UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Fiscal Year 2010
Agency Financial Report

The United States Office *of* Personnel Management

Fiscal Year 2010 Agency Financial Report

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Message *from* Director

I am pleased to present the United States Office of Personnel Management (OPM) Fiscal Year (FY) 2010 Agency Financial Report (AFR). OPM has chosen to produce the AFR as an alternative to the consolidated Performance and Accountability Report pursuant to OMB Circular A-136. This AFR is one in a series of reports used to convey budget, performance and financial information to our constituents. Under separate cover, OPM will submit its Annual Performance Report (APR), concurrent with the submission of the President's FY 2012 Budget to Congress and a Summary of Performance and Financial Information. We believe this approach provides a more succinct and easily understood reporting of OPM's accountability over its resources and improves reporting by making information more meaningful and transparent to the public.

OPM's mission is to "Recruit, Retain and Honor a World-Class Workforce to Serve the American People." Our new strategic plan for 2010-2015 was finalized during FY 2010 and includes four broad strategic goals that emulate the lifecycle of a Federal employee. The goals of "Hire the Best," "Respect the Workforce," "Expect the Best," and "Honor Service" facilitate engagement and satisfaction as each individual progresses from applicant to Federal employee to retiree.

Health Care

The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) expanded the scope of OPM's mission by assigning OPM the task of offering at least two multi-state health insurance plans in each of the state exchanges established by the Act. The passage of the Affordable Care Act makes OPM responsible for the Pre-Existing Condition Insurance Plan (PCIP), and Multi-State Plans. This represents the first time that OPM is charged with administering a benefit program to the general public. Furthermore, the Act expanded access to the Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLIP) beyond the Federal community to certain members of tribal organizations. These groups are not served by an existing payroll and personnel office, unlike other FEHBP and FEGLIP participants.

During FY 2010, to accomplish its new mission related to the Affordable Care Act, OPM decided to create a new organization, Healthcare and Insurance Organization (HIO). The purpose of HIO is to consolidate all of OPM's healthcare and insurance responsibilities into a single office. HIO began operating in the first quarter of 2011.

Message *from* Director

Continued

Veterans Outreach

OPM is aggressively implementing the Veteran Employment Initiative, in partnership with the White House, the Departments of Defense, Labor, Veterans Affairs, and Homeland Security, and other Federal agencies. The goal of the Veteran Employment Initiative is to help Federal agencies identify qualified veterans, clarify the hiring process for veterans seeking employment with the Federal Government, and help veterans adjust to civilian life once they are hired.

In FY 2010, OPM met its key performance targets related to Veterans Outreach: 1) to have Veteran Program Offices in 24 agencies and 2) to have 24 agencies incorporate Government-wide training materials within their veteran's recruitment strategies.

Hiring Reform

OPM is spearheading a Government-wide initiative to reform recruiting and hiring policies and procedures. Moreover, OPM leads the Government-wide staffing effort to ensure Federal agencies acquire, assess and retain employees with specific experience and skills essential to achieving Agency goals and missions. Nonetheless, applicants regularly report confusion about differences between agencies' application processes, complex application requirements that are difficult to meet and lack of communication from agencies regarding hiring process applicant's status.

During FY 2010, OPM developed a Virtual Federal Recruiter to assist hiring specialists with recruitment by providing tools, collaboration opportunities and guidance. OPM also issued guidance and provided assistance to agencies in moving towards the 80-day timeframe to hire individuals into the most commonly filled positions.

Results Oriented Work Environment

OPM has implemented its Results Oriented Work Environment (ROWE) pilot project. ROWE is based on employee management, under which employees are given maximum flexibility to schedule their work day, so they can continue making productive contributions to their organizations while also attending to family, pursuing higher education and taking care of other responsibilities. Managers manage for results rather than process. Employees are trusted to get the work done, which is a shift in culture from permission granting (e.g., granting leave, permission to telework, etc.) to performance guiding.

Message *from* Director

Continued

In FY 2010, OPM evaluated its ROWE pilot and has since extended it for another year. The evaluation assessed the project's effect on employee performance and morale. As a result, OPM is developing performance appraisals that are in-line with the goals of ROWE and not based on more structured work environments.

Campus Wellness Pilot Project

OPM is conducting a wellness campus pilot project with the General Services Administration and the Department of Interior. The three agencies operate as a combined "campus" with respect to several work-life initiatives, including a comprehensive health and wellness program.

In FY 2010, OPM collaborated with the General Services Administration and the Department of Interior to implement the combined campus, which includes a bike sharing program, health screenings and a weekly farmers' market.

Open Government

OPM is committed to fostering an environment that values openness—openness is inherent in our organizational values and strategic plan. The Agency is developing a culture that is transparent, participatory, and collaborative. Moreover, OPM is developing a culture in which sharing data and information, hearing and implementing ideas, and engaging in ongoing conversation with employees and the public not only increase accountability but also build trust with the American people.

During FY 2010, OPM launched its Open Government website located at: *http://opm.gov/open*. This multi-page tabbed site allows users to better understand Open Government as well as stay current on OPM's efforts to implement the Agency's Open Government plan, which was posted to the site on April 7, 2010.

Finance

I am pleased to report OPM earned an unqualified audit opinion on its FY 2010 consolidated financial statements from the independent public accounting (IPA) firm of KPMG LLP. As also communicated in the independent auditor's report, OPM can provide qualified assurance for its internal control over financial reporting for FY 2010. This was caused by a material weakness concerning OPM's information systems general control environment. OPM is taking corrective action as noted below. In addition, OPM received an unqualified audit opinion on the FY 2010 individual combined financial statements of the Retirement, Health Benefits and Life Insurance Programs.

Message *from* Director

Continued

Operations

OPM also conducted a review of its system of internal control over operations in FY 2010. As a result, material weaknesses were identified in the areas of Information Security Governance, and the Security Certification and Accreditation (C&A) process. During FY 2010, OPM has taken corrective action via the hiring of a Senior Agency Information Security Officer (SAISO) who is providing OPM-wide Information Security Governance. There is full-time staff assigned to administer the C&A process throughout the Agency, which has resulted in significant improvement in the IT security process within the last year. This is further discussed in the "Analysis of OPM's Systems, Controls, and Legal Compliance" area of the Management's Discussion and Analysis section of the AFR.

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

Conclusion

I am extremely pleased with the dedicated and talented employees working to meet human resource challenges throughout the Federal Government. I am confident OPM will continue to vigorously and enthusiastically make certain the Federal Government has an effective and efficient civilian workforce — for Federal employees, retirees, OPM partners, and most importantly the American people whom we serve.

Sincerely,

John Berry

John Berry
Director
November 15, 2010

Section 1 — Management's Discussion and Analysis

(Unaudited — See accompanying Independent Auditors' Report)

Agency Financial Report Overview

The United States (U.S.) Office of Personnel Management (OPM or The Agency) is the central human resources agency for the Federal Government. OPM's mission is to recruit, retain and honor a world-class workforce to serve the American people. To perform this mission, OPM ensures executive agencies' accountability for compliance with merit system principles; Federal law, and regulations, including veterans' preference; advises and assists agencies on strategic human resources management; and works with Congress and other stakeholders on developing effective compensation, work/life, and benefits packages.

OPM monitors merit-based human resources practices to ensure all Federal employees operate in a fair and discrimination-free environment, promoting recruitment practices that help agencies draw from the rich diversity of the American workforce, recognizing multi-generational differences, and encouraging practices that provide a welcoming environment in the workplace. OPM also administers retirement, health benefits, long-term care and life insurance, dental and vision and flexible spending account programs for Federal employees, retirees, and their beneficiaries and maintains the integrity of these programs.

OPM operates from its headquarters in the Theodore Roosevelt Federal Office Building at 1900 E Street, NW Washington, D.C., 20415. OPM delivers a variety of products and services with the support of approximately 5,000 headquarter employees as well as employees located across 16 locations around the country, including operating centers in Pittsburgh and Boyers, Pennsylvania; Ft. Meade, Maryland; and Macon, Georgia. The OPM website is *www.opm.gov*.

About This Report

The Fiscal Year (FY) 2010 Agency Financial Report (AFR) is the first document in a series of reports prepared to convey OPM's budget, performance and financial information in a manner we believe is more useful to our stakeholders and constituents. OPM has chosen to produce the AFR as an alternative to the consolidated Performance and Accountability Report pursuant to OMB Circular A-136.

The AFR provides an overview of OPM's financial performance and results to help Congress, the President, and the public assess our stewardship over the financial resources entrusted to us. In addition to the AFR, OPM will submit an Annual Performance Report (APR) and a Summary of Performance and Financial Information. The APR and Summary of Performance and Financial Information will be published on February 15, 2011.

The AFR meets a variety of reporting requirements stemming 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. OMB is a cabinet-level office within the Executive Office of the President (EOP) of the United States providing policy and guidance to executive agencies on numerous budgetary matters. Moreover, this AFR provides an accurate and thorough accounting of OPM's operational accomplishment during FY 2010 in fulfilling its mission.

As an example of OPM's efforts and in accordance with the President's initiative to "Go Green," this report will only be available on OPM's website at *http://www.opm.gov/gpra/opmgpra/*.

Suggestions for improving this document should be sent to the following address:

Office of Personnel Management
Financial Services
1900 E Street, NW Room 5489
Washington, D.C. 20415

OPM's Mission and Strategic Goals

The OPM Strategic Plan 2010-2015 is the starting point for performance and accountability. The beginning of the strategic plan includes the Agency's mission statement. The plan also describes OPM's four strategic goals which are designed to parallel the lifecycle of a Federal employee. These strategic goals are as shown in Table 1. The strategic goals are supported by a series of implementation strategies and performance indicators to gauge progress. OPM also reviews its performance measures as part of the annual budget planning, which ensures both internal and external stakeholders understand the level of program performance expected for the resources.

The OPM mission is to "Recruit, Retain and Honor a World-Class Workforce to Serve the American People." The mission will be accomplished by achieving the four strategic goals (see Table 1):

The driving force behind the OPM Strategic Plan is the implementation strategies. The strategies are the performance drivers and include the specific actions OPM undertakes and the deliverables produced to enhance program performance, achieve program outcomes, and enable the Agency to meet its strategic goals and fulfill the mission. Each strategy is assigned an executive champion who manages a strategic implementation plan, which consists of specific tasks, deliverables and milestones. Under the FY 2010 Senior Executive Service (SES) performance-based pay system, executive compensation is directly linked to successful execution of strategies. When OPM successfully completes its strategies, program performance improves and the evidence of this improvement is reflected in the measures used to assess and gauge program performance.

Table 1 — OPM's Mission and Strategic Goals

OPM's Mission Statement: *Recruit, Retain, and Honor a World-Class Workforce to Serve the American People*	
Strategic Goal:	
Hire the Best	Recruit and hire the most talented and diverse Federal workforce possible to serve the American people
Respect the Workforce	Provide the training, benefits, and work-life balance necessary for Federal employees to succeed, prosper, and advance in their careers
Expect the Best	Ensure the Federal workforce and its leaders are fully accountable and are fairly appraised while having the tools, systems, and resources to perform at the highest levels to achieve superior results
Honor Service	Ensure comparable recognition and reward for exemplary performance of current employees and honor the careers of Federal retirees

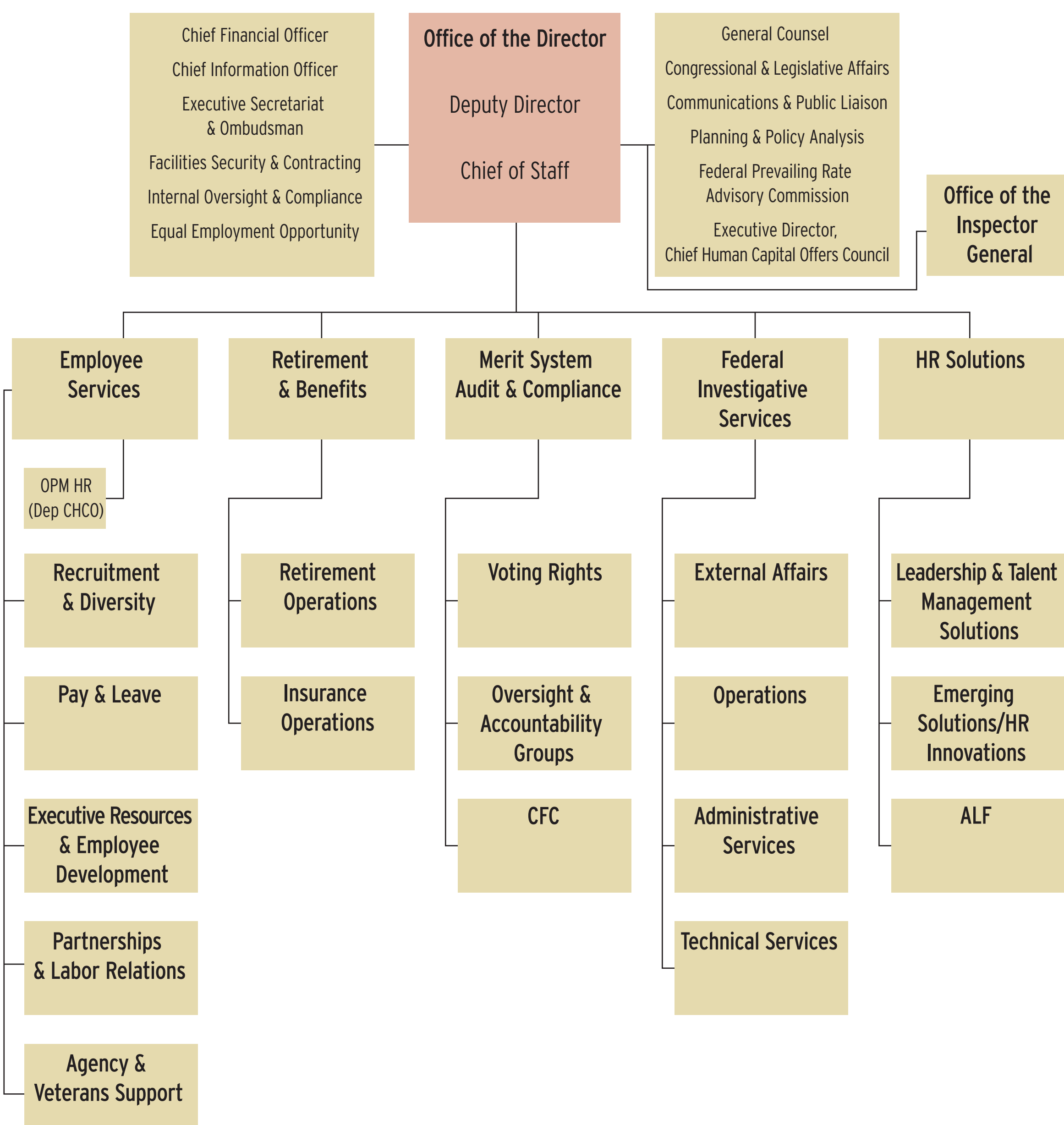
Organizational Structure

OPM's organizational structure reflects primary business lines through which OPM carries out its programs and implements its strategic goals and related implementation strategies. As shown in Figure 1, Organizational Structure, OPM is comprised of the following components:

Executive Offices

- The *Office of the Director* includes the Deputy Director, Chief of Staff and Director of External Affairs, and the Executive Director of the Chief Human Capital Officers Council. This office is charged with keeping the direction of the agency in line with its mission.

Figure 1—OPM FY 2010 Organizational Structure



- *Communications and Public Liaison (CPL)* is responsible for coordinating a comprehensive effort to inform the public of the President's and the Director's goals, plans and activities through various media outlets. CPL is also responsible for planning and coordinating the publication and production of all printed materials that are generated from OPM offices and for developing briefing materials for Congress, the Director and other OPM officials for various briefings and events.
- *Congressional and Legislative Affairs (CLA)* advocates for the legislative and policy priorities of the Director and the Administration. CLA is the focal point for all congressional and legislative activities for the Office of Personnel Management. CLA educates, responds to, interacts with, and advises Congress on Federal human resources management policy. CLA also counsels and advises the Director and other OPM officials on policy, and congressional and legislative matters.
- *Office of the General Counsel (OGC)* provides expert legal advice to the Director and senior OPM officials to ensure that policies, programs and procedures are consistent with applicable rules, regulations, and statutes affecting civil service personnel law and human resources management. OGC also provides expert legal representation to OPM managers and leaders in an attempt to mitigate the Agency's risk of litigation and to ensure agency actions are in compliance with applicable statutes, rules, and regulations, and to ensure that agency actions are not unlawful.
- *Executive Secretariat and Ombudsman (ESO)* is responsible for the administrative management and support for the Office of the Director, including coordination and review of Agency correspondence, policy and program proposals, regulations and legislation. ESO is responsible for the Agency's Ombudsman function, which is necessary to provide a neutral, independent and confidential resource for customers and employees of OPM to raise issues of concern or complaints that their requests are not being addressed in a timely manner.
- *Internal Oversight and Compliance (IOC)* proactively provides internal oversight while holding OPM officials accountable for operating effectively and efficiently in accordance with applicable policy, regulations and other criteria as further defined by the Director of OPM. IOC responds to GAO Reports, other external evaluative entities, as applicable, and the OPM OIG that require an official response on behalf of the OPM Director.
- *Equal Employment Opportunity (EEO)* provides a fair, legally-correct and expedient EEO complaints process (i.e., EEO counseling, Alternative Dispute Resolution, and EEO Complaints Intake, Investigation, Adjudication, and Record-Keeping). EEO designs and implements all required Special Observance and Special Emphasis initiatives, to promote diversity management.

Program Divisions

- *Employee Services (ES)* Provides policy direction and leadership in designing, developing and promulgating Government-wide human resources systems and programs for recruitment, pay, leave, performance management and recognition, employee development, work/life/wellness programs and labor and employee relations. ES provides technical support to agencies regarding the full range of human resources management policies and practices, to include veterans' employment as well as the evaluation of their human resource programs. ES manages the operation of OPM's internal human resources program.

- *Retirement and Benefits (R&B)* is responsible for Government-wide administration of developing and providing Federal employees, retirees and their families with benefits programs and services that offer choice, value and quality to help maintain the Government's position as a competitive employer. R&B is responsible for administering the Civil Service Retirement System (CSRS) and the Federal Employee Retirement System (FERS), serving 2.5 million Federal retirees and survivors who receive monthly annuity payments. R&B is responsible for negotiating and administering health benefits contracts for the Federal Government, administering the Federal Employee Group Life Insurance (FEGLI) program covering employees, retirees and their families. R&B is also responsible for administering three voluntary, enrollee-pay-all programs: long term care insurance program; flexible spending accounts for medical and dependent care expenses; and a group dental and vision insurance program.
- *Merit System Audit & Compliance (MSAC)* ensures through rigorous oversight that Federal agency human resources programs are effective and meet merit system principles and related civil service requirements. MSAC carries out this responsibility with a staff of employees in five field offices across the nation and here in Washington. The three key components of the oversight and compliance programs are (1) Delegated Examining Unit Evaluations, (2) Large Agency Human Resources (HR) Evaluation, and (3) Small Agency HR Evaluations. MSAC has Government-wide oversight of the Combined Federal Campaign (CFC) and the Voting Rights Program. The mission of the CFC is to promote and support philanthropy through a program that is employee focused, cost-efficient, and effective in providing all Federal employees the opportunity to improve the quality of life for all. The Voting Rights Program provides observers to cover political subdivisions (counties, cities, etc. as determined by the Attorney General) to monitor and report on those elections designated by the Attorney General.
- *Federal Investigative Services (FIS)* mission is to ensure the Federal Government has a suitable workforce that protects National Security and is worthy of their Public Trust. FIS is responsible for providing investigative products and services for over 100 Federal agencies to use as the basis for security clearance or suitability decisions as required by Executive Orders and other rules and regulations. Over 90% of the Government's background investigations are provided by OPM.
- *Human Resource Solutions (HRS)* The Human Resource Solutions enterprise provides services that assist Federal agencies in achieving their missions by partnering with them to provide effective human resource solutions that develop leaders, attract and build a high quality public sector workforce, and transform agencies into high performing organizations. HRS also offers services that enhance agencies' ability to attract and acquire specific talent.

Common Services

- *Chief Financial Officer (CFO)* manages and oversees OPM accounting, billing, vendor payments, budget, strategic planning, performance, program evaluation, financial systems, internal control and financial policy functions which enable the Agency to achieve its mission. CFO also ensures the completion of timely and accurate financial reports that improve decision making, comply with Federal requirements and demonstrate effective management of taxpayer dollars.

- *Chief Information Officer (CIO)* develops the Information Resource Management Plan and defines the Information Technology (IT) vision and strategy to include IT policy and security for OPM. CIO shapes the application of technology in support of the Agency's Strategic Plan including the IT Architecture that outlines the long term Strategic Architecture and Systems Plans for the Agency and includes Agency IT Capital Planning. CIO supports and manages pre- and post-implementation reviews of major IT programs and projects, as well as, project tracking at critical review points. CIO provides oversight of major IT acquisitions to ensure they are consistent with the Agency's architecture and the IT budget, and is responsible for the development of the Agency's IT security policies. CIO directs the realization of the Agency's IT Architecture to guarantee architecture integration, design consistency, and compliance with Federal standards, works with other agencies on Government-wide projects such as e-Government, and develops long range planning for IT Human Resource Strategies.
- *Facilities Security & Contracting (FSC)* is composed of the following five subcomponents and manages a broad array of OPM's key day-to-day programs:
  1. Facilities Management manages the Agency's personal and real property, building operations, space design and layout, realty, safety and occupational health programs.
  2. Emergency Actions directs the operations and oversight of OPM's preparedness and emergency response programs.
  3. Contracting Management provides centralized contract management that supports the operations and Government-wide mission of OPM. It also manages the Small Business and Government-wide Purchase Card programs.
  4. Office of Small and Disadvantaged Business Utilization manages OPM's small business program in conjunction with public law, Federal regulations, and OPM Contracting policies.
  5. Publications Management establishes and oversees OPM's nationwide publishing and printing management system for internal/external design and reproduction, Government Printing Office/commercial print ordering program, publications management, and electronic/office publishing systems.

Other Offices

- *Planning and Policy Analysis (PPA)* provides planning and analysis support to the Director and the Agency. PPA also provides the Director with reports, memos and other analyses to allow the assessment of trends and issues that affect OPM. A particular area of responsibility is the analysis of policy options, legislative changes and trends that affect OPM's management of health and retirement benefits for Federal employees. To assure benefits provide maximum value and are secure, the office will conduct actuarial analysis, as well as statistical tests using large databases.
- *Federal Prevailing Rate Advisory Committee* studies the prevailing rate system and other matters pertinent to the establishment of prevailing rates under subchapter IV of chapter 53 of Title 5, United States Code, and advises

the Director of OPM on the Government-wide administration of the pay system for blue-collar Federal employees.

Office of the Inspector General

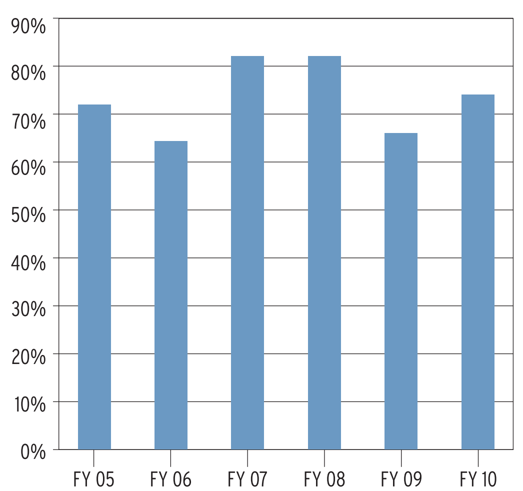
- *The Office of the Inspector General (OIG)* conducts comprehensive and independent audits, investigations, and evaluations relating to OPM programs and operations. It is responsible for administrative actions against health care providers that commit sanctionable offenses with respect to the FEHBP or other OPM programs. The OIG keeps the Director and Congress fully informed about problems and deficiencies in the administration of Agency programs and operations, and the need for corrective action.

Program Performance Summary

OPM's Strategic Management Process

As shown in the Figure 2 summary bar chart below, OPM met 75 percent of its performance targets in FY 2010. This is an increase from the 67 percent met in FY 2009, which may be attributed, in part, to the new strategic alignment of the Agency. The new strategic alignment better matches program goals with resources thereby resulting in enhanced efficiencies and improved results.

Figure 2 — OPM Performance Summary for FY2005 through FY2010

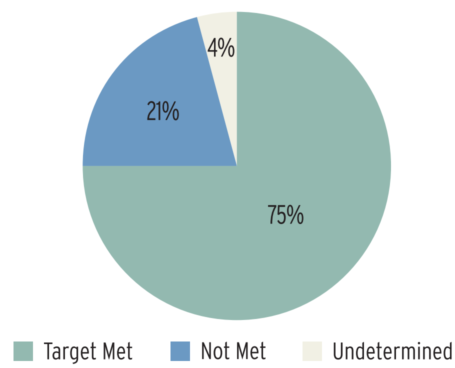


Focusing on the FY 2010 results shown in Figure 3, OPM met 75 percent of its goals; did not meet 21 percent; and the remaining 4 percent, which represents one goal is currently undetermined. In December 2010, Employee Services will have final data for the following undetermined measure:

- Percent of hires in each agency hired within the 80-day time frame, as described in OPM's hiring time frame model

Figure 3—OPM FY 2010 Performance Results

Percent of Targets Met/Not Met/Undetermined



A breakdown of OPM's performance results by strategic goal can be found below in Table 2.

The results for all 24 performance measures will be discussed in detail in OPM's *FY 2010 Annual Performance Report* scheduled for publication on February 15, 2011.

Table 2 — FY 2010 Performance Summary by Strategic Goal

Strategic Goals	Performance Targets			
	# Reported	# Met	# Not Met	# Undetermined
Strategic Goal 1: Hire the Best	7	5	1	1
Strategic Goal 2: Respect the Workforce	5	5	0	0
Strategic Goal 3: Expect the Best	8	6	2	0
Strategic Goal 4: Honor Service	4	2	2	0
FY 2010 Totals	**24**	**18**	**5**	**1**

Performance Highlights by Strategic Goals

Strategic Goal 1—Hire the Best: Help agencies recruit and hire the most talented and diverse Federal workforce possible to serve the American people

OPM is spearheading a Government-wide initiative to reform recruiting and hiring policies and procedures. The reform effort will encompass sweeping changes to streamline the hiring process. OPM will extend its reach to ensure agencies find and hire the best talent possible for the Federal Government.

During FY 2010, OPM issued a Government-wide Veterans Strategic Plan, launched the *FedsHireVets.gov* web portal, and realized an increase in Government-wide Veterans Hiring over its baseline.

Strategic Goal 2—Respect the Workforce: Provide the training, benefits, and work-life balance necessary for Federal employees to succeed, prosper, and advance in their careers

To improve the results of Federal programs and services, the Government must invest in its most valuable resource—its employees. Providing training throughout an employee's career—from entry-level to executive—is critical to mission accomplishment and leadership succession planning. Having a suite of flexible benefits and promoting a healthy work-life balance across the Federal Government also contribute to building an engaged workforce, employee well-being and retention. Programs and initiatives, such as alternative work schedules, telework, and employee assistance programs are designed to help employees identify and resolve personal and/or work-related issues that may affect their productivity. Investments in training, benefits, and work-life balance initiatives benefit current employees and help us continue to attract the best and brightest for Federal service.

During FY 2010, OPM began developing the FEHBP data collection and analysis capacity. The database and analytical capability will better position OPM to negotiate effectively with FEHBP carriers to keep Federal premium increases below industry-wide levels. With the passage of the Affordable Care Act, OPM is now also responsible for the Pre-Existing Condition Insurance Plan (PCIP), and Multi-State Plans.

Strategic Goal 3—Expect the Best: Ensure the Federal workforce and its leaders are fully accountable, fairly appraised, and have the tools, systems, and resources to perform at the highest levels to achieve superior results

OPM assures that agencies across the Federal Government hold leaders accountable for results. For agencies to succeed and meet the challenges of the 21st century, OPM must transform the civil service system to be flexible, agile, and responsive enough to adapt to any circumstance. OPM provides human resources management solutions, establishes the standards for continuous improvement, and leads by example to achieve Agency results.

In FY 2010, OPM evaluated and certified Agency Senior Employee pay and performance systems, and established a new process for investigations/background checks of potential Presidential Rank Award recipients that comply with newly issued guidance. Additionally, OPM published the FY 2009 Report on Senior Executive Pay and Performance Appraisal Systems.

Strategic Goal 4—Honor Service: Ensure recognition and reward for exemplary performance of current employees and honor the careers of Federal retirees

Many of the employees working for the Federal Government share a philosophy to give something to the wider public or community through their work. This work often requires high levels of training and education, and employees are often prepared to work harder for less pay. Therefore, it is incumbent on the Federal Government to establish a performance system that will treat employees fairly, be easy for managers to use, reward those with exemplary service, and be understandable to the public.

The Federal Government's commitment to its employees does not end when someone retires from service. OPM administers retirement and insurance benefits for over 2 million retirees. We must ensure quality delivery of those benefits and respond to retirees' questions and concerns in a caring and timely manner.

In December 2009, OPM issued uniform policies requiring agencies to make reservist differential payments to eligible Federal civilian employees who are members of the Reserve or National Guard called or ordered to active duty under certain specified provisions of the law.

Quality of Performance Data

In accordance with the requirements of the Government Performance and Results Act, OPM ensures the information in its AFR, as well as APR, accurately reflects its FY 2010 performance and is based on reasonably complete, accurate and reliable data.

OPM program offices document data collection, reporting, and verification procedures for program performance measures, establishing a control environment based on data quality standards established by OPM's Chief Financial Officer. Performance information is validated with data evidence provided to and maintained by the Chief Financial Officer.

Additional information on OPM's performance data quality will be available with the publication of OPM's FY 2010 APR and the Summary of Performance and Financial Information scheduled for publication on February 15, 2011.

Analysis of OPM's Financial Statements

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

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

Balance Sheet

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

Assets

At the end of FY 2010, OPM held $892.6 billion in assets, an increase of 4.2 percent from $856.6 billion at the end of FY 2009. The majority of OPM's assets are intra-governmental, representing claims against other Federal entities. The Balance Sheet separately identifies intra-governmental assets from all other assets.

The largest category of assets is investments at $886.3 billion, which represents 99.3 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 2010, the investment portfolio grew by 4.2 percent, with the largest increase for investments occurring in the Retirement Program. In FY 2010, the Total Earned Revenue was less than the applicable cost applied to the Pension Liability by $7.3 billion. This net effect allowed the Retirement Program the ability to reinvest interest earnings and apply the excess funds to the U.S Treasury Transferred-In to subsidize the under funding of the Civil Service Retirement System (CSRS) totaling more than $33.2 billion for FY 2010, which resulted in an increase in the investment portfolio of more than $35.6 billion for FY 2010 over FY 2009.

Liabilities

At the end of FY 2010, OPM's total liabilities were $1,946.7 billion, an increase of 5.5 percent from $1,845.3 billion at the end of FY 2009. Three line items — the Pension, Post-Retirement Health Benefits, and the Actuarial Life Insurance Liabilities — account for 99.4 percent of OPM's liabilities. These liabilities reflect estimates by professional actuaries of the future cost, expressed in today's dollars, of providing benefits to participants in the future. The Retirement Program's economic assumptions for the Rate of Inflation and the Rate of Increase in Salary were unchanged compared to FY 2009. The Health Benefits economic assumptions remain the same except that the medical trend assumption changed from a constant 7% to a variable trend decreasing from 8% to 5.5% ultimately. In FY 2010, the Retirement and Health Benefits Program assumptions reflect an increase in actuarial liabilities of $97.1 billion from FY 2009. 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 $1,550.2 billion at the end of FY 2010, an increase of over $95.5 billion, or 6.6 percent from the end of the previous year. [See discussion of the Net Cost to Provide CSRS and FERS Benefits below].

The *Post-Retirement Health Benefits Liability*, which represents the future cost to provide health benefits to active employees after they retire, is $341.5 billion at the end of FY 2010. This reflects an increase of approximately $1.6 billion from the amount at the end of FY 2009, or 0.5 percent. [See discussion of the Net Cost to Provide Health Benefits below].

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 $4.3 billion in FY 2010 to $43.2 billion, or 10.9 percent from the end of the previous year. [See discussion of the Net Cost to Provide Life Insurance Benefits below].

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) Number (No.) 27—*Identified and Reporting Earmarked Funds*. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. OPM's Net Position is classified into two separate balances. The Cumulative Results of Operations comprises OPM's net results of operations since its inception. Unexpended Appropriations is the balance of appropriated authority granted to OPM against which no outlays have been made. OPM's total liabilities exceeded its total assets at the end of FY 2010 by $1,054.1 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

Actuarial Gains and Losses

OPM's Net Cost to Provide Retirement, Health Benefits, and Life Insurance Benefits can vary widely from year to year, due to actuarial gains and losses. 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 generally will, actuarial gains and/or losses will occur. For example, should the COLA be less than the actuary's assumption for this factor, there will be an actuarial gain.

there will be sufficient assets available to pay benefits well into the future. Table 3—Net Assets Available for Benefits—shows that OPM's net assets available to pay benefits have increased by over $35.9 billion in FY 2010 to $880.7 billion.

Table 3—Net Assets Available for Benefits

($ in Billions)	FY 2010	FY 2009	Change
Total Assets	$892.6	$856.6	$36.0
Less "Non-Actuarial" Liabilities	11.9	11.8	0.1
Net Assets Available to Pay Benefits	$880.7	$844.8	$35.9

Statement of Net Cost

The Statement of Net Cost (SNC) is different from a private-sector income statement in that the SNC reports expenses first and then subtracts the revenues that financed those expenses to arrive at a net cost.

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.

In FY 2010, OPM adopted the Federal Accounting Standards Advisory Board's (FASAB) SFFAS No. 33: *Pensions, Other Retirement Benefits (ORB), and Other Postemployment Benefits (OPEB): Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, effective for fiscal years beginning after September 30, 2009.

SFFAS No. 33 requires gains and losses from changes in long-term assumptions used to estimate Federal employee pension, ORB, and OPEB liabilities to be displayed on the statement of net cost separately from other costs in order to provide more transparent information regarding the underlying costs associated with these liabilities.

OPM's total FY 2010 Net Cost of Operations was $108.4 billion, as compared with $88.6 billion in FY 2009. The primary reason for the increase is due to changes in the actuarial estimates, as further discussed below.

Net Cost to Provide CSRS Benefits

As presented in Table 4, OPM incurred a Pension Expense for the CSRS Benefits of $94.8 billion compared with $97.9 billion, a decrease of $3.1 billion from FY 2009. The primary reason for the decrease in CSRS pension expense from FY 2009 to FY 2010 is that there was a total actuarial loss of $23.7 billion in FY 2009, and a total actuarial loss of $19.0 billion in 2010. The losses combined effect results in a decrease in pension expense from FY 2009 to FY 2010 by $3.1 billion. Both the loss in 2009 and the loss in 2010 are primarily due to changes in assumptions and/or methodology for 2009 and changes in assumptions and/or methodology per SFFAS No. 33 in 2010. In FY 2009, the actual general pay increase was 3.9 percent, and the actual COLA was 5.8 percent. In FY 2010, the actual, general pay increase was 2.0 percent, and the COLA was 0.0 percent.

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 2010 by $0.3 billion from FY 2009 and OPM's earnings on CSRS investments declined by approximately $0.9 billion from FY 2009.

Table 4 — Net Cost to Provide CSRS Benefits

($ in Billions)	FY 2010	FY 2009	Change
Gross Cost	$94.8	$97.9	($3.1)
Associated Revenues	$23.8	$25.0	($1.2)
Net Cost	$71.0	$72.9	($1.9)

Current pension benefits paid are applied to the Pension Liability and, therefore, do not appear on the Statement of Net Cost; however, as noted, SFFAS No. 33 requires gains and losses from changes in long-term assumptions used to estimate Federal employee pension, ORB, and OPEB liabilities to be displayed on the statement of net cost separately from other costs. OPM paid CSRS benefits of $63.9 billion, as compared to the $62.9 billion in FY 2009. 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 5, the Net Cost to Provide FERS Benefits in FY 2010 increased by $30.8 billion from FY 2009. As with the CSRS, there are three prime determinants of OPM's net cost to provide FERS benefits: one cost category (the actuarially computed Pension Expense) and two categories of earned revenue (contributions by and for participants, and earnings on FERS investments). Under the actuarial assumptions, the real interest rate — that is the difference between the interest rate and the rate of inflation — increase caused the Gross Cost to increase.

The Pension Expense for FERS is the amount of future benefits earned by participants during the current fiscal year. For FY 2010, OPM incurred a Pension Expense for FERS of $70.0 billion, as compared with $37.3 billion in FY 2009. The primary reason for the increase in FERS pension expense from FY 2009 to FY 2010 was a total actuarial gain of $1.9 billion in FY 2009, which was followed by a total actuarial loss of $29.9 billion in 2010 contributing to the increase in pension expense from FY 2009 to FY 2010 of $30.8 billion. In FY 2009 and FY 2010, there were experience gains because the actual pay raise and COLA were different than what had been assumed. We assumed annual, general pay increases of 3.5 percent and FERS COLAs of 2.0 percent. In FY 2009, the actual, general pay increase was 3.9 percent, and the actual FERS COLA was 4.8 percent. In FY 2010, the actual general pay increase was 2.0 percent, and the FERS COLA was 0.0 percent.

Contributions by and for FERS participants increased by $1.7 billion, or 8.7 percent from FY 2009, also due to the increasing number of FERS participants.

Table 5 — Net Cost to Provide FERS Benefits

($ in Billions)	FY 2010	FY 2009	Change
Gross Cost	$70.0	$37.3	$32.7
Associated Revenues	$38.2	$36.3	$1.9
Net Cost	$31.8	$1.0	$30.8

Due to accounting standards, current pension benefits paid are applied to the Pension Liability and, therefore, do not appear on the Statement of Net Cost. In FY 2010, OPM paid FERS benefits of $5.4 billion, compared with $4.6 billion in FY 2009. The increase is due to the increasing number of FERS retirees.

Net Cost to Provide Health Benefits

The Net Cost to Provide Health Benefits in FY 2010 decreased by $11.3 billion from that in FY 2009 (Table 6). 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 6 — Net Cost to Provide Health Benefits

($ in Billions)	FY 2010	FY 2009	Change
Gross Cost	$40.7	$45.6	($4.9)
Associated Revenues	$37.6	$31.2	$6.4
Net Cost	$3.1	$14.4	($11.3)

The Postal Service Retiree Health Benefits (PSRHB) Fund is included in the Health Benefits Program. On October 1, 2009, President Obama signed into law, P.L. 111-68, Division B — Continuing Appropriations Resolution 2010 which contained significant changes to the funding requirements and scheduled payments of P.L. 109-435, December 20, 2006, known as the Postal Act. The payment for FY2010 was $5.5 billion, and the payment for FY 2009 was reduced to $1.4 billion by P.L. 111-68.

The Post-Retirement Health Benefits Expense (PRHB) is the amount of future benefits earned by participants during the current fiscal year. For FY 2010, OPM incurred a PRHB expense of $14.7 billion, as compared with $21.2 billion in FY 2009, due primarily to the recognition of a large actuarial gain in FY 2010. There was an actuarial gain of $19.2 billion. This was a result of population change, lower than expected medical cost increase, and a change in the assumed choice of health coverage in retirement and their associated costs, offset by a loss due to a modification in the trend and interest assumptions as a result of SFFAS No. 33 (the trend is assumed to be variable, decreasing from 7.5% to 4.4% ultimately).

Current Benefits and Premiums increased $1.5 billion from FY 2009, 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 $6.4 billion from FY 2009 to FY 2010. OPM's earnings on health benefits investments decreased $34 million from FY 2009, due to 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 7.

Table 7 — Disclosed and Applied Costs to Provide Health Benefits

($ in Billions)	Disclosed	Applied to PRHB	Total FY 2010	Total FY 2009
Claims	$20.9	$9.7	$30.6	$28.8
Premiums	$4.0	$2.6	$6.6	$6.5
Administrative and other	$1.0	$0.9	$1.9	$1.8

Net Cost to Provide Life Insurance Benefits

As seen in Table 8, the Net Cost (Excess of Revenue) to Provide Life Insurance Benefits increased from $330.0 million in FY 2009 to $2,490 million in FY 2010. Gross cost increased $2,208 million due to the actuarial loss between FY 2009 and FY 2010. Associated revenues increased $48.0 million due to an increase in basic enrollment, partially offset by an annual pay increase, and a decrease on earnings on the investment portfolio.

Table 8 — Net Cost to Provide Life Insurance Benefits

($ in Millions)	FY 2010	FY 2009	Change
Gross Cost	$6,876	$4,668	$2,208
Associated Revenues	$4,386	$4,338	$48
Net Cost (Excess of Revenue)	$2,490	$330	$2,160

Statement of Budgetary Resources

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

As presented in the Statement of Budgetary Resources, a total of $208.6 billion in budgetary resources was available to OPM for FY 2010. OPM's budgetary resources in FY 2010 include $49.3 billion (23.7 percent) carried over from FY 2009, plus three major additional sources:

- Appropriations Received = $43.0 billion (20.6 percent)
- Trust Fund receipts of $102.7 billion, less $33.0 billion* not available = $69.7 billion (33.4 percent)
- Spending authority from offsetting collections (SAOC) = $46.6 billion (22.3 percent)

* Total budgetary resources do not include $26.0 billion of Trust Fund receipts for the Retirement obligations pursuant to public law. In addition, in accordance with Public Law 109-435, contributions for the Postal Service Retirement Health Benefits (PSRHB) Fund of the Health Benefits Program are precluded from obligations totaling $7.0 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 2010	FY 2009
Trust Fund Receipts	33.4%	34.1%
Balance Brought Forward from Prior Year	23.7%	23.7%
Spending Authority from Offsetting Collections	22.3%	21.8%
Appropriations	20.6%	20.4%

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

Obligations Incurred by Category

	FY 2010	FY 2009
Retirement Benefits	65.6%	66.2%
Health Benefits	31.1%	30.7%
Life Insurance Benefits	1.7%	1.7%
Other	1.6%	1.4%

From the $208.6 billion in budgetary resources OPM had available during FY 2010, it incurred obligations of $156.9 billion less the $33.2 billion transferred from the Treasury's General Fund (see Note 1.G) for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs. The $7.0 billion in the PSRHB Fund of the Health Benefits Program is precluded from obligations. Most of the excess of budgetary resources OPM had available in FY 2010 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:

- Federal Managers' Financial Integrity Act (FMFIA) of 1982
- Federal Financial Management Improvement Act (FFMIA) of 1996
- Inspector General Act, as amended
- Federal Information Security Management Act (FISMA) of 2002
- Compliance with Other Key Legal and Regulatory Requirements

Management Assurances

FMFIA and FFMIA Assurance Statement

OPM is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). OPM conducted its assessment of 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 qualified 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, 2010, was operating effectively. The qualified assurance is based on two operational material weaknesses described in this report, which are related to OPM's information systems general control environment, and OIG funding for oversight of OPM's Revolving Fund. During FY 2010, OPM has taken corrective action on the two operational material weaknesses via the hiring of a Senior Agency Information Security Officer (SAISO) who is providing OPM-wide Information Security Governance. There is full-time staff assigned to administer the C&A process throughout the Agency, which has resulted in significant improvement in the IT security process within the last year. Addressing the material weaknesses will continue to be a priority for OPM in FY 2011.

In addition, OPM has 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. In the consolidated financial statement audit performed by the independent auditors, the material weakness concerning OPM's information systems general control environment was also reported as a financial material weakness. Based on the results of this evaluation, OPM can provide qualified assurance that its internal control over financial reporting as of June 30, 2010, was operating effectively.

The *Federal Financial Management Improvement Act* (FFMIA) requires agencies to implement and maintain financial management systems that are in substantial compliance with Federal financial system requirements, Federal accounting standards, and use the *United States Standard General Ledger* (USSGL) at the transaction level. Based on my review of the auditor's report and other relevant information, I have determined that for FY 2010, OPM can provide reasonable assurance that its financial systems substantially comply with FFMIA requirements.

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

John Berry
Director

Nov. 9, 2010

Compliance with Federal Financial Management Improvement Act (FFMIA)

Financial Management Systems

The FFMIA requires Federal agencies to implement and maintain financial management systems that are in substantial compliance with Federal financial system requirements, Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. Based on a review of the auditors' report and other relevant information, OPM has determined that for FY 2010, OPM substantially complies with all FFMIA requirements regarding financial management systems, financial accounting standards, and application of the USSGL at the transaction level.

FFMIA Remediation Activities

OPM's FY 2008 assessment of Government Financial Information System (GFIS) disclosed that it did not comply with the FFMIA requirement that transactions be posted in accordance with the USSGL.

In an effort to improve OPM's financial management system including information system software, business processes and procedures, outsourcing support, and internal controls, the OMB directed OPM to use the guidelines it outlined in the Financial Management Lines of Business (FMLoB) Migration Planning Guidance to acquire the software, integration and application hosting services necessary to modernize its financial management systems. The CFO organization followed those guidelines, and, in July 2008, OPM awarded a contract for the Agency's software, integration, and application hosting services provider to replace GFIS with our new Consolidated Business Information System (CBIS). Phase I of CBIS, for the S&E and RF, was initially deployed in October 2009; various upgrades and deployment of new functionality have continued throughout FY 2010 and will continue into subsequent years. The schedule for Phase II of CBIS, to cover the Retirement, Health Benefits and Life Insurance Trust Funds, is being reassessed due to changing Agency priorities, changes in interfaces with other OPM and external systems, and identification of additional system requirements.

In response to OMB Memorandum M-10-26, Immediate Review of Financial Systems IT Projects, OPM provided OMB with a project status on CBIS, and the results are pending.

Further, in accordance with the CFO Act of 1990, CFO implemented new policies and procedures to prepare financial statements and related disclosures, budget reports, and other financial information for Agency management decision-making that is consistent with Federal accounting standards. The OPM plans to refine and update its current financial manual to support these new procedures in FY2011.

Enhance Financial Management Systems

OPM senior management supports CBIS as a top priority for the Agency. OPM expects CBIS to assist the Agency in its efforts to improve business processes, facilitate data clean up, review access controls, and conduct business process analyses to further ensure a successful implementation and stabilization of modernized business processes, system controls, and effective operational and regulatory reporting.

In addition, OPM has implemented a corrective action plan, in consultation with OMB, to resolve deficiencies with regard to the RF and S&E accounts as a part of the CBIS Project.

Compliance with the Federal Managers' Financial Integrity Act (FMFIA)

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, and the Director, Internal Oversight and Compliance, required office heads to submit an assurance statement detailing if their internal control systems met the requirements of the FMFIA. Office heads also submitted supporting documentation of internal control objectives and control activities in individual units under their purview. CFO internal control staff reviewed those submissions and also reviewed applicable GAO and OPM OIG reports to determine if they contained material weaknesses that needed to be reported. Based on the results of these assessments, OPM can provide qualified assurance that its systems of internal control over the effectiveness and efficiency of operations and compliance with laws and regulations as of September 30, 2010, were operating effectively with the exception of two operational material weaknesses detailed below.

Material Weakness on OPM's Information Systems General Control Environment

In its FY 2010 overall Federal Information Security Management Act (FISMA) report, OIG reissued the operational material weakness from the FY 2009 report, concerning OPM's overall information security governance program. The operational material weakness states that OPM did not establish adequate information security governance activities in accordance with legislative and regulatory requirements. Although OIG acknowledged that some limited progress was made in FY 2010 to improve OPM's security program, they continue to consider the IT security management structure, insufficient staff, and the lack of policies and procedures to be an operational material weakness in OPM's IT security program.

Furthermore, OIG added issues related to the management of OPM's Certification and Accreditation (C&A) process to the material weakness concerns. The C&A concerns were reported as a significant deficiency in the FY 2008 and FY 2009 FISMA reports. Specifically, OIG noted that not all systems at OPM have an active C&A, there is a wide range of quality in the C&A packages from various program offices, and the CIO does not have the resources to facilitate the C&A process.

OPM believes that the CIO has made significant progress towards resolving these issues beginning with the hiring of a new SAISO in April 2010. A first-time, formal budget submission was developed for CIO Information Technology Security and Privacy (ITSP) to support critical funding requirements. As a result, the CIO has begun hiring additional IT security staff to support the IT Security Governance program and management of the C&A process. Secondly, an Inter-Agency Agreement was signed between OPM and the Bureau of the Public Debt (BPD) in September 2010 to provide assistance in updating OPM IT Security policies and procedures. Additionally, during FY 2010, OPM's IT Security and Privacy organization completed a comprehensive Gap Analysis and developed a Strategic Plan and Consolidated Findings Report to address deficiencies from past audits and pending Plan of Actions and Milestones (POA&Ms). To address the core areas of the material control weakness, OPM has established a remediation plan with the ITSP group consisting of the following priorities:

Priority 1: Revise Entity-Wide IT Security Policies, Procedures and Guidelines

Priority 2: Document and Enhance the Current Assessment Review Process (C&A)

Priority 3: Establish Robust IT Security and Privacy Compliance Training

Priority 4: Enhance Collaboration with IT Security Federal Entities and OPM's IT Security Community

Priority 5: Enhance Overall POA&M Management Program

Operational Material Weakness on the OIG Funding for Oversight of OPM's Revolving Fund

The OIG has indicated that it lacks sufficient resources to adequately conduct that part of its core mission involving oversight of OPM's Revolving Fund. Therefore, the OIG has reported an operational material weakness. In FY 2011, the OIG will continue to request, through its FY 2012 budget submission and legislative proposals, the resources needed to support effective OIG Revolving Fund oversight.

Internal Control over Financial Reporting

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

As in the prior years' assessments, FY 2010 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 (Board). The Board is co-chaired by the CFO and the Director, Internal Oversight and Compliance. The Board includes senior representatives from all major OPM organizations. Testing and evaluation activities were conducted, under the Board's oversight, by the Policy and Internal Control (PIC) group of OPM's CFO organization.

At the September 29, 2010 Board meeting, the Board approved PIC's recommendation for an unqualified assurance statement for ICFR, as of June 30, 2010, given that no material weaknesses were found during evaluation and testing. However, OIG and its independent public accounting firm have reported deficiencies concerning the general IT control environment as a material weakness on the consolidated financial statement audit. For the past few years, the independent auditors have reported the general IT control environment as a significant deficiency, and OIG has identified related IT issues as a material weakness in previous FISMA reporting. Although progress was made on some key items in FY 2010, problems related to policies and procedures, certification and accreditation, system access, and physical access continue to persist. Consequently, based on the results of the consolidated financial statement audit, OPM is reporting a qualified assurance for its internal control over financial reporting as of June 30, 2010.

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, 2009, through September 30, 2010. Table 9—Inspector General Audit Findings provides a summary of OIG's audit findings and actions taken in response by OPM management during this period.

Table 9 — Inspector General Audit Findings

FY 2010	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1, 2009	12	$10.6
New reports requiring management decisions	20[1]	81.0
Management decisions made during the year	25	36.7
Costs disallowed	-	37.6
Costs not disallowed	-	(0.8)[2]
Reports with no management decision on September 30, 2010	7	$54.8

FY 2009	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1, 2008	15	$34.2
New reports requiring management decisions	31[1]	48.5
Management decisions made during the year	34	72.1
Costs disallowed	-	73.8
Costs not disallowed	-	(1.7)[2]
Reports with no management decision on September 30, 2009	12	$10.6

1 The number of new reports requiring a management decision represents reports with monetary recommendations. The total number of new reports issued during the fiscal year is 57, of which 37 included only procedural recommendations, or were without any recommendations.

2 Represents the net of allowed cost, which includes overpayments and underpayments to insurance carriers.

Federal Information Security Management Act (FISMA)

FISMA requires the CIO to conduct an annual Agency security program review in coordination with agency program officials. OPM is pleased to provide the detailed results of this review conducted for Fiscal Year (FY) 2010.

OPM's IT security and privacy program has managed to make some progress with the limited available resources. An ITSPG lead, referred to as the SAISO, was hired to manage and oversee the program. The mission of the ITSPG is to protect and defend against information security threats and risks, meet organizational goals, exceed industry best practices and Federal security and privacy requirements to ensure the confidentiality, integrity, and availability of all resources within OPM. The SAISO has identified resources needed and made recommendations regarding staffing changes and several new positions are authorized for the ITSPG. Further, as a result of the audit, each area identified has been added to the CIO Plan of Action and Milestones listing. That list is under review for priority of actions to be taken based on the resources available. OPM will ensure that all actions are corrected within the milestones established.

In addition, in FY 2010 OPM successfully implemented an automated process for conducting mandatory training for all employees. This training included OPM policy and instructions for reporting data breaches and guidance for the use of personally identifiable information (PII). The training was completed by more than 96% of the agency OPM's approximately 11,193 employees and contractors. The completion rate for role-based training in FY 2010 was over 96% for both Federal employees and contractors. OPM will continue to track the status of compliance with required annual training to ensure its employee populations are aware of IT security policies and processes.

The priorities for OPM's ITSPG in FY 2010 are to strengthen the security and privacy program to ensure the confidentiality, availability and integrity of the OPM network and data. ITSPG will focus on establishing roles and responsibilities, aligning IT security and privacy responsibilities under ITSPG, improving certification and accreditation, policy and standards development, security training and awareness, network and cyber security, and the privacy program. OPM understands that we must remain committed to a strong and effective IT security and privacy program to protect our critical assets.

Compliance with Other Key Legal and Regulatory Requirements

OPM is required to comply with other legal and regulatory financial requirements, such as the Debt Collection Improvement Act (DCIA). Information concerning these regulatory requirements can be found in the Other Accompanying Information Section 3, of this report.

Goals and Strategies

OPM is firmly committed to improving financial performance and received an unqualified audit opinion for OPM's financial statements. OPM has developed a plan to implement cost-accounting standards across the agency; routinely provides status of funds and other financial statements and reports to financial and program managers; and has also 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 for improved financial-management performance:

- Ensure that critical financial performance indicators are objective, understandable, meaningful, fair and fully measurable
- Improve internal controls over financial reporting through improved systems and processes
- Re-affirm processes, controls and procedures to ensure that continuing Independent Public Accountant (IPA) unqualified audit opinions will be earned on the annual financial statements
- Continue to implement a new integrated financial management system fully compliant with Federal standards, providing sound, effective support to all customers
- Strengthen stewardship, accountability and internal controls over financial reporting, as stipulated by revised OMB Circular A-123
- Reduce improper payments to target levels

Limitations of the Consolidated Financial Statements

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

Section 2 — FY 2010 Financial Information

A Message from the Chief Financial Officer

This is the third year the United States (U.S.) Office of Personnel Management (OPM) has chosen to produce an Agency Financial Report (AFR), which provides details on relevant financial data within 45 days of the accounting closing period in accordance with Office of Management and Budget (OMB) guidelines. Under a separate cover, OPM will submit the Annual Performance Report in conjunction with its Congressional Budget Justification for submission of the President's Fiscal Year (FY) 2012 Budget to Congress and a Summary of Performance and Financial Information which provides a concise summary of the past year's outcomes. This approach offers more transparent conveyance to the public with improved quality and utility for management.

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

OPM continues to improve its financial management and work with our partners to modernize the current financial systems. Considerable progress was made this year to replace OPM's accounting systems with the Consolidated Business Information System (CBIS). We have been working with our vendor in support of the implementation and modernization process and implemented the first phase for the Revolving Fund Programs and Salaries and Expense (S&E) Fund accounts on October 1, 2009.

OPM also issued a qualified assurance statement on internal control over financial reporting in accordance with the requirements of the revised OMB Circular A-123, Management's Responsibility for Internal Control. This was caused by a material weakness concerning OPM's information systems general control environment. OPM believes that significant progress has been made towards resolving this beginning with the hiring of a new Senior Agency Information Security Officer (SAISO) in April 2010. A first-time, formal budget submission was developed for the ITSP group to support critical funding requirements. For example, hiring of additional IT security staff has commenced to support the IT Security Governance program and management of the Certification & Accreditation (C&A) process. Secondly, an Inter-Agency Agreement was signed with the Bureau of the Public Debt (BPD) to provide assistance in updating OPM IT Security policies and procedures. Addressing and resolving the material weakness will continue to be a priority in FY 2011.

Our reviews under the Improper Payments Information Act have been expanded to include payments to vendors for OPM's Background Investigations program, which encompasses approximately 90 percent of Government-wide background checks. The related reviews required the timely completion of rigorous assessments, documentation and testing of our procedures and controls over financial reporting.

Implementation of CBIS will assist in reducing improper payments and improve reconciliation by direct transfer of case management information into CBIS.

OPM's Revolving Fund (RF) Programs business line is expanding and so is our accountability over these key resources. This year we have implemented a full budget function including 5 year business plans for each of our lines of business. With the implementation of CBIS, OPM will expand the audit activities over the RF Programs and fully integrate these fundamental programs into the budgeting, accounting and accountability functions applied to all OPM activities. Users of the products and services will have a new understanding into the overall accounting for each line of business and the fees charged for those services.

We carry out our responsibilities over the $890 billion in the Federal employees earned-benefit trust funds with pride, and are honored to safeguard these assets on behalf of Federal employees, retirees, their survivors and families against waste, fraud and abuse. It is with great pleasure that I, on behalf of our staff, provide you with the FY2010 AFR documenting OPM's careful stewardship over Federal employees' retirement, health and life insurance funds as supported by an unqualified audit opinion.

Sincerely,

Stephen J. Agostini

Stephen Agostini
Chief Financial Officer

Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415
November 10, 2010

Report No. 4A-CF-00-10-015

MEMORANDUM FOR JOHN BERRY
Director

FROM: PATRICK E. McFARLAND
Inspector General

Patrick E McFarland

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year 2010 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 2010 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, 2010 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 No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

KPMG's audit report for Fiscal Year 2010 includes: (1) opinions on the consolidated financial statements and the individual statements for the three benefit programs, (2) a

Honorable John Berry

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

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

- KPMG's report identified one material weakness in the internal controls:

    - Information systems general control environment (OPM and the Programs)

    A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

- KPMG's report identified one significant deficiency:

    - Financial management and reporting processes of the Chief Financial Officer (CFO). (RF Program and S&E Fund)

    A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 2010 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.

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

Honorable John Berry

express, opinions on OPM's financial statements or internal controls or on whether OPM's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated November 9, 2010, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with the generally accepted GAS.

In accordance with the OMB Circular A-50 and Public Law 103-355, all audit findings must be resolved within six months of the date of this report. In order to ensure audit findings are resolved within the required six-month period, we are asking that the CFO 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 CFO should describe planned corrective action. If the CFO 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: Stephen Agostini
Chief Financial Officer

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

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, 2010 and 2009, 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, 2010 and 2009, and the related individual statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as the Programs' "individual financial statements"), for the years then ended.

The objective of our audits was to express an opinion on the fair presentation of these consolidated and individual financial statements. In connection with our fiscal year 2010 audit, we also considered OPM's and the Programs' internal controls over financial reporting and tested OPM's and the Programs' compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated and individual financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that OPM's consolidated financial statements and the Programs' individual financial statements as of and for the years ended September 30, 2010 and 2009, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be a material weakness (1) and other deficiencies that we consider to be a significant deficiency (2), as defined in the Internal Control Over Financial Reporting section of this report, as follows:

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

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

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that is 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*, as amended.

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Office of Personnel Management as of September 30, 2010 and 2009, 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, 2010 and 2009, 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 2010 Agency Financial Report*.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OPM and the financial position of each of the Programs as of September 30, 2010 and 2009, 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 Footnote 1.E., OPM adopted Statement of Federal Financial Accounting Standards Number 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates* for its Programs, which is effective as of October 1, 2009.

The information in the Management's Discussion and Analysis and Required Supplementary Information sections of OPM's *Fiscal Year 2010 Agency Financial Report* is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of OPM taken as a whole and on the Programs' individual financial statements. The individual financial statements of the RF Program and S&E Fund included in the Consolidating Financial Statements section of OPM's *Fiscal Year 2010 Agency Financial Report* (Schedules 1 through 4) are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, and budgetary resources of the individual RF

Program and S&E Fund. The financial statements of the RF Program and S&E Fund have been subjected to the auditing procedures applied in the audit of the consolidated financial statements of OPM and, in our opinion, are fairly stated in all material aspects in relation to OPM's consolidated statements taken as a whole.

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

The information in the Other Accompanying Information, and Appendix A, included in OPM's *Fiscal Year 2010 Agency Financial Report*, are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, in our fiscal year 2010 audit, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be a significant deficiency.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Exhibit I to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit II to be a significant deficiency.

Exhibit III presents the status of prior year significant deficiencies.

We noted certain additional matters that we have reported to management of OPM in a separate letter dated November 9, 2010.

COMPLIANCE AND OTHER MATTERS

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

The results of our tests of FFMIA disclosed no instances in which OPM's or the Programs' financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

* * * * *

RESPONSIBILITIES

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

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2010 and 2009 consolidated financial statements of OPM and the individual financial statements of the Programs based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OPM's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

KPMG

- Evaluating the overall consolidated OPM financial statements 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 2010 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, but not for the purpose of expressing an opinion on the effectiveness of OPM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OPM's internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether OPM's fiscal year 2010 consolidated and the Programs' fiscal year 2010 individual financial statements are free of material misstatement, we performed tests of OPM's and the Programs' compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to OPM and the Programs. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

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 9, 2010

Exhibit I. Material Weakness

Information systems general control environment

Deficiencies in OPM's and the Programs' information system general controls that were identified and reported as a significant deficiency in previous years continue to persist. Although changes in information system management during this fiscal year, including the appointment of a new Chief Information Officer (CIO) and Senior Agency Information Security Officer, has resulted in plans to address these weaknesses, these plans have not yet been fully executed to resolve long-standing deficiencies in OPM's security program. Specifically, security policies and procedures are not complete and have not been updated to incorporate current authoritative guidance, including guidance on performing security authorization (certification and accreditation or "C&A"). In addition to findings related to security management, we noted general control findings (e.g. access control, configuration management, and segregation of duties as follows:

- OPM has not certified and accredited all its systems;
- OPM has not identified common controls, control responsibilities, boundaries and interconnections for information systems in its system inventory;
- The CIO does not have a process to perform sufficient oversight of the C&A activities of Program Offices to ensure that they are performed in accordance with OPM and authoritative guidance.
- OPM management did not maintain accurate and complete Plans of Actions and Milestones (POA&M).

These deficiencies combined are a material weakness in OPM's internal control environment based on OPM not significantly remediating these deficiencies noted in prior years.

<u>Recommendation</u>

KPMG recommends that the CIO:

1. Develop and promulgate entity-wide security policies and procedures and assume more responsibility for the coordination and oversight of Program Offices in completing certification and accreditation and other information security requirements and activities.

2. Identify common controls, control responsibilities, boundaries and interconnections for information systems in its system inventory.

3. Implement a process to ensure the POA&Ms remains accurate and complete.

Management Response

(1) OPM concurs with KPMG's recommendation and is working to develop comprehensive IT security policies. The new policies will be based on FISMA and NIST recommendations and will correct the existing policy deficiencies. Existing security procedures are being updated or developed. Additional security staff resources have been recruited to improve coordination and security oversight of the certification and accreditation process and to ensure that Authority to Operate remains current for all systems in the OPM system inventory.

(2) OPM concurs with KPMG's recommendation. A project is currently underway to established agency wide common controls that will be available to OPM program offices to facilitate certification and accreditation activities. Standard security plan templates are under development and will require documentation of system boundaries for each system and improve the overall quality of certification & accreditation packages. Requirements for interconnection security agreements will be included in the new security policy under development. Steps are being taken to update and maintain the interconnections security agreements in the OPM system inventory.

(3) OPM concurs with KPMG's recommendation and is updating existing processes to remediate and improve oversight of the POA&M management process. Addition training and staff resources are being focused on POA&M management in FY ll. As of the end of the 4th quarter FY 2010 we received POA&M updates from all program offices.

Exhibit II. Significant Deficiency

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

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

a. Reconciliations are not consistently or always supported and clearly documented and are not always performed in a timely manner for the RF Program and S&E Funds.

b. Unidentified differences exist between Treasury and the RF Program and S&E Funds.

c. Disbursements were not reconciled to the Consolidated Business Information System in a timely manner.

d. OPM does not consistently record and report RF Program and S&E Funds transactions at the United States Standard General Ledger transaction level.

e. Documentation supporting transactions and balances is not readily available.

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

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

Recommendation

KPMG recommends that:

1. OPM continue to reconcile, identify, and correct existing differences between OPM's internal data and the information reported by Treasury. At such a time when no additional reductions can be identified, OPM should, in conjunction with appropriate oversight agencies, write down the remaining amount to clear the remaining FBWT balance.
2. OPM actively enforce procedures regarding the documentation of the RF Program and S&E Funds reconciliations in accordance with guidelines outlined in the "Treasury Financial Manual" and OPM's "Cash Management Policy and Procedures."
3. OPM review and document all RF Program and S&E Funds business processes and identify and document internal controls.

4. Make appropriate system and manual process changes, to include implementation of internal controls, to ensure RF Program and S&E Funds financial statement balances can be fully supported.

Management Response

OPM deployed the Consolidated Business Information System (CBIS) in FY 2010 as the Agency financial system for the RF Program and S&E Funds. OPM will continue to improve CBIS and associated financial processes, including providing additional staff training, in FY 2011.

Regarding cash reconciliations, CBIS has essential reporting capabilities. However, due to the data volume exceeding the software (Excel) capacity, the reports from CBIS were not available for the initial 6 months of FY 2010. As a result, during this initial deployment period, OPM's ability to reconcile cash was limited. In April, a SF-224 supplemental query was developed to resolve this system limitation. OPM will focus on cash reconciliations, including updates to current FBWT reconciliation procedures to reflect OPM's current environment and Treasury's guidelines, in FY 2011. OPM will also work to improve its ability to provide supporting documentation for RF and S&E balances and transactions in a manner to meet the needs of its auditors as well as other stakeholders. OPM believes that, based on source documents, and on OPM personnel knowledge and extensive experience, proper adjustments were recorded to accurately state the RF and S&E account balances at year end.

Exhibit III Status of Prior Year Significant Deficiencies

Exhibit	Title of Finding from FY09 Report	Program/ Fund	Prior Year Status	Current Year Status	Factors Affecting Current Year Status
I	Information Systems General Control Environment	All (A)	Significant Deficiency	Material Weakness – See FY 2010, Exhibit I	OPM has made some improvement to Information Systems General Control Environment, however, many deficiencies have existed for several years.
II	Financial Management Reporting Processes of the Office of the Chief Financial Officer (CFO)	RF; S&E	Significant Deficiency	Significant Deficiency - See FY 2010, Exhibit II	OPM has made efforts toward improvement, however, deficiencies still exist.

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

Consolidated Financial Statements

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED BALANCE SHEETS
As of September 30, 2010 and 2009
(In Millions)

	2010	2009
ASSETS		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	$1,831	$1,853
Investments [Note 3]	886,313	850,703
Accounts Receivable [Note 4]	2,271	1,981
Total Intragovernmental	890,415	854,537
Accounts Receivable from the Public, Net [Note 4]	1,456	1,314
General Property and Equipment, Net	33	22
Other [Note 1L]	745	741
TOTAL ASSETS	$892,649	$856,614
LIABILITIES		
Intragovernmental [Note 6]	$541	$685
Federal Employee Benefits:		
Benefits Due and Payable	10,126	9,872
Pension Liability [Note 5A]	1,550,200	1,454,700
Post-retirement Health Benefits Liability [Note 5B]	341,465	339,884
Actuarial Life Insurance Liability [Note 5C]	43,205	38,955
Total Federal Employee Benefits	1,944,996	1,843,411
Other [Notes 6 and 7]	1,207	1,243
Total Liabilities	1,946,744	1,845,339
NET POSITION		
Unexpended Appropriations — Other Funds	97	84
Cumulative Results of Operations — Earmarked Funds [Note 8]	(1,054,603)	(989,134)
Cumulative Results of Operations — Other Funds	411	325
Total Net Position	(1,054,095)	(988,725)
TOTAL LIABILITIES AND NET POSITION	$892,649	$856,614

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30, 2010 and 2009
(In Millions)

		2010	2009
Provide CSRS Benefits	Gross Costs	$39,293	$97,870
	Less: Earned Revenue	23,790	24,984
	Net Cost	15,503	72,886
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A]	55,481	–
	Net Cost of Operations [Notes 9 and 10]	$70,984	$72,886
Provide FERS Benefits	Gross Costs	$40,112	$37,279
	Less: Earned Revenue	38,248	36,297
	Net Cost	1,864	982
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A]	29,902	–
	Net Cost of Operations [Notes 9 and 10]	$31,766	$982
Provide Health Benefits	Gross Costs	$41,966	$45,599
	Less: Earned Revenue	37,608	31,214
	Net Cost	4,358	14,385
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5B]	(1,272)	–
	Net Cost of Operations [Notes 9 and 10]	$3,086	$14,385
Provide Life Insurance Benefits	Gross Costs	$4,399	$4,668
	Less: Earned Revenue	4,386	4,338
	Net Cost	13	330
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5C]	2,477	–
	Net Cost of Operations [Notes 9 and 10]	$2,490	$330
Provide Human Resource Services	Gross Costs	$1,651	$1,553
	Less: Earned Revenue	1,617	1,487
	Net Cost of Operations [Notes 9 and 10]	$34	$66
Total Net Cost of Operations	Gross Costs	$127,421	$186,969
	Less: Earned Revenue	105,649	98,320
	Net Cost	21,772	88,649
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Notes 5A, 5B, and 5C]	86,588	–
	Net Cost of Operations [Notes 9 and 10]	$108,360	$88,649

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2010 and 2009
(In Millions)

	2010			2009		
	Earmarked Funds	All Other Funds	Consolidated Total	Earmarked Funds	All Other Funds	Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balances	($989,134)	$325	($988,809)	($941,122)	$280	($940,842)
Budgetary Financing Sources:						
Appropriations Used	42,862	86	42,948	40,579	79	40,658
Other Financing Sources	(5)	34	29	(8)	32	24
Total Financing Sources	42,857	120	42,977	40,571	111	40,682
Net Cost of Operations	108,326	34	108,360	88,583	66	88,649
Net Change	(65,469)	86	(65,383)	(48,012)	45	(47,967)
Cumulative Results of Operations — Ending Balance	($1,054,603)	$411	($1,054,192)	($989,134)	$325	($988,809)
UNEXPENDED APPROPRIATIONS						
Beginning Balance	—	$84	$84	—	$75	$75
Budgetary Financing Sources:						
Appropriations Received	$43,308	106	43,414	$41,063	95	41,158
Appropriations Used	(42,862)	(86)	(42,948)	(40,579)	(79)	(40,658)
Other Budgetary Financing Sources	(446)	(7)	(453)	(484)	(7)	(491)
Total Budgetary Financing Sources	—	13	13	—	9	9
Total Unexpended Appropriations — Ending Balance	—	97	97	—	84	84
Net Position	($1,054,603)	$508	($1,054,095)	($989,134)	$409	($988,725)

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2010 and 2009
(In Millions)

	2010	2009
BUDGETARY RESOURCES		
Unobligated Balance — Brought Forward, October 1:	$49,337	$47,229
Recoveries of Prior-Year Unpaid Obligations	13	134
Budget Authority:		
Appropriations:		
Received	43,414	41,158
Other	(446)	(483)
Appropriated Trust Fund Receipts	102,662	95,883
Spending Authority from Offsetting Collections:		
Collected	45,776	43,327
Change in Receivables from Federal Sources and Unfilled Customer Orders	774	234
Subtotal	46,550	43,561
Temporarily Not Available Pursuant to Public Law	(32,964)	(27,823)
Permanently Not Available	(7)	(11)
Total Budgetary Resources	$208,559	$199,648
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred: [Note 12]		
Direct	$154,588	$148,503
Reimbursable	2,320	1,808
Subtotal	156,908	150,311
Unobligated Balance:		
Apportioned	667	497
Unobligated Balance Not Available	50,984	48,840
Total Status of Budgetary Resources	$208,559	$199,648
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	$12,423	$12,170
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	2,924	2,686
Total Unpaid Obligated Balance, Net	9,499	9,484
Obligations Incurred, Net	156,908	150,311
Less: Gross Outlays	155,925	149,928
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	13	134
Change in Uncollected Customer Payments from Federal Sources	774	234
Obligated Balance, Net, End of Period		
Unpaid Obligations	13,393	12,423
Less: Uncollected Customer Payments from Federal Sources	3,698	2,924
Total Unpaid Obligated Balance, Net, End of Period	9,695	9,499
NET OUTLAYS		
Net Outlays:		
Gross Outlays	155,925	149,928
Less: Offsetting Collections	45,776	43,327
Less: Distributed Offsetting Receipts	40,231	34,288
Net Outlays	$69,918	$72,313

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

U.S. OFFICE OF PERSONNEL MANAGEMENT NOTES TO FINANCIAL STATEMENTS

September 30, 2010 and 2009

[$ in millions]

Note 1—Summary of Significant Accounting Policies

A. Reporting Entity

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

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

The financial statements comprise the following major programs administered by OPM. The funds related to the operation of the Retirement Program, the Health Benefits Program, and the Life Insurance Program are "earmarked funds," as defined by *Statement of Federal Financial Accounting Standards Number (SFFAS No.) 27, Identifying and Reporting Earmarked Funds*. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. For additional information on Earmarked Funds, please see Note 8 of Notes to Financial Statements.

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

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

rated, with the amount contributed by and for participants affected by, among other things, the number and size of claims. Most HMO contracts are *community-rated,* so that the amount paid by and for participants is essentially the same as that paid by and for participants in similarly-sized subscriber groups.

In December 20, 2006, President Bush signed into law the Postal Accountability and Enhancement Act (the Postal Act), Public Law (P.L.) 109- 435. Title VIII of the Postal 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). The Postal Act required the USPS to make scheduled payments to the Postal Service Retiree Health Benefits (PSRHB) Fund. The PSRHB Fund is included in the Health Benefits Program.

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

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

Salaries and Expenses. Salaries and Expenses provides the budgetary resources used by OPM for administrative purposes in support of the Agency's mission and programs. 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 new obligations only during that fiscal year. Multiple-year appropriations are available for a definite period in excess of one fiscal year. No-year appropriations are available for obligation without fiscal year limitation.

B. Basis of Accounting and Presentation

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

OPM has presented comparative financial statements for the Consolidated and Consolidating Balance Sheets, Consolidated and Consolidating Statements of Net Cost, Consolidated and Consolidating Statements of

Changes in Net Position, and Combined and Combining Statements of Budgetary Resources, in accordance with OMB financial statement reporting guidelines.

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

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

C. Use of Management's Estimates

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

D. Financial Statement Classifications

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

Intragovernmental and Other Balances. Throughout these financial statements, intragovernmental assets, liabilities, revenues and costs have been classified according to the type of entity with which the transactions are associated. OPM classifies as intragovernmental those transactions with other Federal entities. 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 are 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 there are no intragovernmental gross costs 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 "predominant source of revenue that funds the investments;" 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 PSRHB Fund are classified as exchange revenues, since they represent exchanges of money and services in return for current and future benefits. The consolidated Statements of Net Cost provide 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.

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

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

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

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.

In FY 2010, OPM adopted the Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standard (SFFAS) Number (No.) 33: *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, effective for fiscal years beginning after September 30, 2009.

SFFAS No. 33 requires gains and losses from changes in long-term assumptions used to estimate federal employee pension, other retirement benefits (ORB), and other postemployment benefits (OPEB) liabilities to be displayed on the Statement of Net Cost separately from other costs in order to provide more transparent information regarding the underlying costs associated with these liabilities.

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

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

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

F. Program Funding

Retirement Program. Service-cost represents an estimate of the amount of contributions which, if accumulated and invested over the careers of participants, will be sufficient to fully fund their future CSRS or FERS benefits. OPM's Office of Actuaries applied a set of economic assumptions per SFFAS No. 33 to derive the FY 2010 cost factors for CSRS and FERS. For FY 2010 the service-cost for most or "regular" CSRS participants is 30.1 percent of basic pay, an increase of 4.3 percent from FY 2009. For FY 2010, the service cost for most or "regular" FERS participants is 13.8 percent of basic pay, an increase of 1.5 percent from FY 2009.

Agencies will not be required to pay these new normal costs until FY 2011 because of budgeting considerations. Therefore the contributions for FY 2010 remains the same as fiscal year 2009, as shown below:

> ***CSRS.*** Both CSRS participants and their employing agencies, with the exception of USPS, are required by statute to make contributions to CSRS coverage. Regular CSRS participants and their employers each contributed 7.0 percent of pay in both fiscal years 2010 and 2009. 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 FY 2010 and 2009, this amount was $33.2 and $31.4 billion, respectively.
>
> ***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 FY 2010 and 2009). The employer contribution rate is equal to the FERS service–cost, less the participant contribution rate (11.2 percent of pay in FY 2010 and 2009 for most participants). The FERS normal costs for funding increased due to a change in economic assumptions by the Board of Actuaries. However, due to budgeting considerations, an increase in contributions for FERS participants was deferred. Therefore, the total contributions by and for FERS participants (12.0 percent) did not fully cover the FERS service-cost in both FY 2010 and 2009, resulting

in agencies' recognizing a FERS-related imputed cost for financial reporting purposes. An increase in agencies' FERS contribution rate effective in FY 2011 (11.7 percent of pay) will result in the total contribution rate equaling the FERS normal cost.

Health Benefits Program. The Program (with the exception of the PSRHB Fund) is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions on approximately a one-quarter to three-quarters basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation). The Program continues to provide benefits to active employees (or their survivors) after they retire (post-Retirement benefits). With the exception of the USPS, agencies are not required to make contributions for the post-Retirement coverage of their active employees.

P.L. 109-435 requires the USPS to make scheduled payment contributions to the PSRHB Fund ranging from approximately $5.4 to $5.8 billion per year from FY 2007 through FY 2016 according to the legislation. The payment for FY 2010 was $5.5 billion. The payment for FY 2009 was reduced to $1.4 billion by P.L. 111-68, signed into law on October 1, 2009, and retroactive to when P.L. 109-435 was originally signed into law on December 20, 2006.

Life Insurance Program. The Program is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation). The Program is funded using the "level premium" method, where contributions paid by and for participants remain fixed until age 65, but overcharge during early years of coverage to compensate for higher rates of expected outflows at later years. A portion of post-retirement life insurance coverage (0.02 percent of the pay of participating employees in fiscal years 2010 and 2009) is not funded. Employing agencies must recognize this amount as an imputed cost.

Revolving Fund Programs. OPM's Revolving Fund Programs provide for a continuing cycle of human resources services primarily to Federal agencies on a reimbursable basis. Each program is operated at rates established by OPM to be adequate to recover costs over a reasonable period of time. Receipts derived from operations are, by law, available in their entirety for use of the fund without further action by Congress. Since the Revolving Fund's Programs charge full cost, customer-agencies, do not recognize imputed costs. OPM provides receiving entities of such services with full cost information through billings based on reimbursable agreements for services rendered. Examples of OPM Revolving Fund Programs include testing for the Department of Defense, Go Learn, Investigative Services, and the Center for Leadership Capacity.

Salaries and Expenses. The S&E account and the OIG S&E account finance most of OPM's operating expenses and have three funding sources: salaries and expenses appropriation, transfers from the trust fund accounts, and advances and reimbursements. Funds to administer these programs are transferred from the trust fund accounts to the respective administrative S&E account as costs are incurred.

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 OPM. 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 expired.

Trust Fund Receipts. The amounts collected by OPM and credited to the CSRDF generate budgetary resources in the form of trust fund receipts. Trust fund receipts are considered to be immediately appropriated and available to cover the valid obligations of the Retirement Program as they are incurred. At the end of each fiscal year, the amount by which OPM's collections have exceeded its incurred obligations are temporarily precluded from obligation and added to OPM's trust fund balance. The amounts collected by OPM in the PSRHB Fund are precluded from obligation until 2017 when the funds will be available to pay annual premium costs for the (USPS) post-1971 current annuitants [See Note 11].

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

I. Fund Balance with Treasury

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

J. Investments

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

The Retirement Program also carries securities issued by the Federal Financing Bank (FFB) and a small amount of other securities.

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

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

K. Accounts Receivable, Net

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

L. Other Assets

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

M. General Property and Equipment

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

N. Benefits Due and Payable

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

O. Actuarial Liabilities and Associated Expenses

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

P. Cumulative Results of Operations

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

Q. Tax Status

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

Note 2—Fund Balance with Treasury

Fund Balances. OPM's FBWT balances by account type for fiscal years 2010 and 2009 are:

September 30, 2010 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Trust Fund	$17	–	–	–	$17
Revolving Fund	–	–	–	$569	569
General Funds	–	$1,072	$5	95	1,172
Trust Revolving Funds	–	67	6	–	73
Total	**$17**	**$1,139**	**$11**	**$664**	**$1,831**
September 30, 2009 ($ in millions)					
Trust Fund	$19	–	–	–	$19
Revolving Fund	–	–	–	$761	761
General Funds	–	$994	$5	63	1,062
Trust Revolving Funds	–	5	6	–	11
Total	**$19**	**$999**	**$11**	**$824**	**$1,853**

Status of Unexpended Balances. OPM's unexpended balances are comprised of its FBWT and its investments (at par, net of original discount). The following table presents the portions of OPM's unexpended balances that are obligated, unobligated and precluded from obligation at the end of FYs 2010 and 2009:

September 30, 2010 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$17	$1,139	$11	$664	$1,831
Investments	780,364	58,281	37,144	–	875,789
Total, Unexpended Balance	**$780,381**	**$59,420**	**$37,155**	**$664**	**$877,620**
STATUS OF UNEXPENDED BALANCES					
Unobligated:					
Available	–	–	–	$667	$667
Unavailable	–	$14,134	$36,747	103	50,984
Obligated not yet Disbursed	$6,222	3,171	408	(106)	9,695
Precluded (See Note 11)	774,159	42,115	–	–	816,274
Total, Status of Unexpended Balances	**$780,381**	**$59,420**	**$37,155**	**$664**	**$877,620**

September 30, 2009 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$19	$999	$11	$824	$1,853
Investments	754,243	50,404	35,646	–	840,293
Total, Unexpended Balance	**$754,262**	**$51,403**	**$35,657**	**$824**	**$842,146**
STATUS OF UNEXPENDED BALANCES					
Unobligated:					
Available	–	–	–	$497	$497
Unavailable	–	$13,126	$35,294	420	48,840
Obligated not yet Disbursed	$6,067	3,162	363	(93)	9,499
Precluded (See Note 11)	748,195	35,115	–	–	783,310
Total, Status of Unexpended Balances	**$754,262**	**$51,403**	**$35,657**	**$824**	**$842,146**

Note 3 — Investments

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

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

Treasury securities provide OPM with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When OPM requires redemption of these Treasury securities to make expenditures, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. This is the same way the Government finances all other expenditures. When a security is redeemed and not carried to maturity, there is a risk that the fund could receive less value in return for the security it gave up. The Health Benefit and Life Insurance funds had approximately $97 billion invested as of September 30, 2010. Approximately $55 billion are market-based and have some market value risk.

The following tables summarize OPM's investments by Program (all earmarked funds) at the end of fiscal years 2010 and 2009.

As of September 30, 2010 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program**:**						
(1) Marketable:						
FFB Securities	$10,239	–	$119	$10,358	–	$10,239
(2) Non-Marketable: (PAR)						
Par-value GAS securities	734,991	–	8,730	743,721	–	734,991
Certificates of Indebtedness	35,135	–	2	35,137	–	35,135
Total Retirement Program	**$780,365**	**–**	**$8,851**	**$789,216**	**–**	**$780,365**
Health Benefits Program:						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$16,289	($40)	$67	$16,316	$4	$16,927
Non-Marketable: (PAR)						
Par-value GAS securities	36,615	–	377	36,992	–	36,615
Certificates of Indebtedness	5,500	–	–	5,500	–	5,500
Total Health Benefits Program	**$58,404**	**($40)**	**$444**	**$58,808**	**$4**	**$59,042**
Life Insurance Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$37,958	($20)	$351	$38,289	$334	$40,709
Total Life Insurance Program	**$37,958**	**($20)**	**$351**	**$38,289**	**$334**	**$40,709**
Total Investments	***$876,727***	***($60)***	***$9,646***	***$886,313***	***$338***	***$880,116***

As of September 30, 2009 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program:						
(1) Marketable:						
FFB Securities	$11,921	–	$139	$12,060	–	$11,921
(2) Non-Marketable: (PAR)						
Par-value GAS securities	705,137	–	8,895	714,032	–	705,137
Certificates of Indebtedness	37,185	–	23	37,208	–	37,185
Total Retirement Program	**$754,243**	**–**	**$9,057**	**$763,300**	**–**	**$754,243**
Health Benefits Program:						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$15,389	($23)	$ 72	$15,438	($4)	$15,975
Non-Marketable: (PAR)						
Par-value GAS securities	33,715	–	367	34,082	–	33,715
Certificates of Indebtedness	1,400	–	–	1,400	–	1,400
Total Health Benefits Program	**$50,504**	**($23)**	**$439**	**$50,920**	**($4)**	**$51,090**
Life Insurance Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$36,019	$86	$378	$36,483	($41)	$38,359
Total Life Insurance Program	**$36,019**	**$86**	**$378**	**$36,483**	**($41)**	**$38,359**
Total Investments	***$840,766***	***$63***	***$9,874***	***$850,703***	***($45)***	***$843,692***

Note 4—Accounts Receivable, Net

Intragovernmental. The balances comprising OPM's intragovernmental accounts receivable as of September 30, 2010 and 2009 are:

September 30, 2010 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	$1,238	$892	$27	–	$2,157
Other	–	–	–	$114	114
Total	**$1,238**	**$892**	**$27**	**$114**	**$2,271**
September 30, 2009 ($ in millions)					
Employer contributions receivable	$1,087	$781	$24	–	$1,892
Other	–	–	–	$89	89
Total	**$1,087**	**$781**	**$24**	**$89**	**$1,981**

From the Public. The balances comprising the accounts receivable OPM classifies as "from the public" at September 30, 2010 and 2009 are presented, in the following table. See Note 1K for the methodology used to determine the allowance.

September 30, 2010 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	$193	$840	$177	–	$1,210
Overpayment of benefits [net of allowance of $88]	191	–	–	–	191
Due from carriers [net of allowance of $8]	–	39	–	–	39
Other	–	–	–	$16	16
Total	**$384**	**$879**	**$177**	**$16**	**$1,456**
September 30, 2009 ($ in millions)					
Participant contributions receivable	$185	$729	$158	–	$1,072
Overpayment of benefits [net of allowance of $79]	192	–	–	–	192
Due from carriers [net of allowance of $19]	–	49	–	–	49
Other	–	–	–	$1	1
Total	**$377**	**$778**	**$158**	**$1**	**$1,314**

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.

In FY 2010, OPM adopted SFFAS No. 33 which requires disclosure of the components of the expense associated with Federal employee pension, other retirement benefits (ORB), and other post employment benefits (OPEB) liabilities in notes to the financial statements in order to provide useful information for analysis. The information will be comparable across agencies and between post employment and retirement programs. SFFAS No. 33 also provides a standard for selecting the discount rate assumption for present value estimates of Federal employee pension, ORB, and OPEB liabilities. In addition, SFFAS No. 33 provides a standard for selecting the valuation date for estimates of Federal employee pension, ORB, and OPEB liabilities, which will establish a consistent method for such measurements.

Economic Assumptions. With the implementation of SFFAS No. 33 for FY 2010, there are significant changes to the economic assumptions used to calculate the Pension Liability and related expense. Economic assumptions under SFFAS No. 33 are based on 10-year historical averages. The following presents the significant economic assumptions used to compute the Pension Liability in fiscal years 2010 and 2009:

	FY 2010		FY 2009	
	CSRS	FERS	CSRS	FERS
Interest rate	4.80%	5.10%	6.25%	6.25%
Rate of inflation	2.50%	2.50%	3.50%	3.50%
Rate of increases in salary	3.50%	3.50%	4.25%	4.25%

Pension Expense. The following tables present Pension Expense by cost component for fiscal years 2010 and 2009:

FY 2010 ($ in millions)	CSRS	FERS	TOTAL
Service cost	$8,155	$21,297	$29,452
Interest cost	67,598	22,095	89,693
Actuarial loss/(gain)	(36,460)	(3,280)	(39,740)
Actuarial loss/(gain) – Assumptions	55,481	29,902	85,383
Pension Expense	**$94,774**	**$70,014**	**$164,788**
FY 2009 ($ in millions)			
Service cost	$8,770	$19,168	$27,938
Interest cost	65,434	20,025	85,459
Actuarial loss/(gain)	23,666	(1,914)	21,752
Pension Expense	**$97,870**	**$37,279**	**$135,149**

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

FY 2010 ($ in millions)	CSRS	FERS	TOTAL
Pension Liability at October 1, 2009	$1,109,000	$345,700	$1,454,700
Plus: Pension Expense			
Normal Cost	$8,155	$21,297	$29,452
Interest on the Liability Balance	67,598	22,095	89,693
Actuarial (gain)/loss:			
From experience:	(36,460)	(5,692)	(42,152)
From plan amendments:	–	2,412	2,412
From changes in actuarial assumptions:	55,481	29,902	85,383
Prior Service Costs:	–	–	–
Other	–	–	–
Net Loss	$19,021	$26,622	$45,643
Total Expense:	$94,774	$70,014	$164,788
Less: Costs applied to Pension Liability	63,874	5,414	69,288
Pension Liability at September 30, 2010	**$1,139,900**	**$410,300**	**$1,550,200**
FY 2009 ($ in millions)			
Pension Liability at October 1, 2008	$1,074,000	$313,200	$1,387,200
Plus: Pension Expense	97,870	37,279	135,149
Less: Costs applied to Pension Liability	62,870	4,779	67,649
Pension Liability at September 30, 2009	**$1,109,000**	**$345,700**	**$1,454,700**

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 2010 and 2009:

FY 2010 ($ in millions)	CSRS	FERS	TOTAL
Annuities	$63,564	$5,270	$68,834
Refunds of contributions	183	107	290
Administrative and other expenses	127	37	164
Costs applied to the Pension Liability	**$63,874**	**$5,414**	**69,288**
FY 2009 ($ in millions)			
Annuities	$62,566	$4,628	$67,194
Refunds of contributions	191	103	294
Administrative and other expenses	113	48	161
Costs applied to the Pension Liability	**$62,870**	**$4,779**	**$67,649**

B. Post-Retirement Health Benefits

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

Economic Assumptions. With the implementation of SFFAS No. 33 for FY 2010, there are significant changes to the economic assumptions used to calculate the PRHB liability and related expense. The following presents the significant economic assumptions used to compute the PRHB Liability as of the September 30 measurement date:

	FY 2010	FY 2009
Interest rate	5.10%	6.25%
Increase in per capita cost of covered benefits	7.00%	8.00%

PRHB Expense. The following presents the PRHB Expense by cost component for fiscal years 2010 and 2009:

($ in millions)	FY 2010	FY 2009
Service cost	$12,710	$11,561
Interest cost	21,243	20,061
Actuarial (gain)/loss	(17,948)	(10,433)
Actuarial (gain)/loss – Assumptions	(1,272)	–
PRHB Expense	**$14,733**	**$21,189**

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

($ in millions)	FY 2010	FY 2009
PRHB Liability at the beginning of the year	$339,884	$331,417
Plus: Pension Expense		
Normal Cost	12,710	11,561
Interest on the Liability Balance	21,243	20,061
Actuarial (gain)/loss:		
From experience:	(17,948)	(10,433)
From assumption changes:	(1,272)	—
Prior Service Costs:	—	—
Other	—	—
Total Expense:	14,733	21,189
Less: Costs applied to Pension Liability	(13,152)	(12,722)
PRHB Liability at the end of the year	**$341,465**	**$339,884**

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 2010 and 2009:

($ in millions)	FY 2010	FY 2009
Current benefits	$9,707	$9,373
Premiums	2,561	2,503
Administrative and other expenses	884	846
Total costs applied to the PRHB Liability	**$13,152**	**$12,722**

Effect of Assumptions. The increase in the per capita cost of covered benefits assumed by OPM's actuaries (7.0 percent in fiscal year 2010 and 8.0 percent in fiscal year 2009) 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 2010 and 2009:

($ in millions)	FY 2010		FY 2009	
	8.0% [One Percent Increase]	6.0% [One Percent Decrease]	9.0% [One Percent Increase]	7.0% [One Percent Decrease]
Interest cost component	$18,460	$14,950	$22,400	$18,031
Service cost component	16,060	9,978	14,694	9,063
PRHB Liability	$383,500	$305,080	$382,781	$302,865

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 applying SFFAS No. 33 and computing the CSRS Pension Liability in FY 2010 and FY 2009 except in FY 2010 the interest rate is 4.9 percent instead of 4.8 percent. [See Note 5A].

	FY 2010	FY 2009
Interest rate	4.90%	6.25%
Rate of increases in salary	3.50%	4.25%

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

Life Insurance Expense. The following presents the Life Insurance Expense by cost component for fiscal years 2010 and 2009:

($ in millions)	FY 2010	FY 2009
New Entrant Expense	$ 299	$ 282
Interest cost	2,428	2,290
Actuarial (gain)/ loss	(434)	143
Actuarial (gain)/ loss — Assumptions	2,477	–
Life Insurance Expense	**$4,770**	**$2,715**

Future Life Insurance Benefits Expense. The Future Life Insurance Benefits Expense for fiscal years 2010 and 2009 is:

($ in millions)	FY 2010	FY 2009
Life Insurance Expense	$4,770	$2,715
Less: Net Costs applied to Life liability	520	517
Future Life Insurance Benefits Expense	$4,250	$2,198

Actuarial Life Insurance Liability. The following table presents the ALIL at the September 30 measurement date:

($ in millions)	FY 2010	FY 2009
Actuarial LI Liability at the beginning of the year	$38,955	$36,757
Plus: Expense		
New Entrant Expense	299	282
Interest on the Liability Balance	2,428	2,290
Actuarial (gain)/loss:		
From experience:	(434)	143
From assumption changes:	2,477	–
Prior Service Costs:	–	–
Other	–	–
Total LI Expense:	4,770	2,715
Less: Costs applied to Life Insurance Liability	(520)	(517)
Actuarial LI Liability at the end of the year	**$43,205**	**$38,955**

Note 6—Intragovernmental and Other Liabilities

The following liabilities are classified as "Intragovernmental" on the Balance Sheet as of September 30, 2010 and 2009:

September 30, 2010 ($ in millions)	Accounts Payable	Other	Total
Retirement	$79	–	$79
Health Benefits	276	–	276
Life Insurance	1	–	1
Revolving Fund	6	$276	282
Salaries and Expenses	2	2	4
Eliminations	(98)	(3)	(101)
Total Intragovernmental Liabilities	**$266**	**$275**	**$541**
September 30, 2009 ($ in millions)			
Retirement	$61	–	$61
Health Benefits	270	–	270
Life Insurance	1	–	1
Revolving Fund	14	$410	424
Salaries and Expenses	1	3	4
Eliminations	(72)	(3)	(75)
Total Intragovernmental Liabilities	**$275**	**$410**	**$685**

The following liabilities, all current and "with the public," are classified as "other" on the Balance Sheet as of September 30, 2010 and 2009:

September 30, 2010 ($ in millions)	Withheld from benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued Administrative expenses	Contingencies	Total
Retirement Program	$720	–	–	–	$720
Health Benefits Program	–	$336	–	–	336
Life Insurance Program	–	17	–	–	17
Revolving Fund Program	–	–	$93	–	93
Salaries and Expenses	–	–	40	1	41
Total Other Liabilities	**$720**	**$353**	**$133**	**$1**	**$1,207**
September 30, 2009 ($ in millions)					
Retirement Program	$668	–	–	–	$668
Health Benefits Program	–	$383	–	$1	384
Life Insurance Program	–	15	–	–	15
Revolving Fund Program	–	–	$141	–	141
Salaries and Expenses	–	–	34	1	35
Total Other Liabilities	**$668**	**$398**	**$175**	**$2**	**$1,243**

Note 7 — Contingencies

Heath Benefits Program. In prior years, OPM was a party to litigation in which certain Health Benefits Program carriers were seeking relief for alleged underpayment of premiums. As a result of one adverse court decision, the Department of Justice, which represented OPM in the litigation, settled most of the remaining cases (one other case was tried and lost). Judgments/settlements in those cases were paid from the Treasury Judgment Fund (TJF). However, because any underpayments that may have occurred resulted from inaccuracies in the amount of contributions by or on behalf of employee-participants that were remitted to OPM by the employing agencies (which remittances came from the respective agencies' appropriations), OPM has neither the legal responsibility nor the legal authority to reimburse the TJF. Nonetheless, the Department of the Treasury continues to assert that OPM is liable to reimburse the TJF for the amount of the judgments/settlements and as such, OPM has accrued $260 million as of September 30, 2010 and September 30, 2009 in Intragovernmental Liabilities due to Treasury.

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 $1 million in Salaries and Expenses at both September 30, 2010 and 2009 for the estimated amount of losses it will probably incur from this litigation. In addition, OPM has determined, at September 30, 2010, it is reasonably possible that losses ranging from an additional $12.9 million to $319.2 million will result. For Salaries and Expenses the total of all reasonably possible losses ranges from $6.6 million to $7 million, for Revolving the total of all reasonably possible losses ranges from $6.3 million to $12.2 million, and for the Life Insurance Fund the total of reasonably possible losses ranges from $.030 million to $300 million. Based upon the opinion of its General Counsel, OPM management believes the combined outcome of all such proceedings, either pending or known to be threatened, will have no material adverse effect on OPM's financial position or results of operations.

Note 8 — 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, 2010 and September 30, 2009 follows:

September 30, 2010 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
ASSETS				
Fund Balance with Treasury	$17	$1,139	$11	**$1,167**
Investments	789,216	58,808	38,289	**886,313**
Accounts Receivable	1,622	1,771	204	**3,597**
Other Assets	–	98	647	**745**
Total Assets	**$790,855**	**$61,816**	**$39,151**	**$891,822**
LIABILITIES and NET POSITION				
Intragovernmental	$79	$276	$1	**$356**
Benefits Due and Payable	5,424	3,935	767	**10,126**
Pension Liability	1,550,200	–	–	**1,550,200**
Post-Retirement Health Benefits Liability	–	341,465	–	**341,465**
Actuarial Life Insurance Liability	–	–	43,205	**43,205**
Other Liabilities	720	336	17	**1,073**
Total Liabilities	**$1,556,423**	**$346,012**	**$43,990**	**$1,946,425**
Cumulative Results of Operations	(765,568)	(284,196)	(4,839)	**(1,054,603)**
Total Liabilities and Net Position	**$790,855**	**$61,816**	**$39,151**	**$891,822**

September 30, 2009 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
ASSETS				
Fund Balance with Treasury	$19	$999	$11	**$1,029**
Investments	763,300	50,920	36,483	**850,703**
Accounts Receivable	1,464	1,559	182	**3,205**
Other Assets	–	95	644	**739**
Total Assets	**$764,783**	**$53,573**	**$37,320**	**$855,676**
LIABILITIES and NET POSITION				
Intragovernmental	$61	$270	$1	**$332**
Benefits Due and Payable	5,343	3,787	742	**9,872**
Pension Liability	1,454,700	–	–	**1,454,700**
Post-Retirement Health Benefits Liability	–	339,884	–	**339,884**
Actuarial Life Insurance Liability	–	–	38,955	**38,955**
Other Liabilities	668	384	15	**1,067**
Total Liabilities	**$1,460,772**	**$344,325**	**$39,713**	**$1,844,810**
Cumulative Results of Operations	(695,989)	(290,752)	(2,393)	**(989,134)**
Total Liabilities and Net Position	**$764,783**	**$53,573**	**$37,320**	**$855,676**

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

The Health Benefits Program (with the exception of the PSRHB Fund) is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions on approximately a one-quarter to three-quarters basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation). P.L. 109-435 requires the USPS to make scheduled payment contributions to the new PSRHB Fund ranging from approximately $5.4 to $5.8 billion per year from fiscal year 2007 through fiscal year 2016 in accordance with the legislation. Thereafter, the USPS will make annual payments of the sum of the normal cost payment. The payment for FY 2010 was $5.5 billion. The payment for FY 2009 was reduced to $1.4 billion by P.L. 111-68, signed into law on October 1, 2009, and retroactive to when P.L. 109-435 was originally signed into law on December 20, 2006.

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

A condensed version of the Earmarked Funds' Statement of Net Cost for FY 2010 and FY 2009 follows:

FY 2010 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Gross Program Costs	$79,405	$41,966	$4,399	$125,770
Less Earned Revenues	62,038	37,608	4,386	104,032
Actuarial (gain)/loss on Pension, ORB or OPEB Assumptions Changes	85,383	(1,272)	2,477	86,588
Net Cost of Operations	**$102,750**	**$3,086**	**$2,490**	**$108,326**
FY 2009 ($ in millions)				
Gross Program Costs	$135,149	$45,599	$4,668	$185,416
Less Earned Revenues	61,281	31,214	4,338	96,833
Net Cost of Operations	**$73,868**	**$14,385**	**$330**	**$88,583**

A condensed version of the Earmarked Funds' Statement of Changes in Net Position for FY 2010 and FY 2009 follows:

FY 2010 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Net Position Beginning of Period	($695,989)	($290,752)	($2,393)	($989,134)
Budgetary Financing Sources	33,171	9,642	44	42,857
Net Cost of Operations	102,750	3,086	2,490	108,326
Change in Net Position	(69,579)	6,556	(2,446)	(65,469)
Net Position End of Period	**($765,568)**	**($284,196)**	**($4,839)**	**($1,054,603)**
FY 2009 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Net Position Beginning of Period	($653,535)	($285,480)	($2,107)	($941,122)
Budgetary Financing Sources	31,414	9,113	44	40,571
Net Cost of Operations	$73,868	14,385	330	88,583
Change in Net Position	($42,454)	(5,272)	(286)	(48,012)
Net Position End of Period	**($695,989)**	**($290,752)**	**($2,393)**	**($989,134)**

Note 9—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 2010 and 2009:

	GROSS COSTS			EARNED REVENUE		
	Intra-governmental	With the Public	Total	Intragovern-mental	With the Public	Total
FY 2010 ($ in millions)						
Provide CSRS Benefits	–	$39,293	$39,293	$21,555	$2,235	$23,790
Provide FERS Benefits	–	40,112	40,112	36,812	1,436	38,248
Provide Health Benefits	–	41,966	41,966	25,908	11,700	37,608
Provide Life Insurance Benefits	–	4,399	4,399	1,736	2,650	4,386
Provide Human Resources Services	$198	1,453	1,651	1,613	4	1,617
Total	**$198**	**$127,223**	**$127,421**	**$87,624**	**$18,025**	**$105,649**
FY 2009 ($ in millions)						
Provide CSRS Benefits	–	$97,870	$97,870	$22,563	$2,421	$24,984
Provide FERS Benefits	–	37,279	37,279	34,974	1,323	36,297
Provide Health Benefits	6	45,593	45,599	20,574	10,640	31,214
Provide Life Insurance Benefits	–	4,668	4,668	1,815	2,523	4,338
Provide Human Resources Services	$162	1,391	1,553	1,484	3	1,487
Total	**$168**	**$186,801**	**$186,969**	**$81,410**	**$16,910**	**$98,320**

Note 10—Net Cost by Strategic Goals

In February 2010, OPM introduced its new Strategic Plan for 2010–2015. This strategic plan introduces four broad Strategic Goals that define OPM's direction for the next six years, and are summarized in the following chart:

Strategic Goal 1	Hire the Best – The Federal hiring process
Strategic Goal 2	Respect the Workforce – Employee retention through training & work-life initiatives
Strategic Goal 3	Expect the Best – Provide the necessary tools and resources for employees to perform at the highest level
Strategic Goal 4	Honor Service – Acknowledge Federal employee's service through well-designed compensation & retirement benefits

Strategic Goals 2010 ($ in millions)		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
Goal 1	Total program cost	–	–	–	–	$854	**$854**
	Less earned revenue	–	–	–	–	854	**$854**
	Net program cost	–	–	–	–	–	**—**
Goal 2	Total program cost	$8,045	$5,943	$3,562	$584	$17	**$18,151**
	Less earned revenue	2,019	3,247	3,300	372	14	**$8,952**
	Net program cost	$6,026	$2,696	$262	$212	$3	**$9,199**
Goal 3	Total program cost	$14,918	$11,021	$6,606	$1,082	$766	**$34,393**
	Less earned revenue	3,745	6,021	6,120	690	738	**$17,314**
	Net program cost	$11,173	$5,000	$486	$392	$28	**$17,079**
Goal 4	Total program cost	$71,811	$53,050	$31,798	$5,210	$14	**$161,883**
	Less earned revenue	18,026	28,980	29,460	3,324	11	**$79,801**
	Net program cost	$53,785	$24,070	$2,338	$1,886	$3	**$82,082**
Total	Total program cost	**$94,774**	**$70,014**	**$41,966**	**$6,876**	**$1,651**	**$215,281**
	Less earned revenue	**23,790**	**38,248**	**38,880**	**4,386**	**1,617**	**106,921**
	Net program cost	**$70,984**	**$31,766**	**$3,086**	**$2,490**	**$34**	**$108,360**

NOTE: The Total program cost includes any loss on pension, ORB, or OPEB assumption changes (Notes 5A, 5B, and 5C). The Total earned revenue includes any gain on pension, ORB, or OPEB assumption changes (Notes 5A, 5B, and 5C). As discussed, OPM adopted SFFAS No. 33 in FY 2010.

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

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

The following table presents a cross-walk of OPM's net cost by responsibility-segment to its net cost by strategic objective for fiscal year 2009. Total costs for this table were allocated based on the distribution of budgetary resources.

Strategic Objectives 2009 ($ in millions)		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
Objective A:	Total program cost	–	–	–	–	$15	**$15**
	Less earned revenue	–	–	–	–	11	**11**
	Net program cost	–	–	–	–	$4	**$4**
Objective B:	Total program cost	$81,775	$31,148	$38,100	$3,900	$83	**$155,006**
	Less earned revenue	20,875	30,328	26,081	3,625	81	**80,990**
	Net program cost	$60,900	$820	$12,019	$275	$2	**$74,016**
Objective C:	Total program cost	–	–	–	–	$364	**$364**
	Less earned revenue	–	–	–	–	360	**360**
	Net program cost	–	–	–	–	$4	**$4**
Objective D:	Total program cost	–	–	–	–	$895	**$895**
	Less earned revenue	–	–	–	–	891	**891**
	Net program cost	–	–	–	–	$4	**$4**
Objective E:	Total program cost	$16,095	$6,131	$7,499	$768	$180	**$30,673**
	Less earned revenue	4,109	5,969	5,133	713	133	**16,057**
	Net program cost	$11,986	$162	$2,366	$55	$47	**$14,616**
Objective F:	Total program cost	–	–	–	–	$10	**$10**
	Less earned revenue	–	–	–	–	$7	**$7**
	Net program cost	–	–	–	–	$3	**$3**
Objective G:	Total program cost	–	–	–	–	$6	**$6**
	Less earned revenue	–	–	–	–	4	**4**
	Net program cost	–	–	–	–	$2	**$2**
Total	**Total program cost**	**$97,870**	**$37,279**	**$45,599**	**$ 4,668**	**$1,553**	**$186,969**
	Less earned revenue	**24,984**	**36,297**	**31,214**	**4,338**	**1,487**	**98,320**
	Net program cost	**$72,886**	**$982**	**$14,385**	**$330**	**$66**	**$88,649**

Note 11—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, 2010 and 2009:

September 30 ($ in millions)	2010	2009
Temporarily precluded from obligation at the beginning of the year	$748,195	$723,194
Plus: Trust fund receipts during the year	95,662	93,061
Plus: Appropriations Received	33,176	31,422
Less: Obligations incurred during the year	102,874	99,482
Excess of trust fund receipts over obligations incurred during the year	25,964	25,001
Temporarily Precluded from Obligation at the End of the Year	**$774,159**	**$748,195**

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

During fiscal years 2010 and 2009, receipts to the PSRHB Fund included USPS scheduled payment contributions of $5.5 billion and $1.4 billion, respectively, per legislation, as amended.

Also, FY 2010 and FY 2009 receipts included interest income. The following table presents the unobligated balance of the PSRHB Fund included in the Health Benefits Program that is temporarily precluded from obligation as of September 30, 2010 and 2009:

September 30 ($ in millions)	2010	2009
Temporarily precluded from obligation at the beginning of the year	$35,115	$32,293
Plus: Special Fund receipts during the year	7,000	2,822
Excess of Special Fund receipts over obligations incurred during the year	7,000	2,822
Temporarily Precluded from Obligation at the End of the Year	**$42,115**	**$35,115**

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 its administrative costs 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 12—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 [NSA].

The following chart details the direct and reimbursable obligations that have been incurred against each apportionment category during fiscal years 2010 and 2009:

FY 2010 Program/Fund ($ in millions)	Category	Direct	Reimbursable	Total
Retirement Program	B	$69,698	–	**$69,698**
Retirement Program	NSA	33,176	–	**33,176**
Subtotal		**$102,874**		**$102,874**
Health Benefits Program	B	48,750	–	**48,750**
Life Insurance Program	B	2,671	–	**2,671**
Revolving Fund Program	A	–	$2,254	**2,254**
Salaries and Expenses	A	293	66	**359**
Total		**$154,588**	**$2,320**	**$156,908**
FY 2009 Program/Fund ($ in millions)	**Category**	**Direct**	**Reimbursable**	**Total**
Retirement Program	B	$68,060	–	**$68,060**
Retirement Program	NSA	31,422	–	**31,422**
Subtotal		$99,482		**$99,482**
Health Benefits Program	B	46,217	–	**46,217**
Life Insurance Program	B	2,531	–	**2,531**
Revolving Fund Program	A	–	$1,733	**1,733**
Salaries and Expenses	A	273	75	**348**
Total		**$148,503**	**$1,808**	**$150,311**

Note 13—Comparison of Combined Statements of Budgetary Resources to the President's Budget

OPM reports information about budgetary resources in the Combined Statements of Budgetary Resources and for presentation in the "President's Budget." The President's Budget for FY 2012, which will contain budgetary resources information for fiscal year 2010 actuals, will be published in February 2011 and will be available on the OMB website at *http://www.whitehouse.gov/omb/*. The President's Budget for fiscal year 2011, which contains budgetary resource information for fiscal year 2009 actuals, was released on February 1, 2010.

There are no material differences between the Statement of Budgetary Resources and the SF-133 Report on Budgetary Execution for FY 2010 and FY 2009. Additionally, there are no material differences between the actual amounts for fiscal year 2009 published in the President's Budget and those reported in the accompanying FY 2009 Combined Statement of Budgetary Resources.

Note 14—Undelivered Orders at the End of the Period

The amounts of budgetary resources obligated for undelivered orders at the end of FY 2010 and FY 2009 are as follows:

Undelivered Orders ($ in millions)	Revolving Fund Programs	Salaries & Expenses	Total
FY 2010	$955	$87	$1,042
FY 2009	$479	$72	$551

Note 15—Consolidating Reconciliation of Net Cost of Operations to Budget

SFFAS No. 7 requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. The FY 2010 reconciliation and comparative FY 2009 reconciliation are as follows:

FY 2010 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2010
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$102,874	$48,750	$2,671	$2,254	$359	$156,908
Less: Spending Authority from Offsetting Collections and Recoveries	–	40,116	4,080	2,091	276	46,563
Less: Appropriated Trust Fund Receipts	95,662	7,000	–	–	–	102,662
Obligations Net of Offsetting Collections and Recoveries	7,212	1,634	(1,409)	163	83	7,683
Less: Offsetting Receipts	33,231	7,000	–	–	–	40,231
Net Obligations	**($26,019)**	**$(5,366)**	**($1,409)**	**163**	**$83**	**($32,548)**
Other Resources	–	–	–	21	13	34
Total Resources Used to Finance Activities	***($26,019)***	***$(5,366)***	***($1,409)***	***$184***	***$96***	***($32,514)***
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$33,176	–	–	–	–	$33,176
Other	55	$6,972	($331)	($167)	($26)	6,503
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**33,231**	**6,972**	**(331)**	**(167)**	**(26)**	**39,679**
Total Resources Used to Finance the Net Cost of Operations	**$7,212**	**$1,606**	**($1,740)**	**$17**	**$70**	**$7,165**
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in *Future Periods:*						
Increase in Actuarial Liabilities	$95,500	$1,581	$4,250	–	–	$101,331
Exchange Revenue Not in the Budget	41	(110)	(20)	($37)	–	(126)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	95,541	1,471	4,230	(37)	–	101,205
Components Not Requiring or Generating Resources						
Other	(3)	9	–	–	($16)	(10)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	(3)	9	–	–	(16)	(10)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**$95,538**	**$1,480**	**$4,230**	**($37)**	**($16)**	**$101,195**
NET COST OF OPERATIONS	***$102,750***	***$3,086***	***$2,490***	***($20)***	***$54***	***$108,360***

FY 2009 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2009
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$99,482	$46,217	$2,531	$1,733	$348	$150,311
Less: Spending Authority from Offsetting Collections and Recoveries	–	37,370	4,290	1,765	270	43,695
Less: Appropriated Trust Fund Receipts	93,061	2,822	–	–	–	95,883
Obligations Net of Offsetting Collections and Recoveries	6,421	6,025	(1,759)	(32)	78	10,733
Less: Offsetting Receipts	31,466	2,822	–	–	–	34,288
Net Obligations	**($25,045)**	**$3,203**	**($1,759)**	**(32)**	**$78**	**($23,555)**
Other Resources	–	–	–	21	11	32
Total Resources Used to Finance Activities	**($25,045)**	**$3,203**	**($1,759)**	**($11)**	**$89**	**($23,523)**
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$31,422	–	–	–	–	$31,422
Other	44	$2,821	($91)	$51	$17	2,842
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**31,466**	**2,821**	**(91)**	**51**	**17**	**34,264**
Total Resources Used to Finance the Net Cost of Operations	**$6,421**	**$6,024**	**($1,850)**	**$40**	**$106**	**$10,741**
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in *Future Periods:*						
Increase in Actuarial Liabilities	$67,500	$8,467	$2,198	–	–	$78,165
Exchange Revenue Not in the Budget	(48)	(84)	(18)	($1)	–	(151)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	67,452	8,383	2,180	(1)	–	78,014
Components Not Requiring or Generating Resources						
Other	(5)	(22)	–	(65)	($14)	(106)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	(5)	(22)	–	(65)	(14)	(106)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**$67,447**	**$8,361**	**$2,180**	**($66)**	**($14)**	**$77,908**
NET COST OF OPERATIONS	***$73,868***	***$14,385***	***$330***	***($26)***	***$92***	***$88,649***

Note 16—Health Benefits/Life Insurance Program Concentrations

During fiscal years 2010 and 2009, 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.

Consolidating Financial Statements

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2010
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2010
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$17	$1,139	$11	$569	$95	—	$1,831
Investments [Note 3]	789,216	58,808	38,289	—	—	—	886,313
Accounts Receivable [Note 4]	1,238	892	27	118	97	($101)	2,271
Total Intragovernmental	790,471	60,839	38,327	687	192	(101)	890,415
Accounts Receivable from the Public, Net [Note 4]	384	879	177	13	3	—	1,456
General Property and Equipment, Net	—	—	—	29	4	—	33
Other [Note 1L]	—	98	647	—	—	—	745
TOTAL ASSETS	$790,855	$61,816	$39,151	$729	$199	($101)	$892,649
LIABILITIES							
Intragovernmental [Note 6]	$79	$276	$1	$282	$4	($101)	$541
Federal Employee Benefits:							
Benefits Due and Payable	5,424	3,935	767	—	—	—	10,126
Pension Liability [Note 5A]	1,550,200	—	—	—	—	—	1,550,200
Post-retirement Health Benefits Liability [Note 5B]	—	341,465	—	—	—	—	341,465
Actuarial Life Insurance Liability [Note 5C]	—	—	43,205	—	—	—	43,205
Total Federal Employee Benefits	1,555,624	345,400	43,972	—	—	—	1,944,996
Other [Notes 6 and 7]	720	336	17	93	41	—	1,207
Total Liabilities	1,556,423	346,012	43,990	375	45	(101)	1,946,744
NET POSITION							
Unexpended Appropriations — Other Funds	—	—	—	3	94	—	97
Cumulative Results of Operations — Earmarked Funds [Note 8]	(765,568)	(284,196)	(4,839)	—	—	—	(1,054,603)
Cumulative Results of Operations — Other Funds	—	—	—	351	60	—	411
Total Net Position	(765,568)	(284,196)	(4,839)	354	154	—	(1,054,095)
TOTAL LIABILITIES AND NET POSITION	$790,855	$61,816	$39,151	$729	$199	($101)	$892,649

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2009
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2009
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$19	$999	$11	$761	$63	–	$1,853
Investments [Note 3]	763,300	50,920	36,483	–	–	–	850,703
Accounts Receivable [Note 4]	1,087	781	24	92	72	($75)	1,981
Total Intragovernmental	764,406	52,700	36,518	853	135	(75)	854,537
Accounts Receivable from the Public, Net [Note 4]	377	778	158	1	–	–	1,314
General Property and Equipment, Net	–	–	–	22	–	–	22
Other [Note 1L]	–	95	644	2	–	–	741
TOTAL ASSETS	$764,783	$53,573	$37,320	$878	$135	($75)	$856,614
LIABILITIES							
Intragovernmental [Note 6]	$61	$270	$1	$424	$4	($75)	$685
Federal Employee Benefits:							
Benefits Due and Payable	5,343	3,787	742	–	–	–	9,872
Pension Liability [Note 5A]	1,454,700	–	–	–	–	–	1,454,700
Post-retirement Health Benefits Liability [Note 5B]	–	339,884	–	–	–	–	339,884
Actuarial Life Insurance Liability [Note 5C]	–	–	38,955	–	–	–	38,955
Total Federal Employee Benefits	1,460,043	343,671	39,697	–	–	–	1,843,411
Other [Notes 6 and 7]	668	384	15	141	35	–	1,243
Total Liabilities	1,460,772	344,325	39,713	565	39	(75)	1,845,339
NET POSITION							
Unexpended Appropriations – Other Funds	–	–	–	3	81	–	84
Cumulative Results of Operations – Earmarked Funds [Note 8]	(695,989)	(290,752)	(2,393)	–	–	–	(989,134)
Cumulative Results of Operations – Other Funds	–	–	–	310	15	–	325
Total Net Position	(695,989)	(290,752)	(2,393)	313	96	–	(988,725)
TOTAL LIABILITIES AND NET POSITION	$764,783	$53,573	$37,320	$878	$135	($75)	$856,614

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2010
(In Millions)

	Retirement Program			Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2010
	CSRS	FERS	Total						
GROSS COSTS									
Intragovernmental	–	–	–	–	–	$282	$238	($322)	$198
With the Public:									
Pension Expense [Note 5A]	$39,293	$40,112	$79,405	–	–	–	–	–	79,405
Post-retirement Health Benefits [Note 5B]	–	–	–	$16,005	–	–	–	–	16,005
Future Life Insurance Benefits [Note 5C]	–	–	–	–	$1,773	–	–	–	1,773
Current Benefits and Premiums	–	–	–	24,924	2,609	–	–	–	27,533
Other	–	–	–	1,037	17	1,374	79	–	2,507
Total Gross Costs with the Public	39,293	40,112	79,405	41,966	4,399	1,374	79	–	127,223
Total Gross Costs [Notes 9 and 10]	39,293	40,112	79,405	41,966	4,399	1,656	317	(322)	127,421
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	1,826	20,118	21,944	24,075	501	–	–	–	46,520
Earnings on Investments	19,729	16,694	36,423	1,833	1,235	–	–	–	39,491
Other	–	–	–	–	–	1,673	262	(322)	1,613
Total Intragovernmental Earned Revenue	21,555	36,812	58,367	25,908	1,736	1,673	262	(322)	87,624
With the Public:									
Participant Contributions	2,235	1,436	3,671	11,691	2,647	–	–	–	18,009
Other	–	–	–	9	3	3	1	–	16
Total Earned Revenue with the Public	2,235	1,436	3,671	11,700	2,650	3	1	–	18,025
Total Earned Revenue [Notes 9 and 10]	23,790	38,248	62,038	37,608	4,386	1,676	263	(322)	105,649
Net Cost	$15,503	$1,864	$17,367	$4,358	$13	($20)	$54	–	$21,772
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Notes 5A, 5B, and 5C]	55,481	29,902	85,383	(1,272)	2,477	–	–	–	86,588
Net Cost of Operations [Notes 9 and 10]	$70,984	$31,766	$102,750	$3,086	$2,490	($20)	$54	–	$108,360

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2009
(In Millions)

	Retirement Program			Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	2009
	CSRS	FERS	Total						
GROSS COSTS									
Intragovernmental	–	–	–	$6	–	$234	$241	($313)	$168
With the Public:									
Pension Expense [Note 5A]	$97,870	$37,279	$135,149	–	–	–	–	–	135,149
Post-retirement Health Benefits [Note 5B]	–	–	–	21,189	–	–	–	–	21,189
Future Life Insurance Benefits [Note 5C]	–	–	–	–	$2,198	–	–	–	2,198
Current Benefits and Premiums	–	–	–	23,436	2,440	–	–	–	25,876
Other	–	–	–	968	30	1,286	105	–	2,389
Total Gross Costs with the Public	97,870	37,279	135,149	45,593	4,668	1,286	105	–	186,801
Total Gross Costs [Notes 9 and 10]	97,870	37,279	135,149	45,599	4,668	1,520	346	(313)	186,969
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	1,976	18,499	20,475	18,707	490	–	–	–	39,672
Earnings on Investments	20,587	16,475	37,062	1,867	1,325	–	–	–	40,254
Other	–	–	–	–	–	1,544	253	(313)	1,484
Total Intragovernmental Earned Revenue	22,563	34,974	57,537	20,574	1,815	1,544	253	(313)	81,410
With the Public:									
Participant Contributions	2,421	1,323	3,744	10,632	2,520	–	–	–	16,896
Other	–	–	–	8	3	2	1	–	14
Total Earned Revenue with the Public	2,421	1,323	3,744	10,640	2,523	2	1	–	16,910
Total Earned Revenue [Notes 9 and 10]	24,984	36,297	61,281	31,214	4,338	1,546	254	(313)	98,320
Net Cost of Operations [Notes 9 and 10]	$72,886	$982	$73,868	$14,385	$330	($26)	$92	–	$88,649

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2010
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Total Earmarked Funds	Revolving Fund Programs	Salaries and Expenses	Total All Other Funds	2010
CUMULATIVE RESULTS OF OPERATIONS								
Beginning Balance	($695,989)	($290,752)	($2,393)	($989,134)	$310	$15	$325	($988,809)
Budgetary Financing Sources:								
Appropriations Used	33,176	9,642	44	42,862	–	86	86	42,948
Other Financing Sources	(5)	–	–	(5)	21	13	34	29
Total Financing Sources	33,171	9,642	44	42,857	21	99	120	42,977
Net Cost of Operations	102,750	3,086	2,490	108,326	(20)	54	34	108,360
Net Change	(69,579)	6,556	(2,446)	(65,469)	41	45	86	(65,383)
Cumulative Results of Operations – Ending Balance	($765,568)	($284,196)	($4,839)	($1,054,603)	$351	$60	$411	($1,054,192)
UNEXPENDED APPROPRIATIONS								
Beginning Balance	–	–	–	–	$3	$81	$84	$84
Budgetary Financing Sources:								
Appropriations Received	$33,176	$10,084	$48	$43,308	–	106	106	43,414
Appropriations Used	(33,176)	(9,642)	(44)	(42,862)	–	(86)	(86)	(42,948)
Other Budgetary Financing Sources	–	(442)	(4)	(446)	–	(7)	(7)	(453)
Total Budgetary Financing Sources	–	–	–	–	–	13	13	13
Total Unexpended Appropriations – Ending Balance	–	–	–	–	$3	$94	$97	$97
NET POSITION	($765,568)	($284,196)	($4,839)	($1,054,603)	$354	$154	$508	($1,054,095)

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2009
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Total Earmarked Funds	Revolving Fund Programs	Salaries and Expenses	Total All Other Funds	2009
CUMULATIVE RESULTS OF OPERATIONS								
Beginning Balance	($653,535)	($285,480)	($2,107)	($941,122)	$263	$17	$280	($940,842)
Budgetary Financing Sources:								
Appropriations Used	31,422	9,113	44	40,579	–	79	79	40,658
Other Financing Sources	(8)	–	–	(8)	21	11	32	24
Total Financing Sources	31,414	9,113	44	40,571	21	90	111	40,682
Net Cost of Operations	73,868	14,385	330	88,583	(26)	92	66	88,649
Net Change	(42,454)	(5,272)	(286)	(48,012)	47	(2)	45	(47,967)
Cumulative Results of Operations – Ending Balance	($695,989)	($290,752)	($2,393)	($989,134)	$310	$15	$325	($988,809)
UNEXPENDED APPROPRIATIONS								
Beginning Balance	–	–	–	–	$3	$72	$75	$75
Budgetary Financing Sources:								
Appropriations Received	$31,422	$9,595	$46	$41,063	–	95	95	41,158
Appropriations Used	(31,422)	(9,113)	(44)	(40,579)	–	(79)	(79)	(40,658)
Other Budgetary Financing Sources	–	(482)	(2)	(484)	–	(7)	(7)	(491)
Total Budgetary Financing Sources	–	–	–	–	–	9	9	9
Total Unexpended Appropriations – Ending Balance	–	–	–	–	$3	$81	$84	$84
NET POSITION	($695,989)	($290,752)	($2,393)	($989,134)	$313	$96	$409	($988,725)

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2010
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2010
BUDGETARY RESOURCES						
Unobligated Balance — Brought Forward, October 1	—	$13,126	$35,294	$857	$60	$49,337
Recoveries of Prior — Year Unpaid Obligations	—	—	—	11	2	13
Budgetary Authority:						
Appropriations:						
Received	$33,176	10,084	48	—	106	43,414
Other	—	(442)	(4)	—	—	(446)
Appropriated Trust Fund Receipts	95,662	7,000	—	—	—	102,662
Spending Authority from Offsetting Collections:						
Collected	—	39,882	4,097	1,552	245	45,776
Change in Receivables from Federal Sources and Unfilled Customer Orders	—	234	(17)	528	29	774
Subtotal	—	40,116	4,080	2,080	274	46,550
Temporarily not Available Pursuant to Public Law	(25,964)	(7,000)	—	—	—	(32,964)
Permanently not Available	—	—	—	—	(7)	(7)
Total Budgetary Resources	$102,874	$62,884	$39,418	$2,948	$435	$208,559
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred: [Note 12]						
Direct	$102,874	$48,750	$2,671	—	$293	$154,588
Reimbursable	—	—	—	$2,254	66	2,320
Subtotal	102,874	48,750	2,671	2,254	359	156,908
Unobligated Balance:						
Apportioned	—	—	—	629	38	667
Unobligated Balance Not Available	—	14,134	36,747	65	38	50,984
Total Status of Budgetary Resources	$102,874	$62,884	$39,418	$2,948	$435	$208,559

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2010
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2010
CHANGE IN OBLIGATED BALANCE						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	$6,067	$4,960	$763	$548	$85	$12,423
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	—	1,798	400	644	82	2,924
Total Unpaid Obligated Balance, Net	6,067	3,162	363	(96)	3	9,499
Obligations Incurred, Net	102,874	48,750	2,671	2,254	359	156,908
Less: Gross Outlays	102,719	48,507	2,643	1,744	312	155,925
Less: Recoveries of Prior — Year Unpaid Obligations, Actual	—	—	—	11	2	13
Change in Uncollected Customer Payments from Federal Sources	—	234	(17)	528	29	774
Obligated Balance, Net, End of the Period						
Unpaid Obligations	6,222	5,203	791	1,047	130	13,393
Less: Uncollected customer payments from Federal Sources	—	2,032	383	1,172	111	3,698
Total Unpaid Obligated Balance, Net, End of Period	6,222	3,171	408	(125)	19	9,695
NET OUTLAYS						
Net Outlays:						
Gross Outlays	102,719	48,507	2,643	1,744	312	155,925
Less: Offsetting Collections	—	39,882	4,097	1,552	245	45,776
Less: Distributed Offsetting Receipts	33,231	7,000	—	—	—	40,231
Net Outlays	$69,488	$1,625	($1,454)	$192	$67	$69,918

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2009
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2009
BUDGETARY RESOURCES						
Unobligated Balance — Brought Forward, October 1	–	$12,859	$33,491	$825	$54	$47,229
Recoveries of Prior-Year Unpaid Obligations	–	–	–	121	13	134
Budgetary Authority:						
Appropriations:						
Received	$31,422	9,595	46	–	95	41,158
Other	–	(481)	(2)	–	–	(483)
Appropriated Trust Fund Receipts	93,061	2,822	–	–	–	95,883
Spending Authority from Offsetting Collections:						
Collected	–	37,236	4,294	1,536	261	43,327
Change in Receivables from Federal Sources and Unfilled Customer Orders	–	134	(4)	108	(4)	234
Subtotal	–	37,370	4,290	1,644	257	43,561
Temporarily not Available Pursuant to Public Law	(25,001)	(2,822)	–	–	–	(27,823)
Permanently not Available	–	–	–	–	(11)	(11)
Total Budgetary Resources	$99,482	$59,343	$37,825	$2,590	$408	$199,648
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred: [Note 12]						
Direct	$99,482	$46,217	$2,531	–	$273	$148,503
Reimbursable	–	–	–	$1,733	75	1,808
Subtotal	99,482	46,217	2,531	1,733	348	150,311
Unobligated Balance:						
Apportioned	–	–	–	480	17	497
Unobligated Balance Not Available	–	13,126	35,294	377	43	48,840
Total Status of Budgetary Resources	$99,482	$59,343	$37,825	$2,590	$408	$199,648

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2009
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2009
CHANGE IN OBLIGATED BALANCE						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	$5,675	$5,200	$785	$406	$104	$12,170
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	–	1,663	404	536	83	2,686
Total Unpaid Obligated Balance, Net	5,675	3,537	381	(130)	21	9,484
Obligations Incurred, Net	99,482	46,217	2,531	1,733	348	150,311
Less: Gross Outlays	99,090	46,458	2,553	1,470	357	149,928
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	–	–	–	121	13	134
Change in Uncollected Customer Payments from Federal Sources	–	134	(4)	108	(4)	234
Obligated Balance, Net, End of the Period						
Unpaid Obligations	6,067	4,960	763	548	85	12,423
Less: Uncollected customer payments from Federal Sources	–	1,798	400	644	82	2,924
Total Unpaid Obligated Balance, Net, End of Period	6,067	3,162	363	(96)	3	9,499
NET OUTLAYS						
Net Outlays:						
Gross Outlays	99,090	46,458	2,553	1,470	357	149,928
Less: Offsetting Collections	–	37,236	4,294	1,536	261	43,327
Less: Distributed Offsetting Receipts	31,466	2,822	–	–	–	34,288
Net Outlays	$67,624	$6,400	($1,741)	($66)	$96	$72,313

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

Required Supplemental Information

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2010
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2010
BUDGETARY RESOURCES							
Unobligated Balance — Brought Forward, October 1	—	$13,126	$35,294	$857	$60	—	$49,337
Recoveries of Prior-Year Unpaid Obligations	—	—	—	11	2	—	13
Budgetary Authority:							
Appropriations:							
Received	—	—	—	—	106	$43,308	43,414
Other	—	—	—	—	—	(446)	(446)
Appropriated Trust Fund Receipts	$95,662	7,000	—	—	—	—	102,662
Spending Authority from Offsetting Collections:							
Collected	—	39,882	4,097	1,552	245	—	45,776
Change in Receivables from Federal Sources and Unfilled Customer Orders	—	234	(17)	528	29	—	774
Subtotal	—	40,116	4,080	2,080	274	—	46,550
Temporarily not Available Pursuant to Public Law	(25,964)	(7,000)	—	—	—	—	(32,964)
Permanently not Available	—	—	—	—	(7)	—	(7)
Total Budgetary Resources	$69,698	$53,242	$39,374	$2,948	$435	$42,862	$208,559
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	$69,698	$39,108	$2,627	—	$293	$42,862	$154,588
Reimbursable	—	—	—	$2,254	66	—	2,320
Subtotal	69,698	39,108	2,627	2,254	359	42,862	156,908
Unobligated Balance:							
Apportioned	—	—	—	629	38	—	667
Unobligated Balance Not Available	—	14,134	36,747	65	38	—	50,984
Total Status of Budgetary Resources	$69,698	$53,242	$39,374	$2,948	$435	$42,862	$208,559

LEGEND:

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2010 (Continued)
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2010
CHANGE IN OBLIGATED BALANCE							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward, October 1	$6,067	$4,014	$758	$548	$85	$951	$12,423
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	–	1,798	400	644	82	–	2,924
Total Unpaid Obligated Balance, Net	6,067	2,216	358	(96)	3	951	9,499
Obligations Incurred, Net	69,698	39,108	2,627	2,254	359	42,862	156,908
Less: Gross Outlays	69,543	38,991	2,600	1,744	312	42,735	155,925
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	–	–	–	11	2	–	13
Change in Uncollected Customer Payments from Federal Sources	–	234	(17)	528	29	–	774
Obligated Balance, Net, End of the Period							
Unpaid Obligations	6,222	4,131	785	1,047	130	1,078	13,393
Less: Uncollected customer payments from Federal Sources	–	2,032	383	1,172	111	–	3,698
Total Unpaid Obligated Balance, Net, End of Period	6,222	2,099	402	(125)	19	1,078	9,695
NET OUTLAYS							
Net Outlays:							
Gross Outlays	69,543	38,991	2,600	1,744	312	42,735	155,925
Less: Offsetting Collections	–	39,882	4,097	1,552	245	–	45,776
Less: Distributed Offsetting Receipts	33,231	7,000	–	–	–	–	40,231
Net Outlays	$36,312	($7,891)	($1,497)	$192	$67	$42,735	$69,918

LEGEND:

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2009
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2009
BUDGETARY RESOURCES							
Unobligated Balance — Brought Forward, October 1	–	$12,859	$33,491	$825	$54	–	$47,229
Recoveries of Prior-Year Unpaid Obligations	–	–	–	121	13	–	134
Budgetary Authority:							
Appropriations:							
Received	–	–	–	–	95	$41,063	41,158
Other	–	–	–	–	–	(483)	(483)
Appropriated Trust Fund Receipts	$93,061	2,822	–	–	–	–	95,883
Spending Authority from Offsetting Collections:							
Collected	–	37,236	4,294	1,536	261	–	43,327
Change in Receivables from Federal Sources and Unfilled Customer Orders	–	134	(4)	108	(4)	–	234
Subtotal	–	37,370	4,290	1,644	257	–	43,561
Temporarily not Available Pursuant to Public Law	(25,001)	(2,822)	–	–	–	–	(27,823)
Permanently not Available	–	–	–	–	(11)	–	(11)
Total Budgetary Resources	$68,060	$50,229	$37,781	$2,590	$408	$40,580	$199,648
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	$68,060	$37,103	$2,487	–	$273	$40,580	$148,503
Reimbursable	–	–	–	$1,733	75	–	1,808
Subtotal	68,060	37,103	2,487	1,733	348	40,580	150,311
Unobligated Balance:							
Apportioned	–	–	–	480	17	–	497
Unobligated Balance Not Available	–	13,126	35,294	377	43	–	48,840
Total Status of Budgetary Resources	$68,060	$50,229	$37,781	$2,590	$408	$40,580	$199,648

LEGEND:

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2009 (Continued)
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2009
CHANGE IN OBLIGATED BALANCE							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward, October 1	$5,675	$4,306	$780	$406	$104	$899	$12,170
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	–	1,663	404	536	83	–	2,686
Total Unpaid Obligated Balance, Net	5,675	2,643	376	(130)	21	899	9,484
Obligations Incurred, Net	68,060	37,103	2,487	1,733	348	40,580	150,311
Less: Gross Outlays	67,668	37,396	2,509	1,470	357	40,528	149,928
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	–	–	–	121	13	–	134
Change in Uncollected Customer Payments from Federal Sources	–	134	(4)	108	(4)	–	234
Obligated Balance, Net, End of the Period							
Unpaid Obligations	6,067	4,014	758	548	85	951	12,423
Less: Uncollected customer payments from Federal Sources	–	1,798	400	644	82	–	2,924
Total Unpaid Obligated Balance, Net, End of Period	6,067	2,216	358	(96)	3	951	9,499
NET OUTLAYS							
Net Outlays:							
Gross Outlays	67,668	37,396	2,509	1,470	357	40,528	149,928
Less: Offsetting Collections	–	37,236	4,294	1,536	261	–	43,327
Less: Distributed Offsetting Receipts	31,466	2,822	–	–	–	–	34,288
Net Outlays	$36,202	($2,662)	($1,785)	($66)	$96	$40,528	$72,313

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

Management Challenges

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

October 27, 2010

MEMORANDUM FOR JOHN BERRY
Director

FROM: PATRICK E. McFARLAND Patrick E McFarland
Inspector General

SUBJECT: Top Management Challenges

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

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

The three internal challenges included in this letter represent OPM's development of new information systems, the need to strengthen controls over its information security governance, and the internal controls over financial management reporting for the revolving fund and salaries and expenses accounts.

Inclusion as a top challenge does not mean we consider these items to be material weaknesses. In fact, the areas of Background Investigations (as part of the Revolving Fund material weakness reported in the Office of the Inspector General's Federal Managers' Financial Integrity Act Management Assurance letter) and Information Security Governance are the only challenges related to reported material weaknesses. The remaining challenges are issues which demand significant attention, effort, and skill from OPM in order to be successfully addressed. However, there is always the possibility that they could become material weaknesses and have a negative impact on OPM's performance if they are not handled appropriately by OPM management.

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

Honorable John Berry

Environmental Challenges

- Strategic Human Capital;
- Federal Health Insurance Initiatives; and,
- Background Investigations.

Internal Challenges

- Information System Development;
- Information Security Governance; and,
- Financial Management System and Internal Controls: Revolving Fund and Salaries and Expenses Accounts.

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

1) The issue involves an operation that is critical to an OPM core mission;
2) There is a significant risk of fraud, waste, or abuse of OPM or other Government assets;
3) The issue involves significant strategic alliances with other agencies, the Office of Management and Budget, the Administration, Congress, or the public;
4) The issue is related to the President's 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 summaries recognize OPM management's efforts to resolve each challenge. This information was obtained through our analysis and updates from senior agency managers so that the most current, complete and accurate characterization of the challenges is presented. I would also like to point out that we have removed the challenges shown below that were on this list last year:

- Wellness and Work-Life Balance has been removed from the list based on the successful development of wellness programs for the Federal workforce.
- Homeland Security Presidential Directive 12-Personal Identification Verification II has been removed from the list based on the satisfactory progress demonstrated by OPM in meeting the requirements under the directive in providing for secure and reliable forms of identification for Federal employees and contractors.

This year, we have modified and expanded last years challenge concerning the Federal Employees Health Benefits Program (FEHBP). The FEHBP is now a sub-category of the new challenge titled Federal Health Insurance Initiatives. Also included in this challenge is OPM's new role in the national healthcare operations. In addition, we have a new

Honorable John Berry

challenge regarding OPM's Information System Development. This challenge includes sub-categories for the previously reported Retirement Systems Modernization (RSM) and, new for this year, Consolidated Business Information System (CBIS) and Service Credit.

I believe that the support of the agency's 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 or investigative support needed and that they strive to maintain an excellent working relationship with your managers.

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

Attachment

Attachment

FISCAL YEAR 2010 TOP MANAGEMENT CHALLENGES
U.S. OFFICE OF PERSONNEL MANAGEMENT

ENVIRONMENTAL CHALLENGES

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

1. STRATEGIC HUMAN CAPITAL

OPM is the Federal Government's human resource management agency, and is responsible for the strategic management of human capital for the Federal workforce. This includes ensuring that the Federal workforce is managed effectively and efficiently. The strategic management of human capital has been reported as a Government Accountability Office high risk area since fiscal year (FY) 2001. It remained a high risk area in FY 2009 because of a need for a government-wide framework to bring about human capital reform.

In May 2010, President Obama issued a Memorandum, Improving the Federal Recruitment and Hiring Process, beginning the Administration's comprehensive government-wide initiative to address major, long-standing impediments to recruiting and hiring the best and the brightest into the Federal civilian workforce. OPM was directed to:

- Design a government-wide plan for recruiting and hiring qualified, diverse talent;
- Review the Federal Career Intern Program and, within 90 days, offer a recommendation to the President on its future and on providing effective pathways into the Federal service for college students and graduates;
- Evaluate the effectiveness of shared registers used to fill positions common across multiple agencies and improve agencies use of these shared registers;
- Develop a plan to increase the capacity of USAJOBS to provide applicants, hiring managers, and human resource professionals with information to improve the recruitment and hiring process; and,
- Work with agencies to ensure that best practices are being developed and used throughout government.

OPM is charged with leading the way to address and meet the Administration's Hiring Reform initiatives. The best performing organizations focus on people as their most important tool for improving performance. The Federal Government must do the same. OPM is challenged with providing strategic leadership in this effort and providing agencies a full range of support to help them meet the President's ambitious recruitment and hiring reform objectives.

2. FEDERAL HEALTH INSURANCE INITIATIVES

OPM continues to face challenges it must address in order to ensure the FEHBP contracts with insurance carriers that offer comprehensive health care benefits at a fair price. However, with the passing of the Patient Protection and Affordable Care Act (PPACA), OPM's roles and responsibilities related to Federal health insurance have been expanded significantly. Under PPACA, OPM has been designated as the agency responsible for implementing and overseeing the multi-state plan options which start in 2014. More recently, the Department of Health and Human Services reached out to OPM to administer the Pre-Existing Condition Insurance Plan (PCIP). The following highlights these challenges and current initiatives in place to address them.

A. Federal Employees Health Benefits Program

The ever-increasing cost of health care is a national challenge. For the upcoming year, the average FEHBP premium increase is 7.2 percent. While significant, this is less than projected premium increases for other employee-sponsored health care programs, which industry experts estimate will run between 8.9 and 10.5 percent.

As the administrator of the FEHBP, OPM has responsibility for negotiating contracts with insurance carriers covering the benefits provided and premium rates charged to approximately eight million Federal employees, retirees, and their families. The FEHBP must utilize industry best practices and ensure quality healthcare for enrollees while controlling costs. This includes exploring creative ways to control costs and utilization of benefits, such as increased use of wellness initiatives and global purchasing of pharmacy benefits. These challenges may require legislative, regulatory, procurement & contracting, and administrative changes.

OPM believes that the following initiatives will help ensure that the FEHBP continues to offer enrollees quality health care services at fair and reasonable premium rates.

1. Program-wide Claims Analysis/Health Claims Data Warehouse

The challenge for OPM is that, while the FEHBP directly bears the cost of health services, it is in a difficult position to analyze those costs and actively manage the program to ensure the best value for both Federal employees and taxpayers. OPM has not routinely collected or analyzed program-wide claims data. The Health Claims Data Warehouse (HCDW) project is an initiative to collect, maintain and analyze data on an ongoing basis. The data will be derived from health and prescription drug claims under the FEHBP. The HCDW will allow OPM to understand the drivers of cost increases and model the potential effects of health system reform or environmental changes on Federal employees. This warehouse will also strengthen OPM's ability to strategically shape future benefits design by better positioning the agency to negotiate effectively with the FEHBP carriers to keep premium increases below industry-wide levels.

During FY 2010, OPM began the processes necessary to implement this searchable and secure database for claims information, which included:

- To build analysis capacity and infrastructure, OPM hired a project manager and a health economist. These new additions have begun work with existing data analysis and policy staff on the creation of the HCDW.

- The HCDW team has created a risk management plan which establishes the processes and procedures for dealing with risks associated with the HCDW. It focuses on the processes and procedures the team will follow to identify, categorize, manage, document, track, and close risks throughout the project lifecycle.

- The HCDW team has also selected and hired a project management organization (PMO). The PMO is now working to create a comprehensive project management plan to ensure the effective design, implementation, maintenance and data analysis of necessary health claims data.

- Currently, the HCDW team is compiling intended data use needs for the HCDW requirements document. A thorough completion of this step will ensure that the completed warehouse will have the capability to allow analysts to effectively analyze costs and provide adequate management support for the Program.

It is important to note that developing and maintaining a health claims data warehouse of this magnitude presents its own complex challenges [including managing multiple data formats and feeds; large size; security; data validation and verification; flexibility (health care is a dynamic industry); etc.].

2. Prescription Drug Benefits and Costs

Increases in drug costs have been a major contributor to the rapid growth in health care costs over the last few years, with drugs now accounting for about 29 percent of all FEHBP costs. Of particular concern to our office are the pharmacy benefit managers (PBMs), who administer drug benefits for the FEHBP carriers. The FEHBP carriers, not OPM, negotiate the pricing of these pharmacy benefits. Currently these contracts lack transparency, which limits our ability to audit and provide adequate oversight of this high cost benefit. This lack of transparency makes it impossible for OPM to ensure that FEHBP enrollees are receiving quality benefits at a fair price.

There also continues to be Congressional interest in the lack of transparency and high cost of prescription drugs within the FEHBP. During this fiscal year, our office participated in a Congressional hearing for the purpose of providing comments to a proposed bill (H.R. 4489 - "FEHBP Prescription Drug Integrity, Transparency, and Cost Savings Act"). This bill was drafted to address the many concerns raised over the FEHBP's prescription drug program. Until such time that these concerns are addressed, either by the passage of the bill or through actions undertaken by the Agency, we anticipate Congressional interest in this area to continue.

For its part, OPM's PBM working group, established to consider short and long-term initiatives to strengthen the controls and oversight of the FEHBP pharmacy benefits, accomplished the following during this fiscal year:

- Issued Carrier Letter #2010-04, "Pharmacy Benefits Management (PBM)," to the fee-for-service carriers participating in the FEHBP. The purpose of the letter was to outline new transparency principles, which are to be included in future PBM procurements beginning in contract year 2011 and going forward. Specifically, the principles required the following:
  - Pass-through transparent pricing in carrier contracts with PBMs;
  - PBM's profit under the contract must be tied to clearly identifiable sources;
  - PBM's administrative fees must be clearly identified to retail claims, mail claims, and clinical programs, if applicable; and,
  - Contracts and other documentation supporting charges to the carrier must be fully disclosed to and auditable by the carrier or its agent and the OPM Office of the Inspector General (OIG).
- Proposed amendments to the contract language for OPM's fee-for-service carriers and experience-rated HMOs, requiring them to ensure that their new, renewing, or amended PBM contracts, effective January 2011 going forward, include certain transparency standards.
- Contracted with an outside vendor to explore alternative approaches/changes in contracting arrangements with PBMs, such as:
  - Using the Federal Supply Schedule to purchase prescription drugs at a lower cost;
  - Carving out pharmacy services from the existing FEHBP benefit structure; and,
  - Developing an alternative prescription drug plan design.

Due to the complexities and the significant costs associated with the FEHBP pharmacy benefit program, it is critical that all alternative approaches be carefully evaluated and modeled before implementing changes. Changes must ensure the health and safety of all FEHBP enrollees and be cost effective.

3. Radiology and Imaging

Radiology costs in the United States have grown to more than $100 billion annually. Diagnostic imaging is the second-largest and fastest-growing expense for health plans (behind pharmaceuticals). Factors driving this growth include the fragmentation of care, continual advances in diagnostic imaging technology, the affordability of imaging equipment leading to adoption and utilization in more care settings, direct advertising to patients, and an aging population.

OPM has not yet developed the program-wide data base for analyzing use rates, trends, and patterns or excess. However, they have communicated to carriers the undesirability of the overuse of imaging technology through value negotiation and other outreach. Strategies that they have encouraged carriers to adopt include:

- reducing benefit costs by avoiding unnecessary utilization;
- increasing patient safety by reducing exposure to radiation;
- educating providers on the appropriate procedure for specific medical conditions using evidence-based radiology criteria;
- encouraging pre-approval for use of imaging services;
- assuring (through "credentialing") that equipment is safe and not outdated; and,
- assuring that radiologists and support staff are adequately trained and available.

OPM has also encouraged management of radiology and imaging benefits by providing carrier education. At the annual FEHBP Carrier Conference, MedSolutions, an industry imaging consultant and support services provider, spoke on balancing effective treatment with cost. Some carriers (e.g., CIGNA and the Government Employees Health Association) employ MedSolutions or similar organizations to review and approve claims prior to treatment, or to suggest alternative diagnostic choices.

B. National Healthcare Operations

1. Patient Protection and Affordable Care Act

Under the Patient Protection and Affordable Care Act (PPACA), OPM has been designated as the agency responsible for implementing and overseeing the multi-state plan options. In accordance with the PPACA, at least two multi-state plans will be offered on each state health insurance exchange beginning in 2014. Multi-state plans will be one of several health insurance options that small employers and uninsured individuals will be able to choose from. In total, state exchanges are expected to provide health insurance coverage for as many as 31 million Americans. In addition, the PPACA incorporated the Indian Health Care Improvement Reauthorization and Extension Act of 2009. This Act allows certain Indian tribes, tribal organizations, and urban Indian organizations to purchase FEHBP coverage.

While implementing any new program represents a host of complex challenges, one of the greatest challenges will be securing sufficient resources for OPM's new national healthcare function, as well as the expanded FEHBP-eligible population. Currently, the PPACA does not specifically fund OPM for its new healthcare responsibilities. In addition, it requires that essential resources not be pulled away from FEHBP in order to start up the new programs. Thus, OPM has discussed FY 2011 and FY 2012 funding requirements with both the Department of Health and Human Services (HHS) and the Office of Management and Budget. Funding beyond FY 2012 is also a significant challenge for the agency, as well as for the

OIG, who is charged with program oversight responsibilities. Without additional resources, OPM will not be able to support these new activities.

2. **Pre-Existing Condition Insurance Plan**

As part of PPACA, HHS was required to develop and implement a Pre-Existing Condition Insurance Plan (PCIP) within 120 days of enactment of the Act. This program makes health insurance available to those who have been denied coverage by private insurance companies because of a pre-existing condition, have been uninsured for at least six months, and are U.S. citizens or are residing in the U.S. legally.

Due to OPM's experience in administering the FEHBP, HHS turned to OPM for assistance. By employing an *advances and reimbursements agreement* with HHS, OPM was able to design and implement the PCIP as required by PPACA. While the implementation was successful, administering this newly created program represents an ongoing management challenge for OPM.

3. **BACKGROUND INVESTIGATIONS**

OPM's Federal Investigative Services (FIS), headquartered in Boyers, Pennsylvania, conducts background investigations on Federal applicants, employees, military members, and contractor personnel for suitability and security purposes. FIS conducts approximately 90 percent of all personnel background investigations for the Federal Government and processes approximately 2 million investigations per year.

Twelve background investigators have been criminally convicted since 2007. Ten were convicted of fabricating background investigation reports, to include reporting interviews that never occurred, recording answers to questions that were never asked, and documenting record checks that were never conducted. The remaining two background investigators were convicted of other forms of misconduct.

FIS has a system of internal controls in place to detect fraud and is to be complimented on their efforts in recent years to aggressively pursue wrongdoing on the part of Federal and/or contractor staff, on their referral of suspected fraud to the OIG, and on their efforts to work jointly with the OIG to bring offenders to justice. Nevertheless, this is a long-term problem that requires continued close attention by OPM management.

Agencies use the reports of investigations conducted by OPM to determine individuals' suitability for Federal civilian, military, and Federal contract employment, as well as their eligibility for access to national security classified information. If a background investigation contains incorrect, incomplete, or fraudulent information, a qualified candidate may be wrongfully denied employment or an unsuitable person may be cleared and allowed access to Federal facilities or classified information. Therefore, any fraud in background investigation reports has serious national security implications.

While the integrity assurance internal controls utilized by FIS are very effective, they can only detect fraud after it has already occurred. Therefore, an emphasis on prevention and deterrence is critical. We note and applaud FIS's commitment to providing integrity awareness training to its staff. We also observe that criminal prosecution is an effective deterrent to fraud. However, in any employee and/or contractor population, a small percentage will always be inclined towards fraud/dishonesty, no matter how much training they are provided or how much effort is put into hiring trustworthy people. While FIS can and does attempt to mitigate this risk, they cannot remove the risk entirely. Therefore, it is vital that both FIS and the OIG continue to work together to continuously evaluate its internal control structure and pursue criminal prosecution of background investigators who engage in falsification of work product. The OIG has performed audit work in addition to the investigative work referred to above, although this work is limited due to funding limitations of the OIG to perform the Revolving Fund work, which the OIG this year has identified as a material weakness within its own office.

INTERNAL CHALLENGES

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.

1. INFORMATION SYSTEM DEVELOPMENT

In two reports to Congress (GAO-06-184 and GAO-09-529), the Government Accountability Office (GAO) described significant shortcomings in OPM's ability to successfully manage large and complex information systems development projects. These shortcomings were primarily attributed to a lack of disciplined processes in several key areas, including investment management, requirements management, testing, project oversight, risk management, and information security.

OPM has a long history of failed system development projects, and systems that were delivered with less functionality than desired. In 1987 OPM began a series of projects aimed at automating and modernizing the business process of handling retirement applications from federal employees. Initially known as the Federal Employee Retirement System Automated Processing System and currently known as the RSM project, the efforts to modernize OPM's retirement systems have spanned 19 years producing limited results.

Another system that has not delivered the intended functionality is the agency's new financial management system, known as CBIS. This system was scheduled for implementation in two phases involving several releases. The first release was put in place on October 1, 2009; since then there have been numerous problems involving system functionality and business process conflicts.

Finally, the Service Credit Redeposit and Deposit System (SCRD) was taken offline after implementation because it could not meet the basic requirements of the business process. This occurred because of a lack of disciplined processes in requirements management and change management. As a result, customers have experienced significant inconvenience; OPM staff has been forced to introduce manual workarounds which are taxing limited resources; and the agency faces potentially major political scrutiny, not to mention potential legal problems.

Implementing disciplined processes in the functional system development areas will be a major internal management challenge for the agency as it takes on these and other IT system projects.

A. Retirement Systems Modernization

Processing the retirement payments of Federal employees is a mission-critical OPM program. As the administrator of the Federal employees' retirement program, OPM is challenged with the massive scale and complexity of supporting over 2.9 million active employees, 2.5 million annuitants, and managing the Federal retirement and disability trust fund, which consists of over $790 billion in assets.

The RSM program is OPM's long-term initiative targeted at implementing modern technology and tools to help improve 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 aging systems and paper-based processes cannot fully support the needs of the program and expectations of their customers – providing timely and accurate benefit payments to more than 2.5 million annuitants and their families.

While OPM depends on aging IT systems to estimate benefits and to pay its retirees, the RSM program has faced a number of challenges modernizing the system(s) over the years. Consistent with the findings of GAO in 2009, OPM identified and focused on delivering the key "building blocks" (functions) needed to automate the retirement process. Delivering modern, improved retirement services, including a web-enabled retirement application, self-service tools, retirement estimators, and a comprehensive retirement case management system, is dependent on putting the core "building blocks" in place first. Those core "building blocks" include:

- Prioritizing fixes to retirement calculators and supporting systems based on need and age;
- Building a data warehouse capable of receiving electronic retirement data and imaged records from Federal agencies and shared service centers; and,

- Implementing retirement data feeds with agencies and shared service centers so that a single standard set of information could be exchanged across the government.

The RSM program is now challenged with determining the best solution for delivering much-needed improvements to OPM's retirement calculation systems, starting with the Federal Annuity Calculator and Estimator System, which aids retirement specialists in processing the majority of retirement claims. Improvements to the retirement systems are dependent on continued funding in order to deliver the following:

- Documentation and validation of business rules to enable any future solution to correctly calculate annuities of retiring Federal employees;
- Retirement data feeds that ensure data received is accurate, complete, useable, and compatible with the technology solution;
- Technology solutions and other systems involved in RSM that are secure in accordance with FISMA and comply with all relevant laws, regulations, rules and official guidance that govern the design and creation of electronic systems of record; and,
- Users are properly and adequately trained to use the technology solution in order to provide effective and efficient customer service.

During this transition period, OPM must continue to maintain the existing legacy processes and process claims for annuitants and survivors with limited technology, and increased workloads and customer service expectations.

RSM made great progress in FY 2010 with respect to documenting the Federal laws, rules and calculations necessary to process all Federal retirements; building the data warehouse capable of receiving electronic retirement data; and defining the Federal government standard by which retirement-related data will be sent to OPM by shared service centers and agencies.

The need to pay Federal annuitants in a timely and accurate manner is as critical as ever to OPM's mission. The RSM program must continue to build upon the progress made in FY 2010 and meet these challenges to continue moving forward in providing a technology solution to modernize the Federal retirement systems.

B. Consolidated Business Information System

CBIS is OPM's new financial management system. Phase 1 Release 1 of the system, which involved OPM's Revolving Fund and Salaries and Expenses accounts, was implemented in October 2009.

Almost immediately it was clear that there were significant problems with this new system as customers encountered issues with access, workflow, and information gaps. There were also technical problems that impacted invoice payments, travel vouchers, and financial reporting.

In March 2010, OPM formed a Tiger Team to perform a complete review of the CBIS program and recommend appropriate corrective action. The Tiger Team created an overall CBIS improvement plan that focused on eight critical project areas. The plan also recommended a leadership timeout to reflect on project successes and remaining challenges; and a Lean Six Sigma review to improve quality by minimizing defects and variability in financial-related business processes.

The Tiger Team also recommended delaying the implementation of Release 2, which was originally scheduled for April 1. This release was eventually implemented on August 21, 2010, and included functionality enhancements and corrections for some of the Release 1 issues.

Going forward and preparing for the implementation of Phase 2, which includes the Trust Fund accounting, OPM will face significant challenges as it continues to work through the action items identified in the CBIS improvement plan. By applying disciplined processes and best practices in IT project management, the technical and managerial issues will likely be resolved; however, a more daunting challenge may well be adapting the existing business processes and organizational culture to the standard business processes and rules of core federal financial management functions.

C. Service Credit

Under the Civil Service Retirement System (CSRS), employees may make optional deposits for periods of service during which retirement contributions were not withheld from their pay. They may also redeposit refunds of retirement contributions during previous periods of service. Employees who are covered by the Federal Employees Retirement System (FERS) may make optional deposits of retirement contributions that were not withheld from their pay, but, prior to October 28, 2009, they could not redeposit refunds of retirement contributions. Under either system, interest is due on the deposited or re-deposited amounts, although interest rates and periods vary. The purpose of making these deposits or re-deposits is to obtain credit toward retirement for previous periods of service.

Until 2006, this process was facilitated by a mainframe-based information system that had been in place for many years. This system handled basic transactions, including initial billing and interest calculations, but it was not designed to accommodate the many complexities of the business process, particularly the special retirement rules for various classes of Federal employees. These more complex transactions were processed manually.

In April 2006, OPM released a new version of the service credit system which was designed to allow most types of transactions to be automatically processed on users' desktop computers. In early 2008, users identified anomalies in payment and interest amounts, and it was eventually discovered that the system was not properly calculating interest in some cases.

Initial attempts to correct the problems were not successful, and the system was eventually taken offline in July 2008. Some fixes were later applied and the system was brought back on-line for limited use in October 2008; however, resource intensive manual workarounds continue to be necessary and account holders have not received updated statements.

For over two years, OPM has been working to identify all existing problems in the SCRD application, apply corrective action, and implement an updated system that properly handles the majority of service credit cases. The OIG reviewed the initial system development process to determine the cause of the system failure, and the ongoing efforts to redeploy the system.

Overall we discovered a serious lack of disciplined processes involved in the initial system development project and the early efforts to correct and redeploy the system. There were weaknesses throughout the system development lifecycle, but especially in project management, requirements management, and change management.

OPM recently applied improved processes to the current remediation effort, including a more systematic project management process, better change management and separation of duties, improved development, and a more rigorous testing process. However, major challenges remain. In the near term, OPM management must develop a plan that provides resolution to account holders who have been affected by the system problems. In addition, there is likely to be intense political scrutiny. Management must be prepared to present an effective communications and congressional liaison strategy, including possible legislative relief for affected account holders.

In the long term, OPM will probably need to scrap the existing system and develop a new system that adheres to standard best practices of a payment and billing system. This may also involve some business process reengineering. It will be critical to ensure that disciplined processes are followed throughout the system development lifecycle.

2. INFORMATION SECURITY GOVERNANCE

OPM relies on information technology to manage its core business operations and deliver products and services to many stakeholders. With increasing reliance on information systems, growing complexity, and constantly evolving risks and threats, information security has become a mission-critical function. Managing an information security program to reduce risk to agency operations is clearly an ongoing internal management challenge.

Information security governance is the overall framework and supporting management structure and processes that are the foundation of a successful information security program. Proper governance requires that agency management is proactively implementing cost-effective controls needed to protect the critical information systems that support the core mission, while managing the changing risk environment. This includes a variety of activities, challenges, and requirements, but is primarily focused on identifying key roles and responsibilities and managing information security policy development, oversight, and ongoing monitoring activities.

For several years, the OIG has reported increasing concerns about the state of the agency's information security governance. In May 2009, the OIG issued a Flash Audit Alert (FAA) to the OPM Director and the Chief Information Officer (CIO) highlighting these concerns. The primary issues outlined in the FAA included outdated information security policies and procedures, and an understaffed IT security program, particularly the longstanding lack of a permanent senior agency information security official (SAISO).

Our FY 2010 Federal Information Security Management Act (FISMA) audit indicated that very little progress has been made in correcting these issues. The underlying cause, in our opinion, is that OPM has not established adequate information security governance activities in accordance with legislative and regulatory requirements. Specifically, the agency has not fully documented information security policy and procedures or established appropriate roles and responsibilities.

The lack of policies and procedures was reported as a material weakness in the FY 2007 and FY 2008 FISMA audit reports. In FY 2009, we expanded the material weakness to include the agency's overall information security governance program and incorporated our concerns about the agency's information security management structure. This material weakness continued in FY 2010, even though the agency finally appointed a new SAISO, because of ongoing concerns about the lack of resources devoted to the IT Security and Privacy Group within the Office of the Chief Information Officer (OCIO).

We have learned that the OCIO has secured approval for additional staff in this group, including contractor support. The OCIO also has an Interagency Agreement with the Department of Treasury's Bureau of Public Debt to assist with policy development. We will evaluate progress in these areas in FY 2011.

We reported a second material weakness this year related to OPM's information system certification and accreditation (C&A) process because of longstanding flaws and deteriorating conditions. In FY 2008 and FY 2009, we reported that weaknesses in the C&A process were a significant deficiency in the internal control structure of the agency's IT security program. The weaknesses cited related to inadequate management of the process and incomplete, inconsistent, and poor quality C&A products. In FY 2010, these longstanding conditions not only continued, but actually worsened. As a result, we reported a material weaknesses in the IT security control structure related to OPM's C&A process.

We believe that the root cause of these issues is related to poor information security governance, as described above, but also to the OCIO's perspective of its role in IT security at the agency. An IT security program can be structured with a centralized or decentralized model, although most agencies adopt a hybrid structure with characteristics of both approaches. OPM, however, has chosen to implement a highly decentralized structure with most of the responsibility for IT security in the program offices, with the OCIO responsible for policy development and oversight.

While it is true that IT security should be a shared responsibility between the OCIO and the program offices, FISMA assigns ultimate responsibility to the CIO for developing and maintaining an effective IT security program. Our audits over an extended period of time have clearly shown that OPM's decentralized approach is not effective. Program offices, in general, have neither the expertise nor the interest in properly managing an IT security program for their systems. Program offices will naturally focus limited resources on operational issues, and IT security is normally a secondary concern.

In our FY 2010 FISMA report we recommended that OPM adopt a more centralized approach to IT security. We suggested that the agency recruit a staff of information security professionals to act as designated security officers (DSO) that report to the SAISO. This model would replace the existing approach where current DSOs, most of whom have no background in IT security, report to their program offices. The OCIO has agreed with our recommendations for a more centralized IT security structure. However, implementing this new strategy will most likely be complicated by budget issues, concern about access to systems, and opposition to change.

Clearly management faces a major challenge in correcting the ongoing and very serious deficiencies in information security governance at OPM.

3. FINANCIAL MANAGEMENT SYSTEM AND INTERNAL CONTROLS: REVOLVING FUND AND SALARIES AND EXPENSES ACCOUNTS

During the current audit of OPM's FY 2010 financial statements, the auditors noted that deficiencies continue to exist in the operation of the Office of the Chief Financial Officer's internal controls over financial management and reporting, affecting the accuracy of the Revolving Fund (RF) and Salaries and Expenses Accounts (S&E). These deficiencies are attributed to:

1. CBIS does not properly process and display all appropriate financial information in accordance with Federal Financial Management Improvement Act requirements and is not properly configured to produce useful financial reports that provide accurate information regarding related intra-governmental activities and balances;
2. OPM has not completely identified existing differences between its own internal data and the information reported by the U.S. Department of the Treasury (Treasury) resulting in an imbedded difference in its Fund Balance with Treasury (FBWT) amount; and,
3. OPM has not effectively enforced procedures related to the consistent and clear documentation of the performance of Salaries & Expenses Fund reconciliations and as outlined in the "Treasury Financial Manual" and OPM's "Cash Management Policy and Procedures."

OPM has had a long standing issue with reconciling its RF account with Treasury. Revisions to the work instructions for reconciling the cash balances to the FBWT for the

RF were made in FY 2009 to include strict deadlines for the completion of monthly reconciliations. With the implementation of the new financial system, CBIS, management still continues to have internal control weaknesses with FBWT reconciliations for the S&E and RF. OPM is challenged to continue to improve business processes within CBIS to address the current deficiencies.

Agency Response

November 1, 2010

MEMORANDUM FOR PATRICK E. McFARLAND
Inspector General

FROM: Stephen Agostini Stephen J. Agostini
Chief Financial Officer

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

The Management Challenges identified in your annual report are, by definition, issues that are not easily resolved. In many cases, they will require investments or upgrades to technology or substantial changes in long-standing procedures or program activities both within and outside OPM. Completely addressing these Management Challenges will take years, but as you know, we have plans to address each with steps each year. In order to provide perspective on the Agency's progress, I have attached a status summarizing the action taken this year to resolve management challenges from last year.

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

Attachment

Progress in Meeting FY 2010 Management Challenges

OPM's Office of the Inspector General (OIG) identified and reported to the Director the most serious management challenges facing the agency for FY 2010 on October 30, 2009. Below is the progress the agency has made toward meeting the identified environmental and internal challenges.

Environmental Challenges

1. STRATEGIC HUMAN CAPITAL

OPM is the leader of Federal human resources management practices. The management practices are innovative and used in conjunction with HR systems across the Federal Government. OPM continues to strive for transformation of Federal HR through conducting rigorous evaluations completed by Human Capital Officers (HCO's). OPM seeks to reinvigorate how we employ, deploy, and evaluate the workforce; maintaining a stringent focus on results. These results will place the right people in the right jobs, to most efficiently perform the work of government.

President Obama's initiative to Improving the Federal Recruitment and Hiring Process is a comprehensive commitment to address major, long-standing impediments to recruiting and hiring the best and the brightest into the Federal civilian workforce. The initiative is designed to help agencies build the workforce needed to achieve its goals. OPM is spearheading a government-wide initiative to reform recruiting and hiring policies and procedures. The reform efforts encompass sweeping changes to streamline the hiring process. OPM has extended its reach to ensure agencies find and hire the best talent possible for the Federal government. Successful implementation of these reforms will enable agencies to achieve its objectives for the American people.

In FY 2010, combating the perceived high-level of attrition through retirement eligibility, OPM once again became the Government's leading agent in assessment work. As such, OPM will develop and purchase high quality (valid and legally defensible) assessments that allow Federal agencies to identify best qualified applicants for targeted positions. Examples of such assessment tools are cognitive ability tests, work sample tests, job knowledge tests, situational judgment tests, personality/biodata tests, and structured interviews. Multiple assessments may be used to evaluate applicants, either concurrently (i.e., in a single stage) or in a hurdled fashion (i.e., multiple stages in which only qualified applicants move on to successive stages). Assessments may range from traditional multiple-choice tests to computerized job simulations and will primarily be administered in an un-proctored setting. As assessments are developed and validated, they will be made available to agencies for use as they see fit. Parallel to the assessment development efforts is an effort to create a web-based capability that will reside these assessments; referred to as USAJOBS Assist. OPM's efforts in this area will reduce the burden on Federal applicants (i.e., applicants will need to be assessed once rather than multiple times by different agencies); improve the quality of personnel assessments used across the Federal government and resultant hiring decisions (i.e., higher quality hires); ensure agencies are adhering to merit principles during hiring, and improve efficiencies of scale.

To further capitalize on the investment in the development of the assessments, the results will be used to build and maintain ready-to-hire listings of pre-cleared candidates for common, frequently listed government vacancies. The theory behind shared registers is that the Federal government must start acting as "One Government." Numerous jobs with the Federal government are not agency specific, hiring for commonly filled jobs across Government could be expedited through shared registers. This will improve the experience for the applicant and provide agencies with a wealth of talent agencies could hire quickly, rather than investing in one job announcement at a time.

The Federal government needs to become more proactive and effective in how it markets its careers/jobs and how it designs recruitment strategies to attract and recruit talent from all segments of society. Successful recruiting depends on a combination of factors that influence the interaction with applicants from first contact to their first day on the job. The portion of the Hiring Reform Initiative focuses on the following main areas: 1) forecasting future skill needs and workforce trends; 2) benchmarking best recruiting practices; 3) building and maintaining strong relationships with educational institutions, industrial and commercial enterprises, professional organizations, minority and advocacy groups at the local, regional and national level; 4) using technology to recruit talent, communicate with agency recruiters, and disseminate information, and 5) developing a "corporate" recruiting image/brand to attract top talent from all segments of society.

OPM is developing a web-based tool that will enhance recruitment. Referred to as USAJOBS Recruit, the purpose of this tool is to make it easier for Federal recruiters to find information, speak to those hiring officials who do not understand HR-jargon, provide recruiting tools, send out notices to recruiters on networking events, career days, job fairs, etc., and integrate all communications seamlessly. Other features include a blog on recruiting, social media platforms, micro-blogging (e.g., twitter), and establishing a recruiting channel on You Tube and Facebook.

Job seekers unfamiliar with Federal service often struggle to match their expertise against job opportunities available with Federal agencies. Federal terms (occupational series, grade levels, etc.) and application processes can be daunting and add stress to the job search. As such, this "maze" can become a deterrent to job seekers considering applying their talents to Federal missions. The USAJOBS Recruit tool provides a "CareerMatch.com" feature would provide a robust matching tool hosted on USAJOBS to assist job seekers in matching their knowledge and skills to available opportunities. The tool is envisioned as an online, interactive self-assessment a job seeker would complete on the USAJOBS website. By providing information about their experience, education, and interests, the job seeker would be notified of the types and levels of jobs he or she may want to consider with the Federal government as well as which agencies might fit their interests. The tool would then link the job seeker to open job announcements posted on USAJOBS to their results. This easy-to-use, streamlined process would open the minds of job seekers to the public service possibilities available with the Federal government, leaving the individual job seekers better prepared to determine their career path and apply for government jobs. Development of the tool will require extensive analysis to link the information to OPM's Position Qualification Standards for all occupations and grade levels. The tool will need to deploy interactive technologies to assist the job seeker and ensures that they are completing the self-assessment in ways that are efficient and customer-oriented. Finally, the tool could be a stand-alone system but would be most effective if integrated with USAJOBS (and the associated Student Jobs and SES job sites) to link the self-assessment results to actual job opportunities. In future years, the system would incur operations and maintenance costs to incorporate any changes to the OPM Position Qualification Standards.

2. FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

A. Reorient FEHBP Management

OPM seeks to reorient the management of the FEHB Program by capitalizing on the collection and analysis of program-wide data. OPM's Planning and Policy Analysis (PPA) organization has begun the processes necessary to implement a Health Care Data Warehouse (HCDW), a searchable and secure database for claims information.

The Planning and Policy Analysis organization has hired a project manager and a health economist to initiate the efforts to create the HCDW. These new additions have begun work with existing data analysis and policy staff on the creation of the HCDW. The HCDW team has created a Risk Management Plan (RSKMP) that establishes the processes and procedures for dealing with risks associated with the HCDW. It focuses on the processes and procedures the team will follow to identify, categorize, manage, document, track, and close risks throughout the project lifecycle.

The HCDW team has also selected and hired a project management organization (PMO). The PMO is currently working to create a comprehensive project management plan to ensure the effective design, implementation, and maintenance and data analysis of necessary health claims data. Currently, the HCDW team is compiling intended data use needs for the HCDW requirements document. A thorough completion of this step will ensure that the completed warehouse will have the capability to allow analysts to effectively analyze costs and provide adequate management support for the Program.

B. Prescription Drug Benefits and Costs

Almost all FEHB carriers contract with Pharmacy Benefits Managers (PBMs) to manage their plan prescription drug benefits. To improve oversight of this business segment, OPM established work groups to develop steps to strengthen the controls over pharmacy benefits. Specifically, the work group have met with Federal officials from TRICARE, the Centers for Medicare and Medicaid Services, and the U.S. Department of Veterans Affairs; agencies that run pharmacy programs for other large government-sponsored health care programs. Also we have contracted with expert consultants to determine if the pharmacy arrangements under FEHB carrier contracts with PBMs are competitive with the private sector.

OPM is now evaluating the efficacy of how the program purchases prescription drugs and whether alternative purchasing methods would be more beneficial to enrollees. Two primary issues are the increasing costs of offering prescription drug benefits and cost transparency. The agency is evaluating four contracting arrangements for study which are:

1. Develop pharmacy services from the existing FEHB plans' structure and contract with a single PBM. OPM would negotiate directly with the PBM based on market pricing.

2. Carve out pharmacy services and use TRICARE or the Veterans Administration as the administrative agent managing pharmacy services for FEHB enrollees based on the Federal Supply Schedule (FSS) or the Federal Ceiling Price (FCP).

3. Use the FSS for drug purchasing and contract with a separate program administrator or arrange for FEHB carriers to use the FSS under an umbrella contract arrangement. This option does not consist of a carve-out.

4. OPM is also focusing on increasing the transparency of carrier arrangements with PBMs for prescription drug purchasing and cost management.

    - OPM notified all carriers of new PBM contracting principles including transparent pass-through pricing.

    - The work group has drafted contract provisions implementing these principles for inclusion in the 2011 contracts.

3. WELLNESS AND WORK-LIFE BALANCE

OPM, in collaboration with the Office of Management and Budget (OMB) has an opportunity to work with agencies in carrying out the President's Work/Life initiative. For the Federal government to compete with other employers to attract the best talent, OPM proposed to launch a government-wide Wellness Program. The elements of a comprehensive worksite wellness program are health education; supportive social and physical environments; integration of worksite wellness program into organizational structure; screening programs, and linkages with-related benefits programs (FEHB, FSA, EAP, Flexible schedules, Telework, etc.). Worksite health and wellness programs have proven effective at improving the health of employees, lowering health care costs, reducing absenteeism, and improving employee morale and productivity. Various studies show that comprehensive health and wellness programs have resulted in returns on investment averaging $3 benefit for every $1 invested.

During FY 2010, OPM provided agencies with the tools to promote health and wellness among employees; helping agencies to address employee satisfaction with work-life flexibilities and benefits. To revitalize the program OPM evaluated and revised agency telework and other work schedule policies, in conjunction with agency partners, to encourage increased use by agencies and managers. In addition, OPM provided guidance to Federal agencies on the criteria for assessing a comprehensive health and wellness program, and the adequacy of agency worksite wellness plans.

OPM has also been the leader of agency work-life programs. For instance, OPM has initiated a campus initiative to support wellness activities for employees of OPM, GSA, and the Department of the Interior. These activities include a farmers market, health and fitness courses, and seminars. In addition, OPM disseminated a government-wide work-life survey instrument to assess satisfaction and identify the needs for future work-life programs.

Achieving this goal will establish a foundation for health and wellness programs across the Federal government and enable us to better quantify the impact of such programs on our ability to recruit, retain and honor the best workforce to serve the American people.

4. INFORMATION TECHNOLOGY SECURITY

A. Information Security Governance

OPM has taken definitive steps to implement IT Security governance by hiring a permanent senior agency information security official (SAISO) as of April 26, 2010. Working in conjunction with the CIO, the SAISO has signed an interagency agreement with the Bureau of the Public Debt to develop comprehensive FISMA compliant IT security policies in collaboration with the OPM IT Security Office.

In addition, the CIO has approved six IT security positions for the IT Security Office and three of these positions have been filled.

The CIO has also approved two privacy positions to staff the Privacy Office. One of these positions has been recently advertised and the second position is expected to be advertised in the coming months. These new positions will develop and update privacy policies and address OMB guidance and requirements.

B. Homeland Security Presidential Directive 12 – Personal Identification Verification II

As of September 7, 2010, OPM has issued PIV cards to 95% of OPM employees and 89% of OPM contractors, nationwide. The remaining personnel not actually in possession of a card are in process to receive one. HSPD-12-compliant physical access control card readers and turnstiles have been installed at the OPM Headquarters and OPM facilities located in Boyers, and Slippery Rock, PA. OPM is currently deploying a phased approach for logical access controls and has begun implementing use of PIV cards for VPN connectivity.

Although challenges remain in issuing PIV cards because of the limited number of permanent PIV processing stations throughout the country, OPM has made significant progress in achieving HSPD-12 goals and has initiated several solutions to ensure on-going compliance. OPM has deployed and supported numerous temporary PIV stations at various locations across the country to increase availability of stations at which employees and contractors can be efficiently processed to enroll for and activate a PIV card. Additionally, OPM closely monitors and aggressively tracks card processing efforts to ensure personnel are in possession of activated cards. This effort involves the development of numerous status reports and close coordination with various Divisions within OPM. OPM has also submitted an order for 20 light activation stations and will deploy these stations to various locations throughout the country. This effort will help minimize time requirements associated with activation processes that affect productivity. This deployment will also support PIN resets in the use of PIV cards for logical access controls.

OPM continues to be actively involved with a partnership of several GSA Managed Service Office (MSA) customer agencies to include USDA, DOI, DOE, Department of Treasury, DOJ and GSA that addresses on-going concerns regarding the USAccess system and works to capitalize upon shared resources for processing government personnel. This group has supported various efforts such as deploying temporary mobile circuits of PIV enrollment stations throughout the United States that support remote and urban areas in which permanent stations were not available. This group collectively provides insight to GSA of shared requirements and desires for upcoming system enhancements as well as input regarding common difficulties experienced with current functionality of the system. Additionally, this group provides support to each other on lessons learned regarding various approaches deployed by member agencies. The group is currently working with the MSO in pursuing the development of a more mobile combination enrollment and activation station, which will better equip agencies to process individuals in remote areas. MSO should assist greatly in PIV issuance and maintenance requirements.

Internal Challenges

1. RETIREMENT SYSTEMS MODERNIZATION

Consistent with the findings of the Government Accountability Office (GAO) in 2009, OPM identified and focused on diverting the key "building blocks" (functions) needed to automate the retirement process. Delivering modern, improved retirement services, including a web-enabled retirement application, self-service tools, retirement estimators, and a comprehensive retirement case management system is dependent on putting the core "building blocks" in place first. Those core "building blocks" include:

- Prioritizing fixes to retirement calculators and supporting systems based on need and age;
- Building a data warehouse capable of receiving electronic retirement data and imaged records from federal agencies and shared service centers (SSCs); and,
- Implementing retirement data feeds with agencies and shared service centers so that a single standard set of information could be exchanged across the government.

RSM made much progress in FY 2010 with respect to documenting the Federal laws, rules and calculations necessary to process all federal retirements; building the data warehouse capable of receiving electronic retirement data, and defining the Federal-wide standard by which retirement related data will be sent to OPM by shared service centers and agencies.

2. BACKGROUND INVESTIGATIONS

The Federal Investigative Service (FIS) takes very seriously any instance of investigator falsification within the background investigations program. FIS has a strong Integrity Assurance Program and stringent internal detection procedures that allow the program to uncover and substantiate falsification cases. To date, all reported cases involving investigator falsification were detected as a result of FIS' internal control measures.

FIS continues to work closely with OPM's Office of the Inspector General (OIG) and the US Attorney's Office in Washington, DC, to present confirmed cases of Investigative Falsification and recently signed a Memorandum of Understanding (MOU) with the OIG regarding referral guidelines. This MOU formalizes referral procedures that were not previously documented and also establishes timelines for the completion and referral of cases to the OIG. The MOU demonstrates the joint efforts of both parties in working toward the common goal of eradicating investigative falsification.

As part of the current FIS reorganization, the Integrity Assurance and Quality Management offices will be combined into Quality and Integrity Assurance (QIA). This combined office will result in a more robust and focused quality assurance program. It will report directly to the Associate Director further highlighting its organizational and programmatic importance. During 2010, we have taken other steps in strengthen this critical function. FIS has continued to enhance our case review techniques and provided integrity training to staff recently assigned to our review function.

3. FINANCIAL MANAGEMENT SYSTEM AND INTERNAL CONTROLS: REVOLVING FUND AND SALARIES AND EXPENSES ACCOUNTS

As part of the audit of OPM's FY 2009 financial statements, it was reported that deficiencies continued to exist in the operation of the internal controls over financial management and reporting, affecting the accuracy of the Revolving Fund (RF) and Salaries and Expenses Accounts (S&E). These deficiencies were, in part, attributable to OPM's previous accounting system for the RF and S&E funds. Specifically, the

Government Financial Information System (GFIS) was not effectively configured to capture essential financial information and generate useful and accurate financial reports related to intragovernmental activities and balances. The auditors also reported that reconciliations were not consistently or always clearly documented and not always performed in a timely manner, and unidentified differences continued to exist between the Treasury Department and GFIS. They further noted that deficiencies in the ability to record, process, summarize, and report financial data reported for RF and S&E.

In an effort to improve OPM's financial management system including information system software, business processes and procedures, outsourcing support, and internal controls, the Office of Management and Budget (OMB) directed OPM to use the guidelines it outlined in the Financial Management Lines of Business (FMLoB) Migration Planning Guidance to acquire the software, integration and application hosting services necessary to modernize its financial management systems. The Chief Financial Organization (CFO) organization followed those guidelines and in July 2008, OPM awarded a contract for the Agency's software, integration and application hosting services provider to replace GFIS with our new Consolidated Business Information System (CBIS). Phase I of CBIS, for the S&E and RF, was initially deployed in October 2009; various upgrades and deployment of new functionality have continued throughout FY 2010 and will continue into subsequent years. The schedule for Phase II of CBIS, to cover the Retirement, Health Benefits and Life Insurance Trust Funds, is being reassessed due to changing agency priorities, changes in interfaces with other OPM and external systems, and identification of additional system requirements.

Through the implementation of the initial release of Phase I, the project remained within the Office of Management and Budget (OMB) reporting thresholds for cost and schedule performance. OPM, under the guidance of the CBIS Project team has addressed many of the key issues and is currently addressing some change management and cultural challenges and technical issues as sometimes experienced with implementations of this type after the initial deployment. OPM has formed a Tiger Team of key senior officials to address these issues. The CBIS Project Team, in coordination with the CBIS Tiger Team and the CFO organization will work to address these issues, and thereby improve the accuracy and timeliness of S&E and RF reporting, in FY 2011.

The CBIS Project status was recently presented to OMB in response to OMB Memorandum 10-26, Immediate Review of Financial Systems IT Projects. The findings and recommendations of the Financial Systems Advisory Board (FSAB), that assisted OMB in the review effort, are expected no later then the end of FY 2010.

The implementation of CBIS continues to be a top priority for the Agency. As we enter FY 2011, it is critical that OPM manage the CBIS project based on project management principles and ensure dedicated project staff to further ensure a successful implementation and stabilization of modernized business processes, system controls, and effective operational and regulatory reporting under CBIS.

Summary of Financial Statement and Audit Management Assurances

OPM's Summary of Financial Statement Audit and Management Assurances are shown in Tables 10 and 11, respectively

Table 10. Summary of Financial Statement Audit

Financial Statement Audit Opinion and Material Weaknesses					
Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
None	0	1	0	0	1
Total Material Weaknesses	**0**	**1**	**0**	**0**	1

Table 11. Summary of Management Assurances

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

Improper Payments Information Act Reporting Details

An improper payment is any payment that should not have been made or was made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements. Additionally, the OMB has specified that improper payments include payments where the agency's review cannot discern whether a payment was proper as a result of insufficient or lack of documentation. In 2002, Congress enacted 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 improper payments for FY 2010 are $237.6 million in retirement benefits, $59.4 million in health benefits, $1.0 million in life insurance benefits, and $9.5 million in background investigations for a total of $307.5 million dollars.

Program Descriptions

OPM's three earned benefit programs—Retirement, Health Benefits and Life Insurance—are, by definition, susceptible to potential improper payments. OPM has an approved Improper Payment plan that discusses the causes of benefit program improper payments; sampling approaches; actions taken and underway to correct causes; results of actions; timelines for reducing improper payments; statutory barriers; and projected reduction targets.

OPM has also designated payments to contractors under the Background Investigations program as susceptible to improper payments based on overall risk assessment of payments in the Revolving Fund (RF) and Salaries and Expenses (S&E) appropriations conducted in FY 2008. OPM has developed an improper payments plan and is reporting detailed improper payment rates and targets for the first time in this report.

Retirement Program

The Retirement Program (RP) paid over $68.83 billion per year in defined pension benefits to Federal retirees, their survivors, and families. The RP is comprised of the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). In addition, when covered employees leave the Federal service before they are eligible for benefits, their retirement contributions, if so requested, will be returned to them in a lump-sum refund payment.

Health Benefits Program

The Health Benefits Program (HBP) is administered through contracts with participating carriers that provide hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. Two types of carriers participate in the Program: experience-rated carriers (ERCs) and community-rated carriers (CRCs). ERCs maintain separate accounting for the HBP contract and, hence, must disclose their expenses. CRCs, on the other hand, do not maintain separate accounting and receive a premium based on the average revenue needed to provide benefits to their members. ERCs incur benefit and administrative expenses of over $32.35 billion on behalf of the HBP, and the HBP paid $6.43 billion in premiums to CRCs.

Life Insurance Program

The Federal Employees' Group Life Insurance Program (FEGLI) provided life insurance benefits of $2.60 billion in FY 2010 to more than 89,511 claimants of Federal employees and annuitants. FEGLI is administered through a contract with the Metropolitan Life Insurance Company (MetLife), which oversees the processing and payment of benefit claims. The FEGLI provides Basic life insurance coverage, as well as three life insurance options and living benefits.

Background Investigations Program

OPM conducts approximately 90 percent of the background investigations for the Federal Government. The primary purpose of the investigations program is to conduct high-quality, timely background investigations which will be used by Federal agencies to determine individuals' suitability for Federal civilian, military, or contractor employment. The completed background investigations also are used by agencies to determine individuals' eligibility for access to classified national security information. OPM closed approximately 1.5 million investigation cases through the first three quarters of FY 2010. OPM uses Government employees to perform some background investigations; however, it also uses contractor resources to conduct some investigations, as well as to provide associated support activities such as scheduling investigations and reviewing files for completeness. Total estimated contractor payments for the FY 2010 were $677 million.

OPM's program office in charge of background investigations is Federal Investigative Services (FIS). FIS starts the process for conducting an investigation once requests are received from customer agencies either by mail, or electronically through Electronic Questionnaires for Investigative Processing (e-QIP) or the Fingerprint Transfer System (FTS). Cases are scheduled for work in the Personnel Investigative Processing System (PIPS); FIS's current practice is to pay its investigative payment contractors on a daily basis under current terms of those contracts. During FY 2009 and prior years, PIPS regularly sent payment transactions for closed cases from PIPS to the PIPS Financial Information System (PFIS), which summarizes all payments by vendor. PFIS was established because OPM's existing financial system of record, the Government Financial Information System (GFIS) could not process payment transactions at the case level. Beginning in FY 2010, OPM's Consolidated Business Information System (CBIS), is processing payment of cases directly from PIPS.

Improper Payment Sampling

Retirement Program

In FY 2007, OPM consolidated its retirement adjudication and extended benefits test approaches to leverage monthly sampling across newly added retirements and survivors under each of the two distinct retirement systems (CSRS and FERS). The contract statistician stratified the sample to adequately assess each type for Improper Payments and Civil Service Retirement and Disability Fund (CSRSDF) impact. OPM reviewed retirement and survivor cases using statistically valid samples across each month of the fiscal year leading up to the audit itself. In FY 2010, a total of seven months' worth of audited claims calculations were used to determine the RP's IP rate. The ability to use results from several months increases the reliability of the results and tightens the Improper Payments estimate ranges inherent in sampling large disbursements. The new methodology helps to minimize variability and potential errors correlated to anomalies within sample months selected, since several months are represented.

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

Health Benefits Program

As it did for FY 2009, OPM used the results of historical audits of the premiums paid by OPM to CRCs and the expenses paid on behalf of the Program by ERCs. One hundred percent of FEHBP premium payments are subject to audit. Based upon selected criteria from OPM management and themselves, the Health Plans selected for audit do, in fact, exceed the sample size required by OMB in Appendix C to OMB Circular A-123. This sample is judgmental, not random, targeting the most likely areas of improper payments in the Program.

OPM, for FY 2010 continued to rely upon the existing audit procedures to estimate improper payments to CRCs. In accordance with OPM reporting and auditing guidelines, all ERCs have, for a number of years, prepared annual financial statements and have subjected those financials to audit by independent public accounting firms (IPA). While OPM's guidelines require the IPAs to sample paid benefits and administrative expenses, they do not provide for detailed reporting of the results, nor do they prescribe sampling procedures that allow for the aggregation of those results. The OPM OIG is conducting audits that are more frequent and performs global audits targeting coordination of benefits, assistant surgeon and duplicate claim payments. We will continue to leverage the results of the OIG audits in determining the error rates.

Life Insurance Program

OPM has had a process in place for many years to determine the improper payments made by MetLife to the beneficiaries of deceased annuitants. Using a data-match analysis, OPM compares the eligibility and coverage data of virtually all covered annuitants who died during the fiscal year against the dollar amount of benefits paid to their beneficiaries by MetLife. In May 2006, OPM implemented a new, automated method to certify life insurance for deceased annuitants, which further reduced improper payments. This Automated Certification of Life Insurance (Auto Cert) process has taken the place of hard-copy certification for most deceased annuitants. This was the second full year since the Autocert system replaced the manual process for certifying FEGLI payments. Autocert has dramatically reduced annuitant Improper Payments due to human error in processing claims. FEGLI payments to annuitants were extremely accurate during FY 2010, with over 99.9 percent of accounts being accurately paid, and over 99.96 percent of dollars being accurately disbursed.

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

We have now conducted a match comparing CPDF data against MetLife payments for portions of FY 2006–2010. With this experience reviewing non-annuitant disbursements, we have concluded that these disbursements are as accurate as the disbursements made on behalf of deceased annuitants. This makes considerable sense, as the records of current employees who decease were current and actively being maintained by the agencies for which they were employed.

Background Investigations Program

OPM used the universe of closed cases for the first 9 months of FY 2010 to select a sample for review; the first 9 months were used as the universe based on the timing of the detailed review needed to analyze closed cases and payments. This methodology was consistent with that used in FY 2009. OPM analyzed quarterly trends in the number of closed cases for prior years, and based on that review believes that the first 9 months of the year were representative to use for projections to the entire fiscal year. OPM will continue to refine its methodology and sample selection in future years.

The overall size of the sample was a derivative of both the population size (1,495,075 closed cases from October 1, 2009 through June 30, 2010) and a degree of confidence that the results of the analysis would be sufficient to represent the entire population (97% degree of confidence that the cost of errors measured in the sample set would be within plus or minus 5% of that result in the entire population). Based on that universe and degree of confidence, the sample set was calculated at a total of 1,315 closed cases. OPM further stratified the sample set of 1,315 case types by 21 different investigation types (e.g., single scope background investigation, national agency check with law and credit) that generate payment transactions to contractors. The different types of investigations entail different amounts of work and therefore contractors are paid different amounts based on the investigation type.

For each closed case in the sample, OPM reviewed up to three separate payment categories types generated in the 1,315 cases selected: (a) payments made to support contractors for scheduling cases in the Personnel Investigative Processing System (PIPS) and associated tasks (2,385 payments), (b) payments made to contractors for conducting investigative fieldwork (1,088 payments) and (c) payments to contractors to conduct reviews of completeness of field work for completed cases (959 payments). Results are presented in Table 13 for each category of payment.

To ensure that payments in the sample were proper, OPM reviewed various system and manual documentation including:

- Ensuring that payments were in accordance with the terms and conditions in the contracts;
- Verifying that payments for each case in PIPS were included in the PIPS total summarized payment;
- Confirming that payment transactions indicated on the CBIS report were in the summarized payment amount disbursed by CBIS;
- Verifying the proper payment was disbursed by CBIS to the contractor by comparing the summarized amounts on the PIPS summary report to the undisbursed payment reports; and
- Reviewing the results of a FIS review of the completeness of selected case files

Causes of Improper Payments and Actions to Reduce Them

Retirement Program

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

- Delayed reports (or no reports) on changes in status (death, marriage, recovery from disability, etc.) furnished from beneficiaries or family members that resulted in a different (or no) benefit payment.
- Inaccurate and/or incomplete information provided by former employing agencies about a retiree's Federal service history.
- Dual Federal benefits provided to individuals (laws generally allow only one).
- Adjudication errors by OPM employees (these 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. We 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.

To further reduce improper payments in the Program, OPM must modernize its legacy systems; enable access to integrated, electronic, retirement-related data; and improve business processes and workforce support.

Health Benefits Program

Two types of carriers participate in the HBP. The first type is community-rated carriers (CRC). The Community-rated method is based on a "per enrollee per month" carrier premium rate. OPM negotiates adjustments to this base rate for a variety of reasons, including changes to the CRC's 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, 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. Benefit 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 is targeting coordination of benefits and duplicate claim payment problems. Furthermore, Contracting Officers are taking a proactive approach by focusing on the most common causes of improper payments and charges of administrative expenses to reduce their frequency.

Life Insurance Program

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

Current Initiatives to reduce Retirement, Health and Life Improper Payments

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

Proof of Life

The purpose of the Proof of Life study was to develop a sustainable and verifiable method that prevents fraud, increases electronic enrollment, and saves administrative costs, while providing better service to our annuitants overseas. OPM has been able to leverage the resources and expertise of the Social Security's Office of International Operations (OIO), the Department of Veterans Affairs, the Department of State, the U.S. Treasury and the Federal Reserve.

The 2008/2009 project in the Philippines and Japan concentrated on verifying annuitants were still alive and increasing EFT enrollments which resulted in:

- Annual Savings to the retirement fund from dropping deceased annuitants—$1,475,969.00
- Annual savings to the Retirement and Benefits budget from increased EFT enrollments—$22,600.
- Improper payments reclaimed—$440,000.

The effort also included intangible benefits. The Agency:

- established a reputation that OPM will be checking on unreported deaths
- strengthened our relationship with SSA staff that does our work overseas at no cost to us and effectively no additional cost to the Federal Government
- corrected beneficiary addresses
- resolved many representative payee issues
- provided training to embassy benefits staff for resolving Federal retirement issues.

The project has proven so successful that plans are underway to continue it in other countries in Europe and Asia in 2010/2011.

International Direct Deposit

OPM is also working to expand its International direct deposit program, known as International Treasury Services (ITS). We now service Canada, the United Kingdom, Ireland, Germany, Italy, France, Spain, Panama, and Japan and are working on adding Greece to ITS. Currently we have two ways to send electronic payments to our international customers: via correspondence banking (i.e., forwarding funds to a U.S. bank that has an agreement with a foreign bank) or by sending payments by way of the Federal Reserve (*ITS.gov*). Not all countries have the ability to be paid by ITS, but for those that do, we intend to exploit this mechanism to the maximum extent possible. We currently pay about 71 percent of our overseas annuitants electronically with approximately 46 percent of those payments through ITS. Last year we reduced foreign check payments by 10 percent and are working to further expand ITS.

Inspector General (IG) Workgroup

OPM's Retirement and Benefits (R&B) is committed to further strengthening internal controls to guard against waste, fraud, abuse and mismanagement of taxpayer resources. We maintain a close working relationship with the Office of the

Chief Financial Officer and the OPM/OIG in the area of retirement fraud, payment reclamation, and erroneous payment interception.

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

- Renewing the Master Death Match against Social Security's comprehensive Master Death File to supplement the weekly consolidated matches we currently perform. In FY 2010, OPM's recurring death data-matching activities identified more than $52 million in overpayments and prevented an additional $81 million from being overpaid (calculated savings to OPM).
- The Automated Check Reclamation System, implemented on January 4, 2010, streamlined and automated the check reclamation process. Reports of death are received and processed through the new system on a daily basis, generating automated reclamation actions or determining if no reclamation is needed. Reports are produced for any claims which require review and the reports track the number of days since the drop for death so that we can ensure actions are taken timely.
- Recovering benefit payments made to abandoned bank accounts as well as those escheated to the respective state coffers.

Most Improper Payment (IP) detection activities are necessarily followed by labor intensive processes to confirm the IP, gather evidence, administer due process and collect overpayments. In this environment, oversight and audit activities compete with normal operations. By working collaboratively to identify, analyze, prioritize and implement IP reduction activities, we limit exposure to IP's and save processing costs, plus leverage talent to save administrative costs.

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

Background Investigations Program

OPM's FY 2010 review found the following improper payment transactions (full results are provided in Table 13).

- Of the 2,282,608 background investigation payments totalling $507,852,936 made during the first 9 months of FY2010, 76,793 were determined to be improper at a total cost of $9,209,944 representing 1.9% of total payments made.

Based on OPM's review of the sample, the primary causes of improper payments to contractors for background investigations were improper and inconsistent rates uses, cases closed without certain fieldwork items being completed and inconsistent amounts used in manual PIPS entries.

FIS has taken actions to address improper payments found in prior years including developing improved policies and procedures and strengthening its quality assurance program for background investigations.

Recovery Auditing

The OIG, under the amended Inspector General Act of 1978, administers audits in partnership with the FEHB Program. An Audit Resolution function validates audit findings and determines whether questionable charges are allowable under FEHB Program regulation (e.g. FAR, FEHBAR). OPM's OIG performs comprehensive audits of the Health Benefits and Life Insurance Program carriers as well as the Long Term Care program, Flexible Spending Accounts and the Dental Vision Programs.

To comply further with the policy above, OPM's OIG continually reviews the agency's cost effective financial and programmatic controls to identify contractor overpayments. These effective internal controls prevent, detect, and recover overpayments to contractors. All contracts negotiated by OPM are subject to audit and are included in the audit universe with comprehensive audits of the FEHBP carriers conducted to ensure compliance with contract provisions, provide program oversight, and minimize fraud, waste, and abuse. The costs for this program include salary, administrative, and other expenses spread across several organizations. 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 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.

Table 12—Improper Payments (IP)

OPM Fund	FY 2010 Dollar Amount Subject to IP Review (in Millions)	FY 2010 IP Amount Received and Reported (in Millions)	FY 2010 IP Amount Identified for Recovery (in Millions)	FY 2010 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 2010 (in Millions)	Cumulative Amounts Recovered In Prior Years + FY 2010 (in Millions)
Retirement	$68,834	$184.9	$179.9	$159.5	$913.7	$746.4	$1,093.6	$905.9
FEHB	$38,778.8	$81.9	$59.4	$80.4	$295.6	$258.3	$355.0	$338.7
Life Insurance	$2,596.7	$4.27	$3.36	$1.47	$15.41	$11.68	$18.77	$13.15

* Annuitant IP amounts through August 2010, projected through September; Non-annuitants (Executive only) through Q1 FY 2011.
# Number of extrapolated and subject to adjustment once OFEGLI FY 2010 audit is completed.

Accountability for Reducing and Recovering Improper Payments

OPM's Associate Director for Retirement and Benefits (R&B) has been designated as the official responsible for establishing policies and procedures to assess agency and program risks of improper payments for the benefit programs, taking actions to reduce those payments, and reporting the results of the actions. OPM's Chief Financial Officer (CFO) will be primarily responsible for reducing the risk of improper payments on the background investigations program and will work closely with the Associate Director for R&B on a comprehensive OPM IP Plan.

Table 13—Improper Payment Reduction Outlook

	2009 Outlays	2009 IPs	2009 IPs	2010 Outlays	2010 IPs	2010 IPs	2011 Outlays	2011 IPs	2011 IPs	2012 Outlays	2012 IPs	2012 IPs	2013 Outlays	2013 IPs	2013 IPs
	$ M	%	$ M	$ M	%	$ M	$ M	%	$ M	$ M	%	$ M	$ M	%	$ M
RETIREMENT															
Total Program	67,194.1	.32	211.7	68,834.0	.35	237.6	70,434.0	.34	237.0	72,034.0	.33	236.0	73,634.0	.32	233.0
Overpayments		.24	160.1		.27	184.9		.26	185.0		.25	183.0		.24	180.0
Under Payments		.08	51.6		.08	52.7		.07	52.0		.07	53.0		.07	53.0
HEALTH BENEFITS															
All carriers	37,093.9	.30	112.3	38,778.8	.15	59.4	40,713.0	.28	115.4	42,513.0	.27	116.4	42,513.0	.27	116.4
Overpayments		.30	110.5		.15	59.2		.28	113.5		.27	114.5		.27	114.5
Under Payments		0.00	1.8		0.00	0.2		0.00	1.9		0.00	1.9		0.00	1.9
*CRCs total**	6,566.0	0.50	32.9	6,425.4	0.03	1.7	7,055.0	0.46	32.6	7,290.0	0.43	31.6	7,290.0	0.43	31.6
Overpayments		0.50	32.9		0.03	1.7		0.46	32.6		0.43	31.6		0.43	31.6
Under Payments		0.00	0		0.00	0		0.00	0		0.00	0		0.00	0
*ERCs total**	30,527.9	0.26	79.4	32,353.4	0.18	57.7	33,658.0	0.25	82.8	35,223.0	0.24	84.8	35,223.0	0.24	84.8
Overpayments		0.25	77.6		0.18	57.5		0.24	80.9		0.24	82.9		0.24	82.9
Under Payments		0.01	1.8		0.00	0.2		0.01	1.9		0.01	1.9		0.01	1.9
LIFE INSURANCE															
Total Program	2,506.2	0.04	0.9	2,596.7	0.04	1.0	2690.5	0.04	1.1	2787.7	0.04	1.1	2888.4	0.04	1.2
Non-Annuitant	964.8	0.02	0.2	1003.3	0.02	0.2	1039.5	0.02	0.2	1077.0	0.02	0.2	1115.9	0.02	0.2
Overpayments		0.01	0.1		0.01	0.1		0.01	0.1		0.01	0.1		0.01	0.1
Under Payments		0.01	0.1		0.01	0.1		0.01	1.1		0.01	0.1		0.01	0.1
Annuitant only	1,541.4	0.04	0.7	1593.4	0.05	0.8	1651.0	0.05	0.8	1710.7	0.05	0.9	1772.5	0.04	0.7
Overpayments		0.01	0.2		0.01	0.2		0.01	0.2		0.01	0.2		0.01	0.2
Under Payments		0.03	0.5		0.04	0.6		0.04	0.6		0.04	0.7		0.03	0.5
REVOLVING FUND—BACKGROUND INVESTIGATIONS															
Total Program	467.9	6.00	28.1	677.1	1.4	9.5	432.4	1.1	4.8	445.4	.9	3.8	467.7	.5	2.3
Support Contractors	57.5	.79	0.5	83.3	.84	.7	51.8	.65	0.3	54.7	0.4	0.2	57.5	.25	.1
Investigative Contractors	406.5	6.76	27.5	589.2	1.38	8.1	376.2	1.1	4.1	387.9	.8	3.5	407.4	.75	3.1
Review Contractors	3.9	3.48	0.1	4.7	14.34	.7	4.4	11.0	0.1	3.1	7.0	0.2	3.3	5.0	.2

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

Annuitant IP actuals through August 2010, projected through September; Non-annuitants (Executive only) through Q1 FY 2011. All FEGLI data less Option C. The non-annuitants are through Q2 of FY 2010.

Barriers to Reducing Improper Payments

Retirement Program — To be updated upon receiving further information

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 attempts to identify and collect any missing funds from the individual who withdrew money from the account after the annuitant or survivor's death. Based on current law and Treasury's regulations, only certain agencies specified in the law — the Social Security Administration, Railroad Retirement Board and Department of Veterans' Affairs — may receive the information necessary to identify the withdrawer so that we can attempt to recover these improper payments. While there are many "benefits paying agencies," only these three are named in the law and only these three agencies receive this information from the financial institutions. This situation has a substantial impact on all agencies like OPM that pay benefits. Our attempts to recover these improperly paid benefits are frequently delayed by our inability to obtain this information from the financial institutions. The Department of the Treasury has drafted language to address the designation of "a benefit paying agency" and is working to publish a notice of proposed rulemaking to amend 31 CFR Part 210.

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 is entitled to both forms of benefits, their FERS benefit must be offset. If OPM receives a timely notification of the individual's entitlement to SSA benefits, the adjustment is not too difficult. However, FERS disability benefits usually begin well before the claim for Social Security benefits is fully processed and a retroactive payment must be made. The FERS annuitants sometimes receive many months of unreduced FERS benefits before they begin to receive Social Security benefits, thus creating a substantial debt — the cumulative amount of the offset that should have been made to their FERS annuity — to OPM. Currently, OPM seeks to recover the amount overpaid "on-roll" by installment deductions from its annuitants who are receiving payments large enough to recover the overpayments within a reasonable time period. Recovery may also include "off-roll" collection processes (i.e., requests for collection assistance from other Government agencies) when the FERS annuitant's net annuity payment does not permit recovery within a reasonable period of time. Although OPM notifies FERS annuitants of their obligation to repay the overpayment caused by the delay in their receiving Social Security benefits, many annuitants claim that they do not have the wherewithal to repay the debt. OPM has drafted legislation to help address this issue. OPM and the Social Security Administration are currently working through OPM's updated proposal.

Background Investigations Program

There are no barriers that would prevent FIS from reducing improper payments with respect to the causes identified. The source issues identified can all be addressed by improving review and data entry processes. Corrective actions planned for FY2011 include increasing the Federal staff to perform review functions and minimize the use of contractors in providing both support services and fieldwork. This change will occur during FY11 and will improve the quality of case closures by ensuring fieldwork items are properly completed by the investigative units contractors.

Compliance with Other Key Legal and Regulatory Requirements

OPM is required to comply with other legal and regulatory financial requirements, such as the Debt Collection Improvement Act (DCIA).

Compliance with the Debt Collection Improvement Act (DCIA)

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 DCIA was to strengthen overall controls over collections due to the Government from private parties, including Federal employees. The DCIA 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 2010 and FY 2009. OPM complies with the DCIA in the following ways:

Cross-Servicing

Under the DCIA, 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 $7.5 million via FMS cross servicing.

Table 14. Debt Management Activity

Retirement Program ($ in Millions)		
	FY 2010	FY 2009
Total receivables at beginning of year	$270.6	$259.9
New receivables and accruals	185.0	160.2
Less collections, adjustments, and amounts written-off	176.1	149.6
Total receivables at end of year	$279.5	$270.6
Total delinquent	$49.5	$40.6
Percent delinquent of total receivables	17.7%	15.0%
Health Benefits Program ($ in Millions)		
	FY 2010	FY 2009
Total receivables at beginning of year	$67.9	$39.9
New receivables and accruals	81.9	81.7
Less collections, adjustments, and amounts written-off	83.0	53.7
Total receivables at end of year	$47.0	$67.9
Total delinquent	$38.0	$53.1
Percent delinquent of total receivables	80.9	78.2

Travel and Purchase Card Usage

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

Table 15. Travel Card Usage

$ in Thousands	FY 2010	FY 2009
Outstanding Balance	$1,012.1	$1,710.0
Outstanding more than 61 days	$19.1	$6.5
% outstanding more than 61 days (OPM)	2.18%	0.19%
% outstanding more than 61 days (Government wide)	3.42%	2.19%

Table 16. Purchase Cards

$ in Thousands	FY 2010	FY 2009
Outstanding Balance	$3,725.0	$308.0
Outstanding more than 61 days	$0.00	$0.0
% outstanding more than 61 days (OPM)	0.00%	0.00%
% outstanding more than 61 days (Government wide)	0.16%	0.33%

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.

Appendix A—Acronyms and Abbreviations

(Unaudited—See accompanying Independent Auditors' Report)

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

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

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