulations best suited for determining effectiveness of implementation. The plan includes information on how the HC program will track agency usage of these regulations.
	Provide for an independent evaluation of the Human Capital Program to determine if the actions and resources used are producing the desired results.	On-going	HC conducted an independent evaluation of its program in FY 2007 and expects the final report to be issued in the first quarter of FY2008



## SECTION 2—FY 2007 PERFORMANCE RESULTS

**TABLE 21—OPM PART IMPROVEMENT PLAN**

Program Title (PART Code)	OMB PART Program Improvement Recommendations	Status	2007 Highlights
Leadership Capacity (10004413)	The Center for Leadership and Capacity Services needs to conduct an independent evaluation of its training program values and impacts on trainees and their organizations.	On-going	CLCS is working with OPM's OCFO to design an independent evaluation to be implemented during FY 2008, provided funding is available.
	Assess the utility of new performance measures for program management and determine whether to revise or refine the measures to better demonstrate outcomes	On-going	CLCS revised its strategy in FY2007 and is assessing its measures against its revised strategy.
	CLCS will standardize its course evaluation process, methodology and analysis of results across training centers and programs to improve overall program performance.	On-going	The Center for Leadership Capacity Services is actively implementing learning analytics to standardize course evaluations across the organization's training programs and centers. CLCS has completed and reviewed the results of pilot evaluations that were conducted for each of its centers.
Federal Personnel Background Investigations (10004414)	FISD will work with OMB to revise its customer satisfaction survey to gather information on all phases of OPM's investigations and interactions with customer agencies.	On-going	FISD contracted with OPM's Assessment Services Branch, an organization with expertise in customer satisfaction surveys to assess its current survey, methodology and analysis of results. The report was completed in 2007 and management is reviewing CTS recommendations for implementation.
	Assist agencies to develop better caseload projections, adopt automated info processing systems, and adjudicate cases in a timely manner.	On-going	FISD developed and piloted a standard electronic case file configuration to be packaged and transmitted electronically to agencies, reducing the delivery time and allowing agencies to adjudicate more quickly. FISD hosted a series of e-QIP user focus group meetings to discuss e-QIP user needs in an effort to improve the system. FISD is providing quarterly caseload reports to all agencies.
	FISD will arrange for an independent evaluation for its operations to determine if the program meets its goals.	On-going	FISD developed a Statement of Work for an independent evaluation and will implement the first phase during FY 2008.

## Independent Evaluations by External Organizations

OPM benefits significantly from the insights provided by other organizations' independent evaluations of OPM programs. During FY 2007 OPM programs were the focus of numerous GAO studies. Below are summaries of 7 key FY 2007 GAO reports and testimonies,<sup>1</sup> with a description of OPM actions addressing their findings and recommendations.

### *Office of Personnel Management: Key Lessons Learned to Date for Strengthening Capacity to Lead and Implement Human Capital Reforms. GAO-07-90*

As the Federal Government's human capital leader, OPM must have the capacity to effectively assist agencies and to successfully lead and implement these important human capital management transformations. To enhance its capacity to do so, OPM is working to transform its own organization from less of a rule maker, enforcer, and independent agent to more of a consultant, toolmaker, and strategic partner. As reform initiatives move forward, it is increasingly important for OPM to complete this transformation and clearly demonstrate its capacity to lead and implement such reforms. The report addresses management challenges that could affect OPM's ability to lead Governmentwide human capital reforms and identified lessons learned that can inform future reforms. The report recommends that OPM:

- Ensure that its workforce is properly aligned to successfully design and implement human capital reforms, such as knowledge of innovative classification and pay and compensation approaches, and continue to prepare the workforce to meet changing demands of the future.

OPM implemented competency gap closure

efforts throughout FY 07 with a mix of development and hiring. In HCLMSA, all Human Capital Officers and Human Resource Specialist were trained in consulting skills, relationship management, and other key competencies associated with leading human capital transformation across government. In addition, vacancies were announced for key HCO and Program Manager positions.

- Assist agencies in building the necessary infrastructure for a performance-based system by providing front-end and ongoing involvement—building on progress made to date.

In FY 2007, OPM expanded its effort to provide intensive assistance to all agencies in the area of performance management. Agencies completed the Performance Assessment and Appraisal Tool (PAAT) on all performance appraisal systems, giving OPM the opportunity to diagnose each agency's systems and practices. OPM's HCOs used this diagnosis to tailor specific assistance to agencies, resulting in improved PAAT scores for performance pilots in every scored agency in FY 07.

- Cultivate effective partnerships with the CHCO Council by engaging them to solicit their ideas and suggestions during system design to build consensus and develop momentum for success.

OPM provided significant staff assistance to the CHCOC Subcommittees in support of the Subcommittees FY 2007 goals, including (1) identification of future-focused competencies for Human Resource Management practitioners, (2) identifying best practices for training evaluation as part of a CHCO Academy session, (3) designing and instituting ROI metrics for college and university job fairs, (4) assisting agencies in implementing the Career Patterns initiatives, and (5) organizing and facilitating a Human Capital Summit for CHCOs and recognized human capital thought leaders. Finally, OPM launched a pilot project with the Department of Homeland Security to design

<sup>1</sup> Source: [www.gao.gov](http://www.gao.gov)

and test corporate collaboration approaches to the HCAAF Strategic Alignment system. OPM will disseminate pilot results across agencies as part of its FY08 workplan.

- Provide agencies with clear and timely guidance—being sensitive to other ongoing human capital activities—to reach a common, consistent understanding and promote efficiency as agencies adjust to new requirements for reforms.

OPM closely collaborated with CHCO Council members to develop this year's standards for the PMA Human Capital Scorecard. Through Agency Center Deputy Associate Directors, Human Capital Officers, and discussions through interagency mechanisms such as the CHCOC Subcommittees and the Human Resource Directors' monthly meeting, OPM was able to build agency perspectives and needs into the new PMA standards before their implementation in July 2007.

- Facilitate the sharing of best practices for implementing human capital reforms by providing forums for agencies to learn from each others' experiences, share successful strategies, and avoid common pitfalls.

OPM hosted several agency meetings focused on the HCAAF systems to share best practices across government and solicit agency input on how best to continue development of HCAAF standards and systems.

- Solicit and incorporate feedback

In addition to interagency meetings and meetings with the CHCO Council and its subcommittees, OPM's Human Capital Officers regularly solicit feedback from their agency customers to help HCLMSA gain a better understanding of agency concerns and needs in human capital management. Through the weekly Human Capital Officers meeting, inter-division workgroups and other mechanisms, this feedback is incorporated into ongoing development of HCAAF systems. Other

agency feedback is provided to the Human Resource Line of Business through the monthly MAESC meetings and quarterly Shared Service Center meetings.

- Develop a strategy to allow OPM, other Federal agencies, and Congress to monitor progress toward achieving human capital reform goals.

As of December 2007, OPM requires all PMA-scored agencies to submit an annual Human Capital Management Report (HCMR). This requirement is extended to all agencies in forthcoming regulations for 5 CFR 250 (The Chief Human Capital Officers Act). Required metrics incorporated by reference in 5 CFR 250 and required in the annual HCMR will enable OPM, other Federal agencies, and Congress to monitor progress across government toward achieving human capital reform goals. Agency-specific metrics will also be reported in the HCMR, enabling analysis of results in agency efforts to better align human capital management with agency business results.

#### *Human Capital: Greater Focus on Results in Telework Programs Needed. GAO-07-1002T*

Congress has indicated its desire for agencies to create and utilize telework programs. The legislative framework has provided OPM and the General Services Administration (GSA) with lead roles for the Governmentwide telework initiative, providing services and resources to support and encourage telework. GAO recommended that Congress determine ways to promote more consistent telework definitions and measures. In particular, Congress might want to have OPM and the Chief Human Capital Officers Council develop definitions and measures that would allow for a more meaningful assessment of progress in agency telework programs.

OPM has continued its leadership efforts with regard to Federal telework efforts in a variety of ways.

- OPM updated materials available to Federal agencies and employees on [www.telework.gov](http://www.telework.gov).

These include a new Telework Guide and a version of the online telework training for employees and managers including modules to reflect the addition of pandemic influenza guidance.

- A Chief Human Capital Officers Council Training Academy session devoted entirely to the topic of telework was conducted in February. This session included presentations on best practices for utilizing telework as a recruitment and retention tool, security issues, and tracking telework. These three topics had previously presented significant barriers to the growth of telework at many agencies. More than 40 agencies representatives attended this session.
- OPM also hosts four WorkLife Coordinator meetings per calendar year. Telework is featured at these meetings in the following ways: Agency Coordinators share successful practices; telework advisors give presentations; and OPM WorkLife Staff clarify guidelines, addressing specific situational barriers as well as giving general advice.

Additionally, the CHCO Council subcommittee on Emergency Preparedness has taken on the following goal: Work with the Office of Personnel Management to (1) develop and improve measures for Federal telework programs; and (2) highlight practices to assist managers in understanding the value of telework.

In partnership with The General Services Administration, OPM is working on a thorough revision of the shared website [www.telework.gov](http://www.telework.gov). This project was undertaken in response to agency Telework Coordinators input regarding resources needed to support their agency efforts to increase telework participation.

OPM has a standing offer to all agencies to provide assistance in all areas of WorkLife, including telework, and has provided consultation to 6 agencies over the course of FY 2007.

### *An Assessment of Dependent Care Needs of Federal Workers Using the Office of Personnel Management's Survey. GAO-07-437R*

GAO found dependent care needs varied across executive branch agencies and between the legislative, judicial, and executive branches. Governmentwide, employees reported also using a variety of workplace scheduling flexibilities as options for addressing their dependent care needs. Although availability and use varied, survey results indicated that these workplace scheduling flexibilities were consistently important to the recruitment and retention of employees with dependent care needs. The dependent care survey results indicate there is no overall mandate for new or additional Federal dependent care programs and benefits, since most employees are satisfied with their current care arrangements. However, the data do suggest that agencies could improve communication about and, therefore, better leverage the existing Federal dependent care programs and benefits that they may offer, given that a significant number of employees said they did not know if their agency offered these programs or did not know how to use them.

During FY 2007, OPM actively promoted Federal agencies' and employees knowledge of and access to Federal dependent care programs and benefits. OPM has continued educating agencies on the Federal Child Care Subsidy Program. A CHCO Council Training Academy session conducted in October was part of the continuing education offered to agencies. More than 40 HR professionals attended the session. Participating agencies discussed work/life programs in their agencies. Two agencies, the Department of Veterans Affairs and the Central Intelligence Agency, discussed their Federal Child Care Subsidy Programs and provided answers to the many questions asked.

OPM hosts four WorkLife Coordinator meetings per calendar year. The Federal Child Care Subsidy Program and related programs are featured at these meetings in the following ways:

- Agency Coordinators share successful practices;
- Child Care Subsidy experts give presentations;
- Representatives from OPM’s Division for Human Resources Products and Services Division discuss Dependent Care Flexible Spending Accounts (DCFSA)s<sup>2</sup>;
- OPM WorkLife Staff clarifies guidelines, addressing specific situational barriers as well as giving general advice.
- Featuring dependent care benefits on the newly created “Spotlight” feature of the FSAFEDS website’s home page;
- Redesigning the FSAFEDS website enrollment function to automatically prompt visitors to enroll in a dependent care account if they have only selected a health care account; and
- Developing and sending to agencies dependent care focused emails to broadcast to their employees.

OPM has a standing offer to all agencies to provide assistance in all areas of WorkLife and is currently providing assistance to several agencies (the Federal Aviation Administration and the Patent and Trademark Office) on implementation of a Federal Child Care Subsidy Program in their agencies.

In preparation for FSAFEDS Open Season (OS) for 2008, OPM in FY 2007 developed and implemented new marketing strategies to improve communication to Federal employees about the availability of the Dependent Care Flexible Spending Account (DCFSA) benefit. DCFSA will be front and center in every medium possible during Open Season, including the FSAFEDS website ([www.fsafeds.gov](http://www.fsafeds.gov)). OPM’s FY 2007 efforts included:

- Designing new FSAFEDS marketing materials featuring the dependent care benefit, including a new video, print ads which will appear in Metro Express, Federal Times and Government Exec, and the OS poster set for agency use;
- Increasing the number of printed materials and videos to accommodate a wider distribution of materials for health fairs and agency use for 2008 OS. Newspaper ads also will run in more issues this OS;

<sup>2</sup> DCFSA is part of the Federal Flexible Spending Account Program (FSAFEDS). FSAFEDS is a Federal employee benefit program which allows Federal employees to set aside money, on a pre-tax basis, for certain health care and dependent care expenses. DCFSA, part of FSAFEDS, is used to pay for childcare or adult dependent care expenses that are necessary to allow a Federal employee and his or her spouse, if married, to work, look for work or attend school full-time.

*Federal Employees Health Benefits Program: Premiums Continue to Rise, but Rate of Growth Has Recently Slowed. GAO-07-873T*

OPM oversees the FEHBP, negotiating benefits and premiums and administering reserve accounts that may be used to cover plans’ unanticipated spending increases. GAO found the growth of premiums has recently slowed, from a peak of 12.9 percent for 2002 to 1.8 percent for 2007. In 2007, projected withdrawals from reserves helped offset average premium growth by five percentage points for 2007. GAO compared premium data for the California Public Employees’ Retirement System (CalPERS) and surveys of other public and private employers. Premium growth for FEHB plans was generally slower than for other purchasers.

OPM negotiated benefit and rate changes for the 2008 contract term and held overall premium increases for non-postal employees and annuitants to 2.1 percent, in line with the projected 1.8 percent average increase for 2007. As GAO acknowledged in their report and at a Congressional hearing held May 18, 2007, premium growth for employees and retirees enrolled under the FEHB Program remains lower than that for other large employers in the private sector. OPM attributes this fact to the strong market competition among FEHB health plans and the broad choice of benefit plans available to Federal consumers, including lower cost options and consumer driven products such as high deductible health plans with health savings accounts.

*Long-Term Care Insurance: Federal Program Has a Unique Profit Structure and Faced a Significant Marketing Challenge. GAO-07-202*

In 2000, Congress passed the Long-Term Care Security Act, requiring the Federal Government to offer long-term care insurance. To do so, the OPM contracted with Long Term Care Partners LLC (Partners) to create the Federal Long Term Care Insurance Program. GAO found (GAO-06-401) that the Federal program's benefits and premiums compared favorably with other plans, but enrollment and claims experience—the amount and number of claims payments—were lower than Partners expected. Spending on long-term care services—about \$193 billion in 2004—is expected to rise. GAO underscored prior recommendations that OPM analyze the claims experience and assumptions affecting premiums to inform forthcoming contract negotiations.

OPM is pleased with the current enrollment (over 218,000 enrollees) in the country's largest group long term care insurance program. As required by the Long-Term Care Security Act, in June 2007 OPM issued a report to Congress about the Federal Long Term Care Insurance Program (FLTCIP). We recommended continuation of the Program, and noted some of the steps we are taking in preparation for a new contract term. First, we have continued to monitor the Program's funding status, a process which includes comparing Program experience (including claims experience) against the assumptions used in initially pricing the products offered under the FLTCIP. As we noted in our report, early claims experience is only one of many factors which influence the performance of a long term care insurance plan. In addition, we are considering what contract structure would best align the FLTCIP carrier(s)' risk and responsibility in the next contract term. We will also consider changes to the benefit options available under the Program in order to ensure that the benefits continue to be up-to-date.

*DOD Personnel Clearances: Delays and Inadequate Documentation Found for Industry Personnel. GAO-07-842T*

In February 2005, DOD transferred its security clearance investigations functions to OPM and now obtains almost all of its clearance investigations from OPM. OMB is responsible for effective implementation of policy relating to determinations of eligibility for access to classified information. GAO's analysis of timeliness data showed that industry personnel contracted to work for the Federal Government waited more than 1 year on average to receive top secret clearances, longer than OMB and OPM produced statistics would suggest. GAO's analysis of 2,259 cases in its population showed the process took an average of 446 days for initial clearances and 545 days for clearance updates. In addition, statistics that OMB and OPM report to Congress on the timeliness of the clearance process do not portray the full length of time it takes many applicants to receive a clearance. GAO found several issues with the statistics, including limited information on reinvestigations for clearance updating and failure to measure the total time it took to complete the various phases of the clearance process. In GAO's review of 50 investigative reports for initial clearances, GAO found that that almost all (47 of 50) cases were missing documentation required by Federal investigative standards.

Since GAO conducted the field work for the report cited above, the timeliness and quality of the Federal Government's personnel clearance process has improved substantially. OPM is addressing all of the issues in the GAO report. The report highlights the full length of time it takes many applicants to receive a clearance, which includes submission, investigation and adjudication timeliness, as being too lengthy. The Clearance Granting Agency has control over submission and adjudication timeliness, while OPM's FISD controls the investigations timeliness. FISD has improved the timeliness of its investigations such that it is now

## SECTION 2—FY 2007 PERFORMANCE RESULTS

completing its investigations significantly below the timeliness target of 90 days (80 percent of all new initial clearance investigations started in the first 3 quarters of FY 2007 were completed in an average of 69.7 days). In addition, FISD has cut in half the timeliness of its Top Security reinvestigations. Quality issues have also been addressed such that cases returned due to quality issues are now 0.4 percent, well below the standard of one percent.

OPM provides total transparency into the entire investigative and adjudicative process for those individuals that are processed through OPM's automated processing system (90 percent or more of the national demand). Users of the system can go on-line and see the status of their application.

In addition to the specific deadlines for the Investigative and Adjudicative portion of the process established by the Intelligence Reform Act, FISD has established timeliness standards for other activities related to the clearance processes. OPM and the clearance granting agencies are measured against these goals. OPM provides reports to OMB, Congress, and the clearance granting agencies that detail timeliness for each step of the process and a total "end-to-end" timeliness measurement \*(from the date a subject completes his/her questionnaire to the date of final adjudication).

The following table details current performance levels:

Measure	Responsibility	Goal	Current Performance
Submission timeliness	Clearance granting agency	Average 14 days or less from the date the subject completes his/her questionnaire to receipt by OPM for investigation	For eQIP submissions (80% of total), agencies average 16 days. For hardcopy Submissions, agencies average 28 days.
Investigations timeliness for initial clearance investigations	OPM (and third party national, state, and local record systems)	80% completed in an average of 90 days or less	For all new initial clearance investigations started in the first three quarters of FY 07 (total 444,442) 80% completed in an average of 69.7 days; and 85% completed in an average of 75.6 days. Note: While not subject to the Intelligence Reform Act standards, required reinvestigations for Top Secret clearances have seen similar significant improvements in timeliness.
For Reinvestigations			
Received:	Total	Completed to date:	Average Processing Time:
10/1/05 to 3/31/06	43,047	97.3%	349 days
10/1/06 to 3/31/07	43,390	70.6%	148 days
Adjudications Timeliness	Clearance Granting Agencies	80% completed in an average of 30 days or less (allowing 15 days mail/handling time between OPM and Agencies)	4th Quarter FY 07: Overall, agencies averaged 37 days for 80% of the adjudication actions reported which includes mail/handling time between OPM and the clearance granting agencies.

During FY 07, for 251,281 investigations closed with extensive fieldwork, .4 percent (standard is one percent or less) were returned by the adjudication agency as deficient. For all other investigations (total 1.74 million), .1 percent were returned as deficient. OPM has taken a number of steps to ensure that agencies are provided high quality background investigations to support the clearance actions taken. For example, an additional Quality Management Group was added to the program to ensure that both field agents and quality review staff provided agencies with investigations that both met the national standards and were sufficient for

adjudication. FISD is also working with the agencies and other National Security oversight staff to refine investigative Standards so that requirements are clear, well defined, and universally applied across the Federal government.

In light of Congressional concern for compliance with the Intelligence Reform and Terrorism Prevention Act of 2004, OPM would welcome a current assessment by GAO of both the investigative and adjudicatory components of the personnel clearance process.

*Information Technology: Status and Challenges of Employee Exchange Program. GAO-07-216*

Congress created the Information Technology Exchange Program (ITEP) as part of the E-Government Act of 2002. ITEP aims to improve Federal IT skills through exchanges of staff between the Government and the private sector. The OPM was required to issue implementing regulations which it did in September 2005, and to report semiannually to the Congress. GAO found with only 1 year remaining to begin exchanges under the ITEP program, the seven agencies that volunteered to participate are still initiating their programs, and no exchanges have taken place. OPM, agencies, and others have identified key challenges that will confront agencies as they finish their plans and begin to implement ITEP programs. GAO recommended OPM include in its upcoming semiannual reports the number of exchanges that have occurred and the status of efforts to address challenges facing agencies implementing ITEP.

Currently no exchanges have taken place under this program. Attempts to negotiate exchanges have been frustrated by the prohibition found in 5 U.S.C. 3704(d) on private sector organizations charging indirect costs to the Government under a

Federal contract as well as private-sector concerns regarding the appearance of an unfair advantage in future acquisitions or business contracts with the government arising from ITEP exchanges. Agencies are working with their general counsels to resolve these issues.

We are pleased that four cabinet level agencies, Commerce, Defense, Homeland Security, and Treasury, have agency-approved implementation plans and programs in place. In addition, several components of Defense and Homeland Security, to include the Defense Intelligence Agency, the National Geospatial-Intelligence Agency, the Defense Finance and Accounting Agency, Air Force, Navy, the Defense Information Systems Agency, U.S. Citizenship and Immigration Services, Customs and Border Patrol, and the Federal Law Enforcement Training Center have committed to participating in the program. While many agencies are actively engaging the private sector in discussions to facilitate exchanges, others are apprehensive due to the upcoming sunset of the statutory authorization on December 17, 2007. We know through our working groups and outreach efforts, as well as anecdotal evidence that most Federal agencies and numerous private sector companies and associations believe in the potential of the program and want to see it succeed. We also know that an extension of the program for the Department of Defense is now pending before Congress (section 1112 of House-passed H.R. 1585). Due to this level of interest, OPM continues to recommend the statutory authority for this program be extended beyond its current expiration date.









## SECTION 3—FY 2007 FINANCIAL INFORMATION

### *A Message from the Chief Financial Officer*

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It is a true accomplishment for a Federal agency to prepare and issue a consolidated Performance and Accountability Report within 45 days of close of the accounting period. The efforts of both a strong and dedicated accounting and program staff throughout the agency team assures the resources provided to OPM have been accounted for properly, safeguarded adequately, and used efficiently towards providing the Federal Government an effective civilian workforce. Similarly, we carry out our stewardship responsibilities over the \$775 billion dollars in the Federal employees earned benefit trust funds with pride, and are honored to safeguard these assets on behalf of Federal employees, retirees, their survivors and families against waste, fraud and abuse.

For the eighth consecutive year, OPM's consolidated financial statements have received an unqualified, or clean, audit opinion from our independent public accountants, KPMG LLP. The independently issued Retirement, Health Benefits and Life Insurance financial statements issued earlier this year also received clean opinions. These opinions show our financial status and results to be reported fairly and free of material misstatement.

This year, OPM again issued an unqualified assurance statement with no material weakness in accordance with 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.

OPM also celebrated obtaining a "green" status for the first time in FY 2007 on the President's Management Agenda for improved financial performance. OPM will continue to work to improve our financial management and work with our partners to modernize our financial systems. One large effort currently underway is the replacement of OPM's core financial systems. Shortly, we will issue a solicitation document beginning the process of replacing and consolidating OPM's financial systems. Our goal is to replace both the administrative and trust fund systems by FY 2012.

This is my first PAR as the Chief Financial Officer of OPM. I joined OPM just 39 days before the beginning of FY 2007. FY 2007 saw a change in many leadership positions in the financial operations of OPM. The issuance of this report with a clean audit opinion continues the strong tradition of financial reporting and is a sign of OPM's dedication to transparency and clarity of financial reporting to you, the reader of these statements.

Sincerely,

A handwritten signature in black ink that reads "Mark Reger". The signature is written in a cursive, flowing style.

Mark Reger

Chief Financial Officer



Office of the  
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

November 14, 2007

Report No. 4A-CF-00-07-034

MEMORANDUM FOR LINDA M. SPRINGER  
Director

FROM: PATRICK E. McFARLAND  
Inspector General

A handwritten signature in black ink that reads "Patrick E. McFarland".

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year  
2007 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 2007 Consolidated Financial Statements and the results of the Office of the Inspector General's (OIG) oversight of the audit and review of that report. OPM's consolidated financial statements include the Retirement Program, Health Benefits Program, Life Insurance Program, Revolving Fund Programs (RF) and Salaries & Expenses funds (S&E).

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

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires OPM's Inspector General or an independent external auditor, as determined by the Inspector General, to audit the agency's financial statements in accordance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States. We contracted with the independent certified public accounting firm KPMG LLP to audit OPM's consolidated financial statements as of September 30, 2007 and for the fiscal year then ended. The contract requires that the audit be performed in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) bulletin number 07-04, *Audit Requirements for Federal Financial Statements*.

KPMG's audit report for Fiscal Year 2007 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 two significant deficiencies:

- Information systems general control environment, and
- Financial management and reporting processes of the Office of the Chief Financial Officer (OCFO).

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

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

### **OIG Evaluation of KPMG's Audit Performance**

In connection with the audit contract, we reviewed KPMG's report and related documentation and made inquiries of its representatives regarding the audit. To fulfill our audit responsibilities under the CFO Act for ensuring the quality of the audit work performed, we conducted a review of KPMG's audit of OPM's Fiscal Year 2007 Consolidated Financial Statements in accordance with GAS. Specifically, we:

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

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Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls or on whether OPM's financial management systems substantially complied with FFMIA or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated November 7, 2007, 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: Mark Reger  
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 consolidated balance sheets of the United States (U.S.) Office of Personnel Management (OPM) as of September 30, 2007 and 2006, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements"), for the years then ended. We have also audited the individual balance sheets of the Retirement, Health Benefits, and Life Insurance Programs (hereinafter referred to as the "Programs") as of September 30, 2007 and 2006, and the related individual statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as the Programs' "individual financial statements"), for the years then ended.

The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2007 audit, we also considered OPM's and the Programs' internal controls 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, 2007 and 2006, as presented in OPM's *Fiscal Year 2007 Performance and Accountability Report*, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 13 to the financial statements, OPM changed its method of reporting the reconciliation of net cost of operations to budget in fiscal year 2007.

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

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

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

We noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.



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

3. Other 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 controls 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, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years then ended. We have also audited the individual balance sheets of the Programs as of September 30, 2007 and 2006, and the related individual statements of net cost, changes in net position, and budgetary resources for the years then ended. The Programs' individual financial statements are included in the consolidating financial statements presented in the Consolidating Financial Statements section of OPM's *Fiscal Year 2007 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, 2007 and 2006, and the consolidated and individual Programs' net costs, changes in net position, and budgetary resources, for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 13 to the financial statements, OPM changed its method of reporting the reconciliation of net cost of operations to budget in fiscal year 2007.

The information in the Management Discussion and Analysis and Required Supplementary Information sections of OPM's *Fiscal Year 2007 Performance and Accountability Report* is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles 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 Program and S&E Fund included in the Consolidating Financial Statements section of OPM's *Fiscal Year 2007 Performance and Accountability Report* (Schedules 1 through 4) are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, and budgetary resources of the individual 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 aspects in relation to OPM's consolidated 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) is presented for purposes of additional analysis of the consolidated financial statements of OPM and the individual financial statements of the Retirement Program rather than to present the net costs of the CSRS and FERS funds.





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The consolidating information of the CSRS and FERS have been subjected to the auditing procedures applied in the audit of OPM's consolidated financial statements and the individual financial statements of the Retirement Program, in our opinion is fairly stated in all material respects in relation to OPM's consolidated statements of net cost and changes in net position and combined statement of budgetary resources and the individual statements of net cost and changes in net position and combining statement of budgetary resources of the Retirement Program taken as a whole.

The information in the FY 2007 Performance Information (Section 2), Other Accompanying Information (Section 4), and Appendices A and B are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

In our fiscal year 2007 audit, we consider the deficiencies described in Items 1 and 2 below to be significant deficiencies in internal control over financial reporting. However, we believe that none of the significant deficiencies described below are material weaknesses. Exhibit I presents the status of prior year reportable conditions.

#### **1. Information systems general control environment**

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

#### **Recommendation**

We recommend that the OCIO 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**

The Center for Information Services (CIS) has several ongoing initiatives that will strengthen the security posture of OPM's networks as well as the protection of personally identifiable information. In addition, the requirements analysis for the new financial systems will address all security related controls in compliance with NIST publications including minimum baseline security controls. CIS will continue to strengthen and refine such



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processes as configuration management, incident response and access control. An evaluation of OPM policies and procedures to identify gaps and areas for improvement within current processes is underway.

## 2. 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 Program and S&E Fund, 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 for the S&E Fund.
- c. Unidentified differences from prior years continue to exist between Treasury and GFIS.

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.

In addition, OPM's information technology systems are not designed or configured in a way that allows the accumulation of RF Program and S&E Fund 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 objective. 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."

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

### Recommendation

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

1. OPM implement a new accounting system or modify the existing accounting system as appropriate to ensure that all financial information of the RF Program and S&E Fund is properly captured and is properly configured to produce useful financial reports that provide
  - accurate information regarding related intra-governmental activities and balances; and
  - the costs of services and products that each responsibility segment produces and delivers aligned with OPM's strategic objectives including the major objectives and outputs of the programs and activities.
2. OPM continues to identify and correct existing differences between OPM's internal data and the information reported by Treasury for the RF Program and the S&E Fund. At such a time when no additional reductions can be identified, OPM should, in conjunction with appropriate oversight agencies, write down the remaining amount to clear the remaining Fund Balance with Treasury balance.
3. OPM OCFO management actively enforces procedures regarding the documentation of S&E Fund reconciliations in accordance with guidelines outlined in the "Treasury Financial Manual" and OPM's "Cash Management Policy and Procedures."



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### **Management Response**

OPM concurs with this recommendation. OPM will continue to work toward the implementation of a new accounting system that will capture and report all financial information regarding related intra-governmental activities and balances. Requirements to capture and report the costs of services and products have been developed and will be included in the new financial system. Costs will be aligned with major strategic objectives and outputs. The first phase of the system implementation includes the modernization of the administrative operations and is expected to be completed by the end of fiscal year 2009.

Additionally, OPM will continue to expand its efforts to identify and correct existing differences between OPM's internal data and the information reported by Treasury. OPM will take the appropriate action to write down the remaining amount after no additional reductions can be identified.

### **INTERNAL CONTROL OVER PERFORMANCE MEASURES**

Our tests of internal control over performance measures, as described in the Responsibilities section of this report, disclosed no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

### **COMPLIANCE AND OTHER MATTERS**

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

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

#### **3. 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 significant deficiency noted above, "*Financial Management and Reporting Process of the OCFO*" resulted in OPM preparing financial statements and related disclosures, along with other financial information for agency management decision-making, related to the RF Program and S&E Fund 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 Program 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 Program and S&E Fund transactions at the USSGL level to support the RF Program and S&E Fund financial statements at the transaction level.



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### **Recommendation**

We recommend OPM review the GFIS system and related processes and procedures to enable the OCFO to account for the RF Program and S&E Fund's transactions in accordance with the USSGL at the transaction level in fiscal year 2008. The OCFO should implement 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. OPM developed an acquisition strategy to acquire the necessary software, integration, and hosting services through a public/private competition during the second quarter of FY 2007 to address the management challenges identified with the legacy financial system. This competition will result in the selection of a public Shared Service Provider (SSP) or commercial vendor with demonstrated experience leveraging and implementing Financial Systems Integration Office (FSIO) certified Commercial Off-The-Shelf (COTS) technology, utilizing expertise, and other resources to achieve the best value for OPM and the American taxpayer. OPM has developed plans for ensuring and validating that the selected vendor offering for the new and modernized financial system addresses the needs of the S&E, Revolving, and Trust Funds. This approach will ensure that the migration to a consolidated financial management system occurs. Whether a public SSP or commercial vendor is selected, OPM will ensure that the implementation of the financial system requirements are in compliance 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 financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements of OPM and the individual financial statements of the Programs in conformity with U.S. generally accepted accounting principles;
- Preparing the Management Discussion and Analysis (including the performance measures) and Required Supplementary Information;
- Establishing and maintaining effective internal control; and
- Complying with laws, regulations, and contracts applicable to OPM, 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 2007 and 2006 consolidated financial statements of OPM and the individual financial statements of the Programs based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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



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circumstances, but not for the purpose of expressing an opinion on the effectiveness of OPM's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2007 audit, we considered OPM's internal control over financial reporting by obtaining an understanding of OPM's and the Programs' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements of OPM and the individual financial statements of the Programs. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of OPM's or the Programs' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OPM's or the Programs' internal control over financial reporting.

As required by OMB Bulletin No. 07-04 in our fiscal year 2007 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis and Performance sections, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin 07-04. 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 2007 consolidated and the Programs' fiscal year 2007 individual financial statements are free of material misstatement, we performed tests of OPM's and the Programs' compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, 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, contracts, and grant agreements applicable to OPM and the Programs. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 07-04 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.



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We noted certain additional matters that we have reported to management of OPM in a separate letter dated November 7, 2007.

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

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

KPMG LLP

November 7, 2007

SECTION 3—FY 2007 FINANCIAL INFORMATION

Exhibit I

No.	Title of Finding from FY06 Report	Program/Fund	Prior Year Status	Current Year Status	Factors Affecting Current Year Status
1	Information Systems General Control Environment	All <sup>1</sup>	Reportable Condition	Significant Deficiency – See FY 2007, Condition No. 1	OPM has made continual annual improvements to Information Systems General Control Environment, however, deficiencies still exist.
2	Financial information received from experience-rated and life insurance carriers	HBP; LP	Reportable Condition	Control Deficiency	OPM has designed and implemented controls to mitigate risks of prior year condition.
3	Financial Management Reporting Processes of the Office of the Chief Financial Officer (OCFO)	S&E; RF	Reportable Condition	Significant Deficiency - See FY 2007, Condition No. 2	OPM has made improvements, however, deficiencies still exist because of system limitations.
4	Managerial cost accounting to determine full cost associated with strategic goals and major outcomes	S&E; RF	Reportable Condition	Significant Deficiency – See FY 2007 Condition No. 2	OPM has made improvements, however, deficiencies still exist because of system limitations.

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

SECTION 3—FY 2007 FINANCIAL INFORMATION

Consolidated Financial Statements

U.S. OFFICE OF PERSONNEL MANAGEMENT CONSOLIDATED BALANCE SHEET As of September 30, 2007 and 2006 (In Millions)		
	2007	2006
<b>ASSETS</b>		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	\$1,471	\$1,254
Investments [Note 3]	785,396	745,341
Accounts Receivable [Note 4]	1,383	1,391
Total Intragovernmental	788,250	747,986
Accounts Receivable from the Public, Net [Note 4]	1,037	1,090
General Property and Equipment, Net	11	12
Other [Note 1L]	811	637
<b>TOTAL ASSETS</b>	<b>\$790,109</b>	<b>\$749,725</b>
<b>LIABILITIES</b>		
Intragovernmental	\$679	\$662
Federal Employee Benefits:		
Benefits Due and Payable	9,357	8,758
Pension Liability [Note 5A]	1,319,900	1,286,600
Postretirement Health Benefits Liability [Note 5B]	302,114	286,279
Actuarial Life Insurance Liability [Note 5C]	35,164	33,556
Total Federal Employee Benefits	1,666,535	1,615,193
Other [Notes 6 and 11]	1,138	1,050
<b>Total Liabilities</b>	<b>1,668,352</b>	<b>1,616,905</b>
<b>NET POSITION</b>		
Unexpended Appropriations—Other Funds	84	85
Cumulative Results of Operations—Earmarked Funds [Note 12]	(878,479)	(867,285)
Cumulative Results of Operations—Other Funds	152	20
<b>Total Net Position</b>	<b>(878,243)</b>	<b>(867,180)</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$790,109</b>	<b>\$749,725</b>

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



## SECTION 3—FY 2007 FINANCIAL INFORMATION

U.S. OFFICE OF PERSONNEL MANAGEMENT CONSOLIDATED STATEMENTS OF NET COST For the Years Ended September 30, 2007 and 2006 (In Millions)			
	2007	2006	
<b>Provide CSRS Benefits</b>	Intragovernmental Gross Costs [Note 1D]	-	-
	Gross Costs with the Public [Note 5A]	\$64,665	\$93,296
	Total Gross Costs	64,665	93,296
	Intragovernmental Earned Revenue	(25,383)	(27,829)
	Earned Revenue with the Public	(2,723)	(2,908)
	Total Earned Revenue	(28,106)	(30,737)
	<b>Total Net Cost</b>	<b>\$36,559</b>	<b>\$62,559</b>
<b>Provide FERS Benefits</b>	Intragovernmental Gross Costs [Note 1D]	-	-
	Gross Costs with the Public [Note 5A]	\$29,594	\$36,293
	Total Gross Costs	29,594	36,293
	Intragovernmental Earned Revenue	(29,219)	(27,021)
	Earned Revenue with the Public	(1,105)	(1,027)
	Total Earned Revenue	(30,324)	(28,048)
	<b>Total Net Cost</b>	<b>(\$730)</b>	<b>\$8,245</b>
<b>Provide Health Benefits</b>	Intragovernmental Gross Costs [Note 1D]	-	-
	Gross Costs with the Public	\$49,708	\$35,945
	Total Gross Costs	49,708	35,945
	Intragovernmental Earned Revenue	(25,317)	(16,157)
	Earned Revenue with the Public	(9,464)	(9,112)
	Total Earned Revenue	(34,781)	(25,269)
	<b>Total Net Cost</b>	<b>\$14,927</b>	<b>\$10,676</b>
<b>Provide Life Insurance Benefits</b>	Intragovernmental Gross Costs [Note 1D]	-	-
	Gross Costs with the Public	\$4,021	\$3,515
	Total Gross Costs	4,021	3,515
	Intragovernmental Earned Revenue	(1,713)	(1,642)
	Earned Revenue with the Public	(2,212)	(2,088)
	Total Earned Revenue	(3,925)	(3,730)
	<b>Total Net Cost</b>	<b>\$96</b>	<b>(\$215)</b>
<b>Provide Human Resource Services</b>	Intragovernmental Gross Costs	\$82	\$106
	Gross Costs with the Public	1,020	934
	Total Gross Costs	1,102	1,040
	Intragovernmental Earned Revenue	(1,084)	(890)
	Earned Revenue with the Public	(2)	(2)
	Total Earned Revenue	(1,086)	(892)
	<b>Total Net Cost</b>	<b>\$16</b>	<b>\$148</b>
<b>Total Net Cost of Operations</b>	Intragovernmental Gross Costs	\$82	\$106
	Gross Costs with the Public	149,008	169,983
	Total Gross Costs [Notes 10 and 14]	149,090	170,089
	Intragovernmental Earned Revenue	(82,716)	(73,539)
	Earned Revenue with the Public	(15,506)	(15,137)
	Total Earned Revenue [Notes 10 and 14]	(98,222)	(88,676)
	<b>Total Net Cost [Note 14]</b>	<b>\$50,868</b>	<b>\$81,413</b>

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

SECTION 3—FY 2007 FINANCIAL INFORMATION

U.S. OFFICE OF PERSONNEL MANAGEMENT  
 CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION  
 For the Years Ended September 30, 2007 and 2006  
 (In Millions)

	2007			2006		
	Earmarked Funds	All Other Funds	Consolidated Total	Earmarked Funds	All Other Funds	Consolidated Total
<i>CUMULATIVE RESULTS OF OPERATIONS</i>						
Beginning Balances	(\$867,285)	\$20	(\$867,265)	(\$822,612)	\$11	(\$822,601)
Budgetary Financing Sources:						
Appropriated Used	39,620	115	39,735	36,552	124	36,676
Other	38	—	38	33	—	33
Other Financing Sources	—	33	33	7	33	40
Total Financing Sources	39,658	148	39,806	36,592	157	36,749
Net Cost of Operations	50,852	16	50,868	81,265	148	81,413
Net Change	(11,194)	132	(11,062)	(44,673)	9	(44,664)
Cumulative Results of Operations—Ending Balance	(\$878,479)	\$152	(\$878,327)	(\$867,285)	\$20	(\$867,265)
<i>UNEXPENDED APPROPRIATIONS</i>						
Beginning Balance	—	\$85	\$85	—	\$82	\$82
Budgetary Financing Sources:						
Appropriations Received	\$39,655	115	39,770	\$36,867	124	36,991
Appropriations Used	(39,620)	(115)	(39,735)	(36,552)	(124)	(36,676)
Other Budgetary Financing Sources	(35)	(1)	(36)	(315)	3	(312)
Total Budgetary Financing Sources	—	(1)	(1)	—	3	3
Total Unexpended Appropriations—Ending Balance	—	84	84	—	85	85
Net Position	(\$878,479)	\$236	(\$878,243)	(\$867,285)	\$105	(\$867,180)

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

SECTION 3—FY 2007 FINANCIAL INFORMATION

U.S. OFFICE OF PERSONNEL MANAGEMENT  
 COMBINED STATEMENTS OF BUDGETARY RESOURCES  
 For the Years Ended September 30, 2007 and 2006  
 (In Millions)

	2007	2006
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance—Brought Forward, October 1:	\$43,478	\$39,283
Recoveries of Prior-Year Unpaid Obligations	18	16
Budget Authority:		
Appropriations:		
Received	39,770	36,991
Other	(35)	(320)
Trust Fund Receipts:		
Appropriated	115,350	87,164
Spending Authority from Offsetting Collections:		
Collected	40,105	38,621
Change in Receivables from Federal Sources and Unfilled Customer Orders	9	334
<i>Subtotal</i>	<u>40,114</u>	<u>38,955</u>
Temporarily Not Available Pursuant to Public Law	(36,882)	(28,903)
Permanently Not Available	(3)	0
Total Budgetary Resources	<u>\$201,810</u>	<u>\$173,186</u>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred: [Note 9]		
Direct	\$154,739	\$128,419
Reimbursable	1,008	1,289
Subtotal	<u>155,747</u>	<u>129,708</u>
Unobligated Balance:		
Apportioned	260	322
Unobligated Balance Not Available	45,803	43,156
Total Status of Budgetary Resources	<u>\$201,810</u>	<u>\$173,186</u>
<b>CHANGE IN OBLIGATED BALANCE</b>		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	\$10,818	\$10,332
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	2,376	2,042
Total Unpaid Obligated Balance, Net	<u>8,442</u>	<u>8,290</u>
Obligations Incurred, Net	155,747	129,708
Less: Gross Outlays	155,089	129,206
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	18	16
Change in Uncollected Customer Payments from Federal Sources	9	334
Obligated Balance, Net, End of Period		
Unpaid Obligations	11,460	10,818
Less: Uncollected Customer Payments from Federal Sources	2,387	2,376
Total Unpaid Obligated Balance, Net, End of Period	<u>9,073</u>	<u>8,442</u>
<b>NET OUTLAYS</b>		
Net Outlays:		
Gross Outlays	155,089	129,206
Less: Offsetting Collections	40,105	38,621
Less: Distributed Offsetting Receipts	31,034	28,184
Net Outlays	<u>\$83,950</u>	<u>\$62,401</u>

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

## Notes to the Financial Statements

September 30, 2007 and 2006

[In millions]

### Note 1—Summary of Significant Accounting Policies

#### A. REPORTING ENTITY

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

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

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

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

**Health Benefits Program.** The Program provides hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. The Program, implemented in 1960, is operated through two trust revolving funds: the Employees Health Benefits Fund and the Retired Employees Health Benefits Fund. Title 5, United States Code, Chapter 89, provides a complete description of the funds' provisions. To provide benefits, OPM contracts with two types of health benefits carriers: *fee-for-service*, whose participants or their health care providers are reimbursed for the cost of services, and *health maintenance organizations (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.

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

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

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

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

The financial statements should be read with the realization 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 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 employees, 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 earnings on investments as earned revenue. Employing agency and Participant Contributions to the Retirement, Health Benefits and Life Insurance Programs and the scheduled payment

contributions to the Postal Service Retiree Health Benefits Fund are classified as exchange revenues, since they represent exchanges of money and services in return for current and future benefits.

**Liabilities Covered by Budgetary Resources.** OPM has no authority to liquidate a liability, unless budgetary resources have been made specifically available to do so. Where budgetary resources have not been made available, the liability is disclosed as being “not covered by budgetary resources.” Since no budgetary resources have been made available to liquidate the Pension, 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. The Statements of Changes in Net Position separately disclose earmarked revenue and other financing sources, including appropriations, as well as net cost of operations and cumulative results of operations attributable to earmarked funds.

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

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

## E. NET COST OF OPERATIONS

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

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

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

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

## F. PROGRAM FUNDING

**Retirement Program.** Service cost represents an estimate of the amount of contributions which, if accumulated and invested over the careers of participants, will be sufficient to fund fully their future CSRS or FERS benefits. For fiscal years 2007 and 2006, 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 2007 and 2006. The combined 14.0 percent of pay does not cover the service cost of a CSRS benefit. To lessen the shortfall, the Treasury was required by statute to transfer an amount annually from the General Fund of the United States to the CSRDF [See Note 1G.]; for fiscal years 2007 and 2006, this amount was \$31.0 billion and \$28.2 billion, respectively. Additionally, prior to October 1, 2006, the USPS was 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 2006. The statute also required 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.

The Postal Accountability and Enhancement Act, P.L. 109- 435 eliminates the requirement for the USPS to make contributions to CSRS and cancels Postal Normal Cost payments to the CSRS retroactively to October 1, 2006.

**FERS.** Both FERS participants and their employing agencies are required by statute to make contributions for FERS coverage. The FERS participant contribution rate is equal to the CSRS participant contribution rate less the prevailing Old Age Survivor and Disability Insurance deduction rate; 0.8 percent for most participants for fiscal years 2007 and 2006. The employer contribution rate is equal to the FERS service cost less the participant contribution rate [11.2 percent of pay in fiscal years 2007 and 2006 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 2007 and 2006.

**Health Benefits Program.** The Program (with the exception of the PSRHB Fund) is funded on a “pay-as-you-go” basis, with both participants and their employing agencies making contributions on approximately a one-quarter to three-quarters basis (OPM contributes the “employer” share for Retirement Program annuitants via an appropriation). The Program continues to provide benefits to active employees (or their survivors) after they retire (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 \$5,572 and \$5,229 per participant for fiscal years 2007 and 2006, respectively as an imputed cost.



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

**Life Insurance Program.** The Program is funded on a “pay-as-you-go” basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis (OPM contributes the “employer” share for Retirement Program annuitants via an appropriation). The Program is funded using the “level premium” method, where contributions paid by and for participants remain fixed until age 65, but overcharge during early years of coverage to compensate for higher rates of expected outflows at later years. A portion of postretirement life insurance coverage (0.02 percent of the pay of participating employees in fiscal years 2007 and 2006) 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 transfer-in is presented as a transfer-in from the Treasury General Fund, obligation, and disbursement of the funds to the CSRDF on the Statement of Budgetary Resources.

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

## H. BUDGETARY RESOURCES

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

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

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

In accordance with P.L. 109-435, OPM created the PSRHB Fund, a special fund to collect the required transfer from the CSRDF as well as contributions from the USPS to fully fund its retiree health benefits liabilities. On April 6, 2007 the USPS transferred \$2.9 billion held in escrow to the PSRHB Fund as required under the new law. On June 30, 2006, \$17.1 billion from the CSRDF was transferred to the PSRHB Fund. The USPS made its scheduled payment contribution to the PSRHB Fund in the amount of \$5.4 billion in FY 2007. Scheduled payment contributions ranging from \$5.4 to \$5.8 billion will continue through FY 2016. The USPS will cease to pay annual premium costs for its post-1971 current annuitants to the Employees and Retired Employees Health Benefits Funds in FY 2017. Instead, these premium payments will be paid from this new fund. Although this special fund receives an annual appropriation, the entire amount is precluded from obligation until FY 2017, when the fund will be available to pay annual premium costs for the USPS’s post-1971 current annuitants.

**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 and the PSRHB Fund portion of the Health Benefits Programs' monies are invested initially in Certificates of Indebtedness ("Certificates"), which are issued by the Treasury at par value and mature on the following June 30. The Certificates are routinely redeemed at face value to pay for authorized Program expenditures. Each June 30, all outstanding Certificates are "rolled over" into special Government account series (GAS) securities that are issued by the Treasury at par-value, with a yield equaling the average of all marketable Public Debt securities with four or more years to maturity. The Retirement Program also carries, but does not routinely invest in, securities issued by the Federal Financing Bank (FFB) and a small amount of other securities.

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

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

## K. ACCOUNTS RECEIVABLE, NET

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

## L. OTHER ASSETS

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

## M. GENERAL PROPERTY AND EQUIPMENT

OPM capitalizes major long-lived software and equipment. Software costing over \$500 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 costing over \$25 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 of the Retirement, Health Benefits and Life Insurance Programs that are unpaid in the current reporting period and includes an estimate of health benefits and life insurance claims incurred but not yet reported. The second is a liability for premiums payable to community-rated carriers participating in the Health Benefits Program that 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 2007 and 2006 are:

September 30, 2007	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Trust Fund	\$1	—	—	—	\$1
Revolving Fund	—	—	—	\$495	495
General Funds	—	\$870	\$5	90	965
Trust Revolving Funds	—	5	5	—	10
<b>Total</b>	<b>\$1</b>	<b>\$875</b>	<b>\$10</b>	<b>\$585</b>	<b>\$1,471</b>
September 30, 2006					
Trust Fund	\$17	—	—	—	\$17
Revolving Fund	—	—	—	\$295	295
General Funds	—	\$847	\$5	86	938
Trust Revolving Funds	—	3	1	—	4
<b>Total</b>	<b>\$17</b>	<b>\$850</b>	<b>\$6</b>	<b>\$381</b>	<b>\$1,254</b>

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**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 2007 and 2006:

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

September 30, 2006	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
<b>UNEXPENDED BALANCES</b>					
FBWT	\$17	\$850	\$6	\$380	\$1,253
Investments	689,936	14,771	30,784	—	735,491
<b>Total, Unexpended Balance</b>	<b>\$689,953</b>	<b>\$15,621</b>	<b>\$30,790</b>	<b>\$380</b>	<b>\$736,744</b>
<b>STATUS OF UNEXPENDED BALANCES</b>					
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
<b>Total, Status of Unexpended Balances</b>	<b>\$689,953</b>	<b>\$15,621</b>	<b>\$30,790</b>	<b>\$380</b>	<b>\$736,744</b>

### Note 3—Investments

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

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

Treasury securities provide OPM with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When OPM requires redemption of these Treasury securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, 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 2007 and 2006.

As of September 30, 2007	Cost	Amortized Discount/(Premium)	Investments, Net	Unamortized Discount/(Premium)	Market Value
<b>Retirement Program:</b>					
Par-value GAS securities	\$655,086	—	\$655,086	—	\$655,086
Certificates of Indebtedness	32,578	—	32,578	—	32,578
FFB Securities	14,000	—	14,000	—	14,000
<b>Subtotal</b>	<b>\$701,664</b>	<b>—</b>	<b>\$701,664</b>	<b>—</b>	<b>\$701,664</b>
Interest Receivable	—	—	9,127	—	—
<b>Total Retirement Program</b>	<b>\$701,664</b>	<b>—</b>	<b>\$710,791</b>	<b>—</b>	<b>\$701,664</b>
<b>Health Benefits Program:</b>					
GAS securities	15,871	(\$13)	15,858	(\$34)	15,876
Certificates of Indebtedness	25,491	—	25,491	—	25,491
<b>Subtotal</b>	<b>\$41,362</b>	<b>(\$13)</b>	<b>\$41,349</b>	<b>(\$34)</b>	<b>\$41,367</b>
Interest Receivable	—	—	330	—	—
<b>Total Health Benefits Program</b>	<b>\$41,362</b>	<b>(\$13)</b>	<b>\$41,679</b>	<b>(\$34)</b>	<b>\$41,367</b>
<b>Life Insurance Program:</b>					
GAS securities	32,491	74	32,565	(400)	32,782
Interest Receivable	—	—	361	—	—
<b>Total Life Insurance Program</b>	<b>\$32,491</b>	<b>\$74</b>	<b>\$32,926</b>	<b>(\$400)</b>	<b>\$32,782</b>
<b>Total Investments</b>	<b>\$775,517</b>	<b>\$61</b>	<b>\$785,396</b>	<b>(\$434)</b>	<b>\$775,813</b>

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As of September 30, 2006	Cost	Amortized Discount/(Premium)	Investments, Net	Unamortized Discount/(Premium)	Market Value
<b>Retirement Program:</b>					
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
<b>Subtotal</b>	<b>\$689,936</b>	<b>—</b>	<b>\$689,936</b>	<b>—</b>	<b>\$689,936</b>
Interest Receivable	—	—	9,153	—	—
<b>Total Retirement Program</b>	<b>\$689,936</b>	<b>—</b>	<b>\$699,089</b>	<b>—</b>	<b>\$689,936</b>
<b>Health Benefits Program:</b>					
GAS securities	14,841	(\$13)	14,828	\$3	14,647
Interest Receivable	—	—	55	—	—
<b>Total Health Benefits Program</b>	<b>\$14,841</b>	<b>(\$13)</b>	<b>\$14,883</b>	<b>\$3</b>	<b>\$14,647</b>
<b>Life Insurance Program:</b>					
GAS securities	30,857	180	31,037	(246)	30,619
Interest Receivable	—	—	332	—	—
<b>Total Life Insurance Program</b>	<b>\$30,857</b>	<b>\$180</b>	<b>\$31,369</b>	<b>(\$246)</b>	<b>\$30,619</b>
<b>Total Investments</b>	<b>\$735,634</b>	<b>\$167</b>	<b>\$745,341</b>	<b>(\$243)</b>	<b>\$735,202</b>

**Note 4—Accounts Receivable, Net**

**Intragovernmental.** The balances comprising OPM’s intragovernmental accounts receivable as of September 30, 2007 and 2006 are:

September 30, 2007	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	\$717	\$551	\$17	—	\$1,285
Other	—	—	—	\$98	98
<b>Total</b>	<b>\$717</b>	<b>\$551</b>	<b>\$17</b>	<b>\$98</b>	<b>\$1,383</b>
<b>September 30, 2006</b>					
Employer contributions receivable	\$708	\$532	\$16	—	\$1,256
Other	—	—	—	\$135	135
<b>Total</b>	<b>\$708</b>	<b>\$532</b>	<b>\$16</b>	<b>\$135</b>	<b>\$1,391</b>

**From the Public.** The balances comprising the accounts receivable OPM classifies as “from the public” at September 30, 2007 and 2006 are presented, in the following table. See Note 1J. for the methodology used to determine the allowance.

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September 30, 2007	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	\$146	\$578	\$118	—	\$842
Overpayment of benefits [net of allowance of \$64 ]	163	—	—	—	163
Due from carriers [net of allowance of \$1]	—	31	—	—	31
Other	—	—	—	\$1	1
<b>Total</b>	<b>\$309</b>	<b>\$609</b>	<b>\$118</b>	<b>\$1</b>	<b>\$1,037</b>
September 30, 2006					
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
<b>Total</b>	<b>\$277</b>	<b>\$597</b>	<b>\$110</b>	<b>\$106</b>	<b>\$1,090</b>

## 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, but remained the same for FY 2007. The following presents the significant economic assumptions used to compute the Pension Liability in fiscal years 2007 and 2006:

	2007	2006
Interest rate	6.25%	6.25%
Rate of inflation	3.50%	3.50%
Rate of increases in salary	4.25%	4.25%



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**Pension Expense.** The following tables present Pension Expense by cost component for fiscal years 2007 and 2006:

FY 2007	CSRS	FERS	TOTAL
Service cost	\$9,731	\$15,968	\$25,699
Interest cost	63,349	15,962	79,311
Actuarial gain	(8,415)	(2,336)	(10,751)
<b>Pension Expense</b>	<b>\$64,665</b>	<b>\$29,594</b>	<b>\$94,259</b>
FY 2006			
Service cost	\$10,635	\$14,652	\$25,287
Interest cost	61,054	13,858	74,912
Actuarial loss	21,607	7,783	29,390
<b>Pension Expense</b>	<b>\$93,296</b>	<b>\$36,293</b>	<b>\$129,589</b>

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

FY 2007	CSRS	FERS	TOTAL
Pension Liability at October 1, 2006	\$1,037,400	\$249,200	\$1,286,600
Plus: Pension Expense	64,665	29,594	94,259
Less: Costs applied to Pension Liability	57,365	3,594	60,959
<b>Pension Liability at September 30, 2007</b>	<b>\$1,044,700</b>	<b>\$275,200</b>	<b>\$1,319,900</b>
FY 2006			
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
<b>Pension Liability at September 30, 2006</b>	<b>\$1,037,400</b>	<b>\$249,200</b>	<b>\$1,286,600</b>

**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 2007 and 2006:

FY 2007	CSRS	FERS	TOTAL
Annuities	\$57,046	\$3,374	\$60,420
Refunds of contributions	182	112	294
Administrative and other expenses	137	108	245
<b>Costs applied to the Pension Liability</b>	<b>\$57,365</b>	<b>\$3,594</b>	<b>\$60,959</b>
FY 2006			
Annuities	\$54,546	\$2,864	\$57,410
Refunds of contributions	231	96	327
Administrative and other expenses	119	33	152
<b>Costs Applied to the Pension Liability</b>	<b>\$54,896</b>	<b>\$2,993</b>	<b>\$57,889</b>

**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:

	FY 2007	FY 2006
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 2007 and 2006:

	FY 2007	FY 2006
Service cost	\$10,806	\$11,617
Interest cost	17,814	16,809
Actuarial gain	(1,246)	(12,609)
<b>PRHB Expense</b>	<b>\$27,374</b>	<b>\$15,817</b>

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

	FY 2007	FY 2006
PRHB Liability at the beginning of the year	\$286,279	\$281,558
Plus: PRHB Expense	27,374	15,817
Less: Costs applied to the PRHB Liability	11,539	11,096
<b>PRHB Liability at the end of the year</b>	<b>\$302,114</b>	<b>\$286,279</b>

**Costs Applied to PRHB Liability.** In accordance with Federal accounting standards, OPM reduces the PRHB Liability by applying certain Program costs. The following table presents the costs applied to the PRHB Liability in fiscal years 2007 and 2006:

	FY 2007	FY 2006
Current benefits	\$8,461	\$8,130
Premiums	2,258	2,161
Administrative and other expenses	820	805
<b>Total costs applied to the PRHB Liability</b>	<b>\$11,539</b>	<b>\$11,096</b>

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**Effect of Assumptions.** The increase in the per capita cost of covered benefits assumed by OPM's actuaries (7.0 percent in fiscal years 2007 and 2006) 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 2007 and 2006:

	FY 2007		FY 2006	
	8.0% [One Percent Increase]	6.0% [One Percent Decrease]	8.0% [One Percent Increase]	6.0% [One Percent Decrease]
Interest cost component	\$20,229	\$15,782	\$19,146	\$14,844
Service cost component	13,765	8,473	14,452	9,388
PRHB Liability	\$346,041	\$265,302	\$328,752	\$250,715

### C. LIFE INSURANCE

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

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

	FY 2007	FY 2006
EPV of future benefits	\$73,945	\$71,486
EPV of future contributions by participants	(38,781)	(37,930)
<b>ALIL</b>	<b>\$35,164</b>	<b>\$33,556</b>

**Life Insurance Expense.** The following presents the Life Insurance Expense by cost component for fiscal years 2007 and 2006:

	FY 2007	FY 2006
New Entrant Expense	\$268	\$256
Interest cost	2,089	2,008
Actuarial gain	(213)	(454)
<b>Life Insurance Expense</b>	<b>\$2,144</b>	<b>\$1,810</b>

**Future Life Insurance Benefits Expense.** The Future Life Insurance Benefits Expense for fiscal years 2007 and 2006 is:

	FY 2007	FY 2006
Life Insurance Expense	\$2,144	\$1,810
Less: Net Costs applied to Life liability	536	517
<b>Future Life Insurance Benefits Expense</b>	<b>\$1,608</b>	<b>\$1,293</b>

## 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, 2007 and 2006:

September 30, 2007	Withheld from benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued Administrative expenses	Contingencies	Total
Retirement	\$589	—	—	—	\$589
Health Benefits	—	\$364	—	\$11	375
Revolving Fund	—	—	\$134	—	134
Salaries and Expenses	—	—	37	3	40
<b>Total Other Liabilities</b>	<b>\$589</b>	<b>\$364</b>	<b>\$171</b>	<b>\$14</b>	<b>\$1,138</b>
September 30, 2006					
Retirement	\$585	—	—	—	\$585
Health Benefits	—	\$336	—	\$5	341
Revolving Fund	—	—	\$77	—	77
Salaries and Expenses	—	—	47	—	47
<b>Total Other Liabilities</b>	<b>\$585</b>	<b>\$336</b>	<b>\$124</b>	<b>\$5</b>	<b>\$1,050</b>

## Note 7—Availability of Unobligated Balances

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

The following table presents the unobligated balance of the CSRDF that is included in the Retirement Program that is temporarily precluded from obligation as of September 30, 2007 and 2006:

September 30,	2007	2006
Temporarily precluded from obligation at the beginning of the year	\$684,824	\$655,921
Plus: Trust fund receipts during the year	89,859	87,164
Plus: Appropriations Received	30,996	28,151
Less: Obligations incurred during the year	109,464	86,412
Excess of trust fund receipts over obligations incurred during the year	11,391	28,903
<b>Temporarily Precluded from Obligation at the End of the Year</b>	<b>\$696,215</b>	<b>\$684,824</b>

**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.

## SECTION 3—FY 2007 FINANCIAL INFORMATION

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During fiscal year 2007, receipts to the PSRHB Fund included a \$2.9 billion transfer from USPS 2006 Escrow accounts, a \$17.1 billion transfer from CSRDF for excess postal pension retiree health benefits, and \$5.4 billion USPS scheduled payment contribution. The following table presents the unobligated balance of the PSRHB Fund that is included in the Health Benefits Program that is temporarily precluded from obligation as of September 30, 2007.

September 30,	2007
Temporarily precluded from obligation at the beginning of the year	\$ —
Plus: Special Fund receipts during the year	25,491
Excess of Special Fund receipts over obligations incurred during the year	25,491
<b>Temporarily Precluded from Obligation at the End of the Year</b>	<b>\$25,491</b>

**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 2007 and 2006, over half of the Health Benefits Program’s benefits were administered by the Blue Cross and Blue Shield Association, a fee-for-service carrier that provides experience-rated benefits. For the Life Insurance Program, virtually all of the benefits were administered by the Metropolitan Life Insurance Company.

### Note 9—Apportionment Categories of Incurred Obligations

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

The following chart details the direct and reimbursable obligations that have been incurred against each apportionment category during fiscal years 2007 and 2006:

FY 2007 Program/Fund	Category	Direct	Reimbursable	Total
Retirement	B	\$78,468	—	\$78,468
Retirement	C	30,996	—	30,996
<b>Subtotal</b>		\$109,464		\$109,464
Health Benefits	B	42,505	—	42,505
Life Insurance	B	2,496	—	2,496
Revolving Fund	A	—	\$934	934
Salaries and Expense	A	274	74	348
<b>Total</b>		\$154,739	\$1,008	\$155,747
FY 2006 Program/Fund	Category	Direct	Reimbursable	Total
Retirement	B	\$58,261	—	\$58,261
Retirement	C	28,151	—	28,151
<b>Subtotal</b>		\$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
<b>Total</b>		\$128,419	\$1,289	\$129,708

## Note 10—Intragovernmental Gross Costs and Earned Revenue

The following table presents the portion of OPM's gross costs and earned revenue that was classified as intragovernmental and "with the public" in fiscal years 2007 and 2006:

	GROSS COSTS			EARNED REVENUE		
	Intragovernmental	With the Public	Total	Intragovernmental	With the Public	Total
<b>FY 2007</b>						
Provide CSRS Benefits	—	\$64,665	\$64,665	\$25,383	\$2,723	\$28,106
Provide FERS Benefits	—	29,594	29,594	29,219	1,105	30,324
Provide Health Benefits	—	49,708	49,708	25,317	9,464	34,781
Provide Life Insurance Benefits	—	4,021	4,021	1,713	2,212	3,925
Provide Human Resources Services	\$82	1,020	1,102	1,084	2	1,086
<b>Total</b>	<b>\$82</b>	<b>\$149,008</b>	<b>\$149,090</b>	<b>\$82,716</b>	<b>\$15,506</b>	<b>\$98,222</b>
<b>FY 2006</b>						
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
<b>Total</b>	<b>\$106</b>	<b>\$169,983</b>	<b>\$170,089</b>	<b>\$73,539</b>	<b>\$15,137</b>	<b>\$88,676</b>

## 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 \$11 and \$5 at September 30, 2007 and 2006, respectively, for the estimated amount of losses it will probably incur from this litigation. In addition, OPM has determined that, at September 30, 2007, it is reasonably possible that an additional \$1 to \$5 in losses will result. All losses involving this litigation will be paid from the Treasury Judgment Fund (TJF); OPM, however, does not have the budgetary resources to and is precluded by law from reimbursing the TJF. Although it is impossible to ascertain the ultimate legal liability with respect to contingent liabilities, OPM believes 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 has recorded a liability of \$3 in Salaries and Expenses at September 30, 2007 for the estimated amount of losses it will probably incur from this litigation. In addition, OPM has determined that, at September 30, 2007, it is reasonably possible that an additional \$3.5 will result in losses. There is one additional case, at September 30, 2007, in which OPM has determined that it is reasonably

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possible that an additional loss will be incurred, but an estimate cannot be determined at this time. 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.** The funds related to the operation of the Retirement Program, the Health Benefits Program (which includes the PSRHB Fund), and the Life Insurance Program, are “earmarked funds,” as defined by SFFAS No. 27—“Identifying and Reporting Earmarked Funds.” The standard defines earmarked funds as being financed by statutorily dedicated revenues, often supplemented by other financing sources, which remain available over time. The statutory authority for OPM's earmarked funds associated with Federal employees' benefit programs can be found in Title 5, United States Code; Chapters 83 and 84 provide a complete description of the Civil Service Retirement and Disability Fund's provisions; Chapter 89, provides a complete description of the Employees Health Benefits Fund and the Retired Employees Health Benefits Fund provisions; and Chapter 87 provides a complete description of the Employees Group Life Insurance Fund provisions. In addition, Sections 802 and 803 of P.L. 109- 435, the Postal Act, amended certain provisions of Chapters 83 and 89 of Title 5 dealing with the Retirement Program and the Health Benefits Program, respectively.

A condensed version of the Earmarked Funds' Balance Sheet as of September 30, 2007 and September 30, 2006 follows:

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



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September 30, 2006	Retirement Program	Health Benefits Program	Life Insurance Program	Total
<b>ASSETS</b>				
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
<b>Total Assets</b>	<b>\$700,091</b>	<b>\$16,909</b>	<b>\$32,091</b>	<b>\$749,091</b>
<b>LIABILITIES and NET POSITION</b>				
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
<b>Total Liabilities</b>	<b>\$1,291,733</b>	<b>\$290,401</b>	<b>\$34,242</b>	<b>\$1,616,376</b>
Cumulative Results of Operations	(591,642)	(273,492)	(2,151)	(867,285)
<b>Total Liabilities and Net Position</b>	<b>\$700,091</b>	<b>\$16,909</b>	<b>\$32,091</b>	<b>\$749,091</b>

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

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

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

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A condensed version of the Earmarked Funds' Statement of Net Cost for FY 2007 and FY 2006 follows:

FY 2007	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Gross Program Costs	\$94,259	\$49,708	\$4,021	\$147,988
Less Earned Revenues	58,430	34,781	3,925	97,136
<b>Net Cost of Operations</b>	<b>\$35,829</b>	<b>\$14,927</b>	<b>\$96</b>	<b>\$50,852</b>
FY 2006				
Gross Program Costs	\$129,589	\$35,945	\$3,515	\$169,049
Less Earned Revenues	58,785	25,269	3,730	87,784
<b>Net Cost of Operations</b>	<b>\$70,804</b>	<b>\$10,676</b>	<b>(\$215)</b>	<b>\$81,265</b>

A condensed version of the Earmarked Funds' Statement of Changes in Net Position for FY 2007 and FY 2006 follows:

FY 2007	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Net Position Beginning of Period	(\$591,642)	(\$273,492)	(\$2,151)	(\$867,285)
Budgetary Financing Sources	13,934	25,681	43	39,658
Net Cost of Operations	\$35,829	\$14,927	\$96	\$50,852
Change in Net Position	(\$21,895)	\$10,754	(\$53)	(\$11,194)
Net Position End of Period	(\$613,537)	(\$262,738)	(\$2,204)	(\$878,479)
FY 2006				
Net Position Beginning of Period	(\$549,022)	(\$271,183)	(\$2,407)	(\$822,612)
Budgetary Financing Sources	28,184	8,360	41	36,585
Other Financing Sources	—	7	—	7
Total Financing Sources	28,184	8,367	41	36,592
Net Cost of Operations	\$70,804	\$10,676	(\$215)	\$81,265
Change in Net Position	(\$42,620)	(\$2,309)	\$256	(\$44,673)
<b>Net Position End of Period</b>	<b>(\$591,642)</b>	<b>(\$273,492)</b>	<b>(\$2,151)</b>	<b>(\$867,285)</b>

### Note 13—Reconciliation of Net Cost of Operations to Budget

SFFAS No. 7 requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. In previous years, this reconciliation was accomplished by presenting the Statement of Financing as a Basic Financial Statement. Beginning in fiscal year 2007, OMB Circular No. A-136, "Financial Reporting Requirements," requires that this reconciliation be presented as a note on a comparative basis rather than as a basic statement. Accordingly, OPM adopted this change and presented the fiscal year 2007 reconciliation and comparative fiscal year 2006 reconciliation as follows:

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FY 2007	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2007
<b>RESOURCES USED TO FINANCE ACTIVITIES</b>						
Budgetary Resources Obligated:						
Obligations Incurred	\$109,464	\$42,505	\$2,496	\$934	\$348	\$155,747
Less: Spending Authority from Offsetting Collections and Recoveries	—	34,689	4,068	1,160	215	40,132
Less: Appropriated Trust Fund Receipts	89,859	25,491	—	—	—	115,350
Obligations Net of Offsetting Collections and Recoveries	19,605	(17,675)	(1,572)	(226)	133	265
Less: Offsetting Receipts	31,034	—	—	—	—	31,034
<b>Net Obligations</b>	<b>(\$11,429)</b>	<b>(\$17,675)</b>	<b>(\$1,572)</b>	<b>(\$226)</b>	<b>\$133</b>	<b>(\$30,769)</b>
Other Resources	—	0	—	21	12	33
<b>Total Resources Used to Finance Activities</b>	<b>(\$11,429)</b>	<b>(\$17,675)</b>	<b>(\$1,572)</b>	<b>(\$205)</b>	<b>\$145</b>	<b>(\$30,736)</b>
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</b>						
Transfer-In from General Fund	30,996	—	—	—	—	30,996
Other Transfer In (Out) without Reimbursement	(17,100)	17,100	—	—	—	—
Other	76	(328)	68	181	(26)	(29)
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<b>13,972</b>	<b>16,772</b>	<b>68</b>	<b>181</b>	<b>(26)</b>	<b>30,967</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>\$2,543</b>	<b>(\$903)</b>	<b>(\$1,504)</b>	<b>(\$24)</b>	<b>\$119</b>	<b>\$231</b>
<b>COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>						
Components Requiring or Generating Resources in <i>Future Periods</i> :						
Increase in Actuarial Liabilities	33,300	15,835	1,608	—	—	50,743
Exchange Revenue not in the Budget	18	(20)	(8)	1	—	(9)
<i>Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Period</i>	<b>33,318</b>	<b>15,815</b>	<b>1,600</b>	<b>1</b>	<b>—</b>	<b>50,734</b>
Components not Requiring or Generating Resources						
Other	(32)	15	—	(13)	(67)	(97)
<b>Total Components of Net Cost of Operations that Will Not Require or Generate Resources</b>	<b>(32)</b>	<b>15</b>	<b>—</b>	<b>(13)</b>	<b>(67)</b>	<b>(97)</b>
<b>Total Components of Net Cost of Operations that Will Not Require or Generate Resource in the Current Period</b>	<b>\$33,286</b>	<b>\$15,830</b>	<b>\$1,600</b>	<b>(\$12)</b>	<b>(\$67)</b>	<b>\$50,637</b>
<b>NET COST OF OPERATIONS</b>	<b>\$35,829</b>	<b>\$14,927</b>	<b>\$96</b>	<b>(\$36)</b>	<b>\$52</b>	<b>\$50,868</b>

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FY 2006	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2006
<b>RESOURCES USED TO FINANCE ACTIVITIES</b>						
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
<b>Net Obligations</b>	<b>(\$28,936)</b>	<b>\$5,944</b>	<b>(\$1,691)</b>	<b>(\$58)</b>	<b>\$130</b>	<b>(\$24,611)</b>
Other Resources	—	7	—	20	13	40
<b>Total Resources Used to Finance Activities</b>	<b>(\$28,936)</b>	<b>\$5,951</b>	<b>(\$1,691)</b>	<b>(\$38)</b>	<b>\$143</b>	<b>(\$24,571)</b>
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</b>						
Transfer-In from General Fund	\$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
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>(\$719)</b>	<b>\$5,977</b>	<b>(\$1,501)</b>	<b>(\$6)</b>	<b>\$139</b>	<b>\$3,890</b>
<b>COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>						
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
<b>Components not Requiring or Generating Resources</b>						
Other	(9)	8	—	3	11	13
<b>Total Components of Net Cost of Operations that Will Not Require or Generate Resources</b>	<b>(9)</b>	<b>8</b>	<b>—</b>	<b>3</b>	<b>11</b>	<b>13</b>
<b>Total Components of Net Cost of Operations that Will Not Require or Generate Resource in the Current Period</b>	<b>\$71,523</b>	<b>\$4,699</b>	<b>\$1,286</b>	<b>\$4</b>	<b>\$11</b>	<b>\$77,523</b>
<b>NET COST OF OPERATIONS</b>	<b>\$70,804</b>	<b>\$10,676</b>	<b>(\$215)</b>	<b>(\$2)</b>	<b>\$150</b>	<b>\$81,413</b>

## Note 14—Net Cost By Strategic Objectives

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

<b>Strategic Objective A</b>	The Federal civilian workforce will be focused on achieving agency goals.
<b>Strategic Objective B</b>	The Federal civilian workforce will have career opportunities, benefits and service delivery that compete successfully with other employers.
<b>Strategic Objective C</b>	Federal agencies will be employers of choice.
<b>Strategic Objective D</b>	Federal agencies will be recognized as leaders in having exemplary human resources practices.
<b>Strategic Objective E</b>	The Office of Personnel Management will be a model of performance for other Federal agencies.
<b>Strategic Objective F</b>	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.
<b>Strategic Objective G</b>	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 2007. Total costs for this table were allocated based on the distribution of budgetary resources.

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

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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:	Total program cost	—	—	—	—	\$146	\$146
	Less earned revenue	—	—	—	—	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	\$4,230	(\$85)	\$79	\$32,283
Objective F: <sup>1</sup>	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
<b>Total</b>	<b>Total program cost</b>	<b>\$93,296</b>	<b>\$36,293</b>	<b>\$35,945</b>	<b>\$ 3,515</b>	<b>\$1,040</b>	<b>\$170,089</b>
	<b>Less earned revenue</b>	<b>30,737</b>	<b>28,048</b>	<b>25,269</b>	<b>3,730</b>	<b>892</b>	<b>88,676</b>
	<b>Net program cost</b>	<b>\$62,559</b>	<b>\$8,245</b>	<b>\$10,676</b>	<b>(\$215)</b>	<b>\$148</b>	<b>\$81,413</b>

<sup>1</sup>The amount expended in fiscal year 2006 was under the rounding threshold for this report.

### Note 15—Comparison of Combined Statements of Budgetary Resources To The President’s Budget

OPM reports information about budgetary resources in the Combined Statements of Budgetary Resources and for presentation in the “President’s Budget.” The President’s Budget for fiscal year 2009, which will contain budgetary resources information for fiscal year 2007, will be published in February 2008 and will be available on the OMB website at <http://www.whitehouse.gov/omb/>. The President’s Budget for fiscal year 2008, which contains budgetary resource information for fiscal year 2006, was released on February 5, 2007.

There are no material differences between the Statement of Budgetary Resources and the SF-133 Report on Budgetary Execution for fiscal year 2007 and fiscal year 2006. Additionally, there are no material differences between the actual amounts for fiscal year 2006 published in the President’s Budget and those reported in the accompanying fiscal year 2006 Combined Statement of Budgetary Resources.

### Note 16—Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders at the end of fiscal year 2007 and fiscal year 2006 is as follows:

Undelivered Orders	Revolving Fund Programs	Salaries & Expenses	Total
FY 2007	\$243	\$90	\$333
FY 2006	\$328	\$75	\$403

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**Consolidating Financial Statements**

Schedule 1 U.S. OFFICE OF PERSONNEL MANAGEMENT CONSOLIDATING BALANCE SHEET As of September 30, 2007 (In Millions)							
	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2007
<b>ASSETS</b>							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	\$1	\$875	\$10	\$495	\$90	—	\$1,471
Investments [Note 3]	710,791	41,679	32,926	—	—	—	785,396
Accounts Receivable [Note 4]	717	551	17	99	74	(\$75)	1,383
Total Intragovernmental	711,509	43,105	32,953	594	164	(75)	788,250
Accounts Receivable from the Public, Net [Note 4]	309	609	118	—	1	—	1,037
General Property and Equipment, Net	—	—	—	10	1	—	11
Other [Note 1L]	—	112	630	69	—	—	811
<b>TOTAL ASSETS</b>	<b>\$711,818</b>	<b>\$43,826</b>	<b>\$33,701</b>	<b>\$673</b>	<b>\$166</b>	<b>(\$75)</b>	<b>\$790,109</b>

Schedule 1—continued U.S. OFFICE OF PERSONNEL MANAGEMENT CONSOLIDATING BALANCE SHEET As of September 30, 2007 (In Millions)							
	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2007
<b>LIABILITIES</b>							
Intragovernmental	\$68	\$257	—	\$425	\$4	(\$75)	\$679
Federal Employee Benefits:							
Benefits Due and Payable	4,798	3,818	\$741	—	—	—	9,357
Pension Liability [Note 5A]	1,319,900	—	—	—	—	—	1,319,900
Postretirement Health Benefits Liability [Note 5B]	—	302,114	—	—	—	—	302,114
Actuarial Life Insurance Liability [Note 5C]	—	—	35,164	—	—	—	35,164
Total Federal Employee Benefits	1,324,698	305,932	35,905	—	—	—	1,666,535
Other [Notes 6 and 11]	589	375	—	134	40	—	1,138
<b>Total Liabilities</b>	<b>1,325,355</b>	<b>306,564</b>	<b>35,905</b>	<b>559</b>	<b>44</b>	<b>(75)</b>	<b>1,668,352</b>
<b>NET POSITION</b>							
Unexpended Appropriations—Other Funds	—	—	—	3	81	—	84
Cumulative Results of Operations—Earmarked Funds [Note 12]	(613,537)	(262,738)	(2,204)	—	—	—	(878,479)
Cumulative Results of Operations—Other Funds	—	—	—	111	41	—	152
Total Net Position	(613,537)	(262,738)	(2,204)	114	122	—	(878,243)
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$711,818</b>	<b>\$43,826</b>	<b>\$33,701</b>	<b>\$673</b>	<b>\$166</b>	<b>(\$75)</b>	<b>\$790,109</b>

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



SECTION 3—FY 2007 FINANCIAL INFORMATION

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	Eliminations	2006
<b>ASSETS</b>							
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
<b>TOTAL ASSETS</b>	<b>\$700,091</b>	<b>\$16,909</b>	<b>\$32,091</b>	<b>\$541</b>	<b>\$98</b>	<b>(\$5)</b>	<b>\$749,725</b>

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	Eliminations	2006
<b>LIABILITIES</b>							
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
<b>Total Liabilities</b>	<b>1,291,733</b>	<b>290,401</b>	<b>34,242</b>	<b>484</b>	<b>50</b>	<b>(5)</b>	<b>1,616,905</b>
<b>NET POSITION</b>							
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)
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$700,091</b>	<b>\$16,909</b>	<b>\$32,091</b>	<b>\$541</b>	<b>\$98</b>	<b>(\$5)</b>	<b>\$749,725</b>

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

## SECTION 3—FY 2007 FINANCIAL INFORMATION

## Schedule 2

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

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

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

## SECTION 3—FY 2007 FINANCIAL INFORMATION

Schedule 2—continued

 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	Eliminations	2006
	CSRS	FERS	Total						
<i>GROSS COSTS</i>									
Intragovernmental	—	—	—	—	—	\$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 [Notes 10 and 14]	93,296	36,293	129,589	35,945	3,515	954	349	(263)	170,089
<i>EARNED REVENUE</i>									
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 [Notes 10 and 14]	30,737	28,048	58,785	25,269	3,730	956	199	(263)	88,676
<i>Net Cost of Operations</i> [Note 14]	\$62,559	\$8,245	\$70,804	\$10,676	(\$215)	(\$2)	\$150	—	\$81,413

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

SECTION 3—FY 2007 FINANCIAL INFORMATION

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

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

## SECTION 3—FY 2007 FINANCIAL INFORMATION

Schedule 3—continued

 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
<i>CUMULATIVE RESULTS OF OPERATIONS</i>								
Beginning Balance	(\$549,022)	(\$271,183)	(\$2,407)	(\$822,612)	\$30	(\$19)	\$11	(\$822,601)
Budgetary Financing Sources:								
Appropriations Used	28,151	8,360	41	36,552	2	122	124	36,676
Other	33	—	—	33	—	—	—	33
Other Financing Sources	—	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— Ending Balance	(\$591,642)	(\$273,492)	(\$2,151)	(\$867,285)	\$54	(\$34)	\$20	(\$867,265)
<i>UNEXPENDED APPROPRIATIONS</i>								
Beginning Balance	—	—	—	—	\$5	\$77	\$82	\$82
Budgetary Financing Sources:								
Appropriations Received	\$28,151	\$8,674	\$42	\$36,867	—	124	124	36,991
Appropriations Used	(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— Ending Balance	—	—	—	—	\$3	\$82	\$85	\$85
<b>NET POSITION</b>	<b>(\$591,642)</b>	<b>(\$273,492)</b>	<b>(\$2,151)</b>	<b>(\$867,285)</b>	<b>\$57</b>	<b>\$48</b>	<b>\$105</b>	<b>(\$867,180)</b>

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

SECTION 3—FY 2007 FINANCIAL INFORMATION

Schedule 4

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

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

SECTION 3—FY 2007 FINANCIAL INFORMATION

Schedule 4—continued

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

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

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

SECTION 3—FY 2007 FINANCIAL INFORMATION

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
<i>BUDGETARY RESOURCES</i>						
Unobligated Balance—Brought Forward, October 1	—	\$10,116	\$28,717	\$349	\$101	\$39,283
Recoveries of Prior-Year Unpaid Obligations	—	—	—	10	6	16
Budgetary Authority:						
Appropriations:						
Received	\$28,151	8,674	42	—	124	36,991
Other	—	(314)	(1)	—	(5)	(320)
Trust Fund Receipts:						
Appropriated	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)
<b>Total Budgetary Resources</b>	<b>\$86,412</b>	<b>\$52,072</b>	<b>\$32,648</b>	<b>\$1,622</b>	<b>\$432</b>	<b>\$173,186</b>
<i>STATUS OF BUDGETARY RESOURCES</i>						
Obligations Incurred: [Note 9]						
Direct	\$86,412	\$39,540	\$2,199	—	\$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
<b>Total Status of Budgetary Resources</b>	<b>\$86,412</b>	<b>\$52,072</b>	<b>\$32,648</b>	<b>\$1,622</b>	<b>\$432</b>	<b>\$173,186</b>



SECTION 3—FY 2007 FINANCIAL INFORMATION

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
<i>CHANGE IN OBLIGATED BALANCE</i>						
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, Net	86,412	39,540	2,199	1,215	342	129,708
Less: Gross Outlays	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	—	1,435	350	490	101	2,376
Total Unpaid Obligated Balance, Net, End of Period	5,129	3,089	341	(112)	(5)	8,442
<i>NET OUTLAYS</i>						
Net Outlays:						
Gross Outlays	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

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

SECTION 3—FY 2007 FINANCIAL INFORMATION

Required Supplemental Information

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

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

**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

SECTION 3—FY 2007 FINANCIAL INFORMATION

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

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

**LEGEND:**

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

*Required Supplemental Information*

SECTION 3—FY 2007 FINANCIAL INFORMATION

U.S. OFFICE OF PERSONNEL MANAGEMENT  
 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
<i>BUDGETARY RESOURCES</i>							
Unobligated Balance—Brought Forward, October 1	—	\$10,116	\$28,717	\$349	\$101	—	\$39,283
Recoveries of Prior-Year Unpaid Obligations	—	—	—	10	6	—	16
Budgetary Authority:							
Appropriations:							
Received	—	—	—	—	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)
<b>Total Budgetary Resources</b>	<b>\$58,261</b>	<b>\$43,712</b>	<b>\$32,607</b>	<b>\$1,622</b>	<b>\$432</b>	<b>\$36,552</b>	<b>\$173,186</b>
<i>STATUS OF BUDGETARY RESOURCES</i>							
Obligations Incurred:							
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:							
Apportioned	—	—	—	265	57	—	322
Unobligated Balance Not available	—	12,532	30,449	142	33	—	43,156
<b>Total, Status of Budgetary Resources</b>	<b>\$58,261</b>	<b>\$43,712</b>	<b>\$32,607</b>	<b>\$1,622</b>	<b>\$432</b>	<b>\$36,552</b>	<b>\$173,186</b>

**LEGEND:**

Civil Service Retirement and Disability Fund	CSRDF
Employees Health Benefits Fund	HBF
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Revolving Fund	RF
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*Required Supplemental Information*

SECTION 3—FY 2007 FINANCIAL INFORMATION

U.S. OFFICE OF PERSONNEL MANAGEMENT  
 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
<i>CHANGE IN OBLIGATED BALANCE</i>							
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, Net	58,261	31,180	2,158	1,215	342	36,552	129,708
Less: Gross Outlays	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 Sources and 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	—	1,435	350	490	101	—	2,376
Total Unpaid Obligated Balance, Net, End of Period	5,129	2,242	336	(112)	(5)	852	8,442
<i>NET OUTLAYS</i>							
Net Outlays							
Gross Outlays	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*



## SECTION 4—OTHER ACCOMPANYING INFORMATION

*(Unaudited—See accompanying Independent Auditors' Report)*

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### **Management Challenges**

As required by the Reports Consolidation Act of 2000, on October 26, 2007 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 2008, as well as noting areas of improvement. A copy of OIG's letter and discussion of each management challenge begins on the next page.

## SECTION 4—OTHER ACCOMPANYING INFORMATION

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OFFICE OF  
THE INSPECTOR GENERAL

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

MEMORANDUM FOR LINDA M. SPRINGER

Director

FROM: PATRICK E. McFARLAND  
Inspector General

A handwritten signature in black ink that reads "Patrick E. McFarland".

SUBJECT: Top Management Challenges

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

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

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

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

OPM-01  
May 1999



LINDA M. SPRINGER

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

**Environmental Challenges**

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

**Internal Challenges**

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

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

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

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

LINDA M. SPRINGER

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I would also like to point out that we have removed the challenges shown below that were on this list last year.

- The Implementation of OMB Circular A-123, Appendix A has been removed, now that procedures have been put in place to conduct the yearly review required by the Circular.
- The Competitive Sourcing challenge has been removed from the list because in fiscal year 2007 OPM has met the challenge by receiving a “Green” status on the Government Scorecard issued by OMB for this area.
- The Dental and Vision Programs were successfully established and have been omitted from the Federal Employees Health Benefits challenge.
- OPM has demonstrated success in implementing its e-Government projects and is on its way to success with the remaining initiatives of Human Resources Line of Business and Enterprise Human Resources Integration. Therefore, we have decided to remove this from our list of challenges.

In addition, one challenge, Implementing *Homeland Security Presidential Directive 12- Personal Identification Verification II*, has been added to this year’s list.

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

If there are any questions, please feel free to call me, at (202) 606-1200.

Attachment

## ENVIRONMENTAL CHALLENGES

The following challenges are issues that will in all likelihood permanently be on our list of top challenges for OPM because of their dynamic, ever-evolving nature, and because they are mission-critical programs. This will be true even in years when OPM management does an outstanding job of addressing the current challenges, simply because there will always be new issues to contend with or there are challenges that recur each year.

For example, we believe that OPM has done exceedingly well over the last few years in managing the challenges present in the administration of the FEHBP. Health care costs that seem to grow exponentially, the desire for new or better benefits, and the recent Health Information Technology initiatives are examples of issues that OPM has been faced with recently and has either succeeded in addressing or has a plan in place. However, holding increases in premiums to an acceptable level next year and beyond will require OPM to continue to perform at a high level.

### *Strategic Human Capital*

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 fiscal year (FY) 2007, OPM's Division for Human Capital Leadership and Merit System Accountability (HCLMSA) delivered training on hiring flexibilities for human resource and hiring managers at five field sites across the country. All CHCO agencies participated in the training, as did numerous small agencies with offices in the field sites. The Federal Executive Boards coordinated the training, which was delivered by HCLMSA officials using the newly updated, web-based hiring flexibilities resource center and briefing materials from OPM's Career Patterns initiatives. These initiatives are designed to assist agencies in identifying and instituting work environments that attract top talent in the 21st century.

OPM continues to be confronted with assisting in the improvement of the personnel systems of both the 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.

In May 2007, OPM issued reports on the individual assessments of the National Security Personnel System (NSPS) implemented by DOD, and DHS's Alternative Personnel System (APS). The report on DOD's implementation of NSPS states that DOD implemented the system in a relatively small portion of the workforce and data is not yet available to assess several progress elements. However, the preliminary data indicates that DOD is on track to meet milestones. OPM's report on the implementation of APS states that DHS did not implement all systems to fulfill its statutory obligation. Continued assessments will be conducted periodically to assist DHS and DOD in evaluating specific areas on which to focus future efforts.

The following are additional areas where OPM has made significant progress in meeting the challenge 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. Over the next decade, about 60 percent of Federal employees will become eligible to retire, and that has prompted concerns that some agencies will not have enough experienced hands to train a new generation of workers. To assist agencies, OPM proposed giving agencies more leeway to bring back retirees without a penalty to their retirement pension to help turn around special projects and serve as mentors.
  - OPM recognizes that the Federal Government has been a long recognized leader in employer-sponsored benefits, helping to ensure agencies have a competitive advantage in recruiting and retaining top talent. Therefore, OPM is faced with the need to create a new work environment that takes into consideration the needs of the future workforce. This effort is supported by OPM's Career Patterns initiative. OPM also proposed a removal of the annuity computation penalties that are applied to employees covered under the Civil Service Retirement System, who adopt a part-time work schedule toward the end of their careers. This would help agencies retain experienced and still-productive employees, who wish to ease into retirement, instead of retiring outright.
  - To support agency succession management for Government-wide mission critical occupations, OPM provided the web-based Federal Competency Assessment Tool (FCAT) for managers and human resource officials. Agencies are using the FCAT to assess competencies against desired proficiency levels, identify current and projected gaps, and institute action plans to use hiring and development initiatives that will fill these competency gaps. A valuable part of this tool is the inclusion of validated performance management competencies—six competencies for employees at all levels, and three specific to human resource occupations—that will enable agencies to target resources toward improving their ability to institute effective performance management systems.
  - 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, in order to assure that all human capital initiatives are strategically integrated to focus on mission accomplishment. This includes key efforts such as workforce planning, strategic leadership succession management plans, and action plans based on results of the Federal Human Capital Survey and a regular survey of managers on their satisfaction with hiring. OPM's impact on agencies' human capital results is demonstrated in the most recent scores for the human capital initiative under the President's 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, 2007. No agencies received a Red status rating. OPM has also assisted agencies in instituting accountability systems that will enable them to monitor their own performance and compliance with merit system principles, with OPM's ongoing oversight and assistance.
- OPM is responsible for providing guidance on the Senior Executive Service (SES) pay-for-performance (PFP) system. In the SES PFP report for FY 2006, dated June 12, 2007, OPM states that agencies continue to effectively use their appraisal systems to make distinctions in performance and to make appropriate pay and awards determinations based on individual and organizational performance. Agencies also continue to improve their pay-for-performance systems, using their systems to link executive performance with organizational goals and focus on achieving organizational results. Training has also become a primary component of agency systems, ensuring that executives understand how their pay-for-performance systems operate and

reporting to executives the results of rating, pay, and awards determinations.

### *Federal Employees Health Benefits Program*

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

These factors have also contributed to ever increasing premium rates for health plans nationwide. However, for calendar year 2008, OPM was able to hold the average FEHBP premium increase to two percent, the second year in a row the average increase was two percent or less. 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. However, OPM is often limited in how much it can control premium cost increases without also cutting desired benefits.

Increases in drug costs have been a major contributor to the rapid growth in health care costs, and drugs now account for about 29 percent of all FEHBP costs. Of particular concern to our office are the pharmacy benefit managers (PBMs), who administer drug benefits for FEHBP plans. Because the FEHBP carriers, not OPM, negotiate the pricing of these pharmacy benefits, oversight of the PBMs is limited. OPM has taken steps through the large provider regulations and the transparency standards to increase its oversight in this area. However,

our audits have shown that the PBMs still do not provide the cost and pricing information necessary to determine if the charges paid by the FEHBP are reasonable. We believe that OPM should consider making legislative changes requiring that FEHBP carriers and the PBMs disclose pricing information or to consider carving out the pharmacy benefits from the medical benefits and contracting directly with the PBMs.

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

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

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

The Federal Employee Health Benefit (FEHB) Program Carrier Letter 2007-07 states that OPM expects all FEHB carriers to be committed to these four cornerstones. The Program Carrier Letter addressed the HIT initiatives and OPM's actions to address their commitment to the cornerstones and promote state-of-the-art health information technology. It also required all carriers to submit a report by August 31, 2007, on the specific actions

they have taken to make consumers aware of the value of HIT; to make personal health records available to enrollees based on their medical claims, lab test results and medication history; meet our health care cost and transparency standards; provide incentives for e-Prescribing; and, ensure compliance with Federal law and policy outlining requirements to protect the privacy of individually identifiable health information.

However, there are a number of challenges involved with making e-health a reality in the FEHBP. First, there are serious unresolved related to security and privacy concerns of e-health systems. A recent study by the E-Health Vulnerability Reporting Program showed that it was too easy for hackers to access systems and modify e-health records using low level hacking skills. These issues are of concern to some members of Congress. Second, the costs and technical challenges for carriers to implement e-health systems are likely to be considerable. OPM will clearly face ongoing challenges associated with implementing e-health in the FEHBP.

### *Background Investigations*

OPM's Federal Investigative Services Division (FISD), headquartered in Boyers, Pennsylvania, conducts background investigations for Federal agencies so they can make suitability and national security decisions regarding personnel. In February 2005, OPM accepted the transfer of function and 1,600 personnel from the Department of Defense's Defense Security Service (DSS). As a result of the transfer, FISD is responsible for conducting approximately 90 percent of all personnel background investigations for the Federal Government. OPM processed nearly two million new requests for background investigations in FY 2007.

**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 (EO) 13381 assigns OMB the responsibility for improving the security clearance process. On June 28, 2007, EO 13381 was further amended by EO 13436 and extended through July 1, 2008. The extension of the EO reinforces the Administration's commitment to improving the security clearance process and currently requires 80 percent of initial security clearances to be completed within 90 days. Adjudications of the initial clearances must be completed by the agencies within 30 days or less.

Government agencies are making significant progress toward determining security clearance eligibility, as called for by IRTPA. Current investigative and adjudicative statistics on requests for initial clearances show that:

- FISD completed 80 percent of initial background investigations received during the first and second quarters of FY 2007 within an average of less than 90 days; and,
- Agencies reported to OPM that background investigations were adjudicated in an average of 33 days during the first quarter of FY 2007 and 36 days during the second quarter.

Although adjudicative timeliness remains a factor, OPM has improved security clearance performance through the use of the electronic Questionnaires for Investigations Processing (e-QIP). Over 75 percent of security clearance cases were submitted using e-QIP in FY 2007.

**Challenges Remain.** Although FISD has been able to meet the initial requirement of the IRTPA, the mandates for the end of calendar year 2009 are particularly aggressive, requiring completion of 90 percent of initial clearance investigations within 40 days. Achieving this target, along with the continued efforts to absorb the 1,600 DSS employees into OPM's culture and perform oversight of 4 contractors and approximately 6,000 contract employees, will require significant skill

and attention from management. In addition, with larger numbers of the Federal workforce retiring over the next decade the demand for background investigations will only increase, making the goals even harder to meet. The Homeland Security Presidential Directive 12 will also add to the demand for background investigations.

### *IT Security*

In a July 27, 2007 report to Congress (GAO-07-837 Federal Information Security), the U.S. Government Accountability Office (GAO) stated that “Federal agencies rely extensively on computerized information systems and electronic data to carry out their missions. The security of these systems and data is essential to prevent data tampering, disruptions in critical operations, fraud, and the inappropriate disclosure of sensitive information. In reports to Congress since 1997, we have designated information security as a Government-wide high-risk issue—a designation that remains in force today.” (*Emphasis added*) These risks come in all forms, from disgruntled employees, cyber criminals, or even nation states through the use of viruses, malicious worms, trojan horses, phishing, spyware, and other attacks.

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

As highlighted by the GAO report, we believe that information technology (IT) security represents a continuous environmental challenge that encompasses a wide variety of issues. Some of these issues have been isolated through an OMB memorandum and a Presidential Directive which require all Federal

agencies to develop a set of specific IT security controls. As discussed below, the implementation of these controls will strengthen OPM’s overall IT security environment. When these are implemented, these specific components of the IT security challenge will be dropped. However, with this ever-growing threat, it is safe to say that IT security will remain an on-going challenge to OPM, as well as all of the Federal Government and private industry.

### **Protection of Personally Identifiable Information.**

Following numerous incidents involving the compromise or loss of sensitive personally identifiable information (PII), the 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 were 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, regulations, and OPM policy have also addressed the need to protect sensitive information, including the Federal Information Security Management Act (FISMA), the E-Government Act of 2002, the Privacy Act of 1974, and OMB Circular A-130, *Management of Federal Information Resources*. FISMA requires agencies to have a security program and controls for systems to protect their sensitive information. OPM’s IT Security Policy includes procedures for computer security incident handling and reporting.

In an effort to meet the requirements of OMB Memorandum M-06-16, OPM has implemented several technical controls to ensure the protection of sensitive data. This includes ensuring that backup tapes sent to an offsite location are encrypted, that OPM employees manually encrypt sensitive data on mobile workstations using WinZip AES encryption technology, and that data residing on Blackberry handheld devices is encrypted.

OPM is still in the process of testing and implementing several additional technical controls, such as automatically encrypting PII on mobile workstations and requiring two-factor authentication to access PII on all OPM systems. However, OPM has decided not to use automatic full-disk encryption on OPM laptops, but instead use a more limited solution that would require manual intervention by the users.

Furthermore, findings from our recent FISMA audit and the KPMG (an independent public accounting firm) consolidated financial statement audit indicate that OPM employees and contractors are not consistently following OPM notification procedures related to security incidents involving loss of PII. The recent loss of PII from the USAJOBS website was a major computer security incident that went unreported to the OPM help desk for nearly four weeks.

Although OPM has made significant progress toward improving its protection of PII data, it is clear that much work remains. We recommended in our FY 2007 FISMA audit report that OPM continue its efforts to implement technical controls for protecting PII and increase awareness of the proper procedures for computer security incident reporting.

**Homeland Security Presidential Directive 12—Personal Identification Verification II.** On August 27, 2004, the President signed *Homeland Security Presidential Directive 12* (HSPD-12), “Policy for a Common Identification Standard for Federal Employees and Contractors.” HSPD-12 requires the development and agency implementation of a mandatory, government-

wide standard for secure and reliable forms of identification for Federal employees and contractors.

One critical component of HSPD-12 relates to personal identification verification (PIV II). It calls for all Federal employees and contractors to use a standard smart credential to verify their identity for secure access to Federal buildings and information systems. According to OMB officials, the original deadline for complying with the order for PIV II has been adjusted from October 2007 to October 2008 to allow shared service providers and Federal agencies the necessary time to successfully implement this directive.

On September 29, 2006, OPM entered into a memorandum of understanding with the General Services Administration (GSA) for management and service support for PIV II compliant identity credentials through a shared service solution (USAccess). As of September 27, 2007, OPM was just the third agency to complete all the steps necessary to begin receiving credentials through GSA’s USAccess program. This includes:

- developing a comprehensive implementation plan;
- installing system registration and activation equipment at both OPM’s headquarters (the Theodore Roosevelt Building) and the Boyers, PA office;
- developing a registration and activation strategy for OPM employees working in field offices across the country;
- connecting to the network;
- training key security staff;
- certifying and accrediting the system; and
- beginning to register its first employees on October 1, 2007.

While OPM has met all key HSPD-12 milestones to date, completing the roll-out of compliant identity credentials for all OPM employees and contractors by October 2008 represents a significant management challenge. For example, OPM security



officials must ensure that all necessary background investigations are completed for current employees and contractors; implement the two-step process for issuing PIV credentials to all current OPM employees; develop a plan to issue PIV credentials to contractors; and install and/or upgrade card readers in the OPM Theodore Roosevelt Building and other OPM field offices.

### CHALLENGES THAT ARE INTERNAL TO OPM

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

#### *Retirement Systems Modernization*

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

- provide retiring employees with the first benefit payment on the day it is due;
- reduce improper payments (OPM currently makes approximately \$60 million per year in improper payments and RSM is expected to eliminate about 80 percent of these errors);
- increase integration with the Human Resources Line of Business;
- provide immediate web-based access to retirement records and information for annuitants, employees, and program administrators, including modeling tools to enable retirement planning using employee service record data; and
- provide increased management information capabilities, consistent interpretation of rules and regulations through streamlined services, and real-time updating of transactions and records for members and program administrators.

While numerous accomplishments have been achieved over the past year by the RSM program staff, many more challenges lie ahead with a planned implementation date of February 2008. The RSM team must continue to remain focused on:

- ensuring that the data coming into the solution is accurate and usable;
- ensuring that the solution correctly calculates annuities of retiring Federal employees;
- ensuring that the technology solution and other systems involved in RSM are secure and compliant with the Federal Information Security Management Act (FISMA);
- ensuring that the users are properly and adequately trained to use the new solution in order to provide effective and efficient customer service; and
- incorporating the post-adjudication processes into the new technology.

### *Financial Management System and Internal Controls: Revolving Fund and Salaries and Expenses Accounts*

In the audit of OPM's FY 2006 financial statements, KPMG noted that deficiencies in the operation of the Office of Chief Financial Officer's (OCFO) internal control over financial management and reporting, affecting the accuracy of the Revolving Fund (RF) and Salaries and Expenses Accounts (S&E), continue to exist at OPM. A majority of these deficiencies are attributable to the current accounting system, which cannot be effectively configured to capture essential financial information and generate useful and accurate financial information related to intra-governmental activities and balances.

OPM established the Center for Financial Systems Management and recently hired a Senior Executive Service member to head the organization. The new Center is currently in the process of acquiring the services of either a public sector shared service provider or commercial vendor with demonstrated experience in implementing and maintaining Financial Systems Integration Office certified commercial off-the-shelf (COTS) accounting systems.

To further improve and modernize its accounting processes, the OCFO in FY 2006 implemented OPM's first Financial Management Manual providing policy and procedural guidance for the

entire Agency, including the RF and S&E accounts. In FY 2007, the OCFO significantly expanded the scope and number of work instructions, providing more detailed procedural guidance to the OCFO staff responsible for accounting operations and reporting, particularly those governing the RF and S&E accounts.

Work instructions for reconciling the Government Financial Information System cash balance to the Fund Balance with Treasury for the RF were completed and implemented in FY 2007. Using the methodology developed, monthly cash reconciliations for the RF were all completed within the internal FY 2007 target of 90 days.

Although OPM has taken steps to improve the internal controls over financial management and reporting, OPM continues to be challenged with capturing and generating useful and accurate financial information. OPM plans to use the conversion to an external services provider to further improve business processes, facilitate data clean up, review access controls, and conduct a business process analysis to ensure that implementation is smooth and effective.

### **Summary of Financial Statement Audit and Management Assurances**

OPM's Summary of Financial Statement Audit and Management Assurances are shown in Table 23 and 24, respectively.

SECTION 4—OTHER ACCOMPANYING INFORMATION

TABLE 22—SUMMARY OF FINANCIAL STATEMENT AUDIT

Financial Statement Audit Opinion and Material Weaknesses—FY 2007					
Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance FY 2007	New	Resolved	Consolidated	Ending Balance FY 2007
None	0	0	0	0	0
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

TABLE 23—SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)—FY 2007						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance FY 2007	New	Resolved	Consolidated	Reassessed	Ending Balance FY 2007
None	0	0	0	0	0	0
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Effectiveness of Internal Control over Operations (FMFIA § 2)—FY 2007						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance FY 2007	New	Resolved	Consolidated	Reassessed	Ending Balance FY 2007
None	0	0	0	0	0	0
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Conformance with Financial Management System Requirements (FMFIA § 4)—FY 2007						
Statement of Assurance	Systems Conform					
Non-Conformances	Beginning Balance FY 2007	New	Resolved	Consolidated	Reassessed	Ending Balance FY 2007
None	0	0	0	0	0	0
<b>Total Non-Conformances</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Compliance with Federal Financial Management Improvement Act (FFMIA)—FY 2007						
Overall Substantial Compliance	Agency			Auditor		
	Yes			Yes		
Compliance with Specific Requirements						
Systems Requirements				Yes		
Accounting Standards				Yes		
USSGL at Transaction Level				Yes		

## Improper Payment Information Act Reporting Details

An improper payment is any payment that should not have been made or was made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements. 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 2007 are \$253.5 million in retirement benefits; \$167.9 million in health benefits; and \$0.8 million in life insurance benefits, for a total of \$422.2 million dollars.

### PROGRAM DESCRIPTIONS

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. During FY 2007, OCFO took steps to establish a baseline risk level for improper payments in OPM's administrative accounts (i.e., Revolving Fund and Salaries &

Expenses). In FY 2008, OCFO will complete all necessary risk assessments, develop and implement recommendations for process improvements, and establish testing schedules pursuant to Appendix C of OMB Circular A-123. A description of the payments in the currently covered earned benefit programs follows:

#### *Retirement Program*

The Retirement Program pays over \$60,420.1 million per year in defined pension benefits to most Federal retirees and their survivors and families. The Program is comprised of the CSRS and the 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 \$27,110.4 million on behalf of the Program and the Program paid \$6,367.0 million in premiums to CRCs.

#### *Life Insurance Program*

The Program provided life insurance benefits of \$2,395.3 million in FY 2007 to over 91,441 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*

In FY 2007, OPM consolidated its retirement adjudication and extended benefits test approaches to leverage monthly sampling across newly added retirements and survivors under each of the two distinct retirement systems (CSRS and FERS). The contract statistician stratified the sample to adequately assess each type for Improper Payments and Civil Service Retirement and Disability Fund (CSRSDF) impact. OPM reviewed pension and survivor cases using statistically valid samples across each month of the fiscal year leading up to the audit itself. The ability to use results from each month increases the reliability of the results and will, over time, tighten the Improper Payments estimate ranges inherent in sampling large disbursements. The new methodology helps to minimize variability and potential errors correlated to anomalies within sample months selected, since each month is represented. For each retirement system, we selected 30 retirement and 30 survivor claims, totaling 120 claims per month. This was done to maximize our 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. As RSM's Defined Benefits Technology Solution is implemented OPM will further adjust its audit methodology and testing procedures to meet the needs of the new processing environment and to provide management prompt, accurate and comprehensive performance data and Improper Payment analyses.

### *Health Benefits Program*

As it did for FY 2006, 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 2008, 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 ERC 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 (IPAs). 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 2008.

### *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. This was the second year for which the Automated Certification of Life Insurance (Autocert) system replaced the manual process for certifying FEGLI payments. Autocert has dramatically reduced annuitant Improper Payments due to human error in processing claims. FEGLI payments to annuitants were extremely accurate during FY 2007. We have 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. All appropriate errors are now being captured.

To more fully represent the FEGLI disbursement in its entirety, we expanded our analysis to include non-annuitants and we developed a match for this group of payments comparable to the annuitant paid-claims match. In FY 2007, we conducted a match comparing Central Personnel Data File (CPDF) employee data against MetLife payment files. While we have made significant progress in adding non-annuitant payments to our Improper Payment review, we have encountered several challenges using the CPDF as our primary data source to validate FEGLI coverage. The non-annuitant match requires subsequent labor-intensive reconciliations, which we have concluded may remain until 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 will be based on actual findings representing different time periods within the fiscal year, due to a lag in employee data availability from the CPDF. Once the population is augmented with postal data, we will update our findings and make appropriate statistical projections.

## 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 piloted a process with the National Funeral Home Directors Association (NFDA) whereby funeral homes provided notifications of death so that additional posthumous payments of benefits may be avoided. OPM 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.

### *Health Benefits Program*

The most common causes of improper payments in the health benefits program directly relate to the type of carrier participating 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 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.

## RECOVERY AUDITING

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

To comply further with the policy above, OPM's OIG continually reviews the agency's cost effective

## SECTION 4—OTHER ACCOMPANYING INFORMATION

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

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

While the Retirement and Life Insurance programs have robust procedures in place for identifying and recovering erroneous payments through various means and at different payment thresholds, each has nominal contract costs and internal staff perform audit and recovery functions, also described in the agency's Improper Payments Plan. Table 24 provides information on recovery auditing data for the benefits programs.

**TABLE 24—IMPROPER PAYMENTS (IP)**

OPM Fund	FY 2007 Dollar Amount Subject to IP Review (in Millions)	FY 2007 IP Amount Received and Reported (in Millions)	FY 2007 IP Amount Identified for Recovery (in Millions)	FY 2007 IP Amounts Recovered (in Millions)	IP Amount Identified for Recovery in Prior Years (in Millions)	Amounts Recovered In Prior Years (in Millions)	Cumulative Amounts Identified in Prior Years + FY 2007 (in Millions)	Cumulative Amounts Recovered In Prior Years + FY 2007 (in Millions)
Retirement	\$60,420.1	\$208.9	\$204.2	\$148.4	\$359.5	\$282.5	\$563.7	\$430.9
FEHB	\$33,477.4	\$70.9	\$68.8	\$63.7	\$85.7	\$68.4	\$154.5	\$132.1
Life Insurance	\$2,395.3	*\$0.210	\$.210	##\$1.97	\$7.19	\$4.31	\$7.40	\$6.28

\* Annuitant IP amounts through August 2007; Non-annuitants through 01 FY 07.

## Number extrapolated and subject to adjustment once OFEGLI FY 07 audit is completed.

### 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.



SECTION 4—OTHER ACCOMPANYING INFORMATION

TABLE 25—IMPROPER PAYMENT REDUCTION OUTLOOK

	2006 Outlays		2006 IPs		2007 Outlays		2007 IPs		2008 Outlays		2008 IPs		2009 Outlays		2009 IPs		2010 Outlays		2010 IPs	
	\$ M	%	\$ M	%	\$ M	%	\$ M	%	\$ M	%	\$ M	%	\$ M	%	\$ M	%	\$ M	%	\$ M	%
<b>RETIREMENT</b>																				
Total Program	57,900.0	0.44	253.5	0.42	60,420.1	0.42	253.5	0.43	64,000.0	0.43	275.2	0.42	282.7	67,300.0	0.42	282.7	0.41	70,700.0	0.41	289.9
Overpayments			0.31	0.35	178.9	0.35	208.9	0.30	192	0.29	195.2	0.28	198							
Under Payments			0.13	0.07	74.6	0.07	44.6	0.13	83.2	0.13	87.5	0.13	91.9							
<b>HEALTH BENEFITS</b>																				
All carriers	31,700.0	0.2	62.5	0.504	33,477.4	0.504	168.7	0.705	36,900.0	0.705	136.5	0.68	135.0	39,700.0	0.68	135.0	0.66	42,800.0	0.66	141.3
Overpayments			0.2	0.502	61.9	0.502	167.9	0.688	132.9	0.662	131.0	0.642	137.8							
Under Payments			0.002	0.002	0.6	0.002	.8	0.017	3.6	0.015	4.0	0.013	3.5							
CRCs total *				*	*	*	7,400.0	0.33	24.4	0.34	26.9	0.33	28.1							
Overpayments				*	*	*		0.32	23.9	0.33	26.1	0.33	28.0							
Under Payments				*	*	*		0.008	0.5	0.008	0.8	0.007	0.1							
ERCs total *				*	*	*	29,500.0	0.38	112.1	0.34	108.1	0.33	113.2							
Overpayments				*	*	*		0.37	109.0	0.33	104.9	0.32	109.8							
Under Payments				*	*	*		0.009	3.1	0.007	3.2	0.007	3.4							
<b>LIFE INSURANCE</b>																				
Total Program				0.04	2,395.3	0.04	.820	0.07	2,470.0	0.07	1.73	0.07	1.81	2,590.0	0.07	1.81	0.05	2,710.0	0.05	1.36
Non-Annuitant				.01	87.0	.01	**0.08	0.07	90.00	0.07	.64	0.07	.67	96.0	0.07	.67	0.05	100.0	0.05	.50
Overpayments				.01	N/A	.01	**0.08		N/A					N/A				N/A		
Under Payments				.0	N/A	.0	*0.05		N/A					N/A				N/A		
Annuitant only	1.38	.06	.75	0.05	1.45	0.05	#.74	0.07	1.56	0.07	1.09	0.07	1.14	1.63	0.07	1.14	0.05	1.71	0.05	.86
Overpayments				0.01	N/A	0.01	#.13		N/A											
Under Payments				0.04	N/A	0.04	#.61		N/A											

Improvements in targets and performance results after the implementation of the Retirement System Modernization initiative beginning in FY 2008.

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

The Health Benefits improper payment rate includes a \$97 million dollar settlement with Medco Health Solutions, Inc.

\* Health Benefits Program numbers will include this information beginning in FY 2008.

#Estimated figures of LI based on sampling to determine IP rates for deceased employees.

In FY2007, the FEGLI IP rate includes consolidated results from the Deceased Annuitant Paid Claims match as well as findings from the FEGLI Non-annuitant match, which was piloted in FY06, with early results showing accuracy rates commensurate with the Annuitant match. Due to data availability and reporting variances, addressed in OPM's Improper Payments Plan, results for both matches, particularly the Non-Annuitant match, are preliminary and may be updated throughout the ongoing reconciliation process.

## BARRIERS TO REDUCING IMPROPER PAYMENTS

### *Retirement Program*

Once OPM learns of the death of an annuitant, it requests that the Treasury reclaim all posthumously-issued payments from the deceased's bank account. When there is insufficient money in the account, OPM would like to seek to collect from the individual who last withdrew money from the account. Based on current law and Treasury's regulations, financial institutions are barred from providing OPM with the information necessary to recover these improper payments. The law and regulations have specifically exempted the Social Security Administration, Railroad Retirement Board and Department of Veterans' Affairs from this prohibition, but not OPM. This situation has a substantial impact on OPM's ability to prevent and recover improper payments. OPM has determined that the Act will need to be amended to overcome this prohibition. The Department of the Treasury has drafted legislative language to address this issue.

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

the debt. OPM has drafted legislation to address this issue. OPM continues to look for means of advancing this initiative in future years.

### *Health Benefits*

A pharmaceutical benefits manager (PBM) is a specialty managed care entity that administers or manages prescription drug benefits. Pharmaceutical benefits represent approximately 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—DATA SOURCES OF OPM PERFORMANCE MEASURES

*(Unaudited—See accompanying Independent Auditors' Report)*

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To ensure OPM's performance data is complete and reliable, it has established a system of controls which documents the following for each performance measure:

A definition describing what the measure is;

The source or sources from which the data for the measure is collected;

The frequency with which data is collected; and

The methods used to verify and validate the measure.

This information is covered in this Appendix. OPM uses this information to test these controls and will use the results of these tests to improve controls where necessary.

APPENDIX A—DATA SOURCES OF OPM PERFORMANCE MEASURES

Program	Performance Measures	Definition	Data Source
Human Capital— Performance Culture	% of applicant systems whose SES performance plans are fully certified	This measure is calculated by taking the total number of applicant systems certified and dividing it by the total number of applicant systems. Agencies that are fully certified receive certification for two years and are counted in each of the two years for which they are fully certified.	OPM's SES appraisal system certification team
Human Capital— Performance Culture	% of all non-SES performance appraisal systems scoring at least 80 points out of 100 on the Performance Assessment Accountability Tool	OPM uses the 100-point PAAT scale to assess how well a performance appraisal system performs in 11 areas. The measure is calculated taking the number of systems scoring 80 and above divided by the total number of scores.	OPM's PAAT database containing PAAT information for all agency appraisal programs Government-wide that have conducted a PAAT
Human Capital— Performance Culture	# of civil service employees in a performance-based pay system	# of civil service employees in a performance-based pay system	OPM's Central Personnel Data File (CPDF) specifically the "Pay Plan"
Human Capital— Leadership Capacity	# of 26 PMA agencies that meet their annual targets for closing leadership competency gaps	Number of agencies meeting their annual targets divided by the total number of agencies that set targets. The "yes" or "no" agency rating on this metric is based on a comparison of targets for closing leadership competency gaps (set at the beginning of the year) and evidence that these gaps have been completely closed at the end of the year. Agencies set targets based on their strategic needs; targets will differ by agency and over time.	The following are data sources for this performance measure: <ul style="list-style-type: none"> <li>• Annual Human Capital Management Report—the report includes specific metrics relating to closing leadership competency gaps and outlines specific results relating to leadership gap closure.</li> <li>• Human Capital Executive Scorecard—the scorecard includes a checkmark linked to the measure.</li> <li>• Quarterly Internal Scoring Reviews—information is provided on the progress of agencies in closing their leadership competency gaps and meeting leadership bench strength targets.</li> </ul>
Human Capital— Leadership Capacity	% of 26 large agency leadership development program graduates placed into positions of higher responsibility	The number of leadership development program graduates who have attained positions of higher responsibility divided by the total number of graduates.	The source for this data is a set of reports that agencies provide to OPM. This data is maintained in OPM's ESCS database.
Federal Employees Health Benefits	Health benefits claims processing timeliness (% within 30 working days)	Number of claims adjudicated (denied, paid or request for additional info) within 30 working days divided by total number of claims for the period.	Quality assurance reviews and Reports filed by the HB Carriers
Federal Employees Health Benefits	Health benefits claims processing accuracy (%)	FEHB Program carriers' medical claims processing accuracy is calculated by taking the number of claims processed without error divided by the total number of claims for the period.	Quality assurance reviews and Reports filed by the HB Carriers

APPENDIX A—DATA SOURCES OF OPM PERFORMANCE MEASURES

Frequency	Data Verification	Measure validation
Data is collected as certification decisions are made.	OMB review and concurrence	Certification allows for agencies to pay their SES staff above EXEC III pay levels. A high-performing workforce requires performance management systems that effectively plan, monitor, develop, rate and reward performance at all organizational levels. OPM accomplishes this outcome by helping agencies institute leadership performance appraisal systems that effectively link to agency mission, goals and outcomes; hold leaders accountable for results appropriate for their level of responsibility; differentiate between various levels of performance; provide consequences based on performance; and adhere to merit system principles (e.g., 5 U.S.C. 2301 (b)(6)).
Upon request; database is maintained with current information	Panelists from HCLMSA and SHRP verify the PAAT scores	To assure an effective federal workforce, OPM is helping agencies institute performance appraisal systems that effectively plan, monitor, develop, rate, and reward performance in accordance with 5 U.S.C. 4301 and 5 CFR 430, 432, 5321, and 1330.
Ad hoc—upon request	Numbers reported in a pay for performance publication can be verified by contacting DOD and HCLMSA. It can also be verified with data from CPDF.	A high-performing workforce requires performance management systems that link pay systems to performance levels. OPM accomplishes this outcome by working with agencies to improve their performance management and pay systems through consultation on new performance-based pay systems, such as in demonstration projects and the Department of Defense's new National Security Pay System, consistent with 5 O.K.. 2301 (b)(6).
Annually (HCM report) and quarterly (scoring)	The information is verified through the Annual Human Capital Management Report and during Quarterly Internal Scoring Reviews.	Effective government performance requires a leadership cadre that is in place and that has the right competencies to achieve agency missions. As prescribed by 5 CFR 412, agencies must establish systems to provide the competencies leaders need to perform effectively. By measuring leadership competency gaps, OPM can determine its effectiveness in helping agencies target recruiting, retention and development efforts.
Annually	The information is verified during Quarterly Internal Scoring Reviews, as part of OPM's verification that agencies are meeting milestones in their Strategic Leadership Succession Management Plans.	This measure assesses the outcome of the leadership development programs. OPM's definition of "leadership talent pool" is the pipeline of potential leaders who are being developed to take leadership positions as they become vacant. The marks an evolution from assuring that agencies put leadership development programs in place (previous measure) to tracking these programs' effectiveness in creating leaders capable of taking on positions of higher responsibility.
Annually	Reviews/Audits	The purpose of the FEHB Program is to provide Federal employees, retirees and their families with health benefits coverage meeting their individual health needs as well as the Federal Government's recruitment and retention needs. Quickly processing claims helps families financially and aids in recruitment and retention.
Annually	Reviews/Audits	Accurately processing claims reduces costs, helps families financially, results in more satisfied claimants and aids in recruitment and retention.

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Program	Performance Measures	Definition	Data Source
Federal Employees Health Benefits	Health benefits improper payment rate (%)	% of dollars overcharged by participating carriers to the FEHB Program, as identified by OIG audits.	OIG Audits of Carriers, Independent Public Accounting (IPA) firms audits of Experience-Rated Carriers (ERC), and computation of monetary discrepancies identified by the FEHB Centralized Enrollment Clearinghouse System (CLER) for Community-Rated Carriers (CRC)
Federal Employees Health Benefits	FEHBP overall enrollee satisfaction scores versus health care industry standard (%)	The number of FEHB customers generally or very satisfied with FEHB program services divided by the total number of respondents, compared to same data reported for the larger health care industry.	Consumers Assessment of Health Care Providers and Systems (CAHPS)
Federal Employees Health Benefits	% of accredited FEHBP plans	The number of accredited plan divided by the total number of plans.	National Committee for Quality Assurance (NCQA) database
Federal Employees Health Benefits	Enrollee satisfaction with content and usability of OPM FEHBP Open Season Web site (%)	The number of FEHB customers generally or very satisfied with the Open Season Web site divided by the total number of respondents.	Survey of FEHB Open Season customers
Leadership Capacity Services	% increase in perceived learning	The measure reflects self-assessments by participants using a survey before and after the training to evaluate how much they have learned from CLCS training. The intent of the measure is to evaluate more than simply participant satisfaction (Kirkpatrick Level 1). The measure assesses the extent to which students perceive an advance in skills, knowledge, or attitude. Using the Kirkpatrick Evaluation Model described above, this measure evaluates the participant's perception percentage (%) change in learning (knowledge after less the knowledge before divided by knowledge before) on a five point scale.	Combination of paper and online evaluation tools. During FY 2007, CLCS piloted and implemented a new online evaluation tool (Metrics that Matter) developed by Knowledge Advisors.
Leadership Capacity Services	Overall customer satisfaction, based on five point scale	Students complete course evaluations at the end of training to rate their overall learning experience. This metric is the overall score for the evaluation based on a 5-point scale. It includes food and lodging, customer service, logistics, course content, instructor, before and after knowledge, etc.	Combination of paper and online evaluation tools. During FY 2007, CLCS piloted and implemented a new online evaluation tool (Metrics that Matter) developed by Knowledge Advisors.
Leadership Capacity Services	# of Presidential Management Fellow hires	This measure tracks the number of PMF finalists hired in a given fiscal year. Agencies may hire until March of the following calendar year, so the final results may increase.	CLCS OCFO Financial System (GFIS)
Leadership Capacity Services	Full cost recovery annual for each revolving fund program	Full-cost recovery is expressed as a the amount of revenues above costs divided by the total earned revenues, expressed as a percent.	CLCS Learning Management System (LMS) and OCFO Financial System (GFIS)



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Frequency	Data Verification	Measure validation
Quarterly	CFO reconfigured rate calculation based on OIG Audits, Independent Audits and CLER	Reducing improper payments increases customer satisfaction, saves the government money, and helps reduce fraud and waste.
Annually	Independent HB Certifying Agency (NCQA)	High customer satisfaction with the governments health benefits programs aids in recruitment and retention, and is an indication of how well the program is functioning.
Annually	Independent HB Certifying Agencies (NCQA)	The number of accredited FEHB plans is an indication of the quality of the plans being provided to Federal workers. The higher the quality, the more positive impact on recruitment and retention.
Annually	Reviews/Audits	High employee satisfaction with the governments health benefits web site aids in employee retention, and is an indication of how well the program is functioning.
Monthly	Data resides with and is verified by Knowledge Advisors.	The higher the knowledge transfer to Federal employees in each course, the greater the increase in worker skills and the better value for training dollar spent.
Monthly	Data resides with and is verified by Knowledge Advisors.	While there is no strong correlation that satisfied course participants increase their competencies, there is empirical evidence showing that dissatisfied participants do not learn as much. Higher customer satisfaction will also drive increased repeat customers.
Monthly	PMF appointments are recognized upon receipt of a billable document send to the Program Office by the hiring agency for identified Presidential Management Fellows.	The purpose of the Presidential Management Fellows Program is to attract to the Federal government talented individuals with advanced degrees who are committed to leading and managing public policies and programs. The rate of hire of these individuals within the Federal government is therefore a critical measure of the degree to which the PMF program is impacting leadership talent in Federal Government and fulfilling the need. Provided the organization has the budget, if the PMF Program is effectively providing needed talent to the organization recruiters, they will express their satisfaction by hiring the PMF candidates.
Quarterly	Using LMS and GFIS reports, reconciliation and verification is completed using internal cuff records for revenue (customer agreements and billable documentation) and expenses (procurement documents).	CLCS provides valuable training and other services to other Federal agencies, and to remain viable, revenues must exceed expenses.

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Program	Performance Measures	Definition	Data Source
FEGLI	FEGLI paid claims timeliness (days)	The average number of days from receipt of claim to payment for all claims payments in the period.	OFEGLI Average Claim Processing Report
FEGLI	FEGLI paid claims accuracy (%)	FEGLI Program carriers' claims processing accuracy is calculated by deriving the number of claims processed without error from monthly reviews of claims with potential errors, divided by the total number of claims for the period.	Quality Assurance Group reviews
FEGLI	Improper payment rate (%)	The total of over- and under-payments identified from matches of amount of life insurance due against the amount actually paid	Match Annuity Roll Processing System (ARPS) eligibility and coverage data with MetLife's paid-claims match
Other Insurance	% of FLTCIP service calls answered within 20 seconds	The number of calls answered within 20 seconds divided by the total number of calls received.	Long Term Care Partners Report
Other Insurance	FLTCIP Service Call Center handling rate (%)	Percent of customer calls handled by OPM's Long Term Care Partners' call center, reported to OPM monthly.	Long Term Care Partners Report
Other Insurance	% of FLTCIP customers overall satisfied with customer service	The % of FLTCIP customers generally or very satisfied with FEGLI program services.	Long Term Care Partners Report
Other Insurance	# of employees participating in FSAFEDS	The total number of employees participating in FSAFEDS for the period (last day?)	SHPS, Inc. Report
Other Insurance	% of "clean" FSAFEDS claims reimbursed within 5 business days	The number of "clean" FSAFEDS claims reimbursed within 5 days divided by the total number of "clean" claims received in the period.	SHPS, Inc. Report
Federal Employees Retirement	% of initial claims processed within 30 days (FY 2006 Operational Goal)	The number of calendar days between dates a CSRS retirement application is received at OPM and the date the full annuity payment is authorized is tracked. The measure is calculated by taking the total number made final in 30 days or less divided by the total number made final for the period.	ARPS & DCCS data
HRPS Retirement	Claims processing accuracy rate	The number of claims processed with errors divided by the total number of claims processed.	Quality Assurance Reviews

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Frequency	Data Verification	Measure validation
Quarterly	Independent Audits of MetLife	The Federal Employees' Group Life Insurance (FGLI) Program is an employer-sponsored life insurance program under which benefit payments are made following the death or dismemberment of employees and retired employees.
Quarterly	QAG Audits	Accurately processing claims reduces costs, helps families financially, results in more satisfied claimants and aids in recruitment and retention.
Quarterly	QAG Audits	Reducing improper payments increases customer satisfaction, saves the government money, and helps reduce fraud and waste.
Monthly	Independent Audits of SHPS, Inc	Good customer service with regard to quickly answering calls results in more satisfied customers and aids in recruitment and retention.
Monthly	Independent Audits of Long Term Care Partners	Good customer service with regard to answering all calls results in more satisfied customers and aids in recruitment and retention.
Monthly	Independent Audits of Long Term Care Partners	High customer satisfaction with the government's benefits programs aids in recruitment and retention, and is an indication of how well the program is functioning.
Weekly	Independent Audits of SHPS, Inc.	A high number of employees participants indicates that the program is designed effectively to meet the needs of Federal employees, and aids in recruitment and retention.
Weekly	Independent Audits of, SHPS, Inc	Good customer service with regard to quickly processing claims results in more satisfied customers and aids in recruitment and retention.
Weekly	Data collection and reporting procedures are verified, and data is tested to assess its accuracy. These tests include comparing data for a given fiscal year to similar data collected for previous years and researching any anomalies that are observed, and comparing data with similar information collected from other sources. Quality and management-control devices are built into these data collection mechanisms to ensure accuracy and reliability.	The Federal civilian retirement program is designed to meet two purposes. The first is to provide Federal employees options and tools for their retirement planning to secure their families' financial future. The second is to serve as an important component of employee compensation and therefore support Federal agencies' recruitment and retention needs. Quickly finalizing retirement payments helps families financially and aids in recruitment and retention.
Semi-Annually	Claims processing accuracy information is based on statistically valid samples of retirement claims calculations. Appropriate statistical analysis methods are used to identify the appropriate customer populations and select samples to ensure a 95% confidence interval and a +/- 5% margin of error. Samples are determined by an automated computer program that ensures absolute randomness in selection criteria.	Accurately processing claims reduces costs, helps families financially, results in more satisfied claimants and aids in recruitment and retention.

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Program	Performance Measures	Definition	Data Source
Federal Employees Retirement	Claims processing unit cost	The average direct cost per claim for all retirement and survivor annuity claims processed.	Derived from Employee Time and Attendance Management System (ETAMS)
Federal Employees Retirement	Improper payment rate	OPM selects sample retirement program payments to determine the improper payment rate embedded in its benefits payments. OPM stratifies the sample to adequately sample each the CSRS and FERS. Statistically valid samples are chosen proportional to payment size, because larger payments are more material to improper payment analysis than are small payments. Cases are selected from three randomly determined months. For each retirement system, 75 cases are selected for each of the three sample months, or 225 cases per retirement system, and 450 cases overall. Projections are based on a 95% confidence that the size of the improper payments was within the upper and lower estimates.	Valid sampling by contracted statistician of retirement payments with appropriate weighting
Federal Employees Retirement	% of change notices mailed within 10 working days	The number of mail notices completed and mailed within 10 working days of receipt of change request divided by the total number of change requests	Change Request Tally's by Phone, Fax, Email, and Letter
Federal Employees Retirement	Customer services unit cost	The average direct cost per non-claim customer transaction processed.	Derived from Employee Time and Attendance Management System (ETAMS)
Federal Employees Retirement	% increase in self-services	The number of self-service transactions during the period less the number of self-service transactions from the same period one year earlier is divided by the number of self-service transactions from the same period one year earlier.	Excel spreadsheets.
Federal Employees Retirement	% of inquiries answered within 72 hours	Number of general inquiries answered within 72 hours divided by the total number of inquiries received for the period.	Reports sent by Program Analysts; Downloads of Data from DCCS; Database queries
Federal Employees Retirement	Call handling rate	% of customer calls handled by retirement program customer service centers	Call Center activity reports NEC Global Navigator
Federal Employees Retirement	% of customers satisfied with overall retirement services	The number of annuitants (retirees and survivor annuitants) generally or very satisfied with retirement program services divided by the total number of respondents.	CRIS Customer Satisfaction Survey

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Frequency	Data Verification	Measure validation
Bi-weekly	Data collection and reporting procedures are verified, and data is tested to assess its accuracy. These tests include comparing data for a given fiscal year to similar data collected for previous years and researching any anomalies that are observed, and comparing data with similar information collected from other sources. Quality and management-control devices are built into these data collection mechanisms to ensure accuracy and reliability.	Processing claims at a lower unit cost provides a better value to the American taxpayer.
Annually	OCFO calculation with OPM IG & Independent Audits	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). Reducing improper payments saves the government money, and helps reduce fraud and waste.
Daily, Weekly, Monthly	Reports sent by Program Analysts; Downloads of Data from DCCS; Database queries	Good customer service with regard to change notices results in more satisfied customers and aids in recruitment and retention.
Bi-weekly	Data collection and reporting procedures are verified, and data is tested to assess its accuracy. These tests include comparing data for a given fiscal year to similar data collected for previous years and researching any anomalies that are observed, and comparing data with similar information collected from other sources. Quality and management-control devices are built into these data collection mechanisms to ensure accuracy and reliability.	Reducing the cost of customer service unit transactions provides a better value to the American taxpayer.
Weekly and monthly	The data is collected and downloaded from electronic systems and verified by a program analyst.	Self-service transactions are more cost effective and convenient for customers. Increasing the use of self service transactions will reduce costs over the long run while improving customer service and satisfaction.
Daily, Weekly, Monthly	Reports sent by Program Analysts; Downloads of Data from DCCS; Database queries	Good customer service with regard to customer inquiries results in more satisfied customers and aids in recruitment and retention.
Weekly	ACD system tests	Good customer service includes customers being able to get through on the phone. A higher call handling rate results in more satisfied customers and aids in recruitment and retention.
Annually	Raosoft Survey tabulation and analysis and data tracking system	High customer satisfaction with the governments retirement programs aids in recruitment and retention, and is an indication of how well the program is functioning.

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Program	Performance Measures	Definition	Data Source
Federal Employees Retirement	% of benefits officers trained per year	The % of benefits officers trained per year is determined by taking the number of benefits officers receiving training during the period divided by the total number of benefits officers.	Survey of Agency Benefits Officers
Federal Employees Retirement	% of customers who rate satisfaction with guidance material as very good or better	The number of customers who rate satisfaction with guidance material as very good or better divided by the total number of respondents.	Survey of Agency Benefits Officers
GoLearn	# of eligible (registered) users of GoLearn sites	The number of eligible (registered) users of GoLearn sites.	GoLearn Learning Management System site contracts are based upon the number of eligible users. The GoLearn.gov Learning Management System maintains data records of all registered users. This data is extracted and maintained in an MS Access database, where the indicator can be derived.
GoLearn	# of GoLearn courses completed annually (all Learning Management Systems)	The number of completed GoLearn courses on all LMS's.	GoLearn Learning Management System sites maintain data records of all course completions. This data is extracted and maintained in an MS Access database, where the indicator can be derived.
GoLearn	Full cost recovery for each revolving fund program	Annual revenues generated meet or exceed expenses.	Office of the Chief Financial Officer's (OCFO's) Revenue and Expense statement for the GoLearn Program

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Frequency	Data Verification	Measure validation
Annually	Raosoft survey tabulation and analysis	OPM trains benefits officers so they could facilitate employee knowledge of health, retirement, and life insurance benefits and improve employee satisfaction with benefits programs, aiding in recruitment and retention. Having good programs will be less effective if employees are not educated about the program's benefits.
Annually	Raosoft Survey tabulation and analysis and data tracking system	The better the benefits guidance materials, the higher the knowledge of health, retirement, and life insurance benefits. Better knowledge of the benefits programs can improve employee satisfaction with benefits programs, aiding in recruitment and retention. Having good programs will be less effective if employees are not educated about the programs' benefits.
Monthly	Queries are run on the data extract files that validate the number of users against the number of records submitted. This validates that there are no duplications for the agencies.	eTraining is an effective and cost efficient way to train workers. The higher the number of registered users the more government workers can avail themselves of this form of training, saving money and increasing the skills of workers.
Monthly	Queries are run on the data extract files that validate the number of distinct users and the courses they have taken against the number of records submitted. This validates that there are no duplications for the agencies	The number of courses taken by registered users indicates the extent of use of eTraining. An increase in the number of courses taken by registered users indicates an increased return on an agencies investment in a Learning Management System, and wider acceptance among workers of this form of training.
Monthly	The GoLearn Finance Manager reviews several reports that provide backup data to support the monthly Revenue and Expense statements. These various reports are reviewed to ensure there are no major discrepancies between the supporting data provided and the monthly statement.	This program is helps agencies close their skill gaps in a cost-effective manner. In order to remain viable, revenues must exceed expenses.

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Program	Performance Measures	Definition	Data Source
Human Capital—Talent	# of the 26 PMA agencies that meet their annual targets for closing mission-critical occupation/competency gaps	# of agencies that meet their annual targets for closing mission-critical occupation/ competency gaps	<p>The following are data sources for this performance measure:</p> <ul style="list-style-type: none"> <li>• Annual Human Capital Management Report—the report provides an assessment of the performance of an agency's human capital program and activities. The report includes specific metrics relating to closing mission critical occupation/competency gaps and outlines specific results relating to gap closure.</li> <li>• Human Capital Executive Scorecard—the scorecard includes a checkmark linked to the measure.</li> <li>• Quarterly Internal Scoring Reviews—internal reviews designed to assess the progress of agencies in meeting the Human Capital Standards for Success. Information is provided on the progress of agencies in closing their competency/occupational gaps.</li> </ul>
Human Capital—Talent	% of hires in each agency hired within the 45-day time frame, as described in OPM's hiring time frame model	Number of hires in each agency hired within the 45-day time frame divided by total number of hires.	Quarterly Hiring Timeline Chart—a chart that captures information relating to the timeliness of agency GS and SES hires. It also request information on the use of hiring flexibilities.
Talent Services	Customers satisfied with Center for Talent Services' products and services (ACSI Equivalent Index)	<p>A composite score is calculated using a 10-point scale for Items 14-16 on the CSS which ask:</p> <p>14) Please consider all your experiences to date with OPM/ CTS products and services. How satisfied are you with these products and services?</p> <p>15) Considering all of your expectations, to what extent have OPM/CTS's products and services fallen short of or exceeded your expectations?</p> <p>16) Imagine the ideal organization that provides HR products and services. How well would OPM/CTS compare with that ideal organization?</p> <p>The composite score is the ACSI equivalent.</p>	The results are based on the CTS Customer Satisfaction Survey (CSS), which is administered by all CTS business lines as projects are completed. OPM's Customer Satisfaction Survey, on which the CTS CSS is based, was benchmarked by GAO in 1999 as a valid GPRA measure and assesses service quality on nine dimensions (General Accounting Office. July 1999. Performance Plans: Selected Approaches for Verification and Validation of Agency Performance Information. GAO/GGD-99-1309). The development of this research-based survey instrument was also described in Human Resource Management (Brigitte W. Schay et al. "Using Standard Outcome Measures in the Federal Government," Fall 2002, Volume 41, Number 3).



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Frequency	Data Verification	Measure validation
<p>Annually (HCM report) and quarterly (scoring)</p>	<p>The Annual Human Capital Management Report (formerly Annual Human Capital Accountability Report) is assessed by OPM Experts in the field of strategic human capital management and evaluation. Initially, Human Capital Officers, Auditors, and Program Managers independently evaluate the reports. Afterwards, these individuals meet to discuss the accuracy of the information reported based on routine audits, agency interactions, previously received deliverables, and the results of quarterly internal scoring reviews. In addition, the individuals discuss the strengths, improvements needed, and potential risks determined through their assessment of the report. The results of the discussions are documented and provided to the leadership team for further scrutiny. Feedback is then provided to the agency, allowing the agency the chance to clarify information or supplement what was provided.</p>	<p>Competency gaps are the differences between required and existing competencies. OPM helps agencies close gaps in the competencies necessary to effectively perform mission-critical work, in accordance with 5 U.S.C. 1304. Closure of mission critical competency gaps is the “bottom line” indicator as to whether talent systems have been used effectively to supply the human capital necessary to achieve an agency’s mission.</p>
<p>Quarterly</p>	<p>The efficiency of an agency’s hiring process is assessed through our auditing function and the Annual Human Capital Management Report and during Quarterly Internal Scoring Reviews.</p>	<p>OPM helps agencies create an effective workforce by recruiting top talent. Long hiring time frames impede top talent from joining federal service, as they accept other job offers in the meantime. In 2003, GAO reported that the average time to complete all steps in the competitive hiring process averaged 102 days, or about 3.4 months. In a 2004 survey of new hires, the MSPB found that less than half of new hires experiencing a hiring process of three months or longer thought this amount of time was reasonable.</p>
<p>Semi-annually</p>	<p>Once the survey results are entered into the annual database, random checks are performed to compare the electronic data to the data from the original forms received. The CTS survey analyst and GPRA coordinator also compare the total number of surveys (faxed and e-mailed) received and forwarded to ensure it is the same number.</p>	<p>The equivalent of the American Customer Satisfaction Index (ACSI) can be used for comparisons with Government and private industry and indicates whether CTS is meeting customer expectations and providing good value. Increased customer satisfaction leads to increased repeat business and CTS is providing effective HR solutions.</p>

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Program	Performance Measures	Definition	Data Source
Talent Services	% of customers agreeing that CTS products and services contribute to Government effectiveness	The percentage of positive responses (percent “yes” excluding don’t know) are reported for Item #13a of the CSS: “Have our services contributed to your organization’s effectiveness (yes, no, don’t know)?”	The results are based on the CTS Customer Satisfaction Survey (CSS), which is administered by all CTS business lines as projects are completed. OPM’s Customer Satisfaction Survey, on which the CTS CSS is based, was benchmarked by GAO in 1999 as a valid GPRA measure and assesses service quality on nine dimensions (General Accounting Office. July 1999. Performance Plans: Selected Approaches for Verification and Validation of Agency Performance Information. GAO/GGD-99-1309). The development of this research-based survey instrument was also described in Human Resource Management (Brigitte W. Schay et al. “Using Standard Outcome Measures in the Federal Government,” Fall 2002, Volume 41, Number 3).
Talent Services	% of customer agencies expressing repurchase intention for CTS products and services	The percentage of positive responses (percent “yes”) are reported for Item # 11 of the CSS: “Would you use OPM’s CTS services again (yes, no, don’t know)?”	The results are based on the CTS Customer Satisfaction Survey (CSS), which is administered by all CTS business lines as projects are completed. OPM’s Customer Satisfaction Survey, on which the CTS CSS is based, was benchmarked by GAO in 1999 as a valid GPRA measure and assesses service quality on nine dimensions (General Accounting Office. July 1999. Performance Plans: Selected Approaches for Verification and Validation of Agency Performance Information. GAO/GGD-99-1309). The development of this research-based survey instrument was also described in Human Resource Management (Brigitte W. Schay et al. “Using Standard Outcome Measures in the Federal Government,” Fall 2002, Volume 41, Number 3).
Talent Services	% of training and management assistance deliverables accepted by customer agencies	The number of TMA project deliverables accepted divided by the total number of TMA project deliverables.	Deliverable receipt and acceptance is tracked and monitored in Protrac—TMA’s project management tracking system.

APPENDIX A—DATA SOURCES OF OPM PERFORMANCE MEASURES

Frequency	Data Verification	Measure validation
Semi-annually	Once the survey results are entered into the annual database, random checks are performed to compare the electronic data to the data from the original forms received. The CTS survey analyst and GPRA coordinator also compare the total number of surveys (faxed and e-mailed) received and forwarded to ensure it is the same number.	If CTS customers agree that CTS products and services increase organizational effectiveness, agencies are more likely to become high-performing.
Semi-annually	Once the survey results are entered into the annual database, random checks are performed to compare the electronic data to the data from the original forms received. The CTS survey analyst and GPRA coordinator also compare the total number of surveys (faxed and e-mailed) received and forwarded to ensure it is the same number.	If customers express repurchase intention, it indicates that CTS provides good value for the money.
Monthly	Protrac provides a report, by month and fiscal year, of all deliverables received and accepted. For purposes of the PAR, TMA queries Protrac to determine the number of DRF's where category #3 was selected and cross-checks these electronic records with the paper copies on file. TMA staff meet with the client and contractor to determine what the specific problems are with the deliverables, what needs to be done to correct it, and how long it will take for the contractor to make the corrections. Neither the contractor, nor TMA is paid until the client accepts the product. The number of deliverables received and accepted is divided by the total number of deliverables submitted.	A high acceptance rate indicates that TMA is delivering on its projects and client project goals are being met.

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Program	Performance Measures	Definition	Data Source
Talent Services	Achieve full cost recovery annually for each Revolving Fund program	Annual revenues generated meet or exceed expenses.	OPM Financial System (GFIS)
USAJOBS	% of CHCO agencies using the USAJOBS resume format and integrating online applications with their assessment systems	Number of CHCO agencies using the USAJOBS resume format and integrating online applications with their assessment systems divided by the total number of CHCO agencies.	The USAJOBS® system
USAJOBS	% of CHCO agencies using USAJOBS position announcement template	Number of CHCO agencies using USAJOBS position announcement template divided by the total number of CHCO agencies.	The USAJOBS® system
USAJOBS	Full cost Recovery annually for each revolving fund program	Annual revenues generated meet or exceed expenses.	Office of the Chief Financial Officer's (OCFO's) Revenue and Expense statement for USAJOBS.
Federal Investigative Services	Achieve full cost recovery annually for each Revolving Fund program	Annual revenues generated meet or exceed expenses.	Office of the Chief Financial Officer's (OCFO's) Revenue and Expense statement for the Investigations Program
Federal Investigative Services	Average # of days within which 80% of initial clearances are closed.	The average number of days from receipt to delivery of a completed background investigation to the customer for the first 80% of cases received and closed during the period (does not include cases not received during the period).	Personnel Investigations Processing System (PIPS) database report "National Intelligence Directive (NID) Closing Timeliness Performance." The report shows percent of NID cases closed and average timeliness for those cases closed for a specified timeframe.
Federal Investigative Services	Average number of days (all other investigations) of the oldest 5%	This measure is calculated by ranking all of the cases in its inventory by their time in the system (most current to least), then taking the cases in the 95th percentile (oldest) and averaging their time in the system. Each case type is weighted by dividing the case type totals by the total number of all cases still pending. This factor is multiplied times each case type total. This weighted average equals the average age of the oldest 5th percent provided on the PIPS report.	Personnel Investigations Processing System (PIPS), Report PIP97632, Oldest 5% of Scheduled Cases—Not in Category: Initial Investigations, Input Form—SF-86 Only.
Federal Investigative Services	% of customers satisfied with quality and service of its products, policies and guidance	This measure is calculated based upon an annual customer satisfaction survey (CSS) of FISD agency customers. It is calculated taking the number of responses rating FISD's overall quality and service of its products, policies and guidance as 3 (Satisfied) or better (5 point scale) divided by the total number of responses.	Customer Satisfaction Assessment returned by security offices.

APPENDIX A—DATA SOURCES OF OPM PERFORMANCE MEASURES

Frequency	Data Verification	Measure validation
Monthly	Using GFIS reports, reconciliation and verification is completed using internal records and information systems.	CTS provides valuable products and services to government agencies and in order to remain viable, revenues must exceed expenses.
Monthly	Reoccurring reports are processed and reported monthly.	USA JOBS is the Federal government’s cost effective job clearinghouse where citizens can go on-line at one site and consider a Federal job. The Federal hiring process the more efficient and effective the greater its integration across government.
Monthly		
Monthly	CTS reviews several reports that provide backup data to support the monthly Revenue and Expense statements. These various reports are reviewed to ensure there are no major discrepancies between the supporting data provided and the monthly statement.	This program is helps agencies increase the effectiveness and efficiency of their hiring process. It also provides a user-friendly one-stop shop for those seeking a Federal position. In order to remain viable, revenues must exceed expenses.
Monthly	The Business Management Group (BMG) reviews several reports that provide backup data to support the monthly Revenue and Expense statements. These reports include the Personnel Investigations Processing System (PIPS) Income/Expense Report, the Monthly Non-BI Accrual Report, object class breakout details, and a held documents listings provided by the OCFO. These various reports are reviewed to ensure there are no major discrepancies between the supporting data provided and the monthly statement.	This program is vital to national security and in order to remain viable, revenues must exceed expenses.
Quarterly	This report was developed specifically to track this measure and was tested extensively for accuracy at that time. Data is transcribed directly from this report and is not manipulated in any way.	This measure is mandated by statute and reflects FISD’s ability to deliver its initial clearance investigations in a timely manner. It is a key objective in OPM’s Strategic Plan 2006-2010. For agencies to meet their human capital needs, particularly in sensitive positions, OPM must provide timely background investigations so that agencies can make timely adjudication decisions and permanently fill critical positions. Initial clearance investigations were cited by agencies as being especially important in this process, and therefore deserving of its own measure.
Quarterly	BMG verifies the numbers.	By identifying, completing and delivering the cases which have the longest processing times more quickly than the intake of new cases, the average processing time per case delivered will be reduced and agencies will be able to make adjudications more quickly. This has been also referred to as eliminating the backlog.
Annual	BMG verifies the numbers.	FISD has developed a CSS to evaluate customer agencies’ perception of the quality and service of its products, policies and guidance. While customer satisfaction is not the ultimate outcome with regard to the timeliness of adjudications, if customers are satisfied with the quality and service of FISD’s products, policies and guidance, it is an indication that any delays in adjudications are not a result of factors which FISD can control.

APPENDIX A—DATA SOURCES OF OPM PERFORMANCE MEASURES

Program	Performance Measures	Definition	Data Source
Federal Investigative Services	% of all other investigations closed within an average of their pre-determined number of days.	For all other investigations, OPM measures the time from when it receives a request to the time it delivers a completed product to the customer. The measure is calculated by taking the number of cases completed within the specified period for that case type divided by the total number of cases closed for the period for each case type, then creating a weighted average.	PIPS Case Processing Timeliness Reports (Average time for all closed/closed pending and Average time from received to closed (pending not considered))), and Pending cases summary report for all cases and SF86 cases only for a specified timeframe.
Federal Investigative Services	Case returns—% of cases returned by client agency for correction	This measure is calculated by taking the number of cases returned by a client agency for correction and dividing it by the number of cases delivered in the same period.	Personnel Investigations Processing System (PIPS) report “Closed Cases Report.” Case Processing Group (CPG) maintains a listing of investigations reopened for quality in one of three Microsoft Access databases. Databases include cases completed by Federal and contract investigator companies.
Federal Investigative Services	Average number of days (initial clearances) of the oldest 5%	This measure is calculated by ranking all of the cases in its inventory by their time in the system (most current to least), then taking the cases in the oldest 5 percent and averaging their time in the system. Each case type is weighted by dividing the case type totals by the total number of all cases still pending. This factor is multiplied times each case type total. This weighted average equals the average age of the oldest 5th percent provided on the PIPS report.	PIPS, Report PIP97632, Oldest 5% of Scheduled Cases—Initial Investigations, Input Form—SF-86 Only
Human Capital—Strategic Alignment	% of agencies that meet all 4 requirements of an effective strategic alignment system	Number of agencies meeting all 4 requirements divided by total number of agencies reporting	The following are data sources for this performance measure: <ul style="list-style-type: none"> <li>• Human Capital Executive Scorecard—the scorecard includes four checkmarks linked to the four requirements of the measure.</li> <li>• Annual Human Capital Management Report—the report provides information on the alignment of agency human capital programs and activities with the agency’s mission and strategic objective.</li> </ul>
Compliance	# of agencies that fully implement a system of internal compliance with Merit System Principles and laws, rules and regulations in accordance with OPM standards	# of agencies that fully implement a system of internal compliance with Merit System Principles and laws, rules and regulations in accordance with OPM standards divided by the total number of agencies required to have such systems. Each President’s Management Agenda (PMA) agency has an OPM approved accountability system.	Internal review panel. The approval process for agency systems is rigorous and requires significant fact finding, data gathering, and analysis. The results of those efforts are presented to an internal OPM review panel in the form of an evidence file. This data was used by the panel to ensure the agency’s system fully meets OPM standards.

APPENDIX A—DATA SOURCES OF OPM PERFORMANCE MEASURES

Frequency	Data Verification	Measure validation
Quarterly	Several Business Management Group (BMG) staff members review the PIPS reports for accuracy of criteria entered for report generation and review the accuracy of the data entered into the tracking spreadsheets.	This measure is an OPM strategic objective and reflects FISD's ability to deliver its products in a timely manner. It is a key objective in OPM's Strategic Plan 2006-2010. For agencies to meet their human capital needs, OPM must provide timely delivery on the orders it receives so that agencies can make timely adjudication decisions and permanently fill positions.
Quarterly	CPG provides a copy of their database for the time period requested. BMG also obtains the data quarterly and determines case return percentage for BI type cases.	The lower the number of cases returned, the faster agencies can make adjudication decisions. This is also a good indication of the effectiveness of FISD's quality control.
Quarterly	BMG verifies the numbers.	By identifying, completing and delivering the cases which have the longest processing times more quickly than the intake of new cases, the average processing time per case delivered will be reduced and agencies will be able to make adjudications more quickly. This has been also referred to as eliminating the backlog.
Quarterly and annually, respectively	Review of Strategic Human Capital and Workforce Plans using established criteria contained in the Proud to Be Scoring Guidance document. A Strategic Alignment Tool developed by HCLMSA's Program Management Team supports HCO and Program Manager analysis and verification that the strategic human capital plans meet the criteria. The information is verified through the Annual Human Capital Management Report and during Quarterly Internal Scoring Reviews.	Strategic alignment of human capital with agency mission is the foundational requirement for accomplishing the goal of an effective federal workforce (5 U.S.C. 2301(b)(5)). This measure assesses whether OPM is enabling agencies to achieve strategic alignment through their workforce analysis, planning, and management. Regulation 5 CFR 205.203 establishes requirements for an agency to annually submit a Strategic Human Capital Plan to OPM, and this requirement is congruent with planning and reporting requirements in OMB Circular A-11 and 31 U.S.C.
Quarterly	On an ongoing basis, HCOs and CMSA staff (specifically Lead Auditors) work together to verify the accountability results reported on the annual HCMR and the scorecard, and develop deliverables to address system improvement action or facilitate agency corrective action. Quarterly assessments are used to determine OPM's level of participation in agency accountability activities, and data contained in the report is verified by Field Service Group management prior to submission.	This measure for the agency HRM audit activity addresses OPM's goal of building strong agency accountability systems that can serve as the first level of compliance. OPM has developed self-accountability standards to improve oversight at the 26 President's Management Council agencies, representing 93% of the Federal workforce. Both MSPB and GAO agree that OPM must continue to promote agency self-monitoring programs in recognition of the growing decentralization of the federal government's personnel system. These systems are also required by 5 CFR Part 10 Rule 10 and must be assessed with standards developed by OPM to execute the requirements of the CHCO Act of 2002 (5 U.S.C. 1103(c)).

APPENDIX A—DATA SOURCES OF OPM PERFORMANCE MEASURES

Program	Performance Measures	Definition	Data Source
Compliance	% of agencies with violations of veterans' preference laws, rules, and regulations	The number of agencies with violations of veterans' preference laws, rules, and regulations divided by the total number of agencies monitored.	OPM audits. OPM carries out part of its statutory oversight responsibility by conducting audits of agency personnel operations and delegated examining units (DEUs). Through these audits, OPM determines if agencies are properly adjudicating veterans' preference, that preference eligible persons receive the consideration to which they are entitled, and that no improper appointments occur. It records violations and maintains this data.
Compliance	% agencies with severe problems in one or more delegated examining units that demonstrate improvement within 1 year following completion of an audit	The number of agencies with severe problems in one or more delegated examining units that demonstrate improvement within 1 year following completion of an audit divided by the total number of agencies with severe problems within the past year. Improvement is defined as the DEU adopting compliant examining practices or the agency shifting examining away from the DEU. It is a failure if OPM revokes or suspends an agency's examining authority. Severe problems in DEUs are those that invalidate or destroy public confidence in the examining process. They can be systemic problems or isolated practices with special circumstances (e.g., intentional abuse, nepotism, etc.).	Each FSG updates the severe DEU log on a quarterly basis. DEU re-audits of agencies with problems.
Compliance	% of classification and job-grading appeal decisions exceeding target time frames	Number of classification and appeal decisions completed within target time frames divided by the total number of decisions. Receipt of the administrative report means that all relevant documentation from both the agency and the appellant has been received and the case is adjudicable. Completion is when the classification appeals officer submits a completed decision to the appeals program manager.	Timeliness is tracked in the Classification Appeals Program Management Information System (CAPMIS) database.
Human Capital—HR LOB	# of agencies migrated to HR LOB Shared Service Centers (including the migration of additional human resources functions)	Number of agencies migrated to HR LOB Shared Service Centers. Migration is defined as the transition of an agency's HR services (e.g., processing forms, personnel actions, payroll transactions, etc.) to a Shared Service Center (SSC). Agencies transitioning additional HR functions and services to an SSC will be counted as a migration.	Data comes from Federal agencies. It is usually an Interagency Agreement or Memorandum of Understanding between the shared service center and the agency. It can also be a letter of intent to migrate or intent to change providers.
Human Capital—HR LOB	% of hard copy official personnel files converted to electronic format	Number of hard copy OPFs converted to electronic format divided by the total number of hard copy OPFs needed to be converted.	The scanning vendor provides cumulative count of hard copy OPFs converted.



APPENDIX A—DATA SOURCES OF OPM PERFORMANCE MEASURES

Frequency	Data Verification	Measure validation
Quarterly	HCLMSA FSG Managers will certify the accuracy and validity of violations cited in 'feeder reports' and in reports of agency/installation audits their field group conducts. The Compliance Manager will annually report on the internal control processes and certify as to the accuracy of this process to identify and report violations found during OPM audits to the CMSA DAD. Further reporting may be to higher levels of HCLMSA, OPM, and/or to OMB.	This new measure for the agency HRM audit activity assesses PMC and small agency compliance with veteran's preference laws. OPM asserts that agencies that administer veterans' preference correctly have fewer total violations of civil service laws, rules and regulations, making veterans' preference violations a leading indicator for overall compliance. OPM is gathering data to support this hypothesis. Unlike other laws, rules and regulations governing Federal human resource management, veterans' preference requirements apply to all executive agencies, including those not covered by Title 5 or that operate alternative personnel systems. Violating veterans' preference requirements is a serious violation and can constitute a prohibited personnel practice punishable by adverse action, debarment from Federal service, and/or civil penalty.
Quarterly	HCLMSA FSG Managers certify that the corrective actions contained in the issued report have been taken and that improvements have occurred. Further, the DEU is re-audited after 12 months to verify that it can examine in compliance with merit system principles.	This measure for the Delegated Examining Unit (DEU) audit activity assesses agency compliance with laws related to hiring personnel using delegating examining authorities. It is an important performance measure because the majority of federal hiring is completed through DEUs. It is related to the merit principle of fair and open competition through monitoring agency competitive examining authority.
Monthly	Data accuracy is verified by the respective CAO and the Classification and Pay Claims Program Manager.	The classification appeal program affords employees an independent third-party review of the classification of their positions and provides evidence as to whether agencies are technically accurate in their use of delegated classification and job grading authority. OPM has established timelines for adjudicating classification appeals once they have been submitted. Because due process depends on timely decisions ("justice delayed is justice denied"), the appellate function measure focuses on OPM's goal to quickly resolve employee appeals of certain agency personnel decisions.
Data is collected as agencies commit to migrating to a shared service center.	Interagency Agreements or Memoranda of Understanding are signed by the relevant agency and shared service center.	It is expected that the further expansion of agency access to SSCs' efficient, standardized information processing systems will result in efficient and effective human capital management functions throughout the government.
Monthly	The monthly report provided by the scanning vendor is matched against each agency's Implementation Package for reasonableness.	EHRI's electronic Official Personnel Folder (eOPF) offers agencies the ability to convert all existing paper records to electronic form, generating significant cost savings across government. Federal employees are now able to view their records online 24 hours a day, 7 days a week to ensure data accuracy.

APPENDIX A—DATA SOURCES OF OPM PERFORMANCE MEASURES

Program	Performance Measures	Definition	Data Source
Human Capital—HR LOB	# of hard copy official personnel files converted to electronic format	Number of hard copy OPFs converted to electronic format	The scanning vendor provides cumulative count of hard copy OPFs converted.
Human Capital—HR LOB	Achieve full cost recovery annually for each Revolving Fund program	Annual revenues generated meet or exceed expenses.	Revolving Fund income statements for the HRLOB and HEIR programs.
Management Services	Cost savings that result from competitions	Pre-MEO organization costs less actual MEO costs.	Streamlined competition form; Most Efficient Organization (MEO); Contracts Awarded; GSA Payroll Reports; Standardized Quarterly Cost Reports "OFPP Format" and Quarterly Performance Requirements Summary Reports.
Management Services	% of hires within 45-day model	Number of hires within the 45-day model divided by the total number of hires.	Internal EXCEL data base used as a tracking system for all competitive staffing actions. This is an interactive system used by all staff in the Talent Services Group and CHCMS Boyers Team to track the end to end hiring process and also the 45 day model timelines. It allows CHCMS to provide accurate up-to-date status of each recruit action at any given time and also to track individual organizational and HR specialist performance.
Management Services	% of time computer network available during agreed-upon service hours	Total time the OPM network is available during agreed-upon service hours divided by total service hours.	CIS uses software to monitor and report on OPM network components. The software provides uptime reports by device (router, switch, firewall, etc) and their percentage of uptime.
Financial Services	Independent auditors' opinion on annual financial statements	The degree to which OPM's financial statements received a clean audit opinion	Auditors written opinion

APPENDIX A—DATA SOURCES OF OPM PERFORMANCE MEASURES

Frequency	Data Verification	Measure validation
Monthly	The monthly report provided by the scanning vendor is matched against each agency's Implementation Package for reasonableness.	EHRI's electronic Official Personnel Folder (eOPF) offers agencies the ability to convert all existing paper records to electronic form, generating significant cost savings across government. Federal employees are now able to view their records online 24 hours a day, 7 days a week to ensure data accuracy. The electronic official employee record can be accessed and exchanged among Federal agencies and can support the re-occurring data systems of the Retirement Systems Modernization (RSM) and the Federal employee clearance process by enabling centralized employee record checks.
Monthly	Budget Analyst compares income statement against budgeted revenue and expenses and internal financial data for accuracy.	The HRLOB and HEIR programs will improve the efficiency of government operations and in order to remain viable, revenues must exceed expenses.
Quarterly	Ongoing reviews of GSA Payroll Reports for accuracy and of monthly contract invoices. Review of MEO Quarterly Cost and Performance reports. MEO's submit Corrective Action Plans to CCFAS if necessary. For contracts that were won by contractors, Contracting Officers administer contracts and take appropriate administrative action if necessary. Also, starting this year, there will be yearly independent validation and verification of approximately 25% of estimated dollars saved across all competitively sourced competitions as mandated by OMB. Additionally, there have been independent management reviews by OPM's IG of MEO's and competitively sourced contracts "OPM IG office is finishing reviews of two MEO's in the 4th quarter of FY07."	OPM can improve the efficiency with which it accomplishes its mission by competitively sourcing functions where possible. Estimated cost savings need to be monitored to ensure they are being realized.
Quarterly	Data is verified by the Talent Services Group Manager, team leaders and individual human resource specialists.	OPM has as one of its strategic goals to be a model of performance for other Federal agencies. This measure gives one indication the degree to which it is meeting this goal.
Weekly	Outage reports are reviewed against network server logs to ensure accuracy.	OPM relies heavily on its IT services to accomplish its mission and must have its network available.
Annually	The OCFO reviews the auditor's opinion with the auditor.	Having a clean audit opinion is an indication that the tax payer's money is being managed in a responsible manner.

APPENDIX A—DATA SOURCES OF OPM PERFORMANCE MEASURES

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Program	Performance Measures	Definition	Data Source
Financial Services	# of material weaknesses	The number of material weaknesses in the auditor's opinion	Auditors written opinion
Financial Services	% of payments within Prompt Pay Act guidelines	The number of payments made within prompt payment guidelines divided by the total number of payments.	Monthly prompt pay reports run from OPM's financial management system.

## APPENDIX A—DATA SOURCES OF OPM PERFORMANCE MEASURES

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Frequency	Data Verification	Measure validation
Annually	The OCFO reviews the auditors opinion with the auditor	A material weakness is a reportable condition 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 the general purpose 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. The fewer the number of material risks the greater the assurance that resources are being used for their intended purpose.
Monthly	Internal records are used to verify the prompt payment reports	The Prompt Pay Act requires Federal agencies to meet certain guidelines with regard to paying accounts payable. OPM monitors its payment timeliness to comply with this Act and increase the satisfaction of its suppliers and contractors.



## APPENDIX B—ACRONYMS & ABBREVIATIONS

*(Unaudited—See accompanying Independent Auditors’ Report)*

ADS	Assessment Delivery System	FEDVIP	Federal Employee Dental and Vision Program
ACWA	Administrative Careers with America (assessments)	FEGLI	Federal Employee Group Life Insurance
ALIL	Actuarial Life Insurance Liability	FEHB	Federal Employee Health Benefits
APS	Alternative Personnel system	FEHBP	Federal Employee Health Benefits Program
BAMC	Brooke Army medical Center	FEMA	Federal Emergency Management Administration
BFMS	Benefits Financial Management System	FERS	Federal Employee Retirement System
C&A	Certification and Accrediation	FERCCA	Federal Employee Retirement Coverage Corrections Act
CFC	Combined Federal Campaign	FFMIA	Federal Financial Management Improvement Act
CFS	Center for Financial Services	FHCS	Federal Human Capital Survey
CHCO	Chief Human Capital Officer	FISD	Federal Investigative Services Division
CHCOC	Chief Human Capital Officer Counsel	FISMA	Federal Information Security Management Act
CIO	Chief Information Officer	FLRA	Federal Labor Relations Authority
CLCS	Center for Leadership Capacity Services	FLTCIP	Federal Long Term Care Insurance Program
COLA	Cost of Living Allowance	FMFIA	Federal Managers’ Financial Integrity Act
COTS	Commercial Off-the-Shelf	FTCA	Federal Tort Claims Act
CRC	Community-Rated Carrier	FTE	Full-time equivalent
CSRDF	Civil Service Retirement and Disability Fund	FY	Fiscal Year
CSRS	Civil Service Retirement System	GAAP	Generally Accepted Accounting Principles
DCIA	Debt Collection Improvement Act	GAO	Government Accountability Office
DEU	Delegated Examining Unit	GFIS	Government Financial Information System
DHS	Department of Homeland Security	GMRA	Government Management Reform Act
DOD	Department of Defense	GS	General Schedule
EBS	Employees Benefits System	GSA	General Services Administration
EHRI	Enterprise Human Resources Integration	HB	Health Benefits
EO	Executive Order	HC	Human Capital
eOPF	Electronic Official Personnel Folder	HCMR	Human Capital management Report
eQIP	Electronic Questionnaire Investigations Processing	HCAAF	Human Capital Assessment and Accountability Framework
ERC	Experience-Rated Carrier	HCLMSA	Human Capital Leadership and Merit Systems Accountability Division
FASAB	Federal Accounting Standard Advisory Board		
FBWT	Fund Balance With Treasury		
FCAT-HR	Federal Competency Assessment Tool—Human Resources		
FEB	Federal Executive Board		

## APPENDIX B—ACRONYMS & ABBREVIATIONS

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HIT	Health Information Technology	OIG	Office of the Inspector General
HMOs	Health Maintenance Organization	OMB	U. S. Office of Management and Budget
HR	Human Resources		
HR LOB	Human Resources Line of Business	O/P	Overpayment
HSPD	Homeland Security Presidential Directive	OPF	Official Personnel Folder
HRPS	Human Resources Products and Services Division	OPM	U. S. Office of Personnel Management
		PAAT	Performance appraisal Assessment Tool
IP	Improper Payment	PAR	Performance and Accountability Report
IPA	Independent Public Accounting (firm)	PART	Program Assessment and Rating Tool
IPIA	Improper Payment Information Act	PBM	Pharmaceutical Benefits Manager
IRTPA	Intelligence Reform and Terrorism Prevention Act	PII	Personally Identifiable Information
IT	Information Technology	PIV	Personal Identification Verification
ITEP	Information Technology Exchange Program	PMA	President's Management Agenda
		PMF	Presidential Management Fellows
LAIRS	Labor Agreement Information Retrieval System	PPA	Prompt Pay Act
		PRHB	Post-retirement Health Benefits
LI	Life Insurance	PSRHB	Postal Service Retirement Health Benefits
MCAT	Management Competency Assessment Tool	RF	Revolving Fund
		RSM	Retirement Systems Modernization
MD&A	Management Discussion and Analysis	SAOC	Spending Authority from Offset Collections
MetLife	Metropolitan Life Insurance Company	SAOP	Senior Agency Official for Privacy
MSD	Management Services Division	SES	Senior Executive Service
MSPB	Merit Systems Protection Board	S&E	Salaries and Expenses
NAC	National Agency Check	SFFAS	Standard Federal Financial Accounting Standards
NACI	National Agency Check and Inquiry		
n/a	Not applicable	SGL	Standard General Ledger
NFDA	National Funeral Home Directors Association	SOP	Standard Operating Procedures
		SSA	Social Security Administration
NFR	Notice of Finding and Recommendation	TJF	Treasury Judgement Fund
		TOP	Treasury Offset Program
NRC	Nuclear Regulatory Commission	USPS	United States Postal Service
NSPS	National Security Personnel System	USSGL	United States Standard General Ledger
OCFO	Office of the Chief Financial Officer		
OGC	Office of the General Counsel	U/P	Underpayment











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■ PERFORMANCE & ACCOUNTABILITY REPORT

■ FISCAL YEAR 2007