United States Office of Personnel Management

Agency Financial Report

FISCAL YEAR 2011

NOVEMBER 2011

a New Day for Federal Service

United States of America

The United States Office *of* Personnel Management

Fiscal Year 2011 Agency Financial Report

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Message *from the* Director

I am pleased to present the United States Office of Personnel Management (OPM or the Agency) Fiscal Year (FY) 2011 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 2013 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.

Health Care

The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act or ACA) 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 Affordable Insurance Exchanges. The Act expanded access to the Federal Employees Health Benefit (FEHB) Program and the Federal Employees Group Life Insurance (FEGLI) Program beyond the Federal community to employees of tribes and tribal organizations.

During FY 2011, OPM established the Healthcare and Insurance (HI) organization to manage these programs as well as the Federal employee insurance programs, which OPM has historically managed. Through HI, OPM continues to provide world-class insurance benefits to its core Federal employee and retiree population while working to extend insurance benefits to the additional populations as provided for in the ACA, culminating in 2014 with the establishment of multi-state health insurance plans open to all Americans.

Veterans Outreach

OPM continues to aggressively implement and support the President's Veteran Employment Initiative, in partnership with the White House, the Departments of Defense, Labor, Veterans Affairs, Homeland Security, and other Federal agencies. The goal of this Initiative is to increase the number of veterans and disabled veterans employed within the executive branch.

In FY 2011, OPM continued to provide Government-wide leadership and direction and accomplished the following: 1) Launched the *"Vets 2 Feds Career Development Program (Contract Trainee)"* 2) Developed and distributed training modules for Federal hiring managers and HR practitioners on veteran employment to include veterans' preference and special hiring

Message *from the* Director

Continued

authorities for veterans to Federal agencies, and 3) Sponsored a two day veterans employment symposium, with our Veterans Employment Initiative Federal partners to increase awareness of veteran's skills, training, and leadership ability among 300 Federal hiring managers from across the Federal government. For additional information, please go to: *http://www.fedshirevets.gov/.*

Hiring Reform

OPM leads the Government-wide staffing effort to ensure Federal agencies acquire, assess and retain employees with specific experience and skills essential to achieving agencies' goals and missions. Unfortunately, applicants continue to report confusion about differences between agencies' application processes, complex application requirements that are difficult to meet, and the lack of communication from agencies during the hiring process regarding applicants' status.

In FY 2011, OPM launched USAJOBSRecruit to assist human resources practitioners and hiring managers implement hiring reform by providing tools, collaboration opportunities and guidance on recruitment and management involvement. OPM also launched Assess, a growing set of state of the art assessment tools. OPM will maintain these efforts to drive increased candidate quality and reduce the time to hire. Additional information can be found at: *http://www.opm.gov/hiringreform*.

Results Oriented Work Environment

Results Only Work Environment (ROWE) is a management style that focuses on outcomes and results rather than processes. Under the ROWE pilot project, employees were given maximum flexibility to schedule their work day to allow them to make productive contributions to their organizations while also attending to family, pursuing higher education and taking care of other responsibilities. The project launched in the summer of 2010 and OPM decided to extend the pilot through FY 2011.

At the conclusion of FY 2011, OPM completed its ROWE pilot project. As part of the pilot project, organizations made changes to work environments, made improvements in information technology (IT) and revised performance standards to enhance performance accountability. As a result, employee engagement and job satisfaction improved as did the ratings that managers gave their employees during periodic evaluations. Measurable results in production-based elements of the pilot were practically unchanged. OPM will use the lessons learned from the ROWE pilot to create a culture of high performance, improve the alignment of organizational goals and individual goals, increase accountability for employees at all levels within the organization and begin creating a culture of continuous feedback by instituting a formal quarterly employee review.

Message *from the* Director

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Campus Wellness Project

The OPM Wellness Works program celebrated its first year anniversary on October 12, 2011. During the first year, nearly 50 percent of OPM Headquarters employees participated in health and wellness program activities. This included health screenings, fitness classes, individualized health coaching and health education. More than 40 percent of those identified as 'at risk' participated in health coaching. OPM has contracted with an independent evaluator who will assess the program's return on investment. WellnessWorks, thus far, has only been available to employees at OPM's Washington, D.C. Headquarters location.

During FY 2011, the Agency's efforts expanded to focus significantly on activities designed to promote employee participation in field locations outside of headquarters. Accordingly, the "Worksite Wellness Program Implementation Plan" developed by OPM focuses significantly on activities designed to expand programming and promote participation of employees in field locations. Due to funding constraints, OPM's partner agencies (the General Services Administration and the Department of Interior) decided to discontinue their participation in the campus pilot.

Open Government

OPM is committed to fostering and sustaining a culture of openness and responsiveness to its stakeholders while working more efficiently. Moreover, the Agency continues to develop a culture that is transparent, participatory, and collaborative—a culture in which sharing data and information, hearing and implementing ideas, and engaging in ongoing conversation with employees and the public increases accountability and builds trust with the American people.

During FY 2011, the Agency enhanced its searchable Frequently Asked Questions engine to enable better customer service and increased accountability. OPM also hosted an Open Government event on owning transparency, implemented an internal idea-sharing tool to better engage employees, placed its Organization Chart Database online for the public to use, formulated agency-wide learning and career strategies in collaboration with unions to improve cross-agency knowledge sharing, and collaborated with the National Institutes of Health to leverage work done to implement the Plain Writing Act. For additional information please go to: *http://www.opm.gov/open/*.

Finance

I am pleased to report OPM earned an unqualified audit opinion on its FY 2011 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

Message *from the* Director

Continued

for its internal control over financial reporting for FY 2011, due to a material weakness concerning OPM's information systems general control environment. OPM made progress on resolving this during FY 2011 and is continuing to take corrective action. In addition, OPM received an unqualified audit opinion on the FY 2011 individual combined financial statements of the Retirement, Health Benefits and Life Insurance Programs.

Operations

OPM has assigned a full-time staff to administer its Information Technology (IT) certification and accreditation process. This has resulted in significant improvements in the IT security program within the last year. In fact, the Inspector General has reduced the material weakness identified in FY 2010 related to the management of the certification and accreditation process to a significant deficiency.

In FY 2011, comprehensive IT security policies and procedures were developed and published in accordance with the Federal Information Security Management Act, and over 25 outstanding audit findings were remediated. OPM conducted a review of its system of internal control over operations, resulting in one material weakness identified in the area of Information Security Governance. The Agency is working to remedy this weakness.

Conclusion

I am extremely pleased with the dedicated and talented employees who continue to meet human resource challenges throughout the Federal Government. I am also very confident OPM will continue to 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, 2011

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) 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; advising 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) 2011 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.

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 6, 2012.

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 Numbers (Nos.) 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 accurate and thorough accounting of OPM's operational accomplishments during FY 2011 in fulfilling its mission.

This report is available on OPM's website at *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 strategic plan includes the Agency's mission statement and also describes OPM's four strategic goals which are designed to parallel the lifecycle of a Federal employee. 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 that both internal and external stakeholders understand the level of program performance expected for the resources received.

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 following four strategic goals shown in Table 1:

Table 1 — OPM's Mission Statement:

OPM's Mission Statement: *Recruit, Retain, and Honor a World-Class Workforce to Serve the American People*	
Strategic Goal:	**Goal Statement**
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

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. OPM's Strategic Plan can be found at: *http://www.opm.gov/strategicplan/pdf/StrategicPlan_20100310.pdf*.

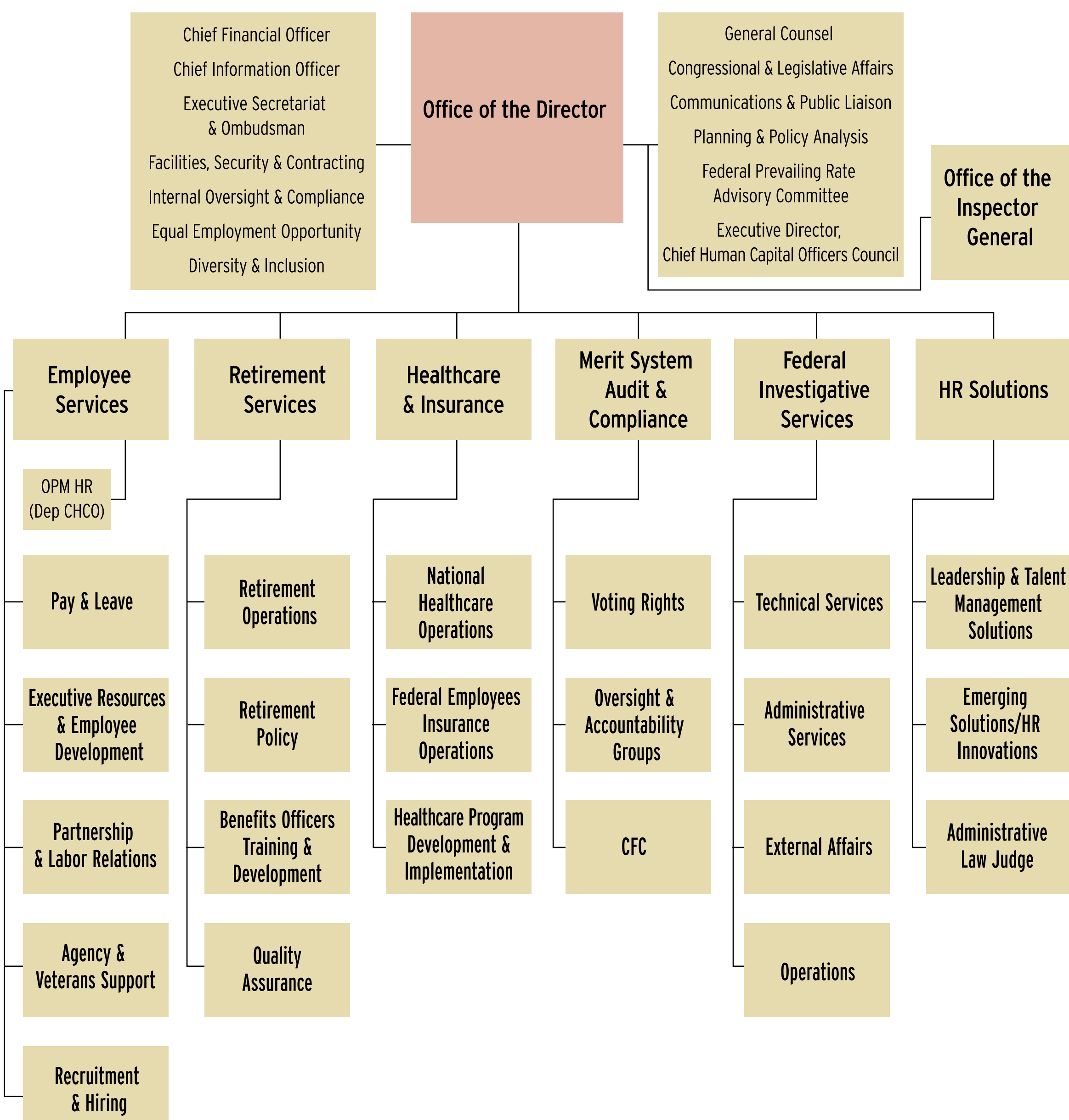
Organizational Structure

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 Chart, OPM is comprised of the following components:

Executive Offices

- The *Office of the Director* includes the Deputy Director, Chief of Staff, 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 — Organizational Chart



- *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 develops 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 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, as necessary and required, to GAO Reports, other external evaluative entities, as applicable, and the OPM Office of the Inspector General 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 Services (RS)* 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. Processing retirements of Federal employees is a mission critical OPM program. The processing of retirement claims includes managing the preparation and submission of retirement applications and assisting employees in understanding their retirement options. The process begins with retirement estimates and continues through ensuring the application package is accurate, complete and timely.

- *Healthcare & Insurance (HI)* 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. HI is responsible for negotiating and administering health benefits contracts for the Federal Government, and administering the Federal Employee Group Life Insurance (FEGLI) program covering employees, retirees and their families. In addition, HI is 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. HI is also responsible for implementing portions of the Patient Protection and Affordable Care Act of 2010 including: 1) contracting with Multi-State health plans being offered on health insurance exchanges; 2) expanding access of the Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLIP) to employees of tribes and tribal organizations.
- *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. The Division 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 HR Evaluation, and (3) Small Agency HR Evaluations. MSAC has Government-wide oversight of the Combined Federal Campaign (CFC) and the Voting Rights (VR) programs. 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 percent of the Government's background investigations are provided by OPM.
- *Human Resource Solutions (HRS)* provides services that assist agencies within the Federal Government in achieving their missions by partnering with agencies 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, risk management, internal control and financial policy functions which enable the Agency to achieve its mission. CFO also ensures 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 Strategic Plan including the IT Architecture that outlines the long term Strategic Architecture and Systems Plans for the Agency and includes 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. They also manage 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, GPO/commercial print ordering program, publications management, and electronic/office publishing systems.

Other Offices

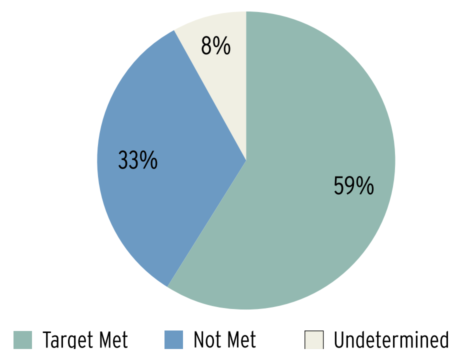
- *Planning and Policy Analysis (PPA)* provides planning and analysis support to the Director and the Agency. PPA also provides the Director with reports, memos and other analyses to allow the assessment of trends and issues that affect OPM. A particular area of responsibility is the analysis of policy 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 Federal Employees Health Benefits Program (FEHBP) or other Federal programs. The OIG keeps the Director and Congress fully informed about problems and deficiencies in the administration of Agency programs and operations, and the necessity for corrective action.

Figure 2—OPM FY 2011 Performance Results

Percent of Targets Met/Not Met/Undetermined



Program Performance Summary

As shown in Figure 2 for FY 2011, OPM met 59 percent of its targets, did not meet 33 percent, and 8 percent were undetermined. In December 2011, OPM will have final data for the following undetermined measures:

- Average number of days to hire a Federal employee
- Percent of employees in the Federal government with targeted disabilities

OPM continues to offer quality products and services to its customers. Customer satisfaction survey ratings for the Federal Employees Health Benefit Program and the Federal Long Term Care Insurance Program continue to exceed performance targets. However, processing retirement claims in a timely manner continues to be an issue. OPM expects to see progress in FY 2012, as 40 additional staff hired in FY 2011 to process retirement claims will be fully trained and available to help reduce the backlog.

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

Table 2 — FY 2011 Performance Summary by Strategic Goal

Strategic Goals	Performance Targets			
	# Reported	# Met	# Not Met	# Undetermined
Strategic Goal 1: Hire the Best	6	2	2	2
Strategic Goal 2: Respect the Workforce	5	5	0	0
Strategic Goal 3: Expect the Best	8	5	3	0
Strategic Goal 4: Honor Service	5	2	3	0
FY 2011 Totals	24	14	8	2

The results for all 24 performance measures will be discussed in detail in OPM's *FY 2011 Annual Performance Report* scheduled for publication on February 6, 2012.

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 2011, surveys were deployed to capture applicants' feedback as well as that of hiring managers. However, OPM continues to work with agencies to increase the response rate on the manager satisfaction survey. Both the applicants survey and the hiring managers survey exceeded the target of one percent improvement for each measure. Also, anecdotal information discussed in agency progress reviews indicates enormous progress in the areas of manager engagement.

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 contributes 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 2011, OPM identified a common needs assessment tool (WellCheck inventory) based on U.S. Department of Health and Human Services' Healthy People 2010/2020. This allows agencies to analyze and evaluate their current health promotion programs, benchmark with other agencies and the private sector, and determine areas where improvement is required. Use of the common needs assessment tool is voluntary; however, if the tool is not used, agencies must describe how they assess their needs as part of their health and wellness 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 2011, OPM collaborated with agencies on advancing effective performance management systems that meet the standard established in OPM's Performance Appraisal Assessment Tool (PAAT). This was accomplished by conducting PAAT evaluations and reviewing agency Human Capital Management Reports (HCMRs) to provide feedback for continuous improvement of their performance management systems. OPM maintained dialogue with agencies through workshops, forums, and guidance.

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 FY 2011, OPM improved the accuracy of the retirement system including: 1) modernizing critical calculator and retirement systems 2) automating manual paper-based retirement system through electronic data collection and applications 3) implementing automated tools to improve retirement case processing and 4) imaging incoming paper records. Also, OPM provided technical assistance to agency benefit officers on complex and unique benefits administration issues, conducted annual training for agency benefit officers and developed a recognition system to award benefit officers' performance.

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 2011 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 by the Office of the Chief Financial Officer.

Additional information on OPM's performance data quality will be available with the publication of OPM's FY 2011 APR and the Summary of Performance and Financial Information scheduled for publication on February 6, 2012.

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 twelfth 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 2011, OPM held $923 billion in assets, an increase of 3.4 percent from $892.6 billion at the end of FY 2010. The majority of OPM's assets are intragovernmental, representing claims against other Federal entities. The Balance Sheet separately identifies intragovernmental assets from all other assets.

The largest category of assets is investments at $916.2 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 2011, the investment portfolio grew by 3.4 percent, with the largest increase for investments occurring in the Retirement Program. In FY 2011, the Total Earned Revenue was less than the applicable cost applied to the Pension Liability by $7.5 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 $31.3 billion for FY 2011, which resulted in an increase in the investment portfolio of more than $29.9 billion for FY 2011 over FY 2010.

Liabilities

At the end of FY 2011, OPM's total liabilities were $1,917.9 billion, a decrease of 1.5 percent from $1,946.7 billion at the end of FY 2010. 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 were 2.40% for CSRS and 1.90% for FERS and the Rate of Increases in Salary were 3.10% for both CSRS and FERS. This compares to FY 2010's assumptions for the Rate of Inflation of 2.50% for both CSRS and FERS and the Rate of Increases in Salary of 3.50% for both CSRS and FERS. The Health Benefits Interest Rate economic assumption is 4.90% for FY 2011 compared to 5.10% in FY 2010. Also, the Health Benefits Increase in per capita cost of covered benefits economic assumption is 5.50% compared to 7.00% in FY 2010. The medical trend assumption changed from a constant 7% to a variable trend decreasing from 8% to 5.5% ultimately. In FY 2011, the Retirement and Health Benefits Program assumptions reflect a decrease in actuarial liabilities of $29.9 billion from FY 2010. 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 $1,532.6 billion at the end of FY 2011, a decrease of $17.6 billion, or 1.1 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 $329.2 billion at the end of FY 2011. This reflects a decrease of approximately $12.3 billion from the amount at the end of FY 2010, or 3.6 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 $581 million in FY 2011 to $43.8 billion, or 1.3 percent from the end of the previous year. [See discussion of the Net Cost to Provide Life Insurance Benefits below].

Actuarial Gains and Losses

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

In computing the Pension, 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 assumed, there will be an actuarial gain.

Net Position

The funds related to the operation of the Retirement Program, the Health Benefits Program, and Life Insurance Program are "earmarked funds," as defined by the Statement of Federal Financial Accounting Standards (SFFAS) 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 2011 by $994.9 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 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 $29.9 billion in FY 2011 to $910.6 billion.

Table 3 — Net Assets Available for Benefits

($ in Billions)	FY 2011	FY 2010	Change
Total Assets	$923.0	$892.6	$30.4
Less "Non-Actuarial" Liabilities	12.4	11.9	0.5
Net Assets Available to Pay Benefits	$910.6	$880.7	$29.9

Statement of Net Cost

The Statement of Net Cost (SNC) in the federal government 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 the prior year FY 2010, OPM adopted the Federal Accounting Standards Advisory Board's (FASAB) SFFAS Number 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 2011 Net Cost of Operations was actually a net income of ($17.4) billion, as compared with a $108.4 billion net cost in FY 2010. The primary reason for the decrease in net cost is due to changes in the actuarial estimates per SFFAS No. 33 and the actual COLA and salary increase being lower than anticipated, 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 $31.6 billion compared with $94.8 billion, a decrease of $63.2 billion from FY 2010. The actuarial gain of $30.370 billion for CSRS was primarily due to experience gains driven by the actual COLA for FY2011 (0.0%) being less than the COLA assumed in the prior valuation (2.5%), as well as the actual general salary increase for both FY2011 (0.0%) and FY2010 (2.0%) being less than the prior valuation assumption (3.1% and 3.5%). The experience gain was only partially offset by the loss due to changes to long term economic assumptions under SFFAS No. 33.

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 2011 by $376 billion from FY 2010 and OPM's earnings on CSRS investments declined by approximately $1,906 billion from FY 2010.

Table 4 — Net Cost to Provide CSRS Benefits

($ in Billions)	FY 2011	FY 2010	Change
Gross Cost	$31.6	$94.8	($63.2)
Associated Revenues	21.5	23.8	(2.3)
Net Cost	$10.1	$71.0	($60.9)

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 $64.2 billion, as compared to the $63.9 billion in FY 2010. 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 2011 decreased by $52.0 billion from FY 2010. As with the CSRS, there are three prime determinants of OPM's net cost to provide FERS benefits: one cost category: the actuarially computed Pension Expense; and two categories of earned revenue: contributions by and for participants, and earnings on FERS investments.

The Pension Expense for FERS is the amount of future benefits earned by participants during the current fiscal year. For FY 2011, OPM incurred a Pension Expense for FERS of $21.1 billion, as compared with $70.0 billion in FY 2010. The primary reason for the decrease in FERS pension expense from FY 2010 to FY 2011 was a total actuarial loss of $26.6 billion in FY 2010, which was followed by a total actuarial gain of $26.1 billion in 2011 contributing to the decrease in pension expense from FY 2010 to FY 2011 of $48.9 billion. In FY 2010 and FY 2011, there were experience gains because the actual general salary raise and COLA were different than what had been assumed.

In FY 2010, the actual general salary increase was 2.0 percent, and the FERS COLA was 0.0 percent. In FY 2011, the actual general salary increase was 0.0 percent, and the actual FERS COLA was 0.0 percent.

The liabilities for current FERS annuitants are much smaller than the liabilities for current CSRS annuitants, so the lower than assumed first-year COLA is much less significant for FERS than for CSRS. However, the lower than assumed salary increase is relatively more significant for FERS than for CSRS. The experience gain was only partially offset by the loss due to changes to long term economic assumptions under SFFAS No. 33.

Contributions by and for FERS participants increased by $2.2 billion, or 10.1 percent from FY 2010, also due to the increasing number of FERS participants.

Table 5 — Net Cost to Provide FERS Benefits

($ in Billions)	FY 2011	FY 2010	Change
Gross Cost	$21.1	$70.0	($48.9)
Associated Revenues	41.3	38.2	3.1
Net Cost	($20.2)	$31.8	($52.0)

Due to accounting standards, current pension benefits paid are applied to the Pension Liability and, therefore, do not appear on the Statement of Net Cost. In FY 2011, OPM paid FERS benefits of $6.1 billion, compared with $5.4 billion in FY 2010. 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 2011 decreased by $9.2 billion from that in FY 2010 (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 2011	FY 2010	Change
Gross Cost	$28.7	$40.7	($12.0)
Associated Revenues	34.8	37.6	(2.8)
Net Cost	($6.1)	$3.1	($9.2)

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. In addition, due to the Continuing Resolutions enacted by Congress, P.L. 112-33 and P.L. 112-36, USPS's schedule payment was amended and as such the USPS had no payment due to OPM on September 30, 2011. Without further action by Congress, there are two payments due in FY 2012, one for $5.5 billion due by November 18, 2011, and a second payment of $5.6 billion due by September 30, 2012.

The Post-Retirement Health Benefits Expense (PRHB) is the amount of future benefits earned by participants during the current fiscal year. For FY 2011, OPM incurred a PRHB expense of $1.1 billion, as compared with $14.7 billion in FY 2010, due primarily to the recognition of a large actuarial gain in FY 2011. There was an actuarial gain of $30.1 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 2010, due mainly to the increase in health insurance premium rates indicative of the economy as a whole. The contributions (for and by participants) decreased by $2.9 billion from FY 2010 to FY 2011. OPM's earnings on health benefits investments increased by $106.0 million from FY 2010.

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 2011	Total FY 2010
Claims	$21.9	$10.4	$32.3	$30.6
Premiums	4.6	2.0	6.6	6.6
Administrative and other	1.1	0.9	2.0	1.9

Net Cost to Provide Life Insurance Benefits

As seen in Table 8, the Net Cost (Excess of Revenue) to Provide Life Insurance Benefits decreased from $2.5 billion in FY 2010 to ($1.2) billion in FY 2011. Gross cost decreased $3.7 billion due to the actuarial gain between 2010 and 2011. In applying SFFAS No. 33 for calculating the Actuarial Life Insurance Liability, OPM's actuary uses salary increase and interest rate yield curve assumptions consistent with those used for computing the CSRS and FERS Pension Liability in FY 2011 and 2010. This entails determination of a single equivalent interest rate that is specific to the ALIL. Both the interest rate and rate of increases in salary were lower for FY 2011 as compared to FY 2010. Associated revenues remained at the same level.

Table 8 — Net Cost to Provide Life Insurance Benefits

($ in Billions)	FY 2011	FY 2010	Change
Gross Cost	$3.2	$6.9	($3.7)
Associated Revenues	4.4	4.4	0.0
Net Cost (Excess of Revenue)	($1.2)	$2.5	($3.7)

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 $214.3 billion in budgetary resources was available to OPM for FY 2011. OPM's budgetary resources in FY 2011 include $51.7 billion (24.1 percent) carried over from FY 2010, plus three major additional sources:

- Appropriations Received = $41.7 billion (19.5 percent)
- Trust Fund receipts of $95.6 billion, less $24.9 billion* not available = $70.7 billion (33.0 percent)
- Spending authority from offsetting collections (SAOC) = $50.2 billion (23.4 percent).

* Total budgetary resources do not include $23.3 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 $43.7 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 2011	FY 2010
Trust Fund Receipts	33.0%	33.4%
Balance Brought Forward from Prior Year	24.1%	23.7%
Spending Authority from Offsetting Collections	23.4%	22.3%
Appropriations	19.5%	20.6%

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 2011	FY 2010
Retirement Benefits	64.4%	65.6%
Health Benefits	32.3%	31.1%
Life Insurance Benefits	1.7%	1.7%
Other	1.6%	1.6%

From the $214.3 billion in budgetary resources OPM had available during FY 2011, it incurred obligations of $158.4 billion less the $31.3 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 $43.7 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 2011 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

The Office of Personnel Management (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 Office of Management and Budget OMB Circular Number (No.) 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, 2011, was operating effectively. The qualified assurance is based on two material weaknesses, which were related to OPM's information systems general control environment and OIG funding for oversight of OPM's Revolving Fund. Significant progress was made addressing these material weaknesses in FY 2011, which will be a continuing priority for OPM in FY 2012.

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 No. A-123. In the consolidated financial statement audit performed by the independent auditors, the material weakness concerning OPM's information systems general control environment is continuing to be addressed. Based on the results of this evaluation, OPM can provide qualified assurance that its internal control over financial reporting, as of June 30, 2011, 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* at the transaction level. Based on my review of the auditor's report and other relevant information, I have determined that for FY 2011, OPM can provide reasonable assurance that its financial systems substantially comply with FFMIA requirements.

We have therefore made every effort to ensure our internal control systems meet the requirements of FMFIA and FFMIA.

John Berry

John Berry
Director
November 14, 2011

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 2011, OPM substantially complies with all FFMIA requirements regarding financial management systems, financial accounting standards, and application of the USSGL at the transaction level.

During the audit of OPM's FY 2011 financial statements, the auditors noted that deficiencies continue to exist in the operation of the Office of the Chief Financial Officer's (OCFO) internal controls over financial management and reporting, affecting the accuracy of the Revolving Fund (RF) and Salaries and Expenses (S&E) Accounts; specifically, Fund Balance with Treasury (FBWT) for RF and the fund reconciliations on S&E balances.

In accordance with the Act, OPM implemented Phase I of the Consolidated Business Information System, which was expected to resolve the deficiencies that resulted in the substantial noncompliance with regard to the RF and S&E accounts. OPM continues to enhance the use of CBIS and will continue to identify and correct existing differences between OPM's internal data and the information reported by Treasury. In addition, when OPM is unable to identify additional reductions, OPM will, in conjunction with appropriate oversight agencies, write down the remaining amount to clear the remaining FBWT balance. OCFO has drafted an action plan to streamline and implement an effective cash reconciliation process. The new process will strengthen internal controls over RF and S&E cash management, and specifically over FBWT in FY 2012. Furthermore, OPM will actively enforce procedures regarding the documentation and timely performance of reconciliations in accordance with guidelines outlined in the Treasury Financial Manual and OPM's Cash Management Policy and Procedures. In addition, OCFO will update its cash reconciliation procedures to reflect the functionality of CBIS, and OCFO staff will be trained on the new procedures.

FFMIA Remediation Activities

OPM's ability to achieve its mission to "Recruit and Retain a World-Class Workforce to Serve the American People" depends heavily on the ability of its decision makers and managers to make fact-based and timely decisions using FFMIA compliant systems and processes. While OPM's FY 2008 assessment of GFIS disclosed that it did not comply substantially with all pertinent requirements mandated by FFMIA, the CBIS solution does comply with Federal accounting standards and does post transactions in accordance with the USSGL, and was aligned to meet the requirements under the Common Government-wide Accounting Classification (CGAC).

Through the implementation of the initial releases of CBIS Phase I, the project remained within the Office of Management and Budget (OMB) reporting thresholds for cost and schedule performance. OPM CBIS users, under the guidance of the CBIS Project team, have addressed many of the key issues that emerged during the initial deployment. The CBIS project was presented for an OMB Tech Stat review in May 2010 and an IT review by OMB's Financial Systems Advisory Board in August 2010. As a result, the investment was added to OMB's list of investments requiring attention in December 2010. OPM's CBIS Executive Steering Committee (ESC), comprising OPM senior executives, in concert with OMB, placed an indefinite hold on Phase 2 resulting in savings of approximately $41 million.

Under the guidance of the CBIS ESC, OPM has addressed many of the key issues since the initial deployment through the facilitation of improved relations with the systems integration vendor, partnerships with senior colleagues and executives throughout the Agency, and through steadfast communication from Resource Management Officers across the Agency.

In preparation of financial statements, and related disclosures along with other financial information OPM is consistent with Federal Accounting Standards. In accordance with the Chief Financial Officers (CFO) Act of 1990, OCFO implemented new policies and procedures to prepare financial statements and related disclosures, budget reports, and other financial information for Agency management decision-making consistent with Federal accounting standards. Further, the OPM CFO organization refined and updated its current Financial Management Manual to support these procedures in FY 2011.

Enhance Financial Management Systems

OPM senior management supports CBIS as a top priority for the Agency. While the Agency has seen some major improvements, OPM believes it can benefit from additional improvements to its financial management systems and processes. To reflect the current and future state of CBIS as a financial tool to enable OPM's goals, we have built a CBIS roadmap based upon an updated CBIS vision. The CBIS program recently completed its support of the agency's fiscal year annual close activities with great success. With the new vision, and the demonstrated executive leadership support to ensuring 100% success, we are on the road to recognize successful delivery of the CBIS solution for OPM which provides modernized business processes, system controls, and effective operational and regulatory reporting.

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 No. 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 Government Accountability Office (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, 2011, 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 2011 overall Federal Information Security Management Act (FISMA) report, OPM OIG re-issued the operational material weakness from the FY 2010 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 progress was made in FY 2011 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, in its prior FY 2010 FISMA report, OPM OIG added a second operational material weakness related to the management of OPM's Certification and Accreditation (C&A) process. 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. OIG, in its FY 2011 report, reduced this from a material weakness to a significant deficiency.

OPM believes that the CIO has made significant progress in FY 2011 on information security issues and that information security governance is no longer a material weakness. Specifically, CIO has developed and issued comprehensive information technology (IT) security policies, which are available to staff on OPM's Intranet along with 18 associated work instructions; developed and implemented standardized security templates to improve the consistency and quality of security packages from various OPM programs; implemented a decision point checklist for CIO IT security staff to conduct reviews at three stages during the C&A process; maintained a full-time IT security officer in place for an entire year; hired four security officers, a privacy officer and retained three contractor staff assigned to the security office; and provided 4 hours of training to program office Designated Security Officers (DSO) on the updated C&A process and additional guidance to DSOs on security plans, contingency plans, and annual security testing. Nevertheless, OPM will continue to report this as a material weakness until further progress is made.

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

In FY 2010, OPM's OIG reported a material weakness related to a lack of sufficient resources to adequately conduct that part of its core mission involving oversight of OPM's Revolving Fund (RF). In FY 2011, the OIG reported that it continues to have a material weakness involving oversight of the RF. Furthermore, OIG reported that, although it received some funding in its FY 2011 budget for RF audits and investigations, the funding is still not sufficient. OIG in FY 2012 will continue to request the needed resources for effective oversight of the RF programs, including pursuing legislative avenues. It should be noted that this reported weakness involves issues outside of OPM's control (e.g., OMB and Congressional budget decisions). Further, OIG has issued an audit report on the RF despite funding issues and OPM management is sponsoring two reviews (Deloitte Consulting and Lani Eko & Company) to improve oversight of the RF. OPM senior management will discuss this issue with senior OIG management in FY 2012 on how this weakness can be reduced.

Significant Deficiency on HRS Vendor Management Branch

Control weaknesses are present in the HRS Vendor Management Branch (VMB) RF program. The issues call into question VMB's operational controls for its program. The issues do not yet seem to warrant reporting of an operational material weakness under FMFIA. HRS, with assistance from CFO, is making progress in issuing instructions and guidance for its staff.

Further, the CFO organization will be vigilant and maintain increased oversight of the VMB program to ensure adequate progress is made in FY 2012 to resolve this deficiency.

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 (ICFR) to ensure compliance with OMB Circular No. A-123, Appendix A. 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 prior years' assessments, FY 2011 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) team in OPM's CFO organization.

Subsequent to the September 27, 2011 Board meeting, the Board approved PIC's recommendation for an unqualified assurance statement for ICFR, as of June 30, 2011, given that no material weaknesses were found during evaluation and testing. However, based on the continuing reporting of the IT security general control weakness by OPM's independent public accountant, OPM is officially reporting a qualified assurance for internal control over financial reporting based on that one existing material weakness. Qualified financial reporting assurance is required for any financial reporting material weaknesses. However, as noted previously, OPM's CIO has made significant progress on these issues and OPM believes that this material weakness will be reduced in FY 2012 reporting.

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, 2010, through September 30, 2011. 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.

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 FY 2011

In FY 2011 OPM CIO made progress in updating its IT security and privacy policies, procedures, and guidance. The CIO created and published documents that provide a framework for OPM's IT security program, had a permanent Senior Agency Information Security Officer (SAISO) throughout FY 2011 and also hired several new employees and contractors to work in the ITSPG. Over 99 percent of OPM's employees and contractors completed the annual IT security awareness training course, and 75 percent of Agency employees with significant information security responsibilities completed one hour or more of specialized security training in FY 2011.

In FY 2011 improvements in the Certification and Accreditation (C&A) process warrant reducing the level of weakness to a significant deficiency, as OIG noted in its FY 2011 report.

The priorities for OPM's ITSPG in FY 2012 are to continue to strengthen the security and privacy program to ensure the confidentiality, availability and integrity of the OPM network and data.

Table 9 — Inspector General Audit Findings

FY 2011	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1, 2010	7	$54.8
New reports requiring management decisions	20[1]	60.8
Management decisions made during the year	22	105.8
Costs disallowed	-	102.7
Costs not disallowed	-	3.1[2]
Reports with no management decision on June 30, 2011	5	$9.7
FY 2010	**Number of Reports**	**Questioned Costs ($ 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

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 64, of which 44 included only procedural recommendations, or were without any recommendations.

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

Source: Audit Reports and Receivables Tracking System reports: Audit Reports Issued with Questioned Costs for reporting periods October 1, 2010 through September 30, 2011.

ITSPG's focus will continue to be 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 U.S. 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 2011 Financial Information

A Message from the Chief Financial Officer

This is the fourth 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 fiscal year end 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) 2013 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 twelfth consecutive year, OPM has earned an unqualified audit opinion on its consolidated financial statements from our independent public accountants, KPMG LLP. This opinion assures the financial statements are reported fairly in accordance with U.S. GAAP and free of material misstatements.

OPM continues to improve its financial management and to work with our stakeholders to modernize the current financial processes and systems. Considerable progress was made in FY 2011 to enhance Phase I of the replacement of OPM's accounting systems with the Consolidated Business Information System (CBIS). We have been working with our vendor in support of the improvements.

However, in recognition of the challenging fiscal environment the nation is currently facing, the President's Budget for FY 2012 makes tough choices to cut spending by calling for a five-year non-security discretionary freeze. OPM's FY 2012 budget reflects tough choices as well, seeking to achieve savings through termination of the retirement systems modernization (RSM) program and delayed further implementation of CBIS.

OPM also issued a qualified assurance statement on internal control over financial reporting in accordance with the requirements of the revised OMB Circular No. A-123, Management's Responsibility for Internal Control. This was caused by a material weakness concerning OPM's information systems general control environment. However, OPM's CIO has made significant progress on these issues and OPM believes therefore that this material weakness will be reduced in FY 2012 reporting.

Our reviews under the Improper Payments Information Act, as modified by the Improper Payments Elimination and Recovery Act of 2010 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 continue to 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. A full budget function has been implemented including 5-year business plans for each of our lines of business. With the implementation of and improvements to CBIS, OPM has expanded the audit activities over the RF Programs and is integrating these fundamental programs into the budgeting, accounting and accountability functions applied to all OPM activities. Users of the products and services are gaining 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 $920 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 families, and survivors against waste, fraud and abuse. It is with great pleasure that I, on behalf of our staff, provide you with the FY 2011 AFR documenting OPM's careful stewardship over Federal employees' retirement, health and life insurance funds as supported by an unqualified audit opinion.

Sincerely,

Stephen Agostini
Chief Financial Officer

Office of the
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

November 14, 2011

Report No. 4A-CF-00-11-050

MEMORANDUM FOR JOHN BERRY
Director

FROM: PATRICK E. McFARLAND
Inspector General

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year 2011 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 2011 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, 2011 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 2011 includes: (1) opinions on the consolidated financial statements and the individual statements for the three benefit programs, (2) a report on internal controls, and (3) a report on compliance with laws and regulations. In its audit of OPM, KPMG 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 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:

    - Controls over Financial Management and Reporting Processes of OPM Operational Activities and Related Data

  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 2011 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 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 8, 2011, 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. The OMB Circular also requires that agency management officials provide a timely response to the final audit report indicating whether they agree or disagree with the audit findings and recommendations. When management is in agreement, the response should include planned corrective actions and target dates for achieving them. If management disagrees, the response must include the basis in fact, law or regulation for the disagreement.

To help ensure that the timeliness requirement for resolution is achieved, we ask that the CFO coordinate with the OPM audit follow-up office, Internal Oversight and Compliance (IOC), to provide their initial responses to us within 30 days, as outlined in OMB Circular A-50. IOC should be copied on all final report responses. Subsequent resolution activity for all audit findings should also be coordinated with IOC. The CFO should provide periodic reports through IOC to us, no less frequently than each March and September, detailing the status of corrective actions, including documentation to support this activity, until all findings have been resolved.

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: Dennis Coleman
Acting Chief Financial Officer

Daniel Marella
Deputy 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, 2011 and 2010, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended (hereinafter referred to as "consolidated financial statements"). We have also audited the individual balance sheets of the Retirement, Health Benefits, and Life Insurance Programs (hereinafter referred to as the "Programs") as of September 30, 2011 and 2010, and the related individual statements of net cost, changes in net position, and budgetary resources for the years then ended (hereinafter referred to as the Programs' "individual financial statements").

The objective of our audits was to express an opinion on the fair presentation of these consolidated and individual financial statements. In connection with our fiscal year 2011 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, 2011 and 2010, 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 control environment (OPM and the Programs)

2. Controls over Financial Management and Reporting Processes of OPM Operational Activities and Related Data

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin Number (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, 2011 and 2010, and the related consolidated statements of net cost and changes in net position, and 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, 2011 and 2010, 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 2011 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, 2011 and 2010, 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.

The information in the Management's Discussion and Analysis and Required Supplementary Information sections of OPM's *Fiscal Year 2011 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 Revolving Fund (RF) Program and Salaries and Expense (S&E) Fund included in the Consolidating Financial Statements section of OPM's *Fiscal Year 2011 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 2011 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 2011 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 the prior year material weakness and significant deficiency.

We noted certain additional matters that we have reported to management of OPM in a separate letter dated November 8, 2011.

KPMG

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 (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

* * * * *

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 2011 and 2010 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
- 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 2011 audit, we considered OPM's and the Programs' internal control over financial reporting by obtaining an understanding of OPM's and the Programs' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls 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 or the Programs' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OPM's or the Programs' internal control over financial reporting. 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 2011 consolidated and the Programs' fiscal year 2011 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 in the Management Response sections in Exhibits I and II. 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 8, 2011

Exhibit I. Material Weakness

Information systems control environment

Condition

In Fiscal Year (FY) 2010, a material weakness was reported related to the Office of Personnel Management's (OPM) internal control environment due to the persistence of a number of long standing significant deficiencies in OPM's information security control environment. These significant deficiencies included the lack of effective security program governance, deficiencies in certification & accreditation and packages, and inaccurate Plans of Action and Milestones (POA&Ms).

In addition, weaknesses in change controls over mainframe system application changes and the lack of mapping between functional positions and system permissions as well as persistent weaknesses in the administration of requirements of new network accounts (such as completing a background investigation and security awareness training before account activation) and review of physical access of OPM employees have existed since 2007.

These long standing significant deficiencies and other weaknesses remained in FY 2011, despite concerted efforts by OPM's Chief Information Officer (CIO) to make progress in addressing these findings. The CIO has issued new security policies and procedures and has developed tools and templates to facilitate the certification and accreditation ("C&A" or security authorization) of systems. Further, testing of contractor operated systems and the identification of common controls by OPM has been initiated.

Nevertheless, significant deficiencies still remain in OPM's ability to identify, document, implement, and monitor information system controls. Specifically:

1 The review and approval of security authorization packages were not fully effective.

2 The information security control monitoring program was not fully effective in detecting significant information security control weaknesses.

3 Identified information security control weaknesses are not completely recorded and the status of their resolution is not accurately tracked.

4 Security policies and procedures lack assignment of control activity responsibilities and are inconsistent in some instances.

5 A process for identifying, evaluating and implementing new authoritative guidance on information security has not been implemented.

Federal Information Process Standards 200 "*Minimum Security Requirements for Federal Information and Information Systems"*, and National Institute Standards and Technology

(NIST) Special Publication 800-53 Revision (Rev.) 3, "*Security Controls for Federal Information Systems and Organizations",* in combination, provide a framework to help ensure that appropriate security requirements and security controls are applied by agencies to all federal information and information systems. This framework includes an organizational assessment of risk by agencies that validates the initial security control selection and determines if any additional controls are needed to protect organizational operations. The resulting set of security controls establishes a level of security due diligence for the organization.

Office of Management and Budget Memorandum M-07-16, *"Safeguarding Against and Responding to the Breach of Personally Identifiable Information"* requires agencies to "allow remote access only with two-factor authentication where one of the factors is provided by a device separate from the computer gaining access".

Recommendation
We recommend that the OPM Director in coordination with the CIO and system owners, including the Chief Financial Officer and system owners in Program offices, ensure that resources are prioritized and assigned to address the information system control environment weaknesses described above.

Management Response

Management has made great progress and taken many steps to improve IT security and accountability at OPM. We have developed and published comprehensive IT security policies and procedures and made significant progress in recording and tracking POA&Ms. In addition, substantial progress was made in security control monitoring, review of security authorization packages and implementation of new authoritative guidance on information security. We will analyze your findings and take the appropriate steps to further enhance our processes and security programs.

Exhibit II. Significant Deficiency

Controls over Financial Management and Reporting Processes of Office of Personnel Management (OPM) Operational Activities and Related Data

Condition

Certain deficiencies in the design and operation of controls over financial management and reporting processes of OPM operational activities continue to exist at OPM specifically:

- Business processes and controls were not followed, fully understood or misinterpreted in the Revolving Fund (RF) Program and Salary and Expense (S&E) Fund. Fund Balance with Treasury (FBwT) 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. Unidentified differences exist between Treasury and the RF Program and S&E Funds. Transactions in the RF Program's Human Resources Solutions (HRS) program were processed under misinterpreted guidance and inappropriate business practices and controls.
- Policies, procedures and internal controls over OPM's compilation and input of underlying data used as their initial data populations for their actuarial valuation reports are not appropriately designed or fully effective. Specifically, there are not controls in place designed and documented to ensure the completeness and accuracy of certain data processed by OPM Planning and Policy Analysis (PPA) and Benefit Systems Groups (BSG) compiled and provided to the Office of Actuaries (OA) for use in the actuarial valuations.
- Controls over the OA review of underlying data used as input to the actuarial valuation models were ineffective. Specifically, certain incorrect data was input into the model and was not detected and corrected before the before the initial valuation was run and finalized. In addition, certain data was used in the health actuarial valuation models that had not been documented as to its use in the actuarial methodology and effect on the health actuarial valuation output.

According to Office of Management and Budget Circular Number 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 operation controls over financial management and reporting processes of OPM programs could result in misstatements to OPM's financial statements. Resources have not been allocated or made available to address this control deficiency.

Recommendation

We recommend that:

- OPM reconcile, identify, and correct existing differences between OPM's internal data and the information reported by Treasury in a timely manner. 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.

  OPM actively enforce procedures regarding the documentation of the RF Program and S&E Funds FBwT reconciliations in accordance with guidelines outlined in the "Treasury Financial Manual" and OPM's "Cash Management Policy and Procedures" and educate personnel to employ the full functionality of general ledger system in the reconciliation process.

  OPM review and document all RF Program and S&E Funds business processes and identify, design, document and implement internal controls. This process should be reviewed and updated annually to ensure the processes and controls are still valid.
- OPM document processes and design and implement internal controls to validate the completeness and accuracy of all data provided both internally and from external sources, to the OA for use in the actuarial valuations. This process should be reviewed and updated annually to ensure the processes and controls are still valid.
- OPM reassess the design and precision of the OA's review control procedures and make appropriate changes to ensure that the control operates effectively to detect and correct errors in the input of the underlying data to the actuarial valuation models.
- OPM, specifically the OCFO, design, document and implement procedures to include monitoring internal controls and changes to the methodology and use of data to ensure that financial management and reporting processes of OPM programs, including but not limited to BSG, HRS, OA, and PPA, are complete, accurate, appropriate and supported. If data is from an external third party, OPM should monitor the level of assurance over the data by OPM or outside parties and implement additional procedures over the data, as appropriate.

Management Response

Management concurs with the recommendations.

- OPM will continue to identify and correct existing differences between OPM's internal data and the information reported by Treasury. In addition, at such time when OPM is unable to identify additional reductions, OPM will, in conjunction with appropriate oversight agencies, write down the remaining amount to clear the remaining FBwT balance. The OCFO has drafted an action plan to streamline and implement an effective cash reconciliation process (see attached). The new process will strengthen internal controls over RF Program and S&E Fund cash management, and specifically over FBwT in fiscal year (FY) 2012.

- OPM will actively enforce procedures regarding the documentation and timely performance of reconciliation in accordance with guidelines outlined in the Treasury Financial Manual and OPM's Cash Management Policy and procedures.
- OCFO will continue its review of open Vendor Management Branch projects and agrees to work with HRS to take actions to improve monitoring of controls to transactions that are complete, valid, accurate and in accordance with applicable laws and regulations.
- OCFO agrees to take additional actions to improve monitoring internal controls to ensure that financial management and reporting processes of the S&E Fund and RF Program are appropriate to support the OCFO's responsibilities for financial management and reporting.
- The OA will continue to work with OPM's Chief Information Office (CIO) and Workforce Information Office to facilitate the documentation and implementation of internal controls applied in the creation of the population data arrays.
- The CIO's BSG will work with the program owners (OA and OCFO) to understand the data and data elements so that the program office is able to develop and implement internal controls regarding the completeness and accuracy of the data per the Auditors' findings.
- The BSG will perform development work to implement automated controls identified and required by the program offices and will reassess the design and precision of control procedures and continue to work to ensure appropriate control procedures are in place.
- The OA has controls in place for the use of third party data. These controls are currently documented in section 3 of the valuation description. Third party Fee For Service data is validated through agreed-upon procedures set by OPM's OCFO and OIG, and is ultimately controlled to audited subscription income. Third-party Health Maintenance Organization (HMO) data is also controlled to audited subscription income and is only used if reasonable values are provided. The OA believes little precision would be gained in actuarial liability projections by using an external validation process of HMO data.
- The OA will work to provide further documentation on the purpose and effect of using the third party HMO data in the valuation process.
- OCFO agrees to take additional actions to improve monitoring of controls to ensure that data input to actuarial valuations are complete, accurate, and supported.
- OCFO will work closely with OA and CIO to achieve improved control monitoring.

Exhibit III Status of Prior Year Material Weakness and Significant Deficiency

Exhibit	Title of Finding from FY10 Report	Program/ Fund	Prior Year Status	Current Year Status
I	Information Systems General Control Environment	All (A)	Material Weakness	Material Weakness – See FY 2011, Exhibit I
II	Financial Management Reporting Processes of the Office of the Chief Financial Officer (CFO)	RF; S&E	Significant Deficiency	Significant Deficiency - See FY 2011, Exhibit II

(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, 2011 and 2010
(In Millions)

	FY 2011	FY 2010
ASSETS		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	$2,023	$1,831
Investments [Note 3]	916,205	886,313
Accounts Receivable [Note 4]	2,686	2,271
Total Intragovernmental	920,914	890,415
Accounts Receivable from the Public, Net [Note 4]	1,341	1,456
General Property and Equipment, Net	27	33
Other [Note 1L]	739	745
TOTAL ASSETS	$923,021	$892,649
LIABILITIES		
Intragovernmental [Note 6]	$594	$541
Federal Employee Benefits:		
Benefits Due and Payable	10,526	10,126
Pension Liability [Note 5A]	1,532,600	1,550,200
Post-retirement Health Benefits Liability [Note 5B]	329,204	341,465
Actuarial Life Insurance Liability [Note 5C]	43,786	43,205
Total Federal Employee Benefits	1,916,116	1,944,996
Other [Notes 6 and 7]	1,239	1,207
Total Liabilities	1,917,949	1,946,744
NET POSITION		
Unexpended Appropriations — Other Funds	154	97
Cumulative Results of Operations — Earmarked Funds [Note 8]	(995,474)	(1,054,603)
Cumulative Results of Operations — Other Funds	392	411
Total Net Position	(994,928)	(1,054,095)
TOTAL LIABILITIES AND NET POSITION	$923,021	$892,649

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, 2011 and 2010
(In Millions)

		FY 2011	FY 2010
Provide CSRS Benefits	Gross Costs	$20,307	$39,293
	Less: Earned Revenue	21,508	23,790
	Net Cost	(1,201)	15,503
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A]	11,272	55,481
	Net Cost of Operations [Notes 9 and 10]	$10,071	$70,984
Provide FERS Benefits	Gross Costs	$18,567	$40,112
	Less: Earned Revenue	41,288	38,248
	Net Cost	(22,721)	1,864
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A]	2,525	29,902
	Net Cost of Operations [Notes 9 and 10]	($20,196)	$31,766
Provide Health Benefits	Gross Costs	$41,328	$41,966
	Less: Earned Revenue	34,849	37,608
	Net Cost	6,479	4,358
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5B]	(12,664)	(1,272)
	Net Cost of Operations [Notes 9 and 10]	($6,185)	$3,086
Provide Life Insurance Benefits	Gross Costs	$4,078	$4,399
	Less: Earned Revenue	4,442	4,386
	Net Cost	(364)	13
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5C]	(874)	2,477
	Net Cost of Operations [Notes 9 and 10]	($1,238)	$2,490
Provide Human Resource Services	Gross Costs	$1,998	$1,651
	Less: Earned Revenue	1,891	1,617
	Net Cost of Operations [Notes 9 and 10]	$107	$34
Total Net Cost of Operations	Gross Costs	$86,278	$127,421
	Less: Earned Revenue	103,978	105,649
	Net Cost	(17,700)	21,772
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Notes 5A, 5B, and 5C]	259	86,588
	Net Cost of Operations [Notes 9 and 10]	($17,441)	$108,360

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, 2011 and 2010
(In Millions)

	FY 2011			FY 2010		
	Earmarked Funds	All Other Funds	Consolidated Total	Earmarked Funds	All Other Funds	Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balances	($1,054,603)	$411	($1,054,192)	($989,134)	$325	($988,809)
Budgetary Financing Sources:						
Appropriations Used	41,586	43	41,629	42,862	86	42,948
Other Financing Sources	(5)	45	40	(5)	34	29
Total Financing Sources	41,581	88	41,669	42,857	120	42,977
Net Cost of Operations	(17,548)	107	(17,441)	108,326	34	108,360
Net Change	59,129	(19)	59,110	(65,469)	86	(65,383)
Cumulative Results of Operations — Ending Balance	($995,474)	$392	($995,082)	($1,054,603)	$411	($1,054,192)
UNEXPENDED APPROPRIATIONS						
Beginning Balance	—	$97	$97	—	$84	$84
Budgetary Financing Sources:						
Appropriations Received	$41,618	101	41,719	$43,308	106	43,414
Appropriations Used	(41,586)	(43)	(41,629)	(42,862)	(86)	(42,948)
Other Budgetary Financing Sources	(32)	(1)	(33)	(446)	(7)	(453)
Total Budgetary Financing Sources	—	57	57	—	13	13
Total Unexpended Appropriations — Ending Balance	—	154	154	—	97	97
Net Position	($995,474)	$546	($994,928)	($1,054,603)	$508	($1,054,095)

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, 2011 and 2010
(In Millions)

	FY 2011	FY 2010
BUDGETARY RESOURCES		
Unobligated Balance — Brought Forward, October 1:	$51,651	$49,337
Recoveries of Prior-Year Unpaid Obligations	70	13
Budget Authority:		
Appropriations:		
Received	41,719	43,414
Other	(32)	(446)
Appropriated Trust Fund Receipts	95,586	102,662
Spending Authority from Offsetting Collections:		
Collected	50,558	45,776
Change in Receivables from Federal Sources and Unfilled Customer Orders	(346)	774
Subtotal	50,212	46,550
Temporarily Not Available Pursuant to Public Law	(24,910)	(32,964)
Permanently Not Available	(1)	(7)
Total Budgetary Resources	$214,295	$208,559
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred: [Note 12]		
Direct	$156,160	$154,588
Reimbursable	2,191	2,320
Subtotal	158,351	156,908
Unobligated Balance:		
Apportioned	429	667
Unobligated Balance Not Available	55,515	50,984
Total Status of Budgetary Resources	$214,295	$208,559
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1	$13,393	$12,423
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	3,698	2,924
Total Unpaid Obligated Balance, Net	9,695	9,499
Obligations Incurred, Net	158,351	156,908
Less: Gross Outlays	157,576	155,925
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	70	13
Change in Uncollected Customer Payments from Federal Sources	(346)	774
Obligated Balance, Net, End of Period		
Unpaid Obligations	14,098	13,393
Less: Uncollected Customer Payments from Federal Sources	3,352	3,698
Total Unpaid Obligated Balance, Net, End of Period	10,746	9,695
NET OUTLAYS		
Net Outlays:		
Gross Outlays	157,576	155,925
Less: Offsetting Collections	50,558	45,776
Less: Distributed Offsetting Receipts [Note 15]	32,928	40,231
Net Outlays	$74,090	$69,918

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

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

September 30, 2011 and 2010

[$ 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 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. The FERS was established in 1986 and when it became effective on January 1, 1987, CSRS Interim employees with less than 5 years of creditable civilian service on December 31, 1986, were automatically converted to FERS. 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. OPM does not administer the voluntary Thrift Savings Plan.

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.

On 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.

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 provides 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.

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 has determined that the retirement cost factors for FY 2011 are the same as for FY 2010 since the actuarial assumptions have not changed. Therefore, for both FY 2011 and FY 2010, the service-cost for most or "regular" CSRS participants is 30.1 percent of basic pay. For both FY 2011 and FY 2010, the service cost for most or "regular" FERS participants is 13.8 percent of basic pay.

> ***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 2011 and 2010. 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 2011 and 2010, this amount was $31.3 billion and $33.2 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 2011 and 2010). The employer contribution rate is equal to the FERS service–cost, less the participant contribution rate (11.7 and 11.2 percent of pay in FY 2011 and 2010, respectively, for most participants). In FY 2010, 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 until FY 2011.

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. However, due to two Continuing Resolutions enacted by Congress, P.L. 112-33 and P.L. 112-36, the USPS had no payment due on September 30, 2011. Without further action by Congress, there are two payments due in FY 2012, one for $5.5 billion due by November 18, 2011, and a second payment of $5.6 billion due by September 30, 2012.

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 is not funded; 0.02 percent of the pay of participating employees in FY 2011 and 2010.

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.

R. Parent-Child Reporting Allocation Transfer

The Office of Personnel Management (OPM) is a party to an allocation transfer with another federal agency, the Department of Health and Human Services (HHS), which is the parent. OPM is the receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate "Health Insurance Reform Implementation Fund" account 024075X0119, was created in the U.S. Treasury as a subset of the HHS fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the OPM are charged to this allocation account as OPM executes the delegated activity on behalf of the HHS. The financial activity related to this allocation transfer is reported in the financial statements of the parent entity, HHS, from which the underlying legislative budget authority, appropriations, and apportionments are derived.

Note 2—Fund Balance with Treasury

Fund Balances. OPM's FBWT balances by account type for fiscal years 2011 and 2010 are:

September 30, 2011 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Trust Fund	$33	–	–	–	$33
Revolving Fund	–	–	–	$582	582
General Funds	–	$1,177	$5	127	1,309
Trust Revolving Funds	–	93	6	–	99
Total	**$33**	**$1,270**	**$11**	**$709**	**$2,023**
September 30, 2010 ($ 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**

Status of Fund Balance with Treasury. 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 2011 and 2010:

September 30, 2011 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$33	$1,270	$11	$709	$2,023
Investments	803,812	62,822	39,217	–	905,851
Total, Unexpended Balance	**$803,845**	**$64,092**	**$39,228**	**$709**	**$907,874**
STATUS OF UNEXPENDED BALANCES					
Unobligated:					
Available	–	–	–	$429	$429
Unavailable	–	$16,676	$38,783	56	55,515
Obligated not yet Disbursed	$6,368	3,709	445	224	10,746
Precluded (See Note 11)	797,477	43,707	–	–	841,184
Total, Status of Unexpended Balances	**$803,845**	**$64,092**	**$39,228**	**$709**	**$907,874**

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**

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 Federal Government, these assets and liabilities offset each other from the standpoint of the Federal 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 Federal 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 Federal 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 $104 billion invested as of September 30, 2011. Approximately $60 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 2011 and 2010.

As of September 30, 2011 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program:						
Marketable:						
FFB Securities	$8,441	–	$99	$8,540	–	$8,441
Non-Marketable: (PAR)						
Par-value GAS securities	761,868	–	8,369	770,237	–	761,868
Certificates of Indebtedness	33,503	–	285	33,788	–	33,503
Total Retirement Program	**$803,812**	**–**	**$8,753**	**$812,565**	**–**	**$803,812**
Health Benefits Program:						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$19,284	($69)	$77	$19,292	$21	$19,692
Non-Marketable: (PAR)						
Par-value GAS securities	43,708	–	410	44,118	–	43,708
Certificates of Indebtedness		–	–		–	
Total Health Benefits Program	**$62,992**	**($69)**	**$487**	**$63,410**	**$21**	**$63,400**
Life Insurance Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$40,032	($157)	$355	$40,230	$197	$42,021
Total Life Insurance Program	**$40,032**	**($157)**	**$355**	**$40,230**	**$197**	**$42,021**
Total Investments	***$906,836***	***($226)***	***$9,595***	***$916,205***	***$218***	***$909,233***

As of September 30, 2010 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program:						
Marketable:						
FFB Securities	$10,239	–	$119	$10,358	–	$10,239
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***

Note 4—Accounts Receivable, Net

Intragovernmental. The balances comprising OPM's intragovernmental accounts receivable as of September 30, 2011 and 2010 are:

September 30, 2011 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	$1,883	$632	$16	–	$2,531
Other	–	–	–	$155	155
Total	**$1,883**	**$632**	**$16**	**$155**	**$2,686**
September 30, 2010 ($ in millions)					
Employer contributions receivable	$1,238	$892	$27	–	$2,157
Other	–	–	–	$114	114
Total	**$1,238**	**$892**	**$27**	**$114**	**$2,271**

From the Public. The balances comprising the accounts receivable OPM classifies as "from the public" at September 30, 2011 and 2010 are presented, in the following table. See Note 1K for the methodology used to determine the allowance.

September 30, 2011 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	$196	$808	$149	–	$1,153
Overpayment of benefits [net of allowance of $93]	128	–	–	–	128
Due from carriers [net of allowance of $3]	–	59	–	–	59
Other	–	–	–	$1	1
Total	**$324**	**$867**	**$149**	**$1**	**$1,341**
September 30, 2010 ($ in millions)					
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**

Note 5—Federal Employee Benefits

A. Pensions

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

Economic Assumptions. With the implementation of SFFAS No. 33 for FY 2010, there were 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 2011 and 2010:

	FY 2011		FY 2010	
	CSRS	FERS	CSRS	FERS
Interest rate	4.60%	4.90%	4.80%	5.10%
Rate of inflation	2.40%	1.90%	2.50%	2.50%
Rate of increases in salary	3.10%	3.10%	3.50%	3.50%

Pension Expense. The following tables present Pension Expense by cost component for fiscal years 2011 and 2010:

FY 2011 ($ in millions)	CSRS	FERS	TOTAL
Service cost	$8,553	$25,801	$34,354
Interest cost	53,396	21,422	74,818
Actuarial (gain)/ loss	(41,642)	(28,656)	(70,298)
Actuarial loss/(gain) - Assumptions	11,272	2,525	13,797
Pension Expense	**$31,579**	**$21,092**	**$52,671**
FY 2010 ($ in millions)			
Service cost	$8,155	$21,297	$29,452
Interest cost	67,598	22,095	89,693
Actuarial (gain)/ loss	(36,460)	(3,280)	(39,740)
Actuarial loss/(gain) – Assumptions	55,481	29,902	85,383
Pension Expense	**$94,774**	**$70,014**	**$164,788**

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

FY 2011 ($ in millions)	CSRS	FERS	TOTAL
Pension Liability at October 1, 2010	$1,139,900	$410,300	$1,550,200
Plus: Pension Expense			
Normal Cost	$8,553	$25,801	$34,354
Interest on the Liability Balance	53,396	21,422	74,818
Actuarial (gain)/loss:			
From experience:	(41,642)	(28,656)	(70,298)
From changes in actuarial assumptions:	11,272	2,525	13,797
Net Loss	($30,370)	($26,131)	($56,501)
Total Expense:	$31,579	$21,092	$52,671
Less: Costs applied to Pension Liability	64,179	6,092	70,271
Pension Liability at September 30, 2011	**$1,107,300**	**$425,300**	**$1,532,600**
FY 2010 ($ in millions)			
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
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**

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 2011 and 2010:

FY 2011 ($ in millions)	CSRS	FERS	TOTAL
Annuities	$63,841	$5,951	**$69,792**
Refunds of contributions	215	103	**318**
Administrative and other expenses	123	38	**161**
Costs applied to the Pension Liability	$64,179	$6,092	**$70,271**
FY 2010 ($ in millions)			
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**

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. The following presents the significant economic assumptions used to compute the PRHB Liability and related expense as of the September 30 measurement date:

	FY 2011	FY 2010
Interest rate(1)	4.9%	5.1%
Increase in per capita cost of covered benefits(2)	5.5%	7.0%

(1) The single equivalent annual interest rate for FY 2011 is 4.9%; this is derived from a yield curve based on the average of the last 40 quarters through March 2011.

(2) The single equivalent increase in per capita cost of covered benefits for FY 2011 represents a variable trend which begins at 5.5%. Last year, the single equivalent increase in per capita cost of covered benefits represented a variable trend which began at 7.0%.

PRHB Expense. The following presents the PRHB Expense by cost component for fiscal years 2011 and 2010:

($ in millions)	FY 2011	FY 2010
Service cost	$13,717	$12,710
Interest cost	17,415	21,243
Actuarial (gain)/loss	(17,386)	(17,948)
Actuarial (gain)/loss — Assumptions	(12,664)	(1,272)
PRHB Expense	**$1,082**	**$14,733**

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

($ in millions)	FY 2011	FY 2010
PRHB Liability at the beginning of the year	$341,465	$339,884
Plus: Pension Expense		
Normal Cost	13,717	12,710
Interest on the Liability Balance	17,415	21,243
Actuarial (gain)/loss:		
From experience:	(17,386)	(17,948)
From assumption changes:	(12,664)	(1,272)
Total Expense:	1,082	14,733
Less: Costs applied to Pension Liability	(13,343)	(13,152)
PRHB Liability at the end of the year	**$329,204**	**$341,465**

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 2011 and 2010:

($ in millions)	FY 2011	FY 2010
Current benefits	$10,393	$9,707
Premiums	2,039	2,561
Administrative and other expenses	911	884
Total costs applied to the PRHB Liability	**$13,343**	**$13,152**

Effect of Assumptions. The increase in the per capita cost of covered benefits assumed by OPM's actuaries 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 2011 and 2010:

($ in millions)	FY 2011		FY 2010	
	One Percent Increase	One Percent Decrease	One Percent Increase	One Percent Decrease
PRHB Liability	$371,075	$293,041	$383,500	$305,080

(In $)	FY 2011			FY 2010		
	Per Capita Normal Cost at Valuation Date	One Percent Increase	One Percent Decrease	Per Capita Normal Cost at Valuation Date	One Percent Increase	One Percent Decrease
	$5,365	$6,781	$4,230	$5,432	$6,879	$4,274

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 applying SFFAS No. 33 for calculating the ALIL, OPM's actuary uses salary increase and interest rate yield curve assumptions that are consistent with those used for computing the CSRS and FERS Pension Liability in FY 2011 and 2010. This entails the determination of a single equivalent interest rate that is specific to the ALIL.

	FY 2011	FY 2010
Interest rate	4.8%	4.9%
Rate of increases in salary	3.1%	3.5%

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 2011 and 2010:

($ in millions)	FY 2011	FY 2010
New Entrant Expense	$370	$ 299
Interest cost	2,113	2,428
Actuarial (gain)/ loss	(510)	(434)
Actuarial (gain)/ loss - Assumptions	(874)	2,477
Life Insurance Expense	**$1,099**	**$4,770**

Future Life Insurance Benefits Expense. The Future Life Insurance Benefits Expense for fiscal years 2011 and 2010 is:

($ in millions)	FY 2011	FY 2010
Life Insurance Expense	$1,099	$4,770
Less: Net Costs applied to Life liability	518	520
Future Life Insurance Benefits Expense	**$581**	**$4,250**

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

($ in millions)	FY 2011	FY 2010
Actuarial LI Liability at the beginning of the year	$43,205	$38,955
Plus: Expense		
New Entrant Expense	370	299
Interest on the Liability Balance	2,113	2,428
Actuarial (gain)/loss:		
From experience:	(510)	(434)
From assumption changes:	(874)	2,477
Total LI Expense:	1,099	4,770
Less: Costs applied to Life Insurance Liability	(518)	(520)
Actuarial LI Liability at the end of the year	**$43,786**	**$43,205**

Note 6—Intragovernmental and Other Liabilities

The following liabilities are classified as "Intragovernmental" on the Balance Sheet as of September 30, 2011 and 2010:

September 30, 2011 ($ in millions)	Accounts Payable	Other	Total
Retirement	$87	–	**$87**
Health Benefits	277	–	**277**
Life Insurance	2	–	**2**
Revolving Fund	4	$327	**331**
Salaries and Expenses	3	2	**5**
Eliminations	(107)	(1)	**(108)**
Total Intragovernmental Liabilities	**$266**	**$328**	**$594**
September 30, 2010 ($ in millions)			
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**

The following liabilities, all current and "with the public," are classified as "other" on the Balance Sheet as of September 30, 2011 and 2010:

September 30, 2011 ($ in millions)	Withheld from benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued Administrative expenses	Contingencies	Total
Retirement Program	$783	–	–	–	**$783**
Health Benefits Program	–	$287	–	–	**287**
Life Insurance Program	–	51	–	–	**51**
Revolving Fund Program	–	–	$74	–	**74**
Salaries and Expenses	–	–	42	$2	**44**
Total Other Liabilities	**$783**	**$338**	**$116**	**$2**	**$1,239**
September 30, 2010 ($ in millions)					
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**

Note 7—Contingencies

Health 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, 2011 and September 30, 2010 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 $2 million and $1 million in Salaries and Expenses, respectively, at September 30, 2011 and 2010 for the estimated amount of losses it will probably incur from this litigation.

In addition, OPM has determined, at September 30, 2011, it is reasonably possible that losses ranging from an additional $957.9 million to $958.6 million will result. For Salaries and Expenses the total of all reasonably possible losses ranges from $56.5 million to $57 million, for Revolving the total of all reasonably possible losses ranges from $1.4 million to $1.6 million, for the Retirement Fund, the total of all reasonably possible losses is $600 million, and for the Life Insurance Fund the total of all reasonably possible losses is $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, 2011 and September 30, 2010 follows:

September 30, 2011 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
ASSETS				
Fund Balance with Treasury	$33	$1,270	$11	**$1,314**
Investments	812,565	63,410	40,230	**916,205**
Accounts Receivable	2,207	1,499	165	**3,871**
Other Assets	—	100	639	**739**
Total Assets	**$814,805**	**$66,279**	**$41,045**	**$922,129**
LIABILITIES and NET POSITION				
Intragovernmental	$87	$277	$2	**$366**
Benefits Due and Payable	5,502	4,262	762	**10,526**
Pension Liability	1,532,600	—	—	**1,532,600**
Post-Retirement Health Benefits Liability	—	329,204	—	**329,204**
Actuarial Life Insurance Liability	—	—	43,786	**43,786**
Other Liabilities	783	287	51	**1,121**
Total Liabilities	**$1,538,972**	**$334,030**	**$44,601**	**$1,917,603**
Cumulative Results of Operations	(724,167)	(267,751)	(3,556)	**(995,474)**
Total Liabilities and Net Position	**$814,805**	**$66,279**	**$41,045**	**$922,129**

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**

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. However, due to two Continuing Resolutions enacted by Congress, P.L. 112-33 and P.L. 112-36, the USPS had no payment due on September 30, 2011. Without further action by Congress, there are two payments due in FY 2012, one for $5.5 billion due by November 18, 2011, and a second payment of $5.6 billion due by September 30, 2012.

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 2011 and FY 2010 follows:

FY 2011 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Gross Program Costs	$38,874	$41,328	$4,078	$84,280
Less Earned Revenues	62,796	34,849	4,442	102,087
Actuarial (gain)/ loss on Pension, ORB or OPEB Assumptions Changes	13,797	(12,664)	(874)	259
Net Cost of Operations	**($10,125)**	**($6,185)**	**($1,238)**	**($17,548)**
FY 2010 ($ in millions)				
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**

A condensed version of the Earmarked Funds' Statement of Changes in Net Position for FY 2011 and FY 2010 follows:

FY 2011 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Net Position Beginning of Period	($765,568)	($284,196)	($4,839)	**($1,054,603)**
Budgetary Financing Sources	31,276	10,260	45	**41,581**
Net Cost of Operations	(10,125)	(6,185)	(1,238)	**(17,548)**
Change in Net Position	41,401	16,445	1,283	**59,129**
Net Position End of Period	**($724,167)**	**($267,751)**	**($3,556)**	**($995,474)**
FY 2010 ($ 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)**

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 2011 and 2010:

FY 2011 ($ in millions)	GROSS COSTS			EARNED REVENUE		
	Intra - governmental	With the Public	Total	Intra - governmental	With the Public	Total
Provide CSRS Benefits	–	$20,307	$20,307	$19,465	$2,043	$21,508
Provide FERS Benefits	–	18,567	18,567	39,753	1,535	41,288
Provide Health Benefits	–	41,328	41,328	22,064	12,785	34,849
Provide Life Insurance Benefits	–	4,078	4,078	1,686	2,756	4,442
Provide Human Resources Services	$146	1,852	1,998	1,888	3	1,891
Total	**$146**	**$86,132**	**$86,278**	**$84,856**	**$19,122**	**$103,978**
FY 2010 ($ in millions)	**Intra - governmental**	**With the Public**	**Total**	**Intra - governmental**	**With the Public**	**Total**
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**

Note 10—Net Cost by Strategic Goals

OPM's Strategic Plan for 2010 – 2015, introduced in the prior year February 2010, features four broad Strategic Goals that define OPM's direction, 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 2011 ($ 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	–	–	–	–	$967	**$967**
	Less earned revenue	–	–	–	–	939	**939**
	Net program cost	–	–	–	–	$28	**$28**
Goal 2	Total program cost	$6,960	$4,649	$9,109	$899	$41	**$21,658**
	Less earned revenue	4,740	9,100	10,473	1,172	31	**25,516**
	Net program cost	$2,220	($4,451)	($1,364)	($273)	$10	**($3,858)**
Goal 3	Total program cost	$3,465	$2,314	$4,534	$447	$968	**$11,728**
	Less earned revenue	2,360	4,530	5,212	583	904	**13,589**
	Net program cost	$1,105	($2,216)	($678)	($136)	$64	**($1,861)**
Goal 4	Total program cost	$21,154	$14,129	$27,685	$2,732	$22	**$65,722**
	Less earned revenue	14,408	27,658	31,828	3,561	17	**77,472**
	Net program cost	$6,746	($13,529)	($4,143)	($829)	$5	**($11,750)**
Total	**Total program cost**	**$31,579**	**$21,092**	**$41,328**	**$4,078**	**$1,998**	**$100,075**
	Less earned revenue	**21,508**	**41,288**	**47,513**	**5,316**	**1,891**	**117,516**
	Net program cost	**$10,071**	**($20,196)**	**($6,185)**	**($1,238)**	**$107**	**($17,441)**

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).

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).

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, 2011 and 2010:

September 30 ($ in millions)	2011	2010
Temporarily precluded from obligation at the beginning of the year	$774,159	$748,195
Plus: Trust fund receipts during the year	93,994	95,662
Plus: Appropriations Received	31,281	33,176
Less: Obligations incurred during the year	101,957	102,874
Excess of trust fund receipts over obligations incurred during the year	23,318	25,964
Temporarily Precluded from Obligation at the End of the Year	**$797,477**	**$774,159**

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 2011 and 2010, receipts to the PSRHB Fund were to have included USPS scheduled payment contributions of $5.5 billion and $5.5 billion, respectively, per legislation, as amended. However, due to two Continuing Resolutions enacted by Congress, P.L. 112-33 and P.L. 112-36, the USPS had no payment due on September 30, 2011. Without further action by Congress, there are two payments due in FY 2012, one for $5.5 billion due by November 18, 2011, and a second payment of $5.6 billion due by September 30, 2012.

Also, FY 2011 and FY 2010 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, 2011 and 2010:

September 30 ($ in millions)	2011	2010
Temporarily precluded from obligation at the beginning of the year	$42,115	$35,115
Plus: Special Fund receipts during the year	1,592	7,000
Excess of Special Fund receipts over obligations incurred during the year	1,592	7,000
Temporarily Precluded from Obligation at the End of the Year	**$43,707**	**$42,115**

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 2011 and 2010:

FY 2011 Program/Fund ($ in millions)	Category	Direct	Reimbursable	Total
Retirement Program	B	$70,676	–	**$70,676**
Retirement Program	NSA	31,281	–	**31,281**
Subtotal		$101,957		**$101,957**
Health Benefits Program	B	51,206	–	**51,206**
Life Insurance Program	B	2,660	–	**2,660**
Revolving Fund Program	A	–	$2,144	**2,144**
Salaries and Expenses	A	337	47	**384**
Total		**$156,160**	**$2,191**	**$158,351**
FY 2010 Program/Fund ($ 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**

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 2013, which will contain budgetary resources information for fiscal year 2011, will be published in February 2012 and will be available on the OMB website at http://www.whitehouse.gov/omb/. The President's Budget for fiscal year 2012, which contains budgetary resource information for fiscal year 2010, was released on February 14, 2011.

There are no material differences between the Statement of Budgetary Resources and the SF-133 Report on Budgetary Execution for FY 2011 and FY 2010. Additionally, there are no material differences between the actual amounts for fiscal year 2010 published in the President's Budget and those reported in the accompanying FY 2010 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 2011 and FY 2010 are as follows:

Undelivered Orders ($ in millions)	Revolving Fund Programs	Salaries & Expenses	Total
FY 2011	$1,089	$123	**$1,212**
FY 2010	$955	$87	**$1,042**

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 2011 reconciliation and comparative FY 2010 reconciliation are as follows:

FY 2011 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2011
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$101,957	$51,206	$2,660	$2,144	$384	$158,351
Less: Spending Authority from Offsetting Collections and Recoveries	–	43,488	4,651	1,863	280	50,282
Less: Appropriated Trust Fund Receipts	93,994	1,592	–	–	–	95,586
Obligations Net of Offsetting Collections and Recoveries	7,963	6,126	(1,991)	281	104	12,483
Less: Offsetting Receipts	31,336	1,592	–	–	–	32,928
Net Obligations	**($23,373)**	**$4,534**	**($1,991)**	**281**	**$104**	**($20,445)**
Other Resources	–	–	–	27	18	45
Total Resources Used to Finance Activities	**($23,373)**	**$4,534**	**($1,991)**	**$308**	**$122**	**($20,400)**
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$31,281	–	–	–	–	$31,281
Other	55	$1,530	$143	($350)	($34)	1,344
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**31,336**	**1,530**	**143**	**(350)**	**(34)**	**32,625**
Total Resources Used to Finance the Net Cost of Operations	**$7,963**	**$6,064**	**(1,848)**	**($42)**	**$88**	**$12,225**
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	($17,600)	($12,261)	$581	–	–	($29,280)
Exchange Revenue Not in the Budget	(486)	31	29	4	–	(422)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	(18,086)	(12,230)	610	4	–	(29,702)
Components Not Requiring or Generating Resources						
Other	(2)	(19)	–	63	($6)	36
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	(2)	(19)	–	63	(6)	36
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**($18,088)**	**($12,249)**	**$610**	**$67**	**($6)**	**($29,666)**
NET COST OF OPERATIONS	**($10,125)**	**($6,185)**	**($1,238)**	**$25**	**$82**	**($17,441)**

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**

Note 16—Health Benefits/Life Insurance Program Concentrations

During fiscal years 2011 and 2010, 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, 2011
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2011
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$33	$1,270	$11	$582	$127	–	$2,023
Investments [Note 3]	812,565	63,410	40,230	–	–	–	916,205
Accounts Receivable [Note 4]	1,883	632	16	155	108	($108)	2,686
Total Intragovernmental	814,481	65,312	40,257	737	235	(108)	920,914
Accounts Receivable from the Public, Net [Note 4]	324	867	149	–	1	–	1,341
General Property and Equipment, Net	–	–	–	24	3	–	27
Other [Note 1L]	–	100	639	–	–	–	739
TOTAL ASSETS	$814,805	$66,279	$41,045	$761	$239	($108)	$923,021
LIABILITIES							
Intragovernmental [Note 6]	$87	$277	$2	$331	$5	($108)	$594
Federal Employee Benefits:							
Benefits Due and Payable	5,502	4,262	762	–	–	–	10,526
Pension Liability [Note 5A]	1,532,600	–	–	–	–	–	1,532,600
Post-retirement Health Benefits Liability [Note 5B]	–	329,204	–	–	–	–	329,204
Actuarial Life Insurance Liability [Note 5C]	–	–	43,786	–	–	–	43,786
Total Federal Employee Benefits	1,538,102	333,466	44,548	–	–	–	1,916,116
Other [Notes 6 and 7]	783	287	51	74	44	–	1,239
Total Liabilities	1,538,972	334,030	44,601	405	49	(108)	1,917,949
NET POSITION							
Unexpended Appropriations — Other Funds	–	–	–	3	151	–	154
Cumulative Results of Operations — Earmarked Funds [Note 8]	(724,167)	(267,751)	(3,556)	–	–	–	(995,474)
Cumulative Results of Operations — Other Funds	–	–	–	353	39	–	392
Total Net Position	(724,167)	(267,751)	(3,556)	356	190	–	(994,928)
TOTAL LIABILITIES AND NET POSITION	$814,805	$66,279	$41,045	$761	$239	($108)	$923,021

The accompanying notes are an integral part of the 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	FY 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 STATEMENT OF NET COST
For the Year Ended September 30, 2011
(In Millions)

	Retirement Program								
	CSRS	FERS	Total	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2011
GROSS COSTS									
Intragovernmental	–	–	–	–	–	$245	$238	($337)	$146
With the Public:									
Pension Expense [Note 5A]	$20,307	$18,567	$38,874	–	–	–	–	–	38,874
Post-retirement Health Benefits [Note 5B]	–	–	–	$13,746	–	–	–	–	13,746
Future Life Insurance Benefits [Note 5C]	–	–	–	–	$1,455	–	–	–	1,455
Current Benefits and Premiums	–	–	–	26,469	2,614	–	–	–	29,083
Other	–	–	–	1,113	9	1,741	111	–	2,974
Total Gross Costs with the Public	20,307	18,567	38,874	41,328	4,078	1,741	111	–	86,132
Total Gross Costs [Notes 9 and 10]	20,307	18,567	38,874	41,328	4,078	1,986	349	(337)	86,278
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	1,642	22,204	23,846	20,125	509	–	–	–	44,480
Earnings on Investments	17,823	17,549	35,372	1,939	1,177	–	–	–	38,488
Other	–	–	–	–	–	1,960	265	(337)	1,888
Total Intragovernmental Earned Revenue	19,465	39,753	59,218	22,064	1,686	1,960	265	(337)	84,856
With the Public:									
Participant Contributions	2,043	1,535	3,578	12,774	2,753	–	–	–	19,105
Other	–	–	–	11	3	1	2	–	17
Total Earned Revenue with the Public	2,043	1,535	3,578	12,785	2,756	1	2	–	19,122
Total Earned Revenue [Notes 9 and 10]	21,508	41,288	62,796	34,849	4,442	1,961	267	(337)	103,978
Net Cost	($1,201)	($22,721)	($23,922)	$6,479	($364)	$25	$82	–	($17,700)
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Notes 5A, 5B, and 5C]	11,272	2,525	13,797	(12,664)	(874)	–	–	–	259
Net Cost of Operations [Notes 9 and 10]	$10,071	($20,196)	($10,125)	($6,185)	($1,238)	$25	$82	–	($17,441)

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	FY 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 CHANGES IN NET POSITION
For the Year Ended September 30, 2011
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Total Earmarked Funds	Revolving Fund Programs	Salaries and Expenses	Total All Other Funds	FY 2011
CUMULATIVE RESULTS OF OPERATIONS								
Beginning Balance	($765,568)	($284,196)	($4,839)	($1,054,603)	$351	$60	$411	($1,054,192)
Budgetary Financing Sources:								
Appropriations Used	31,281	10,260	45	41,586	—	43	43	41,629
Other Financing Sources	(5)	—	—	(5)	27	18	45	40
Total Financing Sources	31,276	10,260	45	41,581	27	61	88	41,669
Net Cost of Operations	(10,125)	(6,185)	(1,238)	(17,548)	25	82	107	(17,441)
Net Change	41,401	16,445	1,283	59,129	2	(21)	(19)	59,110
Cumulative Results of Operations — Ending Balance	($724,167)	($267,751)	($3,556)	($995,474)	$353	$39	$392	($995,082)
UNEXPENDED APPROPRIATIONS								
Beginning Balance	—	—	—	—	$3	$94	$97	$97
Budgetary Financing Sources:								
Appropriations Received	$31,281	$10,290	$47	$41,618	—	101	101	41,719
Appropriations Used	(31,281)	(10,260)	(45)	(41,586)	—	(43)	(43)	(41,629)
Other Budgetary Financing Sources	—	(30)	(2)	(32)	—	(1)	(1)	(33)
Total Budgetary Financing Sources	—	—	—	—	—	57	57	57
Total Unexpended Appropriations — Ending Balance	—	—	—	—	$3	$151	$154	$154
NET POSITION	($724,167)	($267,751)	($3,556)	($995,474)	$356	$190	$546	($994,928)

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	FY 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
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2011
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2011
BUDGETARY RESOURCES						
Unobligated Balance — Brought Forward, October 1	—	$14,134	$36,747	$694	$76	$51,651
Recoveries of Prior — Year Unpaid Obligations	—	—	—	63	7	70
Budgetary Authority:						
Appropriations:						
Received	$31,281	10,290	47	—	101	41,719
Other	—	(30)	(2)	—	—	(32)
Appropriated Trust Fund Receipts	93,994	1,592	—	—	—	95,586
Spending Authority from Offsetting Collections:						
Collected	—	43,634	4,658	2,001	265	50,558
Change in Receivables from Federal Sources and Unfilled Customer Orders	—	(146)	(7)	(201)	8	(346)
Subtotal	—	43,488	4,651	1,800	273	50,212
Temporarily not Available Pursuant to Public Law	(23,318)	(1,592)	—	—	—	(24,910)
Permanently not Available	—	—	—	—	(1)	(1)
Total Budgetary Resources	$101,957	$67,882	$41,443	$2,557	$456	$214,295
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred: [Note 12]						
Direct	$101,957	$51,206	$2,660	—	$337	$156,160
Reimbursable	—	—	—	$2,144	47	2,191
Subtotal	101,957	51,206	2,660	2,144	384	158,351
Unobligated Balance:						
Apportioned	—	—	—	402	27	429
Unobligated Balance Not Available	—	16,676	38,783	11	45	55,515
Total Status of Budgetary Resources	$101,957	$67,882	$41,443	$2,557	$456	$214,295

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2011
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2011
CHANGE IN OBLIGATED BALANCE						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	$6,222	$5,203	$791	$1,047	$130	$13,393
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	–	2,032	383	1,172	111	3,698
Total Unpaid Obligated Balance, Net	6,222	3,171	408	(125)	19	9,695
Obligations Incurred, Net	101,957	51,206	2,660	2,144	384	158,351
Less: Gross Outlays	101,811	50,814	2,630	1,987	334	157,576
Less: Recoveries of Prior — Year Unpaid Obligations, Actual	–	–	–	63	7	70
Change in Uncollected Customer Payments from Federal Sources	–	(146)	(7)	(201)	8	(346)
Obligated Balance, Net, End of the Period						
Unpaid Obligations	6,368	5,595	821	1,141	173	14,098
Less: Uncollected customer payments from Federal Sources	–	1,886	376	971	119	3,352
Total Unpaid Obligated Balance, Net, End of Period	6,368	3,709	445	170	54	10,746
NET OUTLAYS						
Net Outlays:						
Gross Outlays	101,811	50,814	2,630	1,987	334	157,576
Less: Offsetting Collections	–	43,634	4,658	2,001	265	50,558
Less: Distributed Offsetting Receipts [Note 15]	31,336	1,592	–	–	–	32,928
Net Outlays	$70,475	$5,588	($2,028)	($14)	$69	$74,090

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	FY 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	FY 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 [Note 15]	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.

Required Supplemental Information

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2011
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY 2011
BUDGETARY RESOURCES							
Unobligated Balance — Brought Forward, October 1	–	$14,134	$36,747	$694	$76	–	$51,651
Recoveries of Prior-Year Unpaid Obligations	–	–	–	63	7	–	70
Budgetary Authority:							
Appropriations:							
Received	–	–	–	–	101	$41,618	41,719
Other	–	–	–	–	–	(32)	(32)
Appropriated Trust Fund Receipts	$93,994	1,592	–	–	–	–	95,586
Spending Authority from Offsetting Collections:							
Collected	–	43,634	4,658	2,001	265	–	50,558
Change in Receivables from Federal Sources and Unfilled Customer Orders	–	(146)	(7)	(201)	8	–	(346)
Subtotal	–	43,488	4,651	1,800	273	–	50,212
Temporarily not Available Pursuant to Public Law	(23,318)	(1,592)	–	–	–	–	(24,910)
Permanently not Available	–	–	–	–	(1)	–	(1)
Total Budgetary Resources	$70,676	$57,622	$41,398	$2,557	$456	$41,586	$214,295
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	$70,676	$40,946	$2,615	–	$337	$41,586	$156,160
Reimbursable	–	–	–	$2,144	47	–	2,191
Subtotal	70,676	40,946	2,615	2,144	384	41,586	158,351
Unobligated Balance:							
Apportioned	–	–	–	402	27	–	429
Unobligated Balance Not Available	–	16,676	38,783	11	45	–	55,515
Total Status of Budgetary Resources	$70,676	$57,622	$41,398	$2,557	$456	$41,586	$214,295

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, 2011 (Continued)
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY 2011
CHANGE IN OBLIGATED BALANCE							
Obligated Balance, Net							
Unpaid Obligations, Brought Forward, October 1	$6,222	$4,131	$785	$1,047	$130	$1,078	$13,393
Less: Uncollected customer payments from Federal Sources, Brought Forward, October 1	–	2,032	383	1,172	111	–	3,698
Total Unpaid Obligated Balance, Net	6,222	2,099	402	(125)	19	1,078	9,695
Obligations Incurred, Net	70,676	40,946	2,615	2,144	384	41,586	158,351
Less: Gross Outlays	70,530	40,659	2,585	1,987	334	41,481	157,576
Less: Recoveries of Prior-Year Unpaid Obligations, Actual	–	–	–	63	7	–	70
Change in Uncollected Customer Payments from Federal Sources	–	(146)	(7)	(201)	8	–	(346)
Obligated Balance, Net, End of the Period							
Unpaid Obligations	6,368	4,418	815	1,141	173	1,183	14,098
Less: Uncollected customer payments from Federal Sources	–	1,886	376	971	119	–	3,352
Total Unpaid Obligated Balance, Net, End of Period	6,368	2,532	439	170	54	1,183	10,746
NET OUTLAYS							
Net Outlays:							
Gross Outlays	70,530	40,659	2,585	1,987	334	41,481	157,576
Less: Offsetting Collections	–	43,634	4,658	2,001	265	–	50,558
Less: Distributed Offsetting Receipts	31,336	1,592	–	–	–	–	32,928
Net Outlays	$39,194	($4,567)	($2,073)	($14)	$69	$41,481	$74,090

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
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY 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	FY 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

Management Challenges

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the Inspector General

October 26, 2011

MEMORANDUM FOR JOHN BERRY
Director

FROM: PATRICK E. McFARLAND
Inspector General

Patrick E McFarland

SUBJECT: Fiscal Year 2011 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 may be long-term or even permanent; and internal challenges, which OPM has more control over and 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 affected by constantly changing ways of doing business or new ideas, while in other cases they are global challenges every agency has to deal with.

The six internal challenges included in this letter represent OPM's development of new information systems, the need to strengthen controls over its information security governance, overhauling the retirement claims process, stopping the flow of improper payments, improving controls over interagency agreements within Human Resources Solutions, 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 remain the only challenges related to the 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:

<u>Environmental Challenges</u>

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

<u>Internal Challenges</u>

- Information System Development;
- Information Security Governance;
- Financial Management System and Internal Controls: Revolving Fund and Salaries and Expenses Accounts;
- Improving Internal Controls over OPM's Human Resources Solutions Vendor Management Branch Operations;
- Stopping the Flow of Improper Payments; and,
- Overhaul of Retirement Claims Processing.

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 challenge shown below that was on this list last year:

John Berry 3

- Radiology and Imaging as a specific Federal Employees Health Benefits Program (FEHBP) challenge has been removed from the list based on OPM's efforts to reduce the impact of this challenge through annual contract negotiations with the FEHBP carriers that encourage management of radiology and imaging benefits. This awareness has resulted in the increased use of pre-authorizations, which ensure medical necessity, as well as an opportunity to provide alternative diagnostic choices.

This year, we have added a discussion under Federal Health Insurance Initiatives concerning OPM's challenges in offering healthcare to the Indian and Tribal communities. New challenges added this year include Human Resources Solutions Vendor Management Branch operations, Stopping the Flow of Improper Payments, and Overhauling Retirement Claims Processing.

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 2011 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

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. We are pleased to say that OPM has made substantial progress in addressing its human capital challenges, including:

- Working with agencies by holding training sessions to ensure that best practices are developed and used throughout government;
- Working with agencies and the Chief Human Capital Officers Council to identify skill gaps in mission-critical occupations, conduct workforce planning, and implement strategies to close gaps;
- Creating a diversified workforce with various experiences, perspectives, and backgrounds by hiring more Americans with disabilities, hiring more Veterans, and promoting diversity and inclusion;
- Reducing the hiring time by 15 percent to 105 days;
- Issuing proposed regulations to help recruit and hire students and recent graduates under the *Pathways Program*;
- Creating shared registers for entry-level Information Technology Specialists and Budget Analyst positions;
- Improving communications with applicants throughout the hiring process;
- Releasing USAJOBS 3.0 in October 2011 to provide enhanced search capabilities and applicant tools, and a common repository for applicant resumes, as well as government-wide analytical reports for use by agencies, OPM, and the Office of Management and Budget (OMB); and,
- Launching USAJOBSRecruit to provide tools and guidance, and encourage development of best practices within the Federal recruiting community in a web-based platform.

Much progress has been made, but with the aging Federal workforce, OPM must help agencies to recruit and retain the right people with the skills needed to achieve their goals. OPM is charged with helping agencies to identify and close skills gaps, being responsive to changing applicant and worforce needs, and developing performance measures that will monitor organizational efficiency, effectiveness, and progress.

2. FEDERAL HEALTH INSURANCE INITIATIVES

OPM continues to face challenges it must address in order to ensure the Federal Employees Health Benefits Program (FEHBP) contracts with insurance carriers that offer comprehensive health care benefits at a fair price. However, with the passing of the Affordable Care Act (ACA), OPM's roles and responsibilities related to Federal health insurance have been expanded significantly. Under ACA, OPM has been designated as the agency responsible for implementing and overseeing the multi-state plan options which start in 2014, as well as expanding FEHBP coverage to certain Indian tribes, Tribal organizations, and urban Indian organizations. In addition, 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 3.8 percent. This is a significant reduction from the calendar year (CY) 2011 increase of 7.3 percent. However, it is a continuing challenge for OPM to keep premium rate increases in check.

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 and 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 2011, OPM began the processes necessary to implement this searchable and secure database for claims information, which included the following:

- Hired additional project staff to build analytical capacity and the organizational infrastructure;
- Entered into a memorandum of understanding with the Office of the Inspector General (OIG) to assist OPM in developing and implementing the HCDW. The OIG will host it within our IT environment. This approach will save OPM significant setup time and costs, as well as ongoing operating costs;
- Implemented 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;
- Developed the Systems of Records Notice that was approved by OMB and published in the Federal Register;
- Purchased the hardware and software necessary to establish the HCDW within the OIG's IT framework;
- Started using an interim HCDW environment which was established by the OIG. The interim environment will be used until the hardware and software associated with the actual data warehouse is configured and implemented; and,
- Continued to develop 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 FEHBP.

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 continue to be a major contributor to the rapid growth in health care costs, with drugs now accounting for about 30 percent of all FEHBP costs. Of continuing 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. Consequently, the PBM contracts in effect for contract years 2010 and prior 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. However, all PBM contracts that become effective after contract year 2010 will be required to meet the transparency standards outlined in FEHBP Carrier Letter #2010-04. Specifically, these standards require:

- 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 OIG.

To encourage cost savings, OPM's CY 2012 FEHBP benefit and rate call letter outlined an expectation for all carriers to expand their programs to provide benefits for appropriate substitutions for higher-cost drugs such as lower or no copayments for generic drugs and clinically appropriate therapeutic alternatives. Carriers were also encouraged to develop programs aimed at managing the cost and use of specialty drugs. Overall, OPM expected carriers to implement prescription drug programs to reduce their CY 2012 pharmacy spending by four percent without shifting costs to enrollees.

OPM is also requiring carriers to submit information on their current pharmacy costs and current drug benefits. This information will be used to compare pharmacy costs per enrollee, across plans, and for the program as a whole with the intent of ensuring the FEHBP remains competitive.

While these short-term measures should have a positive impact on the program, OPM, through its PBM working group, continues to assess potential long term initiatives to further reduce prescription drug costs, as well as strengthen the controls and oversight of the FEHBP pharmacy benefits. The importance of this effort was highlighted in "The President's Plan for Economic Growth and Deficit Reduction," dated September 2011. The President's plan calls for the streamlining of the FEHBP pharmacy benefit contracting. Under the Administration's proposal, OPM would contract directly for pharmacy benefit management services on behalf of all FEHBP enrollees and their dependents versus the current process where each carrier negotiates its own PBM contract. This change will allow the FEHBP to more efficiently leverage its purchasing power to obtain a better deal for enrollees and taxpayers. According to the President's plan, this proposal would save $1.6 billion over 10 years.

Since current legislation prohibits OPM from contracting directly with PBMs, OPM is pursuing statutory authority language changes, which will seek to amend the current FEHBP law to permit OPM to contract directly with PBMs. As an interim step, OPM is planning to issue a request for information (RFI) with the primary objective of identifying a preferred PBM vendor, which can demonstrate cost savings, price transparency, and a breadth of clinical management programs for the FEHBP. Once identified, the selected PBM vendor will be considered the pharmacy administration preferred arrangement for management and delivery of the

FEHBP pharmacy benefits that should be utilized by the carriers. Should the carriers want to extend the contract with their PBM, they will be required to demonstrate a better overall value than that presented by the preferred PBM identified through this RFI. The best value will be determined by OPM and will include both quantitative and qualitative attributes.

An overarching component of this challenge is for OPM is to ensure that the changes do not adversely impact FEHBP enrollees' health and safety while realizing true program savings.

3. Tribal Healthcare – FEHBP Participation

The ACA also 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. This access to Federal insurance provides a new option for many tribes to purchase coverage for employees who might otherwise have difficulty accessing affordable insurance coverage in the private market.

Implementation of the ACA presents a unique set of challenges for OPM. From a policy perspective, OPM must determine the:

- Scope of coverage;
- Employer and employee contributions to premiums;
- Process by which the tribes will elect to participate in these programs;
- Process by which employees will elect coverage; and,
- Circumstances for termination of coverage.

Operationally, OPM must develop and implement:

- Technical requirements for enrollment, billing, and premium collection functions;
- Outreach program and communication plan for up to 600 individual tribal organizations; and,
- Educational materials informing potential enrollees of program benefits.

To date, OPM has established a policy and technical team to implement ACA's provision allowing tribes and tribal organizations to purchase FEHBP coverage for their employees. OPM is working with the Department of Health and Human Services (HHS), the Indian Health Service (IHS), and the Bureau of Indian Affairs (BIA) to understand the needs of Tribal communities to assure effective implementation. These efforts include several letters to tribal leaders to gather information on their interest in participating in the FEHBP and to provide them with a high level understanding of OPM's implementation plan. For example, OPM is coordinating regional consultation sessions, which will allow OPM staff members to consult with Tribal representatives about issues related to the process through which Tribal employees will be able to access FEHBP coverage. OPM staff members have also attended several tribal meetings to initiate the consultation process. To supplement this process, OPM has created a webpage that allows for real time updates and information regarding the implementation of this ACA provision.

It is evident that OPM is committed to offering Indian Tribes, Tribal organizations, and urban Indian organizations streamlined access to comprehensive healthcare coverage through the FEHBP. However, it is also clear that it will take a strong partnership between the Tribes, Tribal organizations, urban Indian organizations, HHS, IHS, BIA, and OPM for the implementation to be successful.

B. National Healthcare Operations

1. Multi-State Plan

Under ACA, OPM has been designated as the agency responsible for implementing and overseeing the multi-state plan options. In accordance with the ACA, at least two multi-state plans will be offered on each state health insurance exchange beginning in 2014. Multi-state plans (MSP) 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.

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 ACA does not specifically fund OPM for its new healthcare responsibilities. In addition, ACA mandates that resources essential to the management of the FEHBP cannot be used to start up the new program.

OPM received limited FY 2011 and FY 2012 funding from HHS. With these funds, OPM established policy and operational teams to review program and policy issues related to implementing the MSP Program, as well as provided analytical support for the MSP Program.

However, full funding beyond FY 2012 is a significant challenge for the agency, as well as for the OIG, who is charged with program oversight responsibilities. Without appropriate resources, OPM will not be able to support these new activities.

2. Pre-Existing Condition Insurance Plan

As part of ACA, HHS was required to develop and implement PCIP within 120 days of enactment. 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.

Because of OPM's experience in administering the FEHBP, HHS requested that OPM design and implement the PCIP as required by ACA. OPM administers the program through an inter-agency agreement with HHS. On January 1, 2011, OPM successfully introduced three additional plans from which PCIP participants can choose. These three plans include: Standard, Extended, and a plan that features a health savings account. Additionally, OPM conducted an open season for PCIP enrollees to choose a health plan. Also, OPM worked with the HHS Centers for Medicare & Medicaid Services to establish lower PCIP premiums in January 2011 and again in July 2011. Lastly, OPM facilitated outreach efforts to help increase PCIP enrollment.

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. 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.

Twelve OPM and contractor background investigators and two contractor record searchers have been criminally convicted since 2007. The twelve background investigators 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 two contract record searchers were convicted of documenting record checks that were never conducted.

In addition to the convictions of background investigators, in FY 2011 a Federal employee was convicted after an OIG investigation revealed that he made false statements to a FIS background investigator in order to obtain his job as a police officer. He was not eligible for the position due to a prior felony conviction. Not only did he lie about receiving various military awards, he also told the FIS background investigator that he was serving in Afghanistan and Iraq during the time period when he was actually incarcerated in a military prison.

As of the date of this memorandum, the OIG has approximately 32 open cases, at various stages of investigation, which involve FIS employees and/or FIS contractors. The OIG is monitoring an additional six cases currently under review by FIS Integrity Assurance.

FIS has an effective system of integrity assurance internal controls and works cooperatively with the OIG to bring offenders to justice. However, any fraud in background investigation reports is unacceptable from a national security perspective, so this issue requires continued close attention by OPM management and by the OIG. For the second year in a row, the OIG has identified a material weakness within its own office related to the funding limitations of the OIG to perform Revolving Fund oversight work, to include audits and investigations of FIS activities.

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.

In our FY 2010 Top Management Challenges memorandum, we cited three examples of system development projects that supported GAO's concerns in varying degrees: the Retirement System Modernization (RSM) Program, the Consolidated Business Information System (CBIS), and the Service Credit System. Throughout FY 2011, OPM officials have been working hard to correct known weaknesses in these three projects. OPM closed the RSM program management office and adopted a more agile, modular development approach to modernization efforts that have now gone on for 24 years. The CBIS project team focused on resolving issues that were identified during the initial operational period. It has established functional working groups and has placed a renewed emphasis on stakeholder management. The Office of the Chief Financial Officer has reported significant progress in resolving all user and system issues. This was accomplished through a dedicated effort by project management staff and end users. During the period, the Service Credit System implemented a more systematic project management approach, better change management and separation of duties, improved development, and a more rigorous testing process.

We recognize that at this point these projects are past the development stage. However, one of the consequences of system development issues is the increased costs of working through them after implementation. Identifying and resolving issues is less costly and disruptive to users if done prior to implementation. The execution of a comprehensive and disciplined information development process will minimize post-implementation issues and their associated costs.

For the future, OPM should concentrate on lessons learned from these projects and ensure that disciplined processes in the functional system development areas are in place before embarking on new major system development projects. The inherent complexities of system development efforts will make this a continued management challenge for the agency.

2. INFORMATION SECURITY GOVERNANCE

OPM relies on IT 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, we have reported increasing concerns about the state of the agency's information security governance. In May 2009 we 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).

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.

The root cause of these issues is poor information security governance, as described above, but also the Office of the Chief Information Officer's (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, do not have the expertise to properly manage 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.

In FY 2011, the OCIO made good progress in updating its IT security and privacy policies, procedures, and guidance, a permanent SAISO has been at work for over one year, and the IT security staff has been strengthened. However, the decentralized IT security structure is still in place. The OCIO directions for program office DSOs to conduct required annual security controls tests and contingency plan tests were simply ignored, and these critical elements of good IT security were not done for the majority of OPM systems. Clearly, the OCIO has limited authority over the DSO community.

Our understanding is that most program offices have rejected the proposal to consolidate DSOs under the OCIO, apparently for political and budgetary reasons. A compromise proposal to consolidate only DSOs for high-risk systems under the OCIO seemed to be acceptable, but gained no traction in FY 2011. We continue to recommend that the OPM Director provide adequate resources for the OCIO to develop a staff of professional DSOs to manage IT security for OPM systems.

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

During the audit of OPM's FY 2011 financial statements, the auditors noted that deficiencies continue to exist in the operation of the Office of the Chief Financial Officer's (OCFO) internal controls over financial management and reporting, affecting the accuracy of the Revolving Fund (RF) and Salaries and Expenses (S&E) Accounts. These deficiencies are attributed to:

- 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,
- 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 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.

4. IMPROVING INTERNAL CONTROLS OVER OPM'S HUMAN RESOURCES SOLUTIONS VENDOR MANAGEMENT BRANCH OPERATIONS

Developing and implementing strong internal control procedures over OPM's Human Resources Solutions (HRS) Intergovernmental fund, which provides services to other Federal agencies, has become a top management challenge during FY 2011. OPM's Vendor Management Branch (VMB) provides assisted acquisition services in addition to hands-on project management through the use of competitive fixed-price task orders. During FY 2011, it was determined that the VMB was operating under inaccurate guidance concerning the legally permissible periods for funds used in support of its interagency agreements (IAA). VMB operated under the assumption that agency funds received by OPM converted to no-year funding, despite a September 28, 2009 opinion from OPM's Office of General Counsel (OGC) to the then head of the VMB senior management team. The opinion, noted that "...funds advanced by a customer agency to OPM's RF do not become so called 'no-year money.'"

In response to the identified problem, the Director of OPM established a team of staff from HRS and the OCFO to analyze 809 open IAA/projects that were affected by VMB's inaccurate assumptions. A forensic accounting firm was also hired to assist in the analysis. OPM has expended a large amount of personnel and budgetary resources to address the problem within this RF activity. To further address the issues in HRS, the Director made several senior management changes. A new Associate Director and Deputy Associate Director were named to help strengthen the VMB's internal control procedures. During the third and fourth quarters of FY 2011, the new management team made a number of improvements within the VMB. All VMB staff has received appropriations law training, new policies and procedures have been developed for the IAA process, and VMB staff is receiving training on the new policies and procedures.

The challenge for the new management team will be to effectively implement the new internal control procedures while maintaining the high level of service that VMB has provided its customer agencies in the past.

5. STOPPING THE FLOW OF IMPROPER PAYMENTS

Over the last few years, the subject of improper payments by Federal agencies has received increasing attention from elected officials. The Administration and Congress have determined that the amount of improper payments Government-wide is unacceptable. In FY 2010, OMB identified OPM's *Civil Service Retirement and Disability Fund* (CSRDF) as being susceptible to significant improper payments. The CSRDF paid out on average $120 million in improper payments annually in the last five years to deceased annuitants and survivors.

The Administration and Congress have recently taken steps to reduce wasteful spending and streamline Government processes, including the *Improper Payments Elimination and Recovery Act* (IPERA), signed into law by the President on July 22, 2010. IPERA is designed to cut waste, fraud, and abuse by Federal Government agencies due to improper payments. Agencies shall report on improper payments and progress in reducing them in their annual *Agency Financial Report* and *Performance and Accountability Report*. Agencies shall discuss the causes of the improper payments, actions planned or taken, and the results of the actions taken to address those causes.

A report on improper payments to deceased annuitants from the CSRDF was issued by our office on September 14, 2011. Through a working group of members from our office, OPM's Retirement Services, Retirement Policy, and the OCFO, progress has been made to identify ways to minimize improper payments. Through the working group, Retirement Services and the OCFO have implemented 10 of the 14 recommendations that improve internal controls and help reduce improper payments. However, four recommendations still need attention. They are:

- Tracking Undeliverable IRS Form 1099Rs;
- Establishing a Working Group to Improve Program Integrity;
- Capitalizing on Technology; and,
- Recovering Funds Escheated to the States.

Even though OMB has not placed the CSRDF in the high risk category (because its improper payments fall below 2.5 percent of the fund's total disbursements), OPM must pursue aggressive and effective strategies for the integrity of the CSRDF, especially for the sake of the taxpayer.

6. OVERHAUL OF RETIREMENT CLAIMS PROCESSING

The timely issuance of full annuity payments to annuitants has been a long-standing challenge for OPM. Processing the retirement claims of Federal employees is a mission-critical OPM program. With the closure of the RSM project, OPM is now challenged with overhauling the retirement claims process to better serve the Federal retirees, employees, and its customer agencies.

With a backlog of retirement cases pending adjudication and 125 days on average to process a retirement claim, OPM is clearly challenged with finding new ways to get annuitants their payment faster and with more accuracy. Currently OPM must issue annuitants an interim partial payment upon retiring, representing a portion of the estimated final benefit. Only when OPM receives all retirement records from the employing agency is a final benefit payment determined.

Since the failed implementation of "RetireEZ" in FY 2009, several key outcomes were accomplished that will assist in overhauling retirement claims processing:

- Established a secure retirement data warehouse;
- Imaged 10 million retirement records for over 1 million Federal employees;
- Developed a retirement data standard for Federal agencies to share a single set of retirement information across the government;
- Implemented standard electronic data feeds for 35 percent of Federal Government employees; and,
- Extended the current OPM retirement calculator to Federal agencies.

With missing documentation being one of OPM's major challenges to overcome in retirement claims processing, the above outcomes should help improve the timeliness and accuracy of the initial benefit payment to annuitants.

Retirement claims are expected to increase over the next several years and it is important that OPM meets the challenge of overhauling the retirement claims process to better serve the Federal workforce.

Agency Response

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Chief Financial Officer

Agency Response

November 3, 2011

MEMORANDUM FOR PATRICK E. MCFARLAND
Inspector General

FROM: Stephen Agostini Stephen J. Agostini 11.3.11
Chief Financial Officer

SUBJECT: Agency Comments to 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 of OPM. Completely addressing these Management Challenges will take years, but as you know, we have plans to address each challenge, every 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 the 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

On October 27, 2010, OPM's Office of the Inspector General (OIG) identified and reported to the Director the most serious management challenges facing the Agency in FY 2011. Below is additional information for the identified environment and internal challenges.

ENVIRONMENT CHALLENGES

1. STRATEGIC HUMAN CAPITAL

The Government Accountability Office (GAO) first designated the strategic management of human capital as a high risk area in fiscal year (FY) 2001 for the entire Federal Government and it remains on the GAO high risk list. Moreover, GAO has stated that critical skill gaps within the Federal workforce must be addressed to mitigate this risk. In acknowledgement of this critical challenge, the Chief Human Capital Officer Council (CHCOC), in collaboration with OPM, has established a working group to address and resolve this issue. One strategy to filling skill or workforce gaps is to hire new talent. Historically, there has been broad agreement that the Federal hiring process was a barrier to recruiting and hiring highly qualified employees in a timely manner.

OPM has addressed this challenge by achieving the following goals established in the hiring reform initiative: 1) Promoting innovative, integrated and well-coordinated approaches to recruiting and hiring students, mid-career professionals and retirees to meet agency talent needs; 2) Streamlining the hiring process to create a positive experience for applicants, managers and Human Resource (HR) specialists; 3) Improving USAJOBS and integrating other components of the on-line hiring system to create a world-class experience for job seekers and agency recruiters; 4) Providing tools, training and technical assistance to HR officials and agency hiring managers so that they better understand the current approaches, principles and concepts associated with Federal hiring; 5) Conducting outreach and training through human capital officers and Federal executive boards to enable agencies to implement the new hiring requirements; and, 6) Promoting efficiency and effectiveness in hiring practices and processes compliant with merit principles and other mandates as required.

2. FEDERAL HEALTH INSURANCE INITIATIVES

A. Federal Employees Health Benefits Program

As the administrator of the Federal Employees Health Benefits Plan (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.

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.

2. Prescription Drug Benefits Costs

The Federal Employees Health Benefits Plan continued working towards reducing prescription drug costs. One of our largest FEHB Plans continued to enhance its pharmacy programs through its generic incentives, medication therapy management (Pcare program), Member Quality Assurance (MQA) program enhancements, placement of Prior Approval Status on the Web, risk alerts and a Medicare Part D project. These programs enhanced member engagement and improved the cost curve. Improving the generic drug dispensing rate through the pharmacy benefit management (PBM) program generated more than $500 million in savings in 2010.

OPM continued working with Plans to implement Generic Initiatives which increase program savings. The Plan was able to increase our generic dispensing rate (GDR), in both the Mail Order (56.5 percent in 2010) and Retail Pharmacy Programs (70.1 percent in 2010). This was achieved through several programs including the Generic Incentive Program (GIP), Incentivize Member Behavior, Member Communication/Education, and a Generic Dispensing Rate – Pilot Plan. Generic Dispensing Rates from 2008-April 2011 have increased steadily as a result of these efforts resulting in significant savings to the Program and the member.

3. Tribal Healthcare – FEHBP Participation

OPM provided overall policy and analytical support for the Tribal Project as well as established an OPM policy and technical team to implement a program that will allow tribes and tribal organizations to purchase FEHBP coverage for their employees. In addition, the Agency conducted outreach to tribes and tribal organizations through letters, conference calls and onsite meetings to obtain input on program implementation. OPM also created a tribal webpage on the OPM website to make program and policy information available to tribes and tribal organizations.

B. National Healthcare Operations

1. Multi-State Plan

OPM established policy and operational teams to review program and policy issues related to implementing the multi-state Plan Program as well as provided policy and analytical support for the Multi-State Plan Program. In additional, OPM established a policy and technical team to implement a program to allow tribes and tribal organizations to purchase FEHBP coverage for their employees.

2. Pre-Existing Condition Insurance Plan

As part of the Patient Protection and Affordable Care Act (ACA), The Department of Health and Human Services (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.

Because of OPM's experience in administering the FEHBP, HHS requested OPM design and implement the PCIP as required by ACA. OPM administers the program through an inter-agency agreement with HHS. On January 1, 2011, OPM successfully introduced two additional plans for PCIP participants to choose from. These three plans include: Standard, Extended and a plan that features a Health Savings Account. Additionally, OPM conducted Open Season for PCIP enrollees to choose a health plan. Also, OPM worked with CMS to establish lower PCIP premiums in January 2011 and again in July 2011. Lastly, OPM facilitated outreach efforts to help increase PCIP enrollment.

3. 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.

As noted by OPM's Office of the Inspector General (OIG), "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." FIS appreciates the recognition of its ongoing efforts and continues to make both the detection and prevention of such misconduct a top priority.

FIS' Quality and Integrity Assurance (QIA) staff continues to work closely with OPM's OIG and the US Attorney's Office in Washington, DC, to present confirmed cases of investigative falsification. Last fiscal year, FIS and the OIG signed a Memorandum of Understanding (MOU) regarding referral guidelines involving FIS cases of possible interest to the OIG. FIS continues to operate under this MOU and provides regular updates to OIG regarding cases of both possible and confirmed falsification. The MOU and FIS' ongoing efforts to work with OIG demonstrate the joint efforts of both parties in working toward the common goal of eradicating investigative falsification.

In addition to the ongoing successful referral and subsequent prosecution of confirmed cases involving investigative falsification, FIS continues to work with both OIG and other entities both internal and external to OPM regarding ways to collectively deter and detect falsification of investigative work involving background investigations. FIS has met with other providers of background investigations within the Federal Government to discuss the issue of investigator falsification and has been working to develop joint initiatives. Internally within FIS, we continue to provide all staff with ongoing awareness and training regarding cases investigated by FIS QIA and the associated rules and regulations, both as they relate to falsification and general misconduct.

INTERNAL CHALLENGES

1. INFORMATION SYSTEM DEVELOPMENT

During FY 2011, OPM had an extremely successful year-end close. This close, which was supplemented by the mid-year "soft close" enabled the Agency to effectively manage all of its resources and generated significant confidence in the Consolidated Business Information System (CBIS) financial management tool. OPM implemented several performance metrics and targets to ensure its program offices properly monitored the status of transactions impacting budgetary resources. This enabled the Agency to provide oversight and supporting reports confirming all commitments and obligations were thoroughly reviewed and remediated to prevent a lapse in budgetary resources. Also, CBIS workshops were initiated to assist users with routine and complex processing issues. These activities are being continued in FY 2012 along with increased metrics tracking to provide continued snapshots on CBIS program activity and to support end-user transactional processing.

During FY 2011, CBIS's thirty-eight power users attended base layer training in which Inficare facilitated through Oracle University. This training focused on Oracle foundational elements and remediation activity for OPM's soft close. Subsequent, training needs analysis interviews were conducted on-site with trainers, power users and those that attended training. The training needs analysis document was submitted on June 27, 2011. Future workshops are planned during FY 2012 to enhance user performance in CBIS.

In the Office of Management and Budget's (OMB) High Priority Program review, OMB determined that the Retirement System Modernization (RSM) program goals were geared toward implementation of a large scale, end-to-end software solution. That type of long-term, large-scale effort no longer meets OPM's needs. OMB recommended that OPM move from traditional development methodologies to agile, modular approaches, breaking projects into manageable phases and delivering functionality every few quarters rather than every few years.

2. INFORMATION SECURITY GOVERNANCE

The FY 2010 Federal Information Security Management Act (FISMA) report highlighted the fact that OPM had operated without a permanent Senior Agency Information Security Officer (SAISO) for over 18 months and that the SAISO's Information Technology Security and Privacy Group (ITSPG) did not have the resources necessary to adequately manage OPM's IT security program.

The Office of the Chief Information Officer (OCFO) had a permanent SAISO throughout FY 2011 and also hired several new employees and contractors to work in the ITSPG. However, the quantity and variety of audit recommendations throughout this report indicates that the OCIO continues to lack the resources necessary to remediate long standing IT security weaknesses and fully implement the recently developed policies and procedures. In addition, 18 audit recommendations from FY

2010 were not adequately addressed in FY 2011. We believe that a major factor contributing to these problems is the OCIO's lack of direct authority over the Designated Security Officer (DSO) community tasked with managing the security of OPM's major information systems.

OPM chose to implement a decentralized model in which the DSOs are typically appointed by and report to the program offices that own major computer systems. Few the DSOs have a background in information security, and most are only managing their security responsibilities as a collateral duty to their primary job function. The OCIO continues to provide guidance to the DSO community through monthly Information Technology Security Working Group (ITSWG) meetings. However, these meetings provide limited benefit because 1) the OCIO has no authority over the DSOs and cannot mandate their attendance at the ITSWG meetings, and 2) not all DSOs have the technological skills or the resources required to implement the security concepts discussed at these meetings.

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

While we acknowledge deficiencies continue to exist in the operation of the CFO internal controls over financial management and reporting, affecting the accuracy of the Revolving Fund (RF) and Salaries and Expenses (S&E) Accounts, we are developing corrective actions that will address these issues.

As discussed under "Information System Development", the overall efforts made to improve the financial system and processes will support the improvements to internal controls, revolving fund and salaries and expenses accounts.

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
IT Security Governance	1	0	0	0	1
Total Material Weaknesses	1	0	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
IT Security Governance	1	0	0	0	0	1
Total Material Weaknesses	1	0	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
IT Security Program Governance	1	0	0	0	0	1
Oversight of Revolving Fund	1	0	0	0	0	1
Total Material Weaknesses	2	0	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 Office of Management and Budget (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 2011 are $235.9 million in retirement benefits, $151.7 million in health benefits, $.5 million in life insurance benefits, and $10.8 million in background investigations for a total of $398.9 million dollars.

In 2010, Congress enacted the Improper Payments Elimination and Recovery Act of 2010 (IPERA) (Public Law 111-204). The Act requires agencies to perform risk assessments on all programs and activities in 2011, and at least once every three years afterwards. Additionally, agencies must perform Payment Recapture Audits (PRAs) on all agency programs and activities that expend $1 million or more annually so long as the PRA is cost effective. The agency must report improper payments in its annual Performance & Accountability Report (PAR) or the Agency Financial Report (AFR), which the agency's Inspector General (IG) will use to determine if the agency is in compliance with IPERA.

As required by IPERA and OMB Memorandum 11-16 (M-11-16), issued April 14, 2011, OPM is conducting a risk assessment for vendor payments made under its Salaries and Expenses (S&E) and Revolving Fund (RF) programs (other than Background Investigations which is already being reported as susceptible to improper payments). OPM S&E and RF programs all follow a similar procure to pay process in OPM's Consolidated Business Information System (CBIS) for payments to contractors providing goods and services to OPM. Annual payments to contractors under those programs in FY 2011 were approximately $730 million. OPM has assessed the qualitative factors set forth in IPERA and the OMB M-11-16 and believes that there is some risk that vendor payments may be improper. OPM is currently supplementing its qualitative assessment with a random sample to develop a more precise estimate of improper payments (both dollars and rate). This quantitative estimate will comply with M-11-16 and will allow OPM to determine if improper vendor payments exceed the reporting thresholds. The threshold for reporting programs as susceptible to improper payments is an improper payments dollar rate of 2.5 percent and $10 million in estimated improper payments, or a total of $100 million in improper payments. The improper payments rate will decrease to 1.5 percent beginning in FY 2013. OPM should be able to complete its risk assessment in early FY 2012.

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 RF and S&E appropriations conducted in FY 2008. OPM has developed an improper payments plan and reports detailed improper payment rates and targets.

Retirement Program

The Retirement Program (RP) paid over $69,792 million per year in defined pension benefits to Federal retirees, survivors, representative payees, and families during FY 2011. The Program is comprised of the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), which pay monthly annuities to eligible retired employees. Eligible retirees and survivors generally receive monthly benefits, but in some cases, an applicant receives a lump sum payment.

Eligible employees who leave Federal service before qualifying for retirement may request that their contributions be returned to them in a lump-sum refund payment. CSRS contributions may be redeposited upon reemployment in Federal service. Individuals employed under FERS on or after October 28, 2009, may also make a redeposit of a prior FERS refund.

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 $34 billion on behalf of the HBP, and the HBP paid $6.5 billion in premiums to CRCs.

Life Insurance Program

The Federal Employees' Group Life Insurance Program (FEGLI) provided life insurance benefits of $2,582 million in FY 2011 to 92,366 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 1.3 million investigation cases through the first three quarters of FY 2011. OPM uses Federal 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 FY 2011 were $695 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 elctronically 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); FISD'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 summarized 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. For FYs 2010 and 2011, OPM's Consolidated Business Information System (CBIS) processed cases directly via an interface from PIPS. This process improvement has simplified the payment process and reduced the risk of improper payments for the Background Investigations program.

Improper Payment Sampling

Retirement Program

Since FY 2007, OPM has 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). A contract statistician stratifies the sample to adequately assess each type for Improper Payments and Civil Service Retirement and Disability Fund (CSRSDF) impact. OPM reviews retirement and survivor cases using statistically valid samples across each month of the fiscal year leading up to the audit itself.

Each fiscal year, a total of seven months' worth of audited claims calculations are used to determine the Retirement Program's improper payment rate. By using several months worth of data, OPM increases the reliability of the results and tightens the improper payment estimate range, which is inherent in sampling large disbursements. This methodology helps to minimize variability and potential errors correlated to anomalies within sample months selected, since several months are represented.

OPM continuously samples a similar number of cases from each of the four retirement categories each month (i.e., 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 or 840 claims in the seven months used for each year's Extended Benefits Testing). The auditor samples from these results, and the OIG performs further sub-sampling. This sampling maximizes our confidence in the methodology. Projections are based on a 95 percent confidence interval that the size of the improper payments estimated falls between the upper and lower limits identified. Retirement Program management use the information gained through these "rolling" reviews for staffing, training, and internal control decisions.

Health Benefits Program

As it did for FY 2010, 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 2011 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 (Autocert) process has taken the place of hard-copy certification for most deceased annuitants. This was the third 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 2011, with over 99.91 percent of accounts being accurately paid, and over 99.99 percent of dollars being accurately disbursed.

To more fully represent the FEGLI disbursement in its entirety, OPM expanded its analysis to include non-annuitants (deceased employees). OPM developed a match for this group of payments comparable to the annuitant paid-claims match beginning with the fourth quarter of FY 2006. Although significant progress has been made in adding non-annuitant payments to the Improper Payment review, several challenges have been encountered using the Central Personnel Data File (CPDF) as the 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 e-OPF (e-Official Personnel File) 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.

OPM conducts a match comparing CPDF data against MetLife payments for portions of FY 2006-2011. 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 2011 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 FYs 2009 and 2010. OPM has previously analyzed quarterly trends in the number of closed cases for prior years, and based on those reviews believes that the first 9 months of the year was 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 (1.3 million closed cases from October 1, 2010 through June 30, 2011) and a degree of confidence that the results of the analysis would be sufficient to represent the entire population (90 percent degree of confidence that the cost of errors measured in the sample set would be within plus or minus 2.5 percent of that result in the entire population). Based on that universe and degree of confidence, the sample set was calculated at a total of 1,348 closed cases. OPM further stratified the sample set of 1,348 case types by 11 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. The sample selection excluded 6 case types for which the volume of cases was less than 0.05 percent of the total population.

For each closed case in the sample, OPM reviewed up to three separate payment categories types generated in the 1,348 cases selected: (a) payments made to support contractors for scheduling cases in the Personnel Investigative Processing System (PIPS) and associated tasks (1,330 payments), (b) payments made to contractors for conducting investigative fieldwork (1,112 payments), and (c) payments to contractors to conduct reviews of completeness of field work for completed cases (357 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

All errors are deemed 100 percent administrative. The following are the principal causes for improper payments in the Program (in order of estimated frequency):

1) Delayed reporting (or no reporting) of change in status (death, marriage, restored to earning capacity, reemployment, etc.) furnished by beneficiaries or family members that result in a different (or no) benefit payment. OPM is reliant on beneficiaries and other sources to learn of status changes.
2) Inaccurate and/or incomplete information provided to OPM by former employing agencies. For example, the retiree's annuity calculation may be incorrect if the former employing agency did not provide OPM with the employee's complete Federal service history.
3) Unauthorized dual benefit payments.
4) Adjudication errors by OPM employees.
5) Delays by OPM in the processing of post-adjudication changes or adjustments, which

annuitants or other eligible benefits recipients had requested in a timely manner.

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 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 (RP) (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 Improper Payments

On September 14, 2011, the OPM Office of the Inspector General (OIG) Issued a report entitled "Stopping Annuity Payments to Deceased Annuitants." The document reemphasized the IG's concerns that sufficient funds and resources be focused on stopping the flow of improper payments from the CSRSDF. The document also reported on the status of recommendations made in the original July 2005 OIG paper and the January 2008 follow-up paper. Since 2005, RP has worked with the IG to close 10 out of the 14 recommendations and Director Berry has tasked a senior leadership team consisting of the head of Retirement Services, the Chief Operating Officer, the CFO, and the head of Internal Oversight and Compliance to help oversee the remediation of improper payments to deceased annuitants. These efforts should help RP's ability to further reduce improper payments.

OPM is committed to improving its ability to serve the public and Federal retirees by identifying and preventing improper payments. The following are steps OPM takes to reduce the occurrence of improper payments:

- OPM surveys certain benefit recipients directly on an annual basis to verify that they continue to meet eligibility requirements (e.g., OPM requires disability retirees to report annual income).

- OPM administers a weekly active data-matching program with the Social Security Administration (SSA) to identify deceased annuitants. OPM also matches the annuity roll against data from the Internal Revenue Service (IRS) and Department of Veterans Affairs (DVA).
- OPM investigates tips from outside individuals (e.g., family, friends, coworkers), who inform OPM of annuitant deaths or potential disability fraud. OPM then investigates these reports using online public databases, such as LexisNexis, or by requesting medical records.
- OPM continues to explore alternate methods that would allow the agency to evaluate in a more timely manner when an annuitant's eligibility for benefits has changed. For example:
    - OPM recently performed a review of a portion of the annuity roll population that is age 90 or older.
    - OPM is currently performing an explorative effort to determine the reasons behind returned 1099Rs mailed to the entire population.
- In addition, OPM continues to pursue cost-effective methods to inform the recipients of benefits of the events that have the potential to affect their retirement benefits. For example:
    - OPM redesigned communications including annual notices, web pages, and confirmation letters to improve the timeliness of death notification.
    - OPM developed online videos that inform customers of which changes require that they contact the Agency and how to do so.
- OPM supports implementation of the proposed, government-wide "Do Not Pay List" to help agencies mitigate the occurrence of improper payments to ineligible recipients.

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 State, the U.S. Treasury and the Federal Reserve.

The project begun in the Philippines was so successful, we expanded it to other selected countries in Asia for 2011/2012. It is concentrating on verifying annuitants are still alive and increasing Electronic Funds Transfer (EFT) enrollments which has resulted in:

- Annual Savings to the retirement fund from dropping deceased annuitants
- Annual savings to the Retirement Program fund from increased EFT enrollments—$62,244.

The effort also included intangible benefits:

- established a reputation that OPM will be checking on unreported deaths
- strengthened our relationship with SSA staff who perform 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.

International Direct Deposit

OPM is also working to expand its International direct deposit program, known as International Treasury Services (ITS). OPM now services Panama, Germany, Canada, Japan, France, Italy, the United Kingdom, Spain, and Ireland, and are working on adding Greece to ITS. Currently, there are two methods 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 utilize 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 RP is committed to further strengthening internal controls to guard against waste, fraud, abuse and mismanagement of taxpayer resources. RP maintains a close working relationship with the Office of the Chief Financial Officer (OCFO) and the 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 OIG and RP. 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 RP currently performs. In FY 2011, OPM's recurring death data-matching activities identified more than $52 million in overpayments and prevented an additional $14 million from being overpaid (calculated saving 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, RP limits exposure to IPs and save processing costs, plus leverage talent to save administrative costs.

RP 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. RP is committed to implementing sound recommendations that will strengthen the internal controls and increase the level of service to our customers.

Background Investigations Program

OPM's FY 2011 review found total estimated improper payments of approximately $10.8 million. This consisted of estimated improper support payments of $834,708, estimated improper investigative payments of $9,465,335, and improper review payments of $478,773. The major cause of the estimated improper payments was OPM additional review that found case closures as unacceptable for various reasons including missing documentation or other administrative errors. Therefore, OPM places all estimated improper payments for Background Investigations in the category of Administrative and Documentation errors as set forth in OMB guidance.

Table 12—Overpayments Recaptured Outside of Payment Recapture Audits

Source of Recovery: OPM Fund/ Program	FY 2011 IP Amount Identified for Recovery (in Millions)	FY 2011 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 2011 (in Millions)	Cumulative Amounts Recovered In Prior Years + FY 2011 (in Millions)
Retirement	$176.5	$160.4	$913.7	$746.4	$1,090.2	$906.8
FEHB	$151.7	$150.8	$278.9	$209.0	$430.6	$359.8
Life Insurance	$1.91	$.62	$15.41	$11.68	$17.32	$12.3
Background Investigations	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0

Notes: Annuitant IP amounts through August 2011, projected through September; Non-annuitants (Executive only) through Q1 FY 2012. Number of extrapolated and subject to adjustment once OFEGLI FY 2011 audit is completed.

Background Investigation payments identified through statistical sampling are below the rounding levels required in this table.

The total estimated improper payments for the Background Investigations program has been significantly reduced over the past few years, from $28.1 million in FY 2009 to $12.3 million in FY 2010, and $10.8 million in FY 2011. These reductions are due to actions taken by FIS to address improper payments including developing improved policies and procedures, strengthening its quality assurance program for background investigations, and improving its daily reconciliations process. As previously noted the transition to a direct interface from PIPS to CBIS has also led to the reduction in OPM's opinion.

Barriers to Reducing Improper Payments

Retirement Program

Once OPM learns of the death of an annuitant, it requests that the Treasury reclaim all posthumously-issued payments from the deceased's bank account. When there is insufficient money in the account, OPM 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 to 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.

OPM is pursuing legislative initiatives to address systemic improper payments in the Program, with respect to *FERS Disability:* The FERS law requires that individuals applying for FERS disability must also apply for Social Security disability benefits. Most FERS disability overpayments occur because the law prohibits payment of full, unreduced FERS disability annuity benefits and SSA disability

Table 13—Improper Payment Reduction Outlook

	2010 Outlays	2010 IPs	2010 IPs	2011 Outlays	2011 IPs	2011 IPs	2011 Overpayment	2011 Underpayment	2012 Outlays	2012 IPs	2012 IPs	2013 Outlays	20113 IPs	20113 IPs	2014 Outlays	2014 IPs	20114 IPs
	$ M	%	$ M	$ M	%	$ M	$ M	$ M	$ M	%	$ M	$ M	%	$ M	$ M	%	$ M
RETIREMENT																	
Total Program	68,834.0	0.35	237.6	69,792.4	0.34	235.9	183.6	52.3	70,764.1	0.34	240.6	71,749.4	0.33	236.6	72,748.4	0.32	232.8
HEALTH BENEFITS																	
All carriers	38,778.8	.15	59.4	40,493,0	.375	151.7	151.7	0.0	42,323.5	0.30	127.2	44,241.7	0.29	127.2	46,251.8	0.27	127.2
CRCs total	6425.4	0.03	1.7	6,471.4	.85	54.8	54.8	0.0	6,600.8	0.75	49.7	6,732.8	0.74	49.7	6,867.5	0.43	49.7
ERCs total	32,353.4	0.18	57.7	34,021.6	.28	96.9	96.9	0.0	35,722.7	0.22	77.5	37,508.8	0.21	77.5	39,384.3	0.24	77.5
LIFE INSURANCE																	
Total Program	2,596.7	0.04	1.0	2,582.3	0.04	0.5	0.3	0.2	2,618.3	0.04	1.1	2,654.8	0.04	1.1	2,691.7	0.04	0.9
Non-Annuitant	1,003.3	0.02	0.2	895.5	0.02	0.2	0.1	0.1	908	0.02	0.2	920.7	0.02	0.2	933.5	0.02	0.2
Annuitant only	1,593.4	0.05	0.8	1,686.8	0.02	0.3	0.2	0.1	1,710.3	0.05	0.9	1,734.1	0.05	0.9	1,758.2	0.04	0.7
REVOLVING FUND—BACKGROUND INVESTIGATIONS																	
Total Program	677.1	1.8	12.3	695.4	1.6	10.8	9.8	1.0	700.0	1.3	9.0	700.0	1.3	9.0	700.0	1.3	9.0
Support Contractors	83.3	.8	.7	91.1	.9	0.8	0.8	0.0	90.0	0.6	0.5	90.0	0.6	0.5	90.0	0.6	0.5
Investigative Contractors	589.2	1.9	11.0	601.1	1.6	9.5	8.5	1.0	600.0	1.3	8.0	600.0	1.3	8.0	600.0	1.3	8.0
Review Contractors	4.7	12.7	0.6	3.2	14.9	0.5	0.5	0.0	10.0	5.0	0.5	10.0	5.0	0.5	10.0	5.0	0.5

Notes: Due to rounding conventions, columns do not necessarily round to totals.
Annuitant IP actuals through August 2011, projected through September; Non-annuitants (Executive only) through Q1 FY 2012. All FEGLI data less Option C.
The non-annuitants are through Q2 of FY 2011. FY 10 Improper Payment Dollars and Rate have been revised since FY 10 AFR due to additional analysis of reported data.

benefits for the same period of time. Since FERS disability annuity benefits are usually approved well before Social Security determines an award, FERS annuitants can receive several months or years worth of full, unreduced benefits before Social Security approves disability benefits. After Social Security determines an award, it issues retroactive lump sum payments directly to the disabled individual. Social Security does not offset the value of the benefit by the amount of the FERS annuity overpayment caused by their full, retroactive awards to FERS annuitants. The annuitant then owes OPM for the cumulative amount of the reductions that should have been made to their FERS annuity. Currently, OPM seeks recovery of these overpayments via its "on-roll" and "off-roll" collection processes. Although FERS annuitants are notified of their obligation to repay their debt to the government, by the time OPM bills them, many recipients do not have the wherewithal to repay OPM. OPM is currently consulting with the SSA and OMB to reduce these overpayments.

Background Investigations Program

There are no barriers that have prevented FIS from reducing improper payments. As noted previously, FIS has made significant progress reducing improper payments over the past two years. Based on this progress, and in accordance with OMB's guidance, OPM will formally request that the Background Investigations program be removed from the list of susceptible programs for which OPM must annually report.

Accountability and Infrastructure for Improper Payments

OPM has historically placed major emphasis on preventing, identifying and recovering improper payments in the earned benefit trust fund programs: Retirement, Health Benefits and Life Insurance. As noted in this report and in prior years, OPM's improper payments rates for all three of those programs are below one-half percent. That improper payment rate is well below the current susceptibility rate identified by OMB (2.5 percent) and the future lower threshold beginning in FY 2013 (1.5 percent). Therefore, OPM believes it has adequate systems of internal control and information systems to meet current laws and regulations on improper payments. Nevertheless, as spelled out previously, OPM continues to strive to improve its systems and processes and will place additional emphasis on payment recapture efforts on these three major government-wide programs.

OPM has also been reporting for the past three years on its Background Investigations program due to its being identified by an OPM self-assessment as susceptible to improper payments. Improper payments have been much lower in FY 2010 and FY 2011 than originally identified in the risk assessment and in the initial year of full reporting (FY 2009). Specifically, the improper payments rate for this program has gone from an estimated 6.0 percent in FY 2009 to 1.8 percent in FY 2010 and to 1.6 percent in FY 2011. This improvement is indicative of the increased emphasis placed on controls in both FIS and the OCFO over the past 2 years and adoption of the new OPM financial management system which allowed for an improved interface with the program office's management information system.

In the past, the earned benefit trust fund program management office has been the lead for improper payments at OPM, and the OCFO has taken the lead for Background Investigations. With the increased emphasis from IPERA and the OMB guidance on the recapture of identified improper payments, the OCFO will be taking a larger role in OPM's improper payments beginning in FY 2012 and will work closely with the program offices and the OIG to improve our overall performance.

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 2011 and FY 2010. 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 $8.1 million via FMS cross servicing.

Table 14. Debt Management Activity

Retirement Program ($ in Millions)		
	FY 2011	FY 2010
Total receivables at beginning of year	$279.5	$270.6
New receivables and accruals	183.6	185.0
Less collections, adjustments, and amounts written-off	174.8	176.1
Total receivables at end of year	$288.3	$279.5
Total delinquent	$58.5	$49.5
Percent delinquent of total receivables	20.3%	17.7%
Health Benefits Program ($ in Millions)		
	FY 2011	FY 2010
Total receivables at beginning of year	$47.0	$67.9
New receivables and accruals	165.0	81.9
Less collections, adjustments, and amounts written-off	150.8	83.0
Total receivables at end of year	$61.2	$47.0
Total delinquent	59.9	38.0
Percent delinquent of total receivables	97.9%	80.9%

Travel and Purchase Card Usage

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

Table 15. Travel Card Usage

$ in Thousands	FY 2011	FY 2010
Outstanding Balance	$1,089.0	$1,012.1
Outstanding more than 61 days	$3.9	$19.1
% outstanding more than 61 days (OPM)	.01%	2.18%
% outstanding more than 61 days (Government wide)	4.95%	3.42%

Table 16. Purchase Cards

$ in Thousands	FY 2011	FY 2010
Outstanding Balance	$2,865.0	$3,725.0
Outstanding more than 61 days	$0.00	$0.00
% outstanding more than 61 days (OPM)	0.00%	0.00%
% outstanding more than 61 days (Government wide)	.28%	0.16%

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 Accredition
CFO	Chief Financial Officer
CFOC	Chief Financial Officer's Council
CFR	Code of Federal Regulations
CHCO	Chief Human Capital Officer
CIC	Capital Investment Committee
CLA	Congressional & Legislative Affairs
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
CSRS	Civil Service Retirement System
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
IO	International Operations
IP	Improper Payment
IPA	Independent Public Accounting (firm)
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
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
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 and 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 Judgment 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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