U.S. OFFICE OF PERSONNEL MANAGEMENT

Fiscal Year 2001

Performance and Accountability Report

Kay Coles James
Director

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A MESSAGE FROM THE DIRECTOR

I am pleased to present the U.S. Office of Personnel Management's *Performance and Accountability Report for Fiscal Year 2001.* Our report provides a thorough and complete discussion of our program and financial accomplishments during FY 2001, as well as our vision and plans for the future.

FY 2001 was a transition year for OPM. Through much of the year, the agency was fortunate to enjoy the sound and steady stewardship of Acting Director Steven R. Cohen, who paved the way for a smooth transition and continued to provide valued advice and counsel by remaining as senior advisor after my confirmation.

Our innovative new management team had only just come on board when we were met with the challenges of September 11th. I cannot say enough about the exemplary response of OPM employees and the entire Federal workforce. OPM staff promptly met the government's immediate needs for human resource information and emergency action planning. We provided special waivers and tools to allow agencies to bring in key personnel with the expertise needed to respond to the emergency. These actions often required long hours and extra dedication from our staff.

The unprecedented events of September 11th have refocused priorities and created a new sense of urgency for insuring that the American people are getting results from government. The men and women who make up the government's workforce are key. It is fortuitous that the President began laying important groundwork with the five-part agenda for management reform he released in August—leading with the strategic management of human capital.

During FY 2001, OPM became energized as we embraced the President's agenda and focused on our primary leadership responsibility for human resources management for the Executive Branch of government. In this role, we are working hand-in-hand with the Office of Management and Budget (OMB) to drive improvement across government on the President's human capital management initiative. OPM made significant progress in FY 2001 in developing the tools and building the relationships to support departments and agencies in managing their workforces strategically. This includes the introduction of direct agency assistance by individualized "strike force" teams of OPM staff experts.

Complementing our human capital leadership efforts are advances in technology to make the government's hiring and personnel practices more effective, efficient, and customer friendly. OPM emerged from FY 2001 on track with its internal Retirement Systems Modernization Project and charged with leading five cross-cutting e-Government projects, each of which will significantly improve how agencies recruit, select, and manage their workforces. Two of our projects integrating HR systems and consolidating payroll systems—involve fundamental overhauls of existing internal systems, modernizing them and reducing costs of routine operations across government.

Thanks to our considerable advances in FY 2001, OPM entered the new fiscal year on track to carry out its leadership responsibilities for human resources management. We are engaged in the human capital debate and building toward a world class agency. In the months and years ahead, we will continue working together with our agency customers to attract, hire, manage, and retain a strong, quality workforce with a focus on results for the American people.

Sincerely,

Kay Coles James

Kay Coles James
Director
U.S. Office of Personnel Management

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to present the Office of Personnel Management's fiscal year 2001 Performance and Accountability Report, which integrates results-oriented performance information with financial information about our agency. We hold in trust over $500 billion in assets that belong to our primary stakeholders, Federal employees and retirees, and their survivors and dependents. We recognize fully the importance of earning their confidence in our financial stewardship.

In this light, we have once again received an unqualified ("clean") opinion on our consolidated financial statements from the independent accounting firm KPMG LLP. I think KPMG's opinion conveys a clear message about our commitment to sound financial management. This accomplishment required a tremendous effort from individuals at all levels—from the recording of transactions, through the preparation and auditing of the financial statements. Their efforts are recognized and appreciated.

We made substantial progress this year on critical financial management systems initiatives. First and foremost, we implemented a modern core financial management system to support our Revolving Fund Program and Salaries and Expense account. This milestone will allow us to resolve the serious management control and financial management systems weaknesses we reported in last year's Performance and Accountability Report. Further, we have entered into an agreement to have our payroll and other administrative services cross-serviced, enabling us to abandon several aging, proprietary systems. These actions will enable us to redirect our resources and efforts toward additional financial management improvements in support of the President's Management Agenda.

While we have made strides in improving financial management, we recognize that much work remains. To meet our financial stewardship responsibilities to our stakeholders, we will continue to improve our effectiveness, trustworthiness, reliability, and most importantly, the quality of our customer service.

Kathleen M. McGettigan
Chief Financial Officer
U.S. Office of Personnel Management

The Office of Personnel Management (OPM) provides human resource management leadership and compensation expertise to the President, Federal agencies, and their employees. It oversees the civil service merit systems, covering nearly 1.8 million employees, and provides fast, friendly, accurate, and cost-effective retirement, health benefit, and other insurance services to Federal employees, annuitants, beneficiaries, and agencies.

Founding Legislation

The Pendleton Act of 1883 established the merit system and set up OPM's predecessor organization, the United States Civil Service Commission. The purpose of the Pendleton Act was to end the practice of giving Federal jobs as rewards for political support. The Civil Service Reform Act of 1978 transformed the Commission into the Office of Personnel Management, entrusting the agency with governmentwide human resources management responsibilities and making it more directly accountable to the President.

Current Role

OPM is leading agencies in implementing the President's human capital management initiative, one of five initiatives designed to make government more citizen-centered, results-oriented, and market-based. The human capital initiative recognizes that the government delivers products and services to the American taxpayer through the people who make up the Federal workforce. OPM sets policies and provides assistance to all the agencies that make up the government—from Agriculture to NASA to the Social Security Administration, and all the agencies in between—to enable them to manage their workforce to attain goals important to the nation. OPM does this by working closely with agencies to ensure that they are strategically aligning their workforce to achieve their missions and by providing a broad range of human resources management tools to recruit, retain, and manage a high-performing workforce.

Budgetary Resources

OPM's total discretionary funding of $206.7 million in FY 2001 was almost evenly divided between its two major missions: 1) managing and overseeing the government's human resources and 2) administering the employee benefit trust funds (retirement, health benefits, and life insurance) It also includes significant resources for information technology projects aimed at increasing efficiency to save taxpayer dollars and maximizing citizen service—for example, by simplifying the job application process.

In addition to the discretionary funding, in FY 2001 OPM paid out: $47 billion in annuities to more than 2.4 million retired employees, their survivors, and other beneficiaries; almost $21 billion in health insurance premiums for nine million enrollees and dependents; and almost $2 billion in life insurance claims. In FY 2001, OPM began work on a new program to offer group long-term care insurance products to approximately 20 million members of the Federal civilian and uniformed services, their families, and retirees; this benefit will be available in FY 2003. OPM also provides a variety of direct services that are financed by payments from other agencies through the Revolving Fund. In FY 2001, payments to OPM's Revolving Fund totaled $332 million.

We are not here to mark time, but to make progress to achieve results, and to leave a record of excellence.

—President George W. Bush

OPM AT A GLANCE

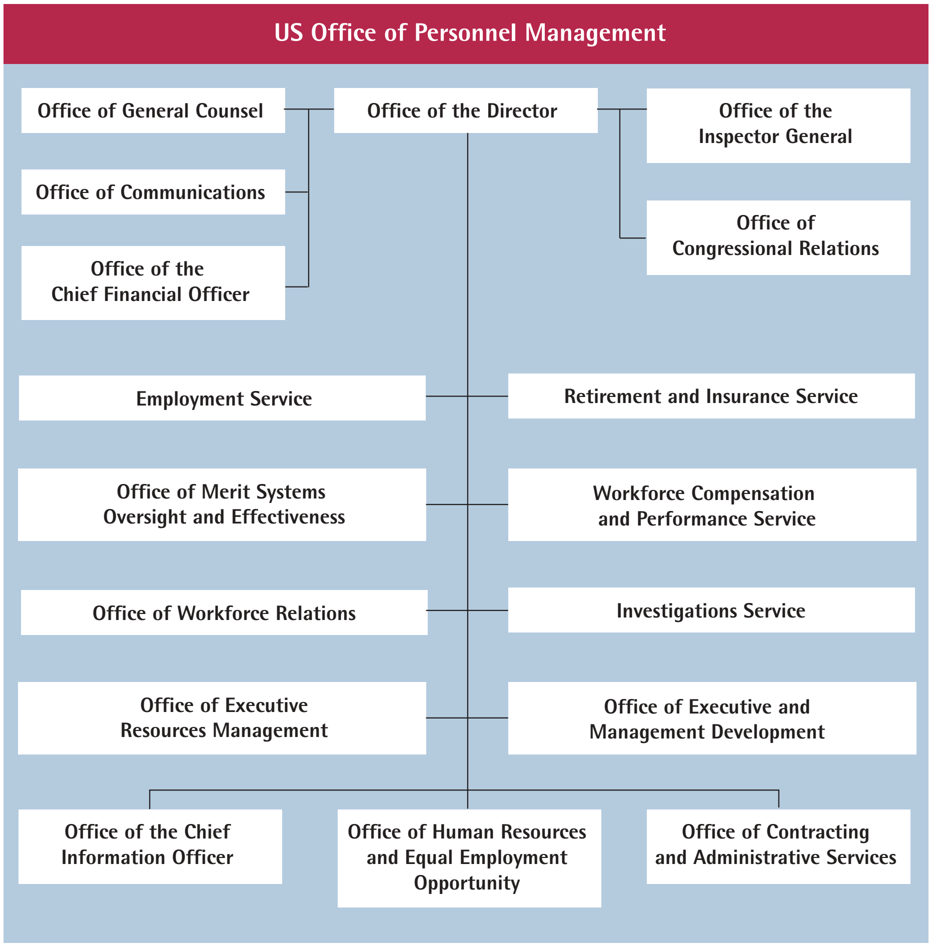
Location

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

Organizational Structure

During fiscal year 2001, OPM was organized into eight core functional units, each providing governmentwide policy and services in a specific area of human resources management: the Employment Service (ES); the Investigations Service (IS); the Retirement and Insurance Service (RIS); the Workforce Compensation and Performance Service (WCPS); the Office of Merit Systems Oversight and Effectiveness (OMSOE); the Office of Workforce Relations (OWR); the Office of Executive Resources Management (OERM); and the Office of Executive Management Development (OEMD). [See organization chart below]. We also had four "corporate management" offices-such as our Offices of the Chief Financial and Information Technology Officers—and several staff offices.

OPM embarked on a significant restructuring effort within the agency in 2001. This restructuring will improve OPM's focus on its primary customers, the agencies that deliver products and services to the American people.



HIGHLIGHTS AND MANAGEMENT ACCOMPLISHMENTS

FY 2001 was a year of transition for the Office of Personnel Management. Sound stewardship of OPM during the first part of the fiscal year under Acting Director Steven R. Cohen helped to position the agency to take on important new responsibilities for the President's Management Agenda following confirmation of Director Kay Coles James in July 2001.

This report describes OPM's accomplishments under both leaders for FY 2001. These accomplishments reflect measurable progress in human capital leadership, merit systems oversight, direct service delivery, and sound financial management. The report also describes some of the significant changes in focus and structure introduced by Director James that will enable OPM to move into the future. These changes reflect an energized agency with innovative management, clearly focused on its strategic mission and on the President's agenda.

The most significant accomplishments and actions are described below. A full analysis of every goal outlined in OPM's FY 2001 Annual Performance Plan is found in the Annual Performance Goals and Results section of this report.

Strategic Management of Human Capital. As the human capital management advisor to the President, OPM has taken on the challenge of leading agencies to improve the strategic management of the Federal workforce. President Bush recognized the importance of strategic human capital management in his agenda for management reform, placing it first in a list of five key management improvement initiatives. (The others are Competitive Sourcing, Improved Financial Performance, Expanded Electronic Government, and Budget and Performance Integration.) The human capital initiative focuses on ensuring that the right person is in the right job and prepared to provide top quality service to the American citizen. This unprecedented attention by the nation's Chief Executive provides a real opportunity to address strategically all of the elements necessary to support the workers who deliver products and services for the American people. These elements include such diverse aspects as how work and organizations are structured, how information technology is used to capture and build knowledge, how human capital strategies should be changed to allow more flexibility and accountability, and how performance can be managed and rewarded.

During FY 2001, OPM positioned the Federal government to address this opportunity in three important ways:

1. *Workforce Planning and Restructuring*. In the summer of FY 2001, the Office of Management and Budget (OMB) required all major Federal agencies to submit a workforce analysis and a restructuring plan to achieve the President's Management Agenda objectives. OPM assisted OMB in developing the original guidance for the workforce analysis, using its expertise in workforce planning and knowledge of

available workforce data to help draft the requirements, and using its long-standing relationship with the human resources management community to ensure the guidance was clear and useful. Once the guidance was issued, OPM promoted effective workforce analysis actions through briefings delivered to all agencies and through a website devoted to workforce planning models, skills assessment tools, best practices, and questions and answers on steps to take. OPM also provided direct assistance to several agencies that requested specific help to conduct their statistical analyses, skills assessments, and restructuring plans. OPM was well-positioned to provide this advice because it had worked throughout FY 2000 with a joint committee of human resource directors to develop a Federal Workforce Planning Model which agencies could use if they did not have one of their own.

2. *Direct Agency Assistance.* As soon as Director James arrived at OPM, she began meeting with top leaders at each of the cabinet agencies to identify their more serious concerns about human resources management and OPM's role as an advisor. Armed with this information, she initiated several actions to better position OPM to provide the kind of assistance that agencies needed.

Almost immediately, "Strike Force" teams were established as a way to focus expert OPM resources when an agency requested direct assistance on human capital issues. In FY 2001, OPM dispatched teams to the Departments of Energy, Housing and Urban Development, and Justice. These teams proved a key resource to other Federal agencies attempting to make significant change in the way they managed their human resources or delivered their human resource services.

A second action by Director James led to one of OPM's key accomplishments for FY 2001. The Director requested a review of current laws and regulations to identify barriers to effective human resource management. From this review, OPM developed a set of legislative proposals for consideration by the Administration, and ultimately the Congress. These proposals were completed in FY 2001 and, in early FY 2002, were introduced in Congress as the Managerial Flexibilities Act. This Act was the first significant piece of human resource management legislation since the Civil Service Reform Act of 1978. It provides additional tools to agencies for recruitment, selection, and retention of a high-quality workforce.

3. *Human Capital Measurement*. As FY 2001 progressed, OPM recognized that measurement of progress towards the President's objectives for strategic human capital management would be essential, and took strong action to meet this need. OPM established a special committee of HR Directors, under the auspices of the Human Resources Management Council (HRMC), to identify appropriate measures to assess the actions taken to improve human capital management. The committee worked with a group of Fortune 500 private sector companies who had come together with the same objective and who welcomed the oppor-

tunity to assist the Federal government. As a result of this work, OPM identified five key dimensions of human capital that require critical monitoring and management: Strategic Alignment, Strategic Competencies, Leadership, Performance Culture, and Learning. A set of measures was proposed for each of these dimensions that could be used in all Federal agencies. OPM then took a further step and created a set of specific performance goals and measures, as well as operational guidance, that would assist agency heads to take action to meet the President's human capital management agenda. Although this "OPM Human Capital Scorecard" was not completed until early FY 2002, significant progress was made on this instrument, which will establish objective baselines for showing progress over time and provide comparisons against governmentwide averages and private sector benchmarks. This is another example of positioning OPM for its leadership responsibilities in FY 2002 and beyond.

OPM also completed much of the work on a second measurement tool that will assist agencies in reaching the objectives of the President's Human Capital initiative. In January 2001, the new President issued an Executive Order on Accountability Systems, which required that agencies establish an internal system of control and self-assessment to gauge the overall viability of their human resources management program in all its facets, from human capital strategies to operational efficiency and integrity. This increases accountability for actions, and also builds a foundation for a strong system of measurement. OPM began working on a set of accountability system standards shortly after the executive order was issued, working through an interagency task force. Although these standards were not issued until FY 2002, the groundwork laid in FY 2001 again positioned OPM to provide the kind of specific guidance tools that agencies will need to achieve the President's agenda. The Standards cover the areas of strategic alignment, HR program effectiveness, HR operational efficiency, and legal compliance. The underlying notion is for agencies to track and evaluate the use of human capital as systematically and rigorously as they do their financial assets.

Through these actions to focus on human capital leadership and to enhance assistance to agencies, OPM is confident that the government will achieve the President's goal of strategic human capital management, and the accompanying improvement in services to the public.

Expanding Electronic Government. OPM emerged from FY 2001 as a leader in the President's initiative to expand e-Government. Under this initiative, OMB identified 24 major e-Government projects, and tapped OPM to lead five of these, more than any other Federal agency. This growth in responsibility was largely in recognition of the results OPM achieved in two information technology projects that were already underway. These two initiatives, which OPM is pursuing in partnership with other agencies, will greatly improve human capital management in the Federal

"If we want excellence in government, the first place we need to look is at our personnel systems to help us recruit, retain and motivate the best and brightest people to serve in that government."

—Kay Coles James
Director

government, and will form the core for the broader e-Government initiatives planned for FY 2002.

1. **HR-DN.** The Human Resources Data Network project (HR-DN) will streamline and automate the exchange of employees' HR information and improve workforce reporting across government. The HR-DN will fundamentally change paper-intensive personnel processes used across government to electronic means. In addition, the HR-DN will standardize human resource data, eliminate the need for paper employee records, and enable the electronic transfer of HR data throughout the Federal sector. This multi-year project began in FY 1999, and will be completed no later than FY 2005. During FY 2001, OPM completed eight major deliverables, on schedule, within budget, and of acceptable quality. The deliverables reflect significant progress on the design, development, and identification of the data the HR-DN will receive, exchange, and store.

2. **Retirement Systems Modernization.** The Retirement Systems Modernization Project proceeded on schedule, meeting all of the critical milestones established for FY 2001. Modernization is OPM's central strategy to meet long term customer service, business, and financial management goals for the Retirement Program. It is based on several key changes in business processes, the most important of which is the shift from the current paper-based processes to a totally electronic environment. This shift will enable OPM to develop web-based tools that will use the electronic data and allow current and former employees to use electronic self-service technology that has already been implemented for retirees. The design efforts have been virtually completed, and phased implementation of the modernized system will begin in FY 2002. Implementation will continue into FY 2008.

The five initiatives that OPM will lead in FY 2002 and beyond include projects related to consolidated and modernized human resource systems (building on the HR-DN project); consolidated and modernized Federal payroll systems; simplified one-stop recruitment; technology-based training; and speedier background clearances. Each of these initiatives will leverage Internet-based technologies to advance strategic business investment across government and promote organizational agility, cost efficiencies, and improvements in performance. For example, the Recruitment One-Stop initiative will improve the Federal hiring process by expanding the USAJOBS governmentwide automated employment information system to provide job seekers with streamlined resume submission, on-line feedback about their status in the employment process, and integration with automated assessment tools. Ultimately, Recruitment One-Stop will give agencies broader and faster access to resumes and the automated tools needed to select candidates.

Transition Assistance. The transfer of power from an outgoing Administration to an incoming Administration is critical to the continuing services and functions of the Federal government. A key responsibility for OPM is to assist a new Administration's

Transition Team. OPM followed up the FY 2000 publication of "Transition to a New Presidential Administration: Employment Guidance for Agencies" with the "Guide to the Senior Executive Service" to educate new appointees on the features of the top executive positions in the Federal government. In addition, OPM drafted the "Presidential Transition Directory" and worked with the Office of Presidential Personnel and the Council for Excellence in Government to host President Bush's October 15, 2001, address to the SES and other members of his leadership team. OPM monitored transition actions across government and found no evidence of violation of merit principles and applicable laws and regulations in the transition actions that were reviewed or processed by OPM.

Agency SES program managers — many of whom had never been involved in the transition process – indicated that OPM guidance was invaluable to them as they worked with their new appointees. One executive remarked, " ...you certainly have made the transition process a lot smoother for those of us at the agencies – both the exit and certainly the new appointment process."

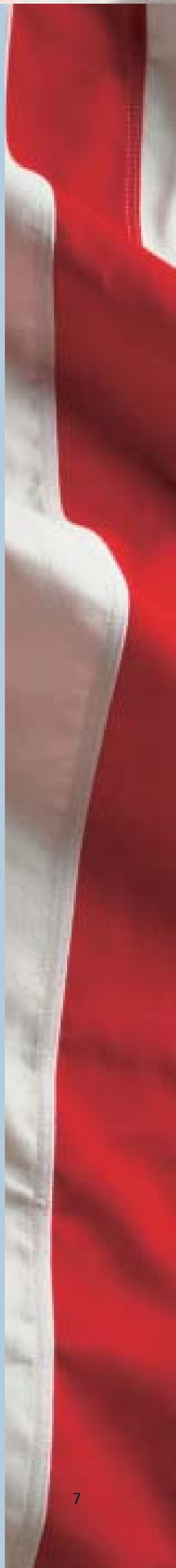
Long Term Care Insurance. With the signing of the Long-term Care Security Act on September 19, 2000, long-term care insurance became a reality for Federal workers, members of the military, retirees and their families. This program is the first new benefit offered to Federal employees since the inception of the Federal Employees Retirement System, with its Thrift Savings Plan component, in June 1986.

At the conclusion of FY 2001, OPM was on track to have the Federal Long Term Care Insurance Program available to accept enrollments by October 2002. Between December 2000 and May 2001, OPM worked with insurer, community, consumer, agencies, and stakeholder groups to develop a "proposed product design" for the Federal Long Term Care Insurance Program, which was posted on the OPM web site on April 9, 2001. OPM published the contract solicitation on June 20, 2001, which enabled awarding of the contract in early FY 2002.

Response to September 11, 2001 Crisis. Like all Federal agencies, and the entire nation, the Office of Personnel Management was shaken by the events of September 11, 2001. OPM played a direct role in the Federal government's response to the terrorist attack on the United States. OPM's extensive communication network with agencies was used to determine, within hours, the numbers of employees directly affected through either personal loss or damage to their workplace. Within days, Director James was working with the President's staff (and later the Office of Homeland Security), the D. C. Mayor's office and the Metropolitan Washington Council of Governments to develop better plans for handling future security emergencies in the Washington, D. C. area and emergencies affecting Federal workers nationwide. Also within days, OPM took actions to enable agencies to staff positions critical to the War on Terrorism, such as implementing emergency hiring flexibilities, establishing a Patriot Readiness Center where retired Federal employees could register to re-enter the workforce in critical positions, and completing background investigations and fingerprints. OPM continued to provide assistance as FY 2002 began, for example creating a Homeland Readiness and Security Job link in USAJOBS.

On a personal level, OPM employees adopted the *USS Theodore Roosevelt,* an aircraft carrier deployed in the War on Terrorism, and supported the men and women serving on that vessel with toy drives for their families, cards, CDs and supplies for the crew, and a USO show. OPM employees generously donated nearly $10,000 for the September 11 relief initiative.

Management Discussion and Analysis



OPM's Mission and Strategic Goals

Four words—*Lead, Protect, Serve, and Safeguard* – describe how OPM carries out its responsibilities and provide the framework for its mission.

OPM's Mission

To support the Federal government's ability to have the best workforce possible to do the best job possible—

OPM *LEADS* Federal agencies in shaping human resources management systems to effectively recruit, develop, manage and retain a high quality and diverse workforce;

OPM *PROTECTS* national values embodied in law, including merit principles and veterans' preference;

OPM *SERVES* employing agencies, Federal employees, retirees, their families, and the public through technical assistance, employment information, pay administration, and benefits delivery; and

OPM *SAFEGUARDS* the assets held in trust for participants in earned benefit programs.

Strategic Goals

The OPM Strategic Plan describes four strategic goals:

Goal I	LEAD. The Federal government effectively recruits, develops, manages and retains a high quality and diverse workforce even as the labor market and workplace under-go significant and continuous change.
Goal II	PROTECT. The Federal government, as an employer, consistently honors merit principles in managing its workforce.
Goal III	SERVE. Our high quality, cost-effective human resources ser-vices meet the evolv-ing needs of Federal agencies, employees, retirees, their families, and the public.
Goal IV	SAFEGUARD. The employee benefit trust funds are models of financial excellence and integrity

FY 2001 Performance Summary

OPM's FY 2001 Performance Plan included 87Annual Performance Goals that described the specific actions and initiatives planned for fiscal year 2001. We accomplished 80 of these goals, and by so doing, continued toward achieving our Strategic Goals and underlying Objectives.

Human Capital Leadership–Strategic Goal I

The OPM Strategic Plan describes the ultimate outcome of its leadership in human capital management as Federal agencies being able to meet their goals and objectives, and recruit and retain workers that reflect the diversity of America and deliver excellent and courteous service to their customers. While the agency is on its way to achieving this outcome, much work remains to be done. This is reflected in the Corporate Measures for human capital management. As shown in the table Human Capital Leadership Results, public satisfaction with Federal government services overall—as measured by the American Customer Satisfaction Index—is excellent when compared to the private sector. Also, the most recent results from the annual survey of Federal Human Resource Directors confirm that OPM is focusing on the appropriate issues and that HR Directors believe OPM collaborates effectively with them as we develop human resources policy and implement new programs.

Strategic Goals	Number of Annual Goals	Number of Goals Met	Number of Goals Not Met
I. The Federal Government effectively recruits, develops, manages and retains a high quality and diverse workforce even as the labor market and workplace undergo significant and continuous change.	24	21	3
II. The Federal Government, as an employer, consistently honors merit principles in managing its workforce.	7	7	0
III. OPM's high quality, cost-effective human resources services meet the evolving needs of Federal agencies, employees, retirees, their families, and the public.	25	23	2
IV. The employee benefit trust funds are models of financial excellence and integrity.	1	1	0
Corporate Management Strategies and Internal Goals.	30	28	2
2001 Totals	87	80	7

Human Capital Leadership Results

Measure/Indicator	1998	1999	2000	2001
Percent of Human Resource Directors who agree:				
OPM is focused on the appropriate human capital issues	No Data	No Data	No Data	79%
OPM Collaborates effectively on Policy Making	No Data	No Data	74%	85%
OPM HRM guidance, programs, and strategies are useful	No Data	No Data	81%	76%
Workforce has skills to meet agencies' missions	No Data	No Data	45%	59%
OPM policies help recruit a high quality workforce	No Data	No Data	No Data	53%
American Customer Satisfaction Index Results:				
Overall public satisfaction with Federal agency services	No Data	68.6	68.6	71.0
Overall customer satisfaction with private sector services	No Data	71.9	71.2	70.0
OPM Employee Survey Results:				
Overall job satisfaction	62%	60%	63%	N/A*
Overall quality of work	72%	72%	72%	N/A*

* No OPM survey of Federal employees was conducted in FY 2001. Survey will be reconstituted later in FY 2002.

These positive results can be attributed to the fresh focus on agency customers, and to the wide range of initiatives pursued during the year, including the Administration's legislative proposal that was introduced in Congress as the "Managerial Flexibilities Act." This proposal introduced significant new flexibilities for recruiting, hiring, managing, and retaining a top quality workforce. Other high profile initiatives included the implementation of the new Federal Long Term Care Insurance Program, assistance to agencies with the analysis of their workforce demographic and skill needs, the roll out of the Federal Career Intern Program and the Performance America Network, and the continued promotion of work/life programs, such as telecommuting.

Despite these positive signs, the results were disappointing for the indicators that get to the heart of strategic management of human capital. Only 59 percent of HR Directors believe that their workforce has the skills needed to meet the mission of their agencies, and only 53 percent find OPM's policies and programs helpful toward recruiting a high quality and diverse workforce. These indicators should be in the 70 to 80 percent range for OPM to be successful. The passage of the Managerial Flexibilities Act could make a significant difference in this indicator in the future. Also, OPM is taking a hard look at the underlying policies and processes for the way the government hires and compensates our Federal workforce, and we are committed to taking the leadership actions needed to introduce change where necessary.

Merit System Oversight Results

Merit Principle/Measure	1999	2000	2001
1. Recruit, select, and advance on the basis of merit.	62%	64%	65%
2. Treat employees and applicants fairly and equitably.	63%	65%	65%
3. Provide equal pay for equal work and reward excellent performance.	44%	45%	47%
4. Maintain high standards of integrity, conduct and concern for the public interest.	76%	76%	68%*
5. Manage employees efficiently and effectively.	54%	54%	55%
6. Retain or separate employees on the basis of their performance.	65%	66%	68%
7. Educate/train employees when it will result in better organizational or individual performance.	58%	57%	61%
8. Protect employees from improper influence.	67%	70%	69%
9. Protect employees against reprisal for lawful disclosure.	41%	47%	44%

*Questions were changed in the FY 2001 survey. Therefore a comparison to prior year's data is not meaningful.

Merit Systems Oversight — Strategic Goal II

OPM continued working toward consistent adherence to the merit system across the Federal government. In the oversight of the merit system, the agency completed its scheduled reviews of eight large and nine small agencies and 103 delegated examining audits. OPM reviewed agency internal accountability efforts at eight large and nine small agencies in FY 2001. Also, we strengthened agency Delegated Examining Units by revising the DEU Handbook and Training Materials to make them customer focused, and added information on the existing Federal hiring flexibilities, which will enable DEU's to reduce the time it takes to hire applicants, while ensuring that merit principles are observed.

OPM is generally pleased with the results of the Merit System Principles Questionnaire during FY 2001 as the indexes for six of the nine merit principles show improvement since new baseline were established in 1999. However, the results shown in the Merit Systems Oversights Results table clearly indicate that perceptions of status in areas such as equal pay for equal work, rewarding excellent performance, managing employees efficiently and effectively, and protecting them against reprisal for lawful disclosure are at unacceptably low levels and will be addressed in our future plans and strategies.

Services to Our Customers — Strategic Goal III

OPM strives to provide human resource products and services to agencies and to employees, retirees, and their families, that are high quality, cost effective, and meet their needs. The results of service delivery activities during fiscal year 2001, shown in the Service Delivery Results table, indicate that customer satisfaction with most services remained at or near historically high levels. Statistics also show that OPM is using technology to provide services to an increasing number of customers, e.g., the use of our USAJOBS website. In addition, the agency reduced the time needed to process retirement claims under the Federal Employees Retirement System and improved claims processing accuracy.

However, OPM has not yet achieved its long-term service delivery objectives, particularly for the retirement program. OPM is also aware that there are serious problems with the

Service Delivery Results

Measure/Indicator	1998	1999	2000	2001
Customer Satisfaction:				
% HR Directors Agreeing Website Services are Convenient	N/A	N/A	98%	97%
% Annuitants Satisfied w/ Overall Retirement Services	90%	96%	93%	93%
% Enrollees Satisfied w/Health Benefit Plan—HMOs	N/A	60%	59%	62%
% Enrollees Satisfied w/Health Benefit Plan—FFSs	N/A	70%	70%	77%
Timeliness/Accessibility of Services:				
Website Hits on USAJOBS	8.5 M	13.1 M	15.4 M	20.7 M
CSRS Annuity Claims Timeliness	23 Days	32 Days	44 Days	54 Days
FERS Annuity Claims Timeliness	93 Days	94 Days	185 Days	101 Days
Service Quality/Accuracy:				
% HR Directors Agreeing OPM Website Services are Relevant	N/A	N/A	100%	100%
% HR Directors Agreeing OPM Website Services are Sufficient	N/A	N/A	89%	94%
CSRS Annuity Claims Accuracy	92.9%	88.3%	93.5%	95.1%
FERS Annuity Claims Accuracy	94.5%	92.4%	87.6%	92.4%
% of HB Enrollees Enrolled in Top-Rated Plan	65%	32%	90%	82%
Cost Effectiveness:				
Retirement/Survivor Claims Unit Cost	$72.46	$81.82	$83.52	$82.53

Trust Fund Financial Management Results

Measure/Indicator	1998	1999	2000	2001
Audits completed by Inspector General	53	64	80	112
Dollars saved from audit activities	$76.4M	$51.9M	$102.5M	$242.1M
Return on investment for audit activities (per $1 spent)	$9.00	$5.92	$11.30	$25.00
Timely payment of Retirement benefits (% paid on time)	97%	98%	97%	97%
Erroneous Payment Rate – Retirement Program	N/A	0.19%	0.23%	0.20%
Erroneous Payment Rate – Health Benefits Program	N/A	0.49%	0.36%	0.99%
Erroneous Payment Rate – Life Insurance Program	N/A	0.01%	0.01%	0.01%

public perception that the job announcement system is not as user friendly or as responsive to job applicants as it should be. Thus, improving customer services will continue to be a priority in the agency's performance plans for FY 2002 and FY 2003. The Retirement System Modernization effort will address service to the retirees, and the President's e-Government management initiative, which includes an OPM project to create a "One-Stop Recruitment" site, will improve the way job applicants are served.

Trust Fund Financial Management — Strategic Goal IV

OPM takes very seriously its responsibilities regarding the management of the employee benefit trust funds (Retirement, Health Benefits, and Life Insurance Programs). Ultimately, OPM wants the financial systems supporting the trust funds to be recognized by the agency's auditors, the General Accounting Office, congressional oversight committees, and other stakeholders as a model of excellence and integrity in the management of these funds.

The effectiveness of OPM's actions is evidenced primarily in three ways: First, by the unqualified audit opinions received on the agency's annual financial statements (see "Clean" Audit Opinions in Analysis of Our Financial Performance); Second, by actions taken to ameliorate materials weaknesses and non-conformances identified though internal reviews and auditors; and Third, the low rate of erroneous payments in the annual benefit outlays. OPM must maintain these successes and further strengthen its financial management systems so that they fully comply with Federal Financial Management Improvement Act requirements.

Corporate Management Strategies and Other Supporting Goals

OPM recognizes that it cannot accomplish its program goals and outcomes without properly managing the agency's internal resources. These resources include a workforce of nearly 3,000 well-trained, diverse, and motivated people, its information technology systems and infrastructure, and its financial management systems. OPM established goals for each of these critical areas and maintained a cooperative and consultative relationship with its Inspector General regarding the oversight of these resources. During fiscal year 2001, the agency met 28 of the 30 performance goals in this regard.

Resources Used to Accomplish Goals

CROSS WALK TO STATEMENT OF NET COST

Strategic Goal	Responsibility Segment
I. The Federal Government effectively recruits, develops, manages and retains a high quality and diverse workforce even as the labor market and workplace undergo significant and continuous change.	C F HB L HR
II. The Federal Government, as an employer, consistently honors merit principles in managing its workforce.	HR
III. OPM's high quality, cost—effective human resources services meet the evolving needs of Federal agencies, employees, retirees, their families, and the public.	C F HB L HR
IV The employee benefit trust funds are models of financial excellence and integrity.	C F HB L
Corporate Management Strategies and Internal Goals.	HR

Key: C = Provide CSRS Benefits; F = Provide FERS Benefits; HB = Provide Health Benefits; L = Provide Life InsuranceBenefits; HR= Provide Human Resources Services

BUDGETARY RESOURCES BY STRATEGIC GOAL

(in $ thousands)

	Goal I		Goal II		Goal III		Goal IV	
Funding Source	$	FTE	$	FTE	$	FTE	$	FTE
Salaries & Expenses (Inspector General)	$44,389	313	$22,675	192	$27,647 ($1,3481	219 0)	$0	0
Trust Fund (Inspector General)	$6,597	62	$0	0	$116,092	1,058	$18,935 ($9,700	170 82)
Advances & Reimbursements	$0	0	$0	0	$ 21,007	130	$0	0
Revolving Fund	$0	0	$0	0	$332,382	652	$0	0
Total Resources	$50,986	375	$22,675	192	$497,128	2,059	$18,385	170

This is FY 2001 information from our budget justification. More detailed information regarding the distribution of Budgetary Resources for FY 2001 can be found in our Fiscal Year 2003 Congressional Budget Justification/Annual Performance Plan, dated February 2002.

Quality of Performance Data

The performance information presented in this report, particularly as it relates to whether goals were met or not met, accurately represents OPM's performance during the fiscal year. The quality of performance information improved during FY 2001 as the agency continued to refine the statement of program outcomes and evolve those outcomes into annual goals. Because of this tighter focus on what it is trying to accomplish as an agency, and a better definition of the outcomes expected from those actions, OPM has reduced the number of goals described in its performance plans – there were 118 annual goals in the FY 2000 performance plan, but only 87 in the FY 2001 plan, 83 in the FY 2002 plan, and 57 in FY 2003. This brings added clarity to OPM's annual performance report.

The agency has also reduced the number of measures and indicators as it continues to implement its corporate measurement framework. In accordance with the requirements of the Government Performance and Results Act, OPM is committed to ensuring that reported performance information is accurate and based on reliable information. OPM constantly seeks to improve its data collection and monitoring techniques. The agency's current methods to assure the reliability of its performance information include the following:

- Traditional reviews and audits by the Office of the Inspector General and the General Accounting Office that may identify issues.
- Review of GPRA reports by departmental management.
- Executing performance planning and reporting through the agency-level GPRA Working Group.

The GPRA Working Group is led by OPM's Director of Strategic Planning and Performance Reporting and is comprised of representatives from each OPM program office. The Working Group is responsible for the development of OPM's strategic plan and performance measurement framework. Working directly with agency budget officers, the Working Group develops OPM's annual performance plans and performance reports. A sub-committee of the Working Group, the Measurement Team, works with the individual program offices to develop annual performance goals and establish performance measures and indicators within the corporate measurement framework. The Measurement Team also reviews all program office performance reports and gleans from these internal documents the information presented in the agency's Performance and Accountability Report.

Analysis of Our Financial Performance

"Clean" Audit Opinions

These are the second agency-wide consolidated financial statements we have prepared. We are pleased to report that for the second consecutive year we have received an unqualified ("clean") opinion from our auditors, KPMG LLP, on the consolidated

Audit Opinions

	1997	1998	1999	2000	2001
OPM Consolidated	N/A*	N/A*	N/A*	"Clean"	"Clean"
Retirement Program	"Clean"	"Clean"	"Clean"	"Clean"	"Clean"
Health Benefits Program	Qualified	"Clean"	"Clean"	"Clean"	"Clean"
Life Insurance Program	"Clean"	"Clean"	"Clean"	"Clean"	"Clean"

statements as well as on the stand-alone financial statements of the Retirement, Health Benefits and Life Insurance Programs. An unqualified opinion means that our financial statements were fairly stated in all material respects. Moreover, our auditors did not report any material weaknesses in our internal controls over our financial reporting.

Analysis of Balance Sheet

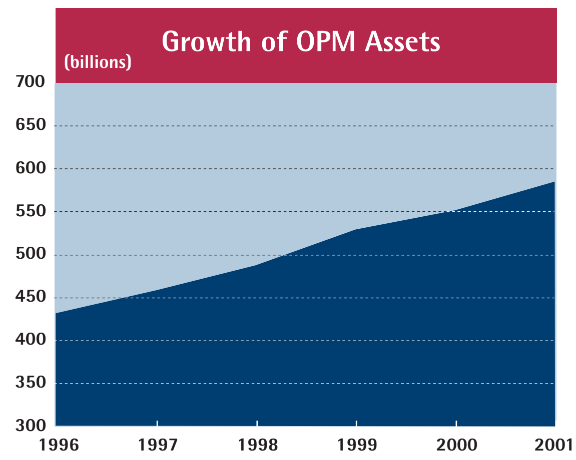
The Balance Sheet presents the total amounts we have available for our use [assets] against the total amounts we owe [liabilities] and the amount that comprises the difference [net position].

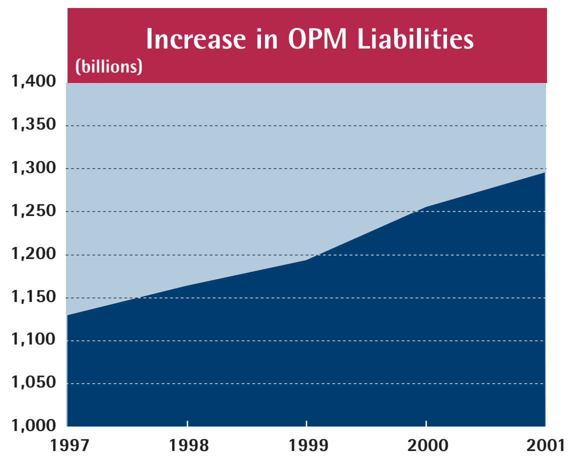
Assets. We had $585.3 billion in total assets at the end of fiscal year 2001, compared with $552.1 billion at the end of fiscal year 2000, an increase of 6 percent. The balance sheet separately identifies intragovernmental assets from all other assets. Almost all—$583.6 billion—of our assets are intragovernmental, representing our claims against other Federal entities.

Our largest asset, Investments [$572.8 billion], represents 98 percent of our total assets at the end of fiscal year 2001. We invest all Retirement, Health Benefits, and Life Insurance Program balances that we do not immediately need for payment, but only in special securities issued by the U.S. Treasury. As we routinely collect more money than we disburse, our investment portfolio continued to grow—by 6 percent in fiscal year 2001. Our next largest asset reflects the interest owed to us on our investments by the U.S. Treasury–at the end of FY 2001, it was $9.2 billion.

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

The *Pension Liability* is an estimate of the government's future, long-term cost to provide CSRS and FERS benefits to current employees and annuitants. It is $1,069.5 billion at the end of fiscal year 2001, an increase of $38.4 billion from the end of last year [see discussion of Pension Expense below].





The Postretirement Health Benefits Liability, the government's future, long-term cost to provide health benefits to active employees after they retire, is $191.5 billion at the end of fiscal year 2001. This reflects a small decrease from the $192.2 billion Postretirement Health

Net Assets			
	2001	2000	Change
Total Assets	$585,320	$552,121	$33,199
Less "Non-Actuarial" Liabilities	8,350	7,715	635
Net Assets Available to Pay Benefits	$576,970	$544,406	$32,564

Net Cost to Provide CSRS Benefits (In Billions)			
	2001	2000	Change
Gross Cost	$71.1	$70.4	$0.7
Associated Revenues	37.7	37.5	0.2
Net Cost	$33.4	$ 32.9	$0.5

Net Cost to Provide FERS Benefits (In Billions)			
	2001	2000	Change
Gross Cost	$14.5	$18.0	$(3.5)
Associated Revenues	18.5	17.1	1.4
Excess of Revenues over Gross Cost	$(4.0)	$ 0.9	$(4.9)

Benefits Liability at the end of fiscal year 2000 [see discussion of Postretirement Health Benefits Expense below].

The Actuarial Life Insurance Liability is different from the Pension and Postretirement Health Benefits Liabilities. Whereas the other two are liabilities for "post-retirement" benefits only, the Actuarial Life Insurance Liability is an estimate of the government's future, long-term cost for both pre-retirement and post-retirement life insurance benefits [see discussion of Postretirement Health Benefits Expense below].

Net Position. Net Position is the difference between our total assets and our total liabilities. At the end of fiscal year 2001, our Net Position is a negative $710.2 billion dollars, which means that our liabilities exceed our assets by this amount. At the end of fiscal year 2000, our Net Position was a negative $703.6 billion. As can be seen on the Statement of Changes in Net Position, our Net Position decreased as a result of the net cost we incurred to operate our programs, which was partially offset by a "transfer-in" of $21.6 billion to the Retirement Program from the General Fund of the U.S. Treasury.

The reason for our negative Net Position is the large Actuarial Liabilities that Federal accounting standards require we report on our Balance Sheet. In fact, the Retirement, Health Benefits, and Life Insurance Programs are funded in a manner that ensures that there will be sufficient assets available to pay benefits as they come due well into the future. Chart Net Assets shows that the net assets we have available to pay benefits increased by almost six percent in FY 2001.

Analysis of the Statement of Net Cost

The Statement of Net Cost presents our net cost of operations by our major programmatic outputs or "responsibility segments." We have defined responsibility segments by the four major types of services we provide and have assigned all of our costs of doing business and the associated revenues to them. These result in the Net Cost to Provide CSRS, FERS, Health and Life Insurance Benefits and the Cost to Provide Human Resource Services.

Net Cost to Provide CSRS Benefits. As can be seen in the chart Net Cost to Provide CSRS Benefits, the gross cost to provide a CSRS benefit, the associated earned revenues, and, therefore, the Net Cost to Provide CSRS Benefits in fiscal year 2001 are all very comparable to FY 2000.

Due to Federal accounting standards, the amount we paid in CSRS benefits is not shown on the Statement of Net Cost. In FY 2001, we paid benefits of $45.8 billion, as compared with $44.1 billion in FY 2000. The increase of 3.9 percent reflects both a larger annuity roll and the effect of the cost-of-living increase.

Net Cost to Provide FERS Benefits. Unlike in FY 2000, the Net Cost to Provide FERS Benefits was "negative" in FY 2001, which means that the revenues associated with providing a FERS benefit exceeded the gross cost to do so by $4.0 billion. Both the gross cost and the associated revenues changed significantly from FY 2000. The Pension Expense, the sole component of gross cost, declined $3.5 billion due to changes in economic and demographic assumptions by the actuary. The associated earned revenues increased by $1.4 billion (8.2 percent), reflecting contributions by and for the growing population of covered employees and investment earnings on the increasing FERS inflows.

As with the CSRS, Federal accounting standards do not afford the disclosure of the amount we paid in FERS benefits on the Statement of Net Cost. In FY 2001, we paid benefits of $1.4 billion, as compared to $1.2 billion in FY 2000, reflecting both a larger annuity roll and the effect of the cost-of-living increase.

Net Cost to Provide Health Benefits. The Net Cost to Provide Health Benefits in fiscal year 2001 is $4.3 billion, a decrease of $17.6 billion from fiscal year 2000. The reduction in the Net Cost to Provide Health Benefits can be attributed to a decrease in the Post-retirement Health Benefits Expense of $17.1 billion. An actuarial valuation requires many assumptions about future events. When the actuary changes one or more of these assumptions, the result will likely be an actuarial gain or loss. The decrease in the Post-retirement Health Benefits Expense in FY 2001 results mainly from a large actuarial gain as a consequence of changes in the actuary's economic and demographic assumptions.

Due to accounting and actuarial reporting standards, a portion of certain costs incurred for health benefits claims, premiums to HMOs, and administration are netted against, and thereby reduce, the Postretirement Health Benefits Liability. So that we may provide the reader of the financial statements with information about these costs, they are presented in the table Costs Netted Against the Postretirement Health Benefits Liability.

Net Cost to Provide Life Insurance Benefits. Unlike the usual circumstance, the Net Cost to Provide Life Insurance Benefits was not "negative" in FY 2001. This means that in FY 2001 the gross cost of providing benefits exceeded the amount of the revenues associated with it. In FY 2001, the gross cost to provide Life Insurance benefits increased by $458 million (15.6 percent), attributable to an equivalent increase in the Actuarial Life Insurance Liability ["Future Benefits Expense"]. The Future Benefits Expense was $400 million greater in fiscal year 2001 due to an increase in the

Net Cost to Provide Health Benefits

(In Billions)

	2001	2000	Change
Gross Cost	$20.3	$36.5	$(16.2)
Associated Revenues	$16.0	$14.6	$1.4
Net Cost	$4.3	$21.9	$(17.6)

Costs Netted Against the Postretirement Health Benefits Liability

(In Billions)

	Disclosed	Applied to PRHB	Total 2001	Total 2000
Health Benefits Claims	$9.8	$5.4	$15.2	$14.2
Premiums	$3.3	$1.3	$4.6	$4.5
Administrative and other	$0.6	$0.6	$1.2	$1.1

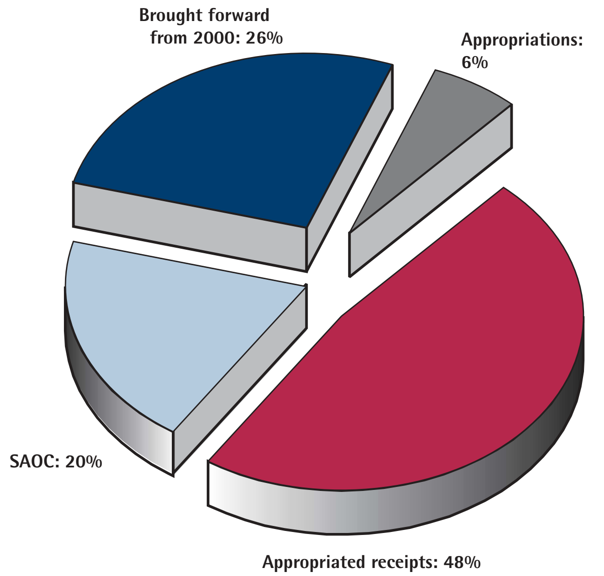
Net Cost to Provide Life Insurance Benefits

(In Millions)

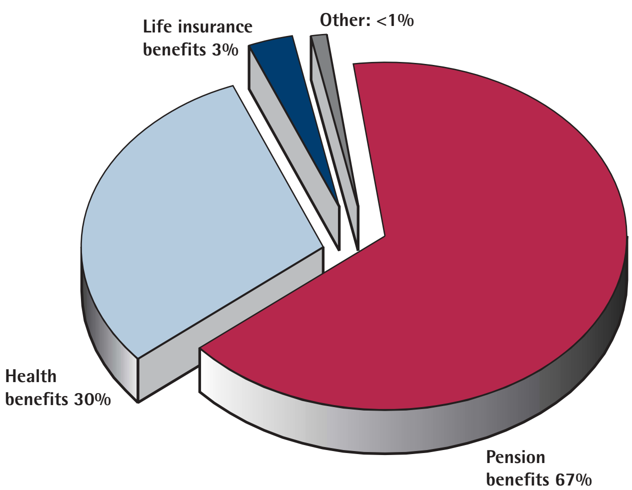
	2001	2000	Change
Gross Cost	$3,395	$2,937	$458
Associated Revenues	$3,341	$3,167	$174
Net Cost (Excess of revenue)	$54	$(230)	$284

total amount of life insurance-in-force and a reduction in the actuary's assumption about long-term interest rates. The increase in gross cost was partially offset by a $174 million (5.5 percent) increase in associated revenues, due both to the greater insurance-in-force and to the returns on a larger investment portfolio.

Source of Budgetary Resources
(percent)



Obligations Incurred by Category
(percent)



Analysis of the Statement of Budgetary Resources

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

As can be seen from the Statement of Budgetary Resources, a total of $98.9 billion in budgetary resources was made available to us for fiscal year 2001. Our budgetary resources in FY 2001 derive from that carried over from FY 2000 ($26.0 billion) as well as the three major sources of new budgetary resources (Source of Budgetary Resources graph:

(1) Appropriations = $5.7 billion

(2) Appropriated receipts = $47.5 billion

(3) Spending authority from offsetting collections (SAOC) = $19.7 billion.

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

Both *Appropriated Receipts and Spending Authority from Offsetting Collections* generally derive from collections. Collections by the Retirement Program, such as earnings on investments and contributions made by and for those participating, are classified as "Appropriated Receipts," whereas collections by the Health Benefits and Life Insurance and Revolving Fund Programs are classified as "Spending Authority from Offsetting Collections."

From the $98.9 billion in budgetary resources we had available to us during fiscal year 2001, we incurred obligations of $71.3 billion, mainly for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs (Obligations Incurred by Catgory). Most of the excess of budgetary resources we had available in fiscal year 2001 over the obligations we incurred against those resources is classified as being "unavailable" (for obligation) at year-end.

Systems, Controls, and Legal Compliance

Management Control Program

The Federal Managers Financial Integrity Act of 1982 (FMFIA) requires that we annually assess the adequacy of our management controls. Management controls are the organization, policies, and procedures we use to reasonably ensure that:

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

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

The Material Weaknesses in Management Controls Corrected in FY 2001 table describes the actions we have taken to resolve the four material weaknesses in management controls that were unresolved at the end of FY 2000.

As the Summary of Material Weaknesses in Management Controls table indicates, we have no material weaknesses in management control outstanding at the end of FY 2001, subject to validation by our OIG.

Summary of Material Weaknesses in Management Controls

Fiscal Year	Beginning of the Year	New	Corrected (subject to validation)	End of the Year
2001	4	0	4	0
2000	7	2	5	4

Material Weaknesses in Management Controls Corrected in FY 2001

[subject to OIG validation]

Material Weakness	Description/Corrective Action
Health Benefits Program Enrollment and Premium Reconciliation	By evaluating the results of audits of employing agency enrollment and contribution remittance procedures, we are comfortable that the amounts we pay as premiums to community-rated carriers are accurate. A final resolution will come with the implementation of the FEHB Centralized Enrollment Clearing House System
Fraud and Abuse in the Health Benefits Program	Our final rule will be published in the Federal Register in FY 2002. After publication, we will implement the processing of cases under the statutory sanctions authority.
Revolving Fund and Salaries and Expense Account Cash Reconciliation and Control	We are in the process of implementing adequate procedures and controls over the Fund Balance with Treasury of the Revolving Fund Programs and Salaries and Expense account.
Revolving Fund and Salaries and Expense Account Data Reconciliation and Control	We are in the process of implementing adequate controls over transactions entered into the Revolving Fund Programs and Salaries and Expense general ledgers.

Material Nonconformances with A-127 Requirements		
Nonconformance	Targeted For Correction	Nonconformance/Status
Systems Development Life Cycle	2002	Nonconformance: We do not have a systems Development Life Cycle (SDLC) process in place for major systems implementation efforts. Status: We have made significant progress in implementing an SLDC process for our information for our information technology projects.
General EDP Control Environment	2002	Nonconformance: We need to strengthen four areas of EDP general controls: (1) entity-wide security; (2) access control; (3) control over application changes and systems development; and (4) service continuity planning. Status: We believe we have made significant progress in strengthening our controls and that all remaining issues will be resolved during FY 2002.

Financial Management System Compliance

We have assessed our financial management systems as required by the FMFIA and the Federal Financial Management Improvement Act (FFMIA).

Federal Managers Financial Integrity Act Compliance. In accordance with the FMFIA, we have assessed the conformance of our financial management systems with Federal financial principles, standards and related requirements as stated in OMB Circular A-127. As a consequence, we can report that, with the exception of two material nonconformances, our financial management systems meet all government-wide requirements.

A description and status of corrective actions for each nonconformance, is shown in the Material Nonconformances with A-127 Requirements table.

Federal Financial Management Improvement Act Compliance. To comply substantially with FFMIA, we must be able to accomplish the following in a way that is consistent with Federal accounting standards and with the Standard General Ledger (SGL):

- Prepare financial statements and other required financial and budget reports using information generated by our financial management systems;
- Provide reliable and timely financial information for managing our operations; and
- Account for our assets reliably, so that they can be properly protected from loss, misappropriation, or destruction.

Based on KPMG LLP's audit report on our FY 2001 financial statements and on our own independent assessment, we have determined that our financial management systems as a whole substantially comply with the FFMIA. We base our conclusion on the fact that no deficiency in our financial management systems prevents us from meeting the specific requirements of FFMIA listed above.

In considering the compliance of our financial management systems with the FFMIA, KPMG LLP assessed individually the systems we use to administer the (1) Retirement, Heath Benefits, and Life Insurance Programs and (2) Revolving Fund and Salaries and Expenses account. In its audit report, KPMG LLP cited the financial management systems supporting the Revolving Fund Programs and Salaries and Expenses as being substantially non-compliant with the FFMIA. More specifically, they reported that as of September 30, 2001, the financial management systems we used to manage the Revolving Fund Programs and Salaries and Expenses account:

- Lacked a formal budgetary accounting structure, which compromises our ability to comply with budget preparation, execution and reporting requirements; and
- Did not provide for the recording of financial events in a manner that is consistent with the SGL.

On an agency-wide level, KPMG LLP reported that we did not provide adequate system security in that we do not have coordinated security procedures; lack effective incidence response and monitoring capabilities; do not conduct periodic risk assessments; and have not developed adequate security-related processes to protect our assets from unauthorized access or improper use.

We implemented our new core financial management system supporting the Revolving Fund Programs and Salaries and Expenses account on October 1, 2001. As a consequence, we believe that we will be able to report for FY2002 that the financial management systems are substantially compliant with the FFMIA. Further, we intend in FY2002 to resolve fully all issues that led KPMG LLP to conclude that we do not have in place adequate system security procedures.

Debt Collection Improvement Act Compliance

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

Cross-servicing. The DCIA established the Treasury's Financial Management Service (FMS) as the collection agency for all Federal agency receivables that are delinquent for more than 180 days. As a consequence, we transfer all such receivables to FMS for collection or "cross-servicing". To collect on the accounts we transfer, FMS issues demand letters, administratively offsets, performs wage garnishment and refers accounts to private collection agencies. To date, 4,475 of our receivables for more than $1.4 million have been collected via FMS cross-servicing.

Computer-Matching. We believe that it is equally important to prevent overpayments in the first place as it is to collect them once they become debts. Thus, we maintain an aggressive and active program integrity function to prevent waste, fraud, and abuse of Retirement Program benefit payments. One of the primary tools supporting this function is the use of computer-matching agreements. As such, we exchange payment information with other benefit-paying agencies to identify individuals who have died or are otherwise no longer eligible for benefits. In FY 2001, our computer-matching activities identified more than $22 million in overpayments and prevented an additional $70 million from being overpaid.

Quality Assurance Program. We have incorporated a Quality Assurance Program in our Re-

"I am pleased to certify that OPM is in compliance with the provisions of the Federal Managers Financial Integrity Act, except for two material non—conformances with Federal financial systems requirements. We have taken aggressive action to correct these two."

—Kay Coles James
Director

Retirement Program Receivables

($ in million)

Total receivables at beginning of year	146.0
New receivables	166.6
Collections	145.8
Adjustments	9.4
Total receivables at end of year	140.7
Total delinquent	37.7
Percent delinquent (total)	26.8%

Health Benefits Program Receivables

($ in million)

Receivable at the beginning of the year	72.6
New receivables	241.1
Less collections and adjustment	102.0
Receivable at the end of the year	212.4
Less management decisions in appeal	26.2
Currently available for collection	186.2

Electronic Payment

(percentages)

Retirement benefits	92
Salary	95
Carriers participating in Health and Life Insurance	
Programs	100
Other vendors	85

tirement Program claims adjudication process by performing quarterly reviews of recently adjudicated cases for errors.

Managing Receivables. The following charts summarizes our receivables management activity for FY 2001:

Retirement Program. Retirement Program receivables result when beneficiaries or family members inadvertently delay reporting certain changes in an individual's status (death, marriage, recovery from disability, etc.) that result in a changed benefit. In other cases, partial or incorrect information is provided by the individual or the employing agency, resulting in an overpayment. Our receivables management process demonstrates a balance between our accountability for the public's money vis-a-vis the needs of Federal employees and retirees who have performed vital al services on behalf of America's citizens. We recognize that our customers are generally aged, living on fixed incomes, and are often unaware of the rules that apply to the need to report changes in their circumstances.

In fact, Retirement Program receivables represent a very small part of our total assets, as we do not operate commercial programs that are material to our financial statements. In FY 2001, total Retirement Program overpayments were less than one percent of the total benefit payments we made. Further, almost 88 cents of every dollar that was overpaid was collected.

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

During FY 2001, we won an important victory in the courts that will enhance the tool set we have at our disposal to collect monies due the Program. The ruling supported the ability of our OIG to identify, and management's right to collect, interest we lose when a carrier overcharges the Program through its premium rates.

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

As can be seen in the Health Benefits Program Receivables table, we ended the year with $186.2 million in management decisions requiring final action, an increase of $113.6 million from the beginning of the year. The large increase is attributable to the fact that $125.4 million in management decisions were made during the last month in FY 2001.

Electronic Payments. The DCIA requires that we issue payments electronically. Ninety-three percent of our Retirement Program annuitants are now paid via Direct Deposit—the highest percentage among all Federal benefit—paying programs. We believe it may be difficult to convince a great many of the remaining annuitants to enroll, since they are older individuals who may be uncomfortable with the concept of electronic payments and banking. Most of the future growth in our direct deposit participation rate will come from our annuitants who live overseas. In fact, during the year, we initiated an effort to extend "International Direct Deposit" to our overseas customers and will begin paying annuitants living in Italy this way very soon.

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Management Decisions on Questioned Costs	Number of Audit Reports	Questioned Costs (in $ millions)
No management decision on questioned costs at the beginning of the year	19	65.7
Questioned costs during the year	54	279.7
Management decisions made duringthe year:	49	276.4
Costs disallowed		233.6
Costs not disallowed		42.8
No management decision on questioned costs at the end of the year	24	68.9
No management decision on questioned costs within six months of issuance of report	3	8.1

Note that the resolution of the three reports totaling $8.1 million at fiscal year-end 2001 and 2000 has been delayed at the request of the OIG.

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The Electronic Payment table shows the percentage of payments we made electronically in FY 2001 by major category of payments:

Inspector General Act Compliance

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

The table above provides a summary of the status of management decisions on cost questioned by the OIG during FY 2001.

Looking Ahead

OPM's Priorities and Management Challenges

Thanks to our significant advances in FY 2001, OPM entered the new fiscal year ready to focus on our leadership responsibilities for strategic human resources management. Considerable challenges remain, however. OPM continues to build the capacity and the credibility to help agencies recruit, manage, and retain the high-quality Federal workforce America needs to accomplish goals important to the nation in the 21st century. We are taking steps to improve service to citizens (that is, Federal job seekers and Federal employees, retirees and their families). And we are working to ensure that OPM internally makes progress toward the President's vision of a well-managed government.

We are also ensuring that our priorities include actions to address each of the seven management challenges that our Inspector General (IG) identified as critical for the agency to succeed. The IG's list of challenges follows; these challenges align closely with the priority actions that OPM has planned:

- Human Resources Management Leadership
- Retirement Systems Modernization
- Expanding e-Government
- Implementation of the Government Performance and Results Act (GPRA)
- Revolving Fund and Salaries and Expenses Accounts
- Improving the Performance of the Federal Employees Health Benefits Program (FEHBP)
- OPM's Financial Management Oversight of the FEHBP

Serving Our Agency Customers

In FY 2001 we clarified that in addition to the President, our primary customers are the Federal departments and agencies that deliver products and services to the American public. We are addressing this customer focus in two ways: through our leadership of strategic human capital management in the government, and through an internal restructuring of OPM.

Leading Human Resources Management

We are leading agencies in implementing the President's human capital initiative, one of five initiatives designed to improve government management. Through this initiative, agencies will focus on strategically managing their most important resource —their human capital—to enable them to achieve their mission and goals. OPM will ensure that agencies have access to the full array of tools and flexibilities that they need in order to hire, manage, and retain a high-performing workforce. OPM will also work closely with OMB to assess each agency's progress on the Executive Branch Management Scorecard, which assigns each agency a red, yellow, or green status light.

To help agencies achieve green status, in early FY 2002 OPM issued a Human Capital Scorecard that outlines specific goals and measures for each agency to integrate into their budget and performance plans. OPM is also developing a human capital survey to be administered to a governmentwide sample of employees in spring of 2002. The results of this survey will be used by departments to identify key areas of human capital that need specific attention.

As we entered FY 2001, raising the image of public service was identified as one of the agency's major challenges. The response of the workforce to the events of September 11 and its aftermath have helped raise respect for government to its highest levels since the 1960s and generated a new interest in public service, especially among young people. Our current challenge is to sustain this high image of public service and capitalize on the opportunity it presents to bring new talent into the government. We will be pursuing innovative approaches and partnerships to reinforce the message that working for America is a meaningful and fulfilling career.

We also will pursue appropriate changes to modernize and balance the government's compensation environment so that agency leaders can compete effectively in their respective labor markets and use rewards strategically to support their mission, goals, and objectives.

We will build on the legislative proposals that were introduced in Congress in early FY 2002 as the Managerial Flexibilities Act by continuing to review existing laws and regulations to look for additional opportunities to add new flexibilities or to remove barriers to effective human resources management.

OPM Restructuring

We identified the workforce planning and restructuring process initiated by the President in the summer of FY 2001 as an opportunity to begin reorganizing OPM to adjust to our new focus on our primary customer, as well as to achieve the President's objectives of citizen-centered, results-oriented, market-driven government. In September 2001 we produced detailed, program-specific plans designed to (1) maximize efficiency and delayering; (2) redirect staff to front-line services, (3) speed decision-making, and (4) position the agency to address the larger human capital issues the government faces.

In FY 2002, a team of OPM employees, including members of all of OPM's major program offices and representatives from our employee unions, AFGE Locals 32 and 2450, took these initial plans a step further, and created a bold new structure for OPM that will enhance OPM's support of departments and agencies, and increase our capacity to lead the human capital initiative. The proposed organizational structure clearly focuses on customers, emphasizes outcomes over process, and fosters the integration of human resources management and accountability across government. Direct reports to the OPM Director in the new, flatter organization are reduced, with a focus on Federal agencies (customers) and core HR disciplines. With this structure, OPM will be better positioned to carry out new responsibilities, such as the HR components of e-Government, the OPM Human Capital Scorecard and other key issues related to the *President's Management Agenda.*

The Inspector General identified OPM's leadership of human resources management as a top management challenge because it will require significant attention and resources, and will require a strategic alliance with OMB, the Administration and the Congress. The actions OPM has planned for FY 2002 will address these concerns.

Serving Our Public Customers

OPM provides direct service to two groups: individuals seeking employment with the Federal government, and beneficiaries of the retirement and insurance programs.

Improving the Hiring Process
In FY 2002, OPM will take advantage of technology to improve the Federal hiring process by expanding the USAJOBS Federal automated employment information system to provide job seekers with streamlined resume submission, on-line feedback about their status in the employment process, and integrated, automated assessment. This e-Government project, Recruitment One-Stop, will provide employers with a searchable resume database and allow job seekers to enter their resume information once to apply for multiple Federal vacancies and to receive up-to-the-minute information regarding the status of their applications.

Serving Retirees
The Retirement Systems Modernization (RSM) project is our central strategy to meet our long-term customer service, business, and financial management goals for the Retirement Program. Modernizing our systems is a critical step toward providing state-of-the-art benefits counseling and employee self service benefits modeling tools and for effecting significant e-initiatives. RSM will provide for electronic transmission and storage of employee specific data, government-wide, that will ultimately result in real-time claims processing environment. This contemporary approach to benefits administration will make the Federal government a more competitive employer. The Inspector General identified the RSM project as another of OPM's major management challenges, due to the amount of resources dedicated to this multi-year project. OPM is addressing this concern by complying with all of the requirements of the Clinger-Cohen Act, and aggressively monitors expenditures against a comprehensive Capital Asset Plan.

Performance of the Health Benefits Program
The Inspector General also identified improving the performance of the Health Benefits Program as a management challenge for OPM. Our management of this program is affected by health care cost trends and other factors which we can plan for, but cannot control. For instance, the covered population is aging, the use of prescription drugs and medical services is increasing, and the number of health plans participating in the program each year is declining. Our first and foremost concern is keeping the program affordable for employees. To improve the effectiveness of the program in this environment, we will need to implement changes that allow us to maximize resources and incorporate flexibilities that produce the most cost-effective benefits package, and are pursuing these actions in FY 2002.

Implementing the President's Management Agenda in OPM

OPM is taking a comprehensive approach to implementing the five governmentwide and cross-cutting initiatives in the President's Management Agenda. Reflecting the priority assigned to assuring internal progress, a senior career executive has been designated to lead agency efforts and will dedicate 100% of his time to the initiatives in the Agenda. He leads an internal task force that consists of executive owners of each of the five initiatives. They meet formally on a weekly basis, and monthly with their OMB counterparts to track progress on the action plans associated with each of the initiatives.

OPM's actions are summarized below.

1) Strategic Management of Human Capital
OPM has created a comprehensive action plan to address all elements of the President's human capital initiative, including the restructuring plans described above. This plan builds upon the initial proposals, strategies and commitments we made in the September 2001 restructuring plan. It includes specific actions to:

- Identify mission-critical occupations in light of the FY 2002 agency restructuring, by May 2002;
- Identify new or revised competency requirements for these occupations, by October 2002
- Establish plans for a comprehensive Accountability System, by December 2002;
- Improve OPM's web pages to promote OPM as an employer of choice, and provide information about specific OPM job vacancies, by August 2002.

2) Competitive Sourcing
In support of the President's Management Agenda, we are committed to pursuing opportunities for competitive sourcing and the promotion of competition. OPM has established and is implementing a competitive sourcing program that includes the following elements for FY 2002:

- Hiring an expert commercial consultant to assist OPM in conducting public-private competitions and direct conversions;
- Initiating four public-private direct conversions;
- Hiring a dedicated competitive sourcing specialist; and
- Developing our FY 2002 FAIR inventory, which will identify additional positions to be competed in FY 2003.

3) Improve Financial Performance
To meet the President's goals for improved financial performance, OPM must take action to reduce erroneous payments and to ensure that our financial systems produce accurate and timely information. OPM has already taken significant steps toward this goal, by implementing the first phase of a new financial management information system. This system went into effect on October 1st, 2001, and will be fully implemented by the end of FY 2002.

- Continue to generate consolidated financial statements that receive unqualified audit opinions, in the face of accelerating year-end and quarterly reporting timeframes and additional disclosures in financial statements.
- Address all reportable conditions and resolve our weaknesses the noncompliances of our financial management systems with the Federal Manager's Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA).
- Establish fundamental systemic and procedural control over our Revolving Fund and Salaries and Expense account activities. The implementation of our new core financial management system is an enormous step in this direction.

- Identify all improper payments, and take further measures to reduce the amount of improper payments we make to Retirement Program annuitants and survivors.

- Enhance our control over the payments we make to community-rated Health Benefits Program carriers, by implementing our enrollment and premium reconciliation system.

Two of the IG's management challenges, improving internal controls over our Revolving Fund and Salaries and Expenses Accounts and improving financial oversight of the FEHBP program are addressed by the actions we are have described above.

4) Expanding Electronic Government

OPM is aggressively moving forward to meet the criteria in the President's e-initiative. We are leading five governmentwide technology projects in FY 2002 that will have wide-reaching implications for saving taxpayer money and improving efficiency, and meeting the mandates of the Government Paperwork Elimination Act. These projects will use information technology to foster e-Government among a wide variety of stakeholders.

- The Enterprise HR Integration project will lead to the consolidation and modernization of Federal HR systems. The Human Resources Data Network (HR-DN) is the first step in this process. It began as an initiative of the Federal Human Resources Technology Council (HRTC). The HR-DN will reengineer government-wide HR recordkeeping and reporting practices to facilitate the use of human resources data by a variety of stakeholders, streamline and improve government-wide reporting, eliminate the need for paper employee records, and enable the electronic transfer of HR data throughout the Federal sector. This project will be expanded in FY 2002 to encompass a new vision of fewer HR delivery systems.

- A related e-Government project will be our leadership of a governmentwide effort to consolidate and modernize Federal payroll systems and services. The goals of this project are to modernize payroll systems, reduce costs of routine operations, consolidate human resource and payroll data, and standardize human resource and payroll policy and processes governmentwide.

- We are also leading three other e-Government projects: e-Clearance, e-Training, and Recruitment One-Stop. These initiatives will use Internet-based technologies to accelerate and streamline service delivery to citizens, reduce paperwork burdens on business, improve management and responsiveness of joint federal-state-local programs, and apply commercial best practices to improve government operating efficiency.

The IG identified OPM's leadership of these five e-projects as a management challenge, based on the need to simplify the underlying business processes and unify government operations. OPM will need to work closely with OMB and other Federal departments to make these projects successful, and is already pursuing this path.

5) Integrating Performance and Budget

To support the President's Management Agenda, we must implement an improved cost allocation system that will allow us to monitor accurately the performance of our programs and integrate it with associated cost, and develop improved measures of program effectiveness. Beginning in FY 2002, OPM implemented a zero-based budgeting process that is giving us the ability to identify resources by program goal. We also used this information in preparing our *FY 2003 Congressional Budget Justification and Annual Performance Plan.* Additional specific actions we will take include:

- Realigning staff in the Office of the Chief Financial Officer to improve delivery of budget and financial services to programs, by September 2002;
- Revising OPM's Strategic Plan, by September 2002;
- Preparing a comprehensive evaluation and performance measurement plan, mapped against the revised Strategic Plan, by September 2002;
- Submitting a performance-based budget request for FY 2004, in September 2002; and
- Completing full implementation of an improved cost allocation system by September 2003.

The President's initiative to integrate performance and budget embodies the basic purpose of the GPRA. The IG identified OPM's implementation of the GPRA as a management challenge for OPM, in part because of the complexity of measuring outcomes for functions which are governmentwide and policy-oriented, and in part because human resources management in the government is decentralized. OPM is addressing these concerns through its actions to implement the President's initiative.

Limitations of the Consolidated Financial Statements

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

Annual Performance Goals and Results

Performance for FY 2001 Goals and Objectives

Strategic Goal I. Our FY 2001 Annual Performance Plan described 24 annual performance goals and 12 Strategic Objectives under Strategic Goal I. We met 21 of these and, in so doing, improved the ability of employing agencies to recruit and retain a workforce that is citizen-centered, results-oriented, market-based, and characterized by quality of service.

Office of the Director Goal: Shape the Administration's direction on Federal human resources policy issues.

OPM met this goal by playing a key role in FY 2001 to support the President's human capital management reform initiative. The agency collaborated with OMB to define the objectives and identify effective strategies for the workforce analyses and restructuring plans required from all agencies as the first step in this initiative. It provided training sessions for top agency executives and OMB examiners on these objectives and strategies. It also provided direct assistance to agencies, including advice and models for conducting workforce analyses and direct statistical computations when requested by agencies. OPM partnered with OMB to develop the Standards for Success for assessing the status and progress made on the human capital initiative for the Executive Branch Scorecard for the President's Management Reform Agenda. The agency established a firm footing for more robust measurement of effective human capital management by collaborating with a private sector consortium to identify the most useful measures of the impact of human capital actions on achieving mission results. This project, conducted with the assistance of the Human Resources Management Council, resulted in the OPM Human Capital Scorecard, a tool for assisting agencies to improve their management and deployment of human resources. The Scorecard, which complements the Executive Scorecard, was issued in December 2001.

OPM played a direct role in the government's response to the terrorist attack on the United States. OPM's extensive communication network with agencies was used to determine, within hours, the numbers of Federal employees directly affected through either personal loss or damage to their workplace. Within days, Director James was working with the President's staff (and later the Office of Homeland Security), the D.C. Mayor's office and the Metropolitan

> **At this critical time in our nation's history, when freedom and liberty are on the line, government has serious responsibilities. We need capable and talented citizens doing those important jobs. We need them in the federal government, we need them in state government, and we need them in our local governments.**
>
> **—Kay Coles James address to the Virginia Human Resource Conference**

Washington Council of Governments to develop better plans for handling future security emergencies in the Washington, D.C. area and emergencies affecting Federal workers nationwide. Also within days, OPM took actions to enable agencies to staff positions critical to the War on Terrorism, such as implementing emergency hiring flexibilities, establishing a Patriot Readiness Center where retired Federal employees could register to re-enter the workforce in critical positions, and completing background investigations and fingerprints. OPM continued to provide assistance as FY 2002 began, for example, by creating a Homeland Readiness and Security Jobs link in USAJOBS.

In the FY 2001 HR Directors' Customer Satisfaction Survey, 79% agreed that OPM focuses on the appropriate issues, initiatives, projects and policies. In addition, 76% agreed that OPM provides useful human capital policy guidance, programs and strategies, and 85% agreed that OPM collaborates effectively with agencies in the development of effective human capital management actions and strategies.

Strategic Objective: A flexible, competitive and performance-oriented compensation and benefits environment that allows the Government to recruit, manage and retain a quality Federal workforce is developed by FY 2002.

WCPS Goal 1 Options for performance-oriented approaches to strategic compensation in the Federal government are formulated and vetted among stakeholders so that legislative proposals can be drafted and forwarded for action.

WCPS Goal 2 Performance improvements in agencies throughout the government are promoted by maintaining a flexible, decentralized policy framework for managing employee performance, particularly through the effective use of appraisals and awards.

RIS Goal 1 The Federal employee benefit programs are enhanced to offer a more flexible range of benefits as OPM develops proposals for new benefit offerings and implements new programs.

The strategic objective is on schedule as the three annual goals supporting it were met. OPM worked on some initial internal planning documents that included some options for making far-reaching proposals for altering the pay and job evaluation systems for Federal white-collar work. After initial vetting of these pre-decisional documents with senior OPM officials, the agency undertook preparation of a white paper to lay out the case for modernizing Federal pay. The paper also raises the issues that will have to be addressed to deal with the problems of the current systems and establish modern systems where performance would be valued and rewarded more than hierarchy and time in service.

To support the President's management goal of ensuring a citizen-centered, results-oriented, and market-based government, the agency developed a workshop about measurement of managerial performance using balanced measures of results. The workshop was extremely well received at the Strategic Compensation Conference. With its *emphasis on results and assessment of customer and employee perceptions, this material serves the President's management agenda particularly well. In addition, the measurement approaches the workshop covers are well suited to establishing links between pay and performance.*

In addition to taking the long view for modernizing compensation, OPM worked on other compensation initiatives. It supported the President's Freedom to Manage initiative by working closely with OMB to complete drafting and revision of legislative proposals. The agency issued final criteria under which the Internal Revenue Service may establish broad-banding systems and continued to confer with them about their application. It convened an internal cross-program working group to consider a comprehensive approach to compensation and benefits for kinds of various law enforcement work. This latter effort could take on additional significance in the wake of the events of September 11.

OPM continued to convene stakeholder discussion groups as outlined in the Strategic Compensation Initiative process. These groups examined technical and policy issues to identify approaches that might be relevant and useful in Federal organizations. Part of the effort included drafting a set of goals and principles for a reformed Federal compensation environment and vetting them with stakeholder leadership for reaction and refinement. These goals and principles are intended to help guide the specific proposals for reform.

The agency achieved the major milestones in its benefits design and policy agenda and met its scheduled commitments for the Long-Term Care Security and the Federal Erroneous Retirement Coverage Correction Acts (FERCCA). The Federal Long Term Care Insurance Program provides Federal employees with greater flexibility in selecting benefit options to meet their individual needs, while FERCCA provides affected employees the option of correcting their retirement coverage status.

Employees' perceive that individual performance appraisal is a fair reflection of their performance as measured by a 1% increase in the percentage of favorable ratings in the annual Merit Systems Principles Questionnaire. This increase is an annual increment to reach a 5-year strategic target of a 5% increase in favorable ratings.

MSPQ Result	FY 1999 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
Performance Appraisals are Fair	64%	67%	66%	66%

Strategic Objective: A model for workforce planning, analysis, and forecasting, plus state-of-the-art tools and strategies for recruitment, selection and succession planning, are available to agencies by FY 2002.

ES Goal 1 A model for workforce planning, analysis, and forecasting (initially enhanced by a direct link to Census, Labor, and education data with expansion of databases in later versions) is in place so that agencies can enhance workforce quality for mission critical occupations by selecting from a diverse pool of well qualified applicants, and by conducting effective succession planning.

Neither the annual goal nor the strategic objective were met during FY 2001 since OPM did not finalize the requirements for the comprehensive version of the Workforce Planning and Analysis Model. However, the agency made progress on this initiative as it expanded its governmentwide leadership role in workforce planning by educating and assisting the Federal community with their workforce analysis and restructuring plans as required by the President's Management Agenda.

To complete the initiative, OPM established a team to research tools already developed that could be shared, and learned about Army's Workforce Analysis and Forecasting system. The agency jointly sponsored with Army a seminar to showcase the Army tool. OPM continues to maintain and update a comprehensive collection of workforce planning tools available to agencies, including the Army system, through its Workforce Planning Web site.

An online workforce planning guide was added to the Federal Workforce Planning Model Web site in December 2000. The Web site and guide served as a roadmap for assisting agencies with their workforce analysis and workforce restructuring plan. The agency also added competency assessment tools to the Web site in June, allowing agencies to identify skill gaps in their current workforce.

In our most dynamic and successful corporations, modernized HR departments help their corporate executives determine future workforce needs with strategic planning and competitive analysis, providing a firm foundation and a business case for their recruitment, retention, compensation and employee training programs. They look at their personnel not as "overhead," not as a "cost of doing business," but as "strategic human capital" to be managed and invested in.

—Kay Coles James
Nov. 15, Excellence In Government

Strategic Objective: Federal agencies have an increased understanding of and commitment to a family-friendly workplace culture that helps workers balance their careers and personal responsibilities.

OWR Goal 1 To promote work/life and wellness programs governmentwide and provide agencies with policy guidance and information resources on a full range of work/life and wellness initiatives.

Both the annual goals and strategic objective were met. OPM staged a series of conferences, seminars, and working groups that attracted representatives of many Federal agencies and consistently achieved high ratings for the quality of service provided.

In January and March the agency conducted Employee Assistance Program (EAP) Roundtable meetings with representatives of 29 agencies to facilitate peer-networking discussions. In March 2001 more than 300 people attended the seminar "Telecommuting Works," which addressed how work/life practitioners, managers, supervisors, and program coordinators could implement strategies to advance telecommuting in their agencies. Two months later, representatives of 50 agencies attended a meeting on the child-care subsidies program, which provided program updates and guidance as well as a discussion of agency experiences. In June the agency sponsored a semi-annual meeting for Federal Work/Life Coordinators. It also conducted presentations in May and June to Federal Executive Boards in Chicago and Seattle on how to implement, support, advance, and promote telework in the Federal sector.

It's a management imperative that we start making better use of telework in the federal government if we are going to be competitive employers in the 21st Century.
—Kay Coles James

Although the survey of HR Directors revealed that the agency hasn't met the targets set for leadership in many of its work life programs, two indicators improved over previous years' results and another was just a point shy of the target

	Percent Satisfied with Policy Leadership			
	FY 1998	FY 2000	FY 2001	FY 2001
Program Area	Results	Results	Target	Actual
Work & Family Programs	90%	94%	94%	93%
Workplace Violence	90%	82%	90%	84%
Employee Assistance Program	84%	72%	84%	70%
Health Promotion/Disease Prevention	47%	66%	68%	74%

Strategic Objective: Effective and cooperative labor-management relationships continually improve performance and service to the public.

OWR Goal 3 Federal agencies have increased understanding and commitment to effective employee and labor-management relationships that improve performance and service to the public.

OPM met its annual goal during FY 2001 and is meeting this strategic objective as the agency achieved several performance indicators it established for FY 2001. For instance, surveys of participants in appropriate HRMC Networks and at the Symposium on Employee and Labor Relations (SOELR) demonstrated that agency specialists are satisfied with OPM leadership in this area.

In addition, thirteen proposed or final regulations were sent out for comment to unions holding governmentwide consultation rights. The agency also contacted the unions directly to discuss proposed policy changes in greater detail and to schedule briefings. The agency held six meetings of the HRMC Network on Employee Relations and six more on the HRMC Network on Labor Relations, as well as an Open ER Forum Meeting. These sessions covered new case law, new and proposed legislation, Executive orders and Administration policies, and continuing and emerging issues, such as computer misuse and the anthrax crisis.

While employees' perceptions regarding how poor performance is addressed fell short of the target set for FY 2001, this indicator remains just above 30 percent.

MSPQ Result	FY 1999 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
Steps are taken to deal with poor performers	32%	31%	34%	32%

Strategic Objective: Streamlined agency hiring, which incorporates new hiring authorities, computer technology for on-the-spot examining and an assortment of competency-based employment assessment tools that can be tailored to agency requirements, is in place by FY 2003.

ES Goal 2 Flexible, cost-effective, governmentwide intern programs that incorporate competency-based assessment tools are available so that agencies can identify high quality, diverse candidates for mission critical occupations

ES Goal 13 Organizational assessment tools are available to agencies to improve governmentwide performance, including customer service.

OPM met both of the annual goals during FY 2001 and are on the way toward meeting this strategic objective in FY 2003.

For instance, new hiring programs and expanded assessment tools were established to meet agency needs. In addition, the agency rolled out the Federal Career Intern Program at a presentation before Federal agency representatives on January 2001, and followed up with presentations at the National Academy of Public Administration in February, at a Career Services Conference in Puerto Rico in May, and at the Performance Institute in July. OPM also covered assessment options for use with the Program at the Solutions Workshop in Atlanta in July.

The Performance America network, established to promote the development of high-performance organizations, continues to grow, and members are moving toward Internet-based administration of the Organizational Assessment Survey (OAS). It now includes approximately 40 organizations, with $1.7 million in new business. OPM continued to *develop the Performance America Assessor, an Internet-based suite of applications for survey creation, response collection, and results distribution, incorporating new features such as the ability to provide online surveys in Spanish.*

Strategic Objective: By FY 2003, governmentwide hiring selections are based on broader measures of job-related competencies, and occupation definitions are aligned so that they are compatible with those used in the private sector.

ES Goal 3 A validated competency-based approach to qualification standards and assessment policies are implemented governmentwide.

OPM did not meet the annual goal but is still progressing toward the strategic objective. The agency made great strides in improving governmentwide qualification standards and assessment policies. It undertook governmentwide studies for Information Technology (IT), Science and Engineering, and Trades and Labor occupations. The IT survey was administered and preliminary analyses conducted. As a result of the Accountant and Information Technology pilots, the agency is making significant changes in its original strategy. It is now collecting additional data and making changes to the original profile design to ensure the new standard conforms to human resources statutes and regulations. The pilots highlighted a need for a more comprehensive strategy that will make implementation of the new standards more helpful to Federal agencies. It is rewriting the operational guide for implementing competency-based job profiles to incorporate these changes.

Strategic Objective: Human resources development strategies result in Federal training being a more outcome-oriented, measurable improvement function by FY 2004.

OWR Goal 2 OWR human resource development (HRD) leadership enhances workforce performance, increases use of learning strategies to achieve organizational performance goals, and improves HRD management.

OPM is meeting this strategic objective. Its leadership activities and advisory and consultative roles with agencies and organizations outside the government have provided methods and tools to enable agencies to implement and enhance their HRD strategies to address their workforce development needs.

The agency led an interagency workgroup that developed and presented two workshops on integrating training into the strategic planning process, "Make a Wise Investment: Plan Training Strategically and Get Results." It also conducted two meetings of the Training Technology Implementation Group via satellite broadcast so that agency field staff could participate.

The percentage of employees who believe that workers receive training needed to improve organizational performance rose 4 percentage points in FY 2001, after declining slightly in FY 2000

MSPQ Result	FY 1999 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
Employees are educated and trained when it will result in better organizational performance	58%	57%	62%	61%

Strategic Objective: Efficient and cost-effective human resources technology improvements, designed through the governmentwide Human Resources Technology Council, are available to all agencies by FY 2004.

HRTC Goal 1 Governmentwide human resources business process redesign, systems modernization efforts, and planning initiatives to fully exploit the use of modern automated technologies are pursued by the Human Resources Technology Council (HRTC) as a result of the leadership and support provided by OPM.

HRTC Goal 2 Governmentwide human resources management (HRM) recordkeeping and reporting practices are reengineered to facilitate the use of human resources data and to streamline and improve HRM reporting governmentwide.

OPM met both of the HRTC related goals during the year and is on track to achieve its strategic objective. The agency made significant progress planning for the design and development of the Human Resources Data Network (HRDN) and the identification of the data it will receive, exchange, and store. It identified data from more than 115 paper forms currently stored in 1.8 million personnel record folders. The HRDN Program is now positioned to standardize for all agencies the data required for an electronic Official Personnel File, data required for exchange between government agencies, data required by agencies and oversight entities to analyze HR policy effectiveness and workforce management, and data required for employee review.

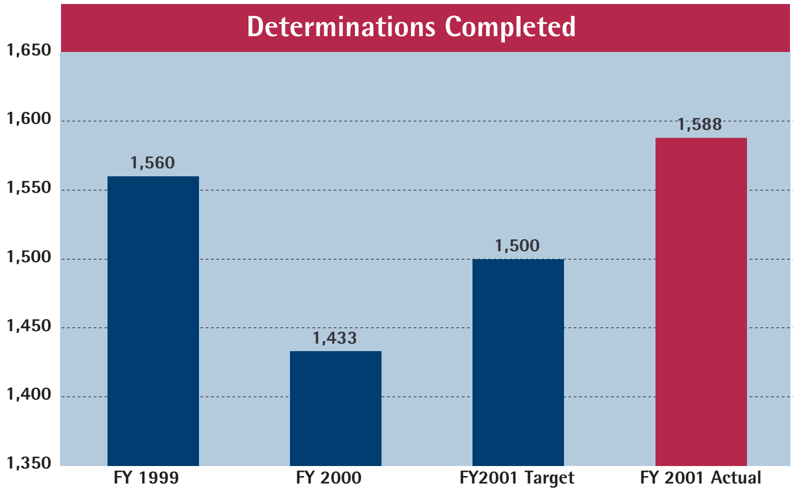
Eight major deliverables were completed using interagency workgroups, program staff, and contractors. All products were completed within schedule, and within terms of firm, fixed-priced contracts (where appropriate), and at acceptable quality standards.

Strategic Objective: The personnel security community makes effective use of the investigative policy we establish and the leadership we provide as a member of the U.S. Security Policy Forum..

IS Goal 1 Only suitable applicants, appointees and employees are hired for, and remain in, the Federal competitive service.

IS Goal 2 Promote uniform application of investigative standards mandated by statute and Executive order by developing and implementing governmentwide investigative policy.

Both of the annual goals and this strategic objective were met. OPM customers continue to report a very high level of satisfaction with our leadership in investigative policy.



The number of directed removals was lower than expected because the agency received fewer serious issue cases requiring OPM intervention. Of the 1,588 determinations made in FY 2001, only one has been reversed upon appeal to the Merit Systems Protection Board. One determination was also affirmed in OPM's favor by a Federal Circuit Court.

Performance Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
Determinations Completed	1,560	1,433	1,500	1,588
Directed Removals	58	37	100	41

During the security/suitability appraisals conducted in FY 2001, OPM again paid particular attention to agencies' implementation of the investigative standards and adjudicative guidelines approved by the President in 1998. The agency reviewed agencies' internal regulations to ensure that full implementation had taken place. If they had not been fully implemented, OPM worked with the agency to ensure that they were on course for compliance with the Presidential mandate. The agency has found that it needs to continue to educate agencies in this area to ensure that they are in full compliance. OPM gathers this information in its security appraisal visits and/or through conversations with agency representatives. Although the agency did not survey HR Specialists about their satisfaction with its information sharing on suitability determinations, other customer surveys revealed satisfaction levels near 90% or better, as shown below. OPM is working with its customers to address any concerns about case content and quality.

HR Specialists Customer Satisfaction	FY 1998 Results	FY 1999 Results	FY 2001 Target	FY 2001 Actual
Satisfaction with Content & Quality	94%	97%	95%	93%
Satisfaction with Timeliness	87%	90%	87%	89%
Satisfaction with Policy Guidance & Support	87%	92%	88%	95%

Strategic Objective: By FY 2004, the government's executive personnel systems will appropriately distinguish leadership and technical/professional attributes and help agencies develop, select and manage an exceptional executive corps.

ER Goal 1 Complete the first phase of a comprehensive, long-term study of the organization, structure, and composition of the Senior Executive Service and other senior personnel systems.

ER Goal 2 Agency SES performance management systems help to improve individual and organizational performance, hold executives accountable for results, and provide an adequate basis for personnel decisions.

While OPM did not meet the first of its two annual goals pertaining to the executive personnel system, the agency continues to work toward our strategic objective. OPM planned to begin the review of legislative history, studies, and reports on the structure of the SES and to hold informal meetings and discussions with stakeholders in order to develop a series of draft options or alternative structures. However, priority activities related to the extended Presidential transition and lack of sufficient staff caused the agency to defer the bulk of the effort until FY 2002. This effort will include a special study that will compile background information to support the structure study.

In October 2000, OPM published revised governmentwide performance management regulations for the SES which emphasize accountability for results, increase agency flexibility to develop performance management systems tailored to their needs, and require consideration of customer satisfaction and employee perspective in performance plans and evaluations.

Strategic Objective: Clear and effective human resources regulations, policies, and guidance continue to be developed, implemented, and communicated to support agencies' missions and to carry out the will of the Congress and of the President, as expressed in law and directive.

OMSOE Goal 1 Improve HRM policies and programs so that they are more effective, efficient, and mission focused.

OWR Goal 4 Agencies make use of alternative dispute resolution (ADR) programs in order to make dispute resolution a more timely, cost-effective, and less divisive process.

ES Goal 4 Regulations and guidance needed to carry out the policies of a new Congress and a new President, to meet emerging needs and to "fine-tune" policies newly implemented in FY 2000, are developed and communicated to agencies for use when recruiting, selecting, promoting, reassigning, or downsizing.

WCPS Goal 3 Needed changes in all significant workforce compensation and performance policies and programs are identified, and changes are introduced so that Federal agencies are better equipped to respond to changing human resources needs in the 21st century.

WCPS Goal 4 Governmentwide position classification and job grading systems are improved to include more up-to-date standards and to apply more streamlined approaches to classification

ES Goal 5 Federal workforce diversity and veteran hiring efforts for Executive Branch departments and agencies are monitored and reported on, and policies, guidance, and strategies are developed, to assist agencies in increasing diversity levels in key Federal occupations and at key pipeline grade levels as they endeavor to achieve a workforce representing all segments of society, honoring national values placed in law

OPM met all of the six annual goals for this strategic objective during FY 2001 and is achieving the objective. The agency developed and implemented clear and timely human resources policies, regulations, and guidance throughout the year in accordance with the initiatives of the new Administration.

Also, OPM issued five reports in FY 2001 that should have significant impact on human resources management. For example, one report issued a "wake-up" call to agencies to improve their selection and development of supervisors in anticipation of the large number of impending retirements. The report's findings were widely reported in the media. The agency's other studies were: "Telework Works: A Compendium of Success Stories," "Veterans: Getting Their Preference," "Federal Benefits Counseling," and a follow-up to a 1997 OPM study on the extent to which Federal agencies announce vacancies that require public notice. This follow-up study found a nine percent increase in the number of vacancies that receive public notice.

The agency finished research on four special studies in FY 2001 and began research on nine new special studies. Some of these topics are: pass/fail performance rating, alternative dispute resolution, Internet recruitment, job analysis, merit promotion, awards, quality step increases, how work/life programs help recruitment and retention, and why individuals should answer the call to Federal service. Some of these studies will be published for external audiences; all of them will provide input to OPM policy-making efforts.

OPM continued to oversee evaluations of all active demonstration projects and approved the baseline/implementation report for the Acquisition Demonstration Project. It also conducted an on-site evaluation at one of this project's sites to assess allegations of adverse impact on protected groups.

The agency also continued to entertain demonstration project inquiries from agencies. Work began in earnest to develop a proposed new demonstration project creating a senior professional corps at IRS to parallel the SES, but focusing more on high-level technical rather than executive competencies. In addition, even though DoD Laboratory Demonstration Projects were removed from OPM authority, OPM continued to monitor implementation, conduct, and evaluation of these projects through participation in the Laboratory Quality Improvement Panel (LQIP) and ongoing dialogue with project managers.

Lessons learned from demonstration projects had a major impact on the development of the Administration's proposed Managerial Flexibility Act of 2001. Some of the flexibilities proposed in the bill for application across government were first successfully tested as demonstration projects, such as the categorical grouping of job applicants in lieu of numerical rating and ranking. The Act would expand the demonstration project authority itself by streamlining its provisions and by creating an Alternative Personnel System authority which would allow tested innovations, like pay banding, to be applied administratively by OPM to agencies that wish to adopt them. In this way the impact of demonstration projects would be permanently multiplied, by allowing them to spread without a special act of Congress.

Sixty-five percent of employees believe that workers are treated fairly and equitably, as demonstrated by the FY 2001 Merit Systems Principles Questionnaire.

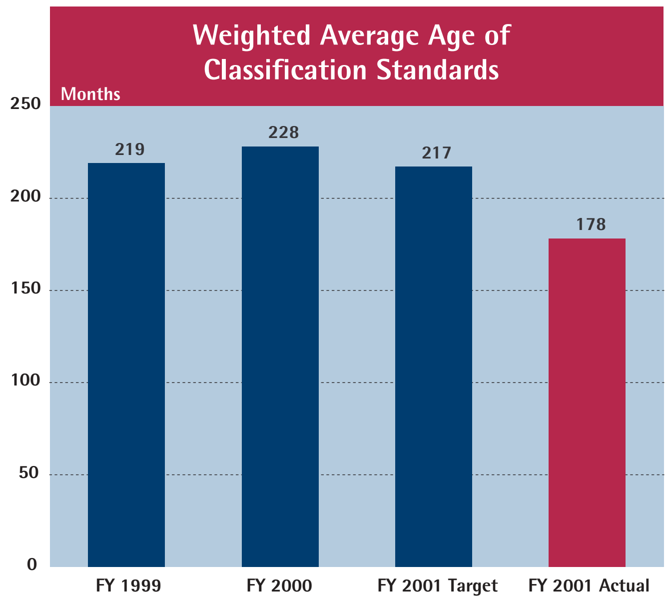
MSPQ Result	FY 1999 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
Employees Treated Fairly and Equitably	63%	65%	65%	65%

OPM worked closely with OMB to develop and refine a series of legislative proposals that were incorporated into the new Administration's first major legislative proposal designed to address strategic human capital issues. Part of the President's Management Agenda announced in August 2001, this proposal includes a number of new pay flexibilities designed to improve the usefulness of recruitment and relocation bonuses, retention allowances, and special salary rates. The package also includes provisions designed to simplify and restore confidence in the fairness of individual pay administration determinations.

In response to requests from the Chief Information Officers (CIO) Council and human resources directors for additional compensation flexibility to address IT recruitment and retention problems, the agency authorized new special salary rates for about 33,000 *current IT workers governmentwide in January 2001. This action won praise from the CIO Council and the National Academy of Public Administration as a necessary first step toward resolving these issues.*

In response to concerns about employees who are required to perform long hours of overtime work in connection with the national emergency that began on September 11, 2001, OPM developed a legislative proposal to increase the annual premium pay limitation when the President declares an emergency.

As a part of a broad-based initiative to encourage telecommuting among Federal agencies, the agency reviewed management policies and guidance to ensure that these adequately support successful results-based performance management for employees who telecommute. It ensured that policies and guidance were broadly written to cover management of off-site work.



OPM issued six new job family classification standards in FY 2001, resulting in a substantial decline in the average age of classification standards, weighted by Federal population size. One of these new standards covered IT specialists and was part of the agency's integrated effort to improve HR systems to meet current needs. OPM worked with the CIO Council in developing that standard.

OPM's surveys of human resources directors report the following

HR Directors	Percent Satisfied with Policy Leadership* FY 1998 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
Suitability Determinations	70%	58%	72%	86%
Employment Information	84%	86%	86%	86%
Selection and Promotion	76%	76%	78%	89%
Workforce Restructuring	81%	79%	80%	53%
Performance Management	85%	78%	80%	80%
Position Classification and Management	58%	68%	70%	82%
Pay and Leave Administration	78%	87%	87%	91%
Federal Wage System	67%	62%	69%	74%

**In the FY 2001 survey, the question was changed to focus on the usefulness of OPM policy guidance*

After consulting with the Federal human resources community, OPM made permanent the Interagency Career Transition Assistance Program and the Career Transition Assistance Program. These programs extended the safety net for displaced employees by giving them priority placement, but only in jobs for which they are well qualified and for which they specifically apply.

In order to streamline Federal hiring and promotion processes, the agency updated or abolished 109 wage grade and General Schedule qualification standards, and created or amended numerous excepted service appointing authorities to help shorten the time it takes to hire new employees.

Federal Workforce	FY 1999 Results	FY 2000 Results	FY 2001 Results
Women	43.5%	43.8%	44.0%
All minorities	30.0%	30.4%	30.8%
Hispanics	6.4%	6.6%	6.7%

OPM conducted two workshops about the Federal Equal Opportunity Recruitment Program (FEORP) regulations and Federal agency roles and reporting requirements. More than 200 agency representatives attended.

Strategic Objective: Support the Voting Rights Act of 1965 (Public Law 89-110) by providing observers for elections, and examining and producing lists of eligible voters who are protected under the provisions of the Act.

OMSOE Goal 8 To ensure voting rights are protected under the Voting Rights Act.

OPM continued supporting the Voting Rights Act and protecting voting rights during FY 2001 as it provided 651 observers and 48 examiners in 14 states, covering 364 polling places. This included support for 18 elections held at locations where the predominate language of voters was other than English..

Strategic Goal II. We continued to ensure that the merit system is consistently honored across the Federal government. In our oversight of the merit system, we completed our scheduled reviews of eight large and nine small agencies and 96 delegated examining audits. These activities resulted in our achieving all of the 7 goals described in our fiscal year 2001 Performance Plan.

Strategic Objective: Agencies adhere to the merit principles and other laws, rules, regulations, and public policies governing human resources management.

OMSOE Goal 2 Improve and support the high standard of agency adherence to the merit system principles and other laws, rules, regulations and public policies governing Federal human resources management.

ER Goal 3 Ensure that all career SES selections, particularly those of non-career employees for career SES appointments, comply with merit principles; and that the use of non-career and limited appointment authorities complies with statute and regulation.

IS Goal 3 Agency personnel security programs are made more effective as a result of OPM evaluations which note best practices, identify deficiencies and make recommendations for improvement.

OPM met its three annual goals during the year. Thus, this objective is being achieved. Merit systems reviews reflected that most agencies were substantially in compliance with merit principles and HR laws and regulations. Where inconsistencies were identified, the agency worked closely with those organizations to ensure their practices were brought back into compliance. All problems uncovered during the oversight reviews were resolved in an appropriate and timely manner.

The agency conducted comprehensive reviews of HR programs in eight large agencies and nine small agencies, as well as 96 delegated examining audits. In addition, we completed an inventory of all Federal agencies to determine if they are subject to our oversight review and to identify their authority to appoint, pay, and conduct other HR activities outside of title 5, U.S. Code. As a result, OPM doubled its coverage of small agencies to 80 and added these agencies to its regular review schedule.

Merit staffing reviews were conducted of all proposed SES career appointments of individuals from non-career positions. The agency did not encounter any cases that did not meet the intent and spirit of the law.

OPM carried out 11 inspections and evaluations of agency personnel security program operations, identified deficiencies, and made recommendations for corrective actions. The agency is intensifying its training efforts and working with the USDA Graduate School to make sure that there are always courses available to assist agencies in meeting their security and suitability responsibilities.

In course evaluations, 88% of trainees rated the ten modules of the course good or excellent. Six of nine measures in the annual Merit Systems Principles Questionnaire that reflect the Federal workforce's perception of the equity and merit in the workplace met or exceeded the FY 2001 target, and two of the three that did not were within the margin of error for the questionnaire.

	Percent Favorable Responses			
Merit System Principle	FY 1999 Results**	FY 2000 Results	FY 2001 Target	FY 2001 Actual
1. Recruit, select and advance on the basis of merit.	62	64	stable	65
2. Treat employees and applicants fairly and equitably.	63	65	stable	65
3. Provide equal pay for equal work, and reward excellent performance	44	45	improved	47
4. Maintain high standards of integrity, conduct, and concern for the public interest.	76	76	stable	68*
5. Manage employees efficiently and effectively.	55	54	improved	55
6. Retain or separate employees on the basis of their performance.	65	66	stable	68
7. Educate and train employees when it it will result in better organizational and individual performance.	58	57	improved	61
8. Protect employees from improper political influence.	67	70	stable	69
9. Protect employees against reprisal for the lawful disclosure of information.	41	47	improved	44

*Questions were changed in the FY 2001 survey. Therefore a comparison to prior year's data is not meaningful.

** The FY 2000 results, reflected in the table above, differ slightly from the results reported in the FY 2000 Performance Report. The prior numbers were incorrectly reported in that they reflected the employee responses only rather than the entire population of people who responded to the survey.

Strategic Objective: By FY 2003, agencies have implemented accountability systems that effectively hold responsible officials accountable for their human resources operations and results.

OMSOE Goal 3 Improve agency accountability for conducting HRM in accordance with the merit system.

OPM is on track to meet this objective in FY 2003. In January 2001, Executive order 13197 was issued, giving OPM clear authority to require that agencies establish and maintain HRM accountability systems. A multi-agency taskforce drafted a concise set of accountability systems standards, now under review, in preparation for issuance in FY 2002. OPM also maintains an accountability database to track agencies' internal accountability efforts. Currently, eighty agencies are covered in this database. OPM's surveys of human resources directors reveal the following:

> **Creating a culture of performance means attaching a new seriousness and new rigor to the federal government's evaluation and accountability measures. Our appraisal systems must again become a vehicle for measuring and recognizing excellence.**
>
> **—Kay Coles James**

HR Directors Survey Results

HRM Accountability Systems	FY 1998 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
Percent Satisfied with Policy Leadership	60%	60%	62%	86%
Percent Satisfied with their Opportunity for Involvement	61%	74%	75%	70%

Strategic Objective: All agency units that conduct employment examinations under our delegated authority are fully trained, covered by effective internal accountability systems and meet our criteria for recertification by FY 2004.

ES Goal 6 An effective program of support to agency delegated examining units (DEU's) is maintained so that agency DEU's are continuing to operate according to merit system laws, regulations, and principles.

This Strategic Objective is being met. OPM updated the DEU Handbook and Training Materials using plain language in order to make them customer focused. The agency added information on the existing Federal hiring flexibilities, which will enable DEU's to reduce the time it takes to hire applicants. It also developed a database to communicate information to all 70 DEU's in an effective and timely manner. OPM's surveys of HR specialists showed that after declining during FY 1999, HR specialists are increasingly satisfied with our technical assistance to delegated examining units.

Delegated Examining Unit Assistance	FY 1998 Results	FY 1999 Results	FY 2001 Target	FY 2001 Actual
Percent HR Specialists Satisfied with Technical Assistance	78%	72%	74%	75%

Strategic Objective: Decisions of Federal adjudicatory agencies are consistent with civil service laws, regulations, and policies.

OWR Goal 5 Third-party decisions that warrant OPM intervention are identified to ensure that case decisions are consistent with civil service laws, rules, and policies.

ES Goal 7 Agency requests for variations, exceptions, extensions, waivers, adjudications, and schedule C activities are responded to in a manner that is both timely and consistent with law and merit staffing principles so that agencies can proceed in a timely manner.

This objective was met. We reviewed more than 10,000 relevant decisions from the MSPB, FLRA, courts, and arbitrators, and recommended intervention or judicial review in six cases. The decision to intervene is based on a determination both that the third-party decision is erroneous and that the error will have a substantial governmentwide impact. Our survey of HR specialists reported the following:

	FY 1998 Results	FY 1999 Results	FY 2001 Target	FY 2001 Actual
Percent HR Specialists satisfied with OPM's intervention in employee disputes before arbitrators and the MSPB	67%	58%	69%	54%

The agency processed 328 Temporary Transitional Schedule C appointments, 585 permanent Schedule C appointments, and 60 requests for Voluntary Early Retirement Authorities. All were handled within 10 days, except for those where the initial submission was incomplete and additional information was required from the agency. OPM also handled six agency requests for variations. Due to the lengthy decision-making process of variations, the average processing time exceeded the timeliness standard.

Strategic Goal III. We provide human resources services to employing agencies, employees, retirees, and their families that are high quality, cost effective, and meet their needs. We established 25 annual goals in our FY 2001 Performance Plan that pertained to the delivery of these services and met 23 of them.

Strategic Objective: These major human resources programs provide cost-effective service governmentwide that meets or exceeds customer expectations:

- USAJOBS—Timely, accurate and complete employment information is available for employees and the public.

- Central Personnel Data File (CPDF)—Accurate and timely workforce statistics and information are available to decision makers.

- Compensation administration—Timely and accurate information and assistance are provided to decision makers for pay and leave administration purposes.

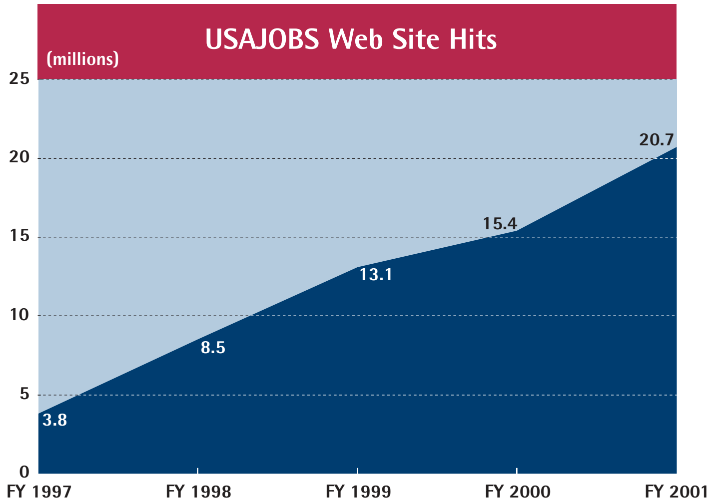
ES Goal 9 USAJOBS, the governmentwide employment information system, exploits the latest technology to provide service to job seekers and agencies resulting in accessible, cost-effective and efficient recruitment of highly skilled and diverse candidates for mission critical occupations.

OMSOE Goal 4 Provide accurate and timely Federal employment statistics to customers.

WCPS Goal 5 Continue to administer current compensation systems (annual pay adjustment process, Cost-of-Living Allowance program, Federal Wage System, special salary rates, etc.) in an efficient, accurate, and timely manner.

This strategic objective is being met as the agency achieved its three annual goals for FY 2001. Human resources services consistently achieved target levels for customer expectations in major program areas.

Usage of the USAJOBS Web site, which serves as the government's official source of job and employment information, continues to grow and was enhanced in FY 2001 with additional search capabilities. Users can now build a job profile and receive notices of new job postings via email with a direct link to the vacancy announcement.

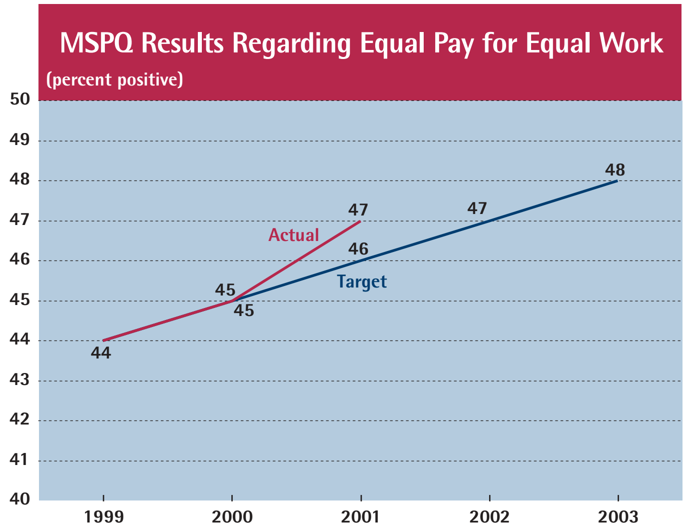


Central Personnel Data File (CPDF) file error rates dropped in FY 2001. For this purpose, a record is considered in error if there is an error in any submitted field. Since some fields are used only in specialized reports, this measure overstates the error rates for most file uses. Timeliness improved by an average of 21 days.

Measure/Indicator	2000 Results	2001 Results
Status file Error Rate (based on quarterly snapshot submission from agencies)	5.0%	3.1%
Dynamics files Error Rate (based on personnel transactions)	8.7%	7.2%
Average Response Time	137 days	116 days

In implementing the President's December 2000 Executive order covering the January 2001 pay adjustment OPM issued 32 locality pay tables for General Schedule (GS) employees, as well as salary tables covering the Executive Schedule, the Senior Executive Service, Administrative Law Judges, Contracts Appeals Board members, and Federal law enforcement officers. The agency also prepared a status report for the President's Pay Agent on OPM's work with the Bureau of Labor Statistics (BLS) and OMB to improve non-Federal salary surveys conducted by BLS for the GS locality pay survey.

Following the settlement of longstanding litigation involving the nonforeign area cost-of-living allowance (COLA) program in August 2000, OPM worked with the Department of Justice and the COLA Survey Implementation Committee to develop proposed regulations making major changes in OPM's administration of the COLA program. Employees' perception of pay equity continues to improve, as demonstrated by the responses to questions in the Merit Systems Principles Questionnaire shown here, and is tracking ahead of projections through FY 2003.



Strategic Objective: By FY 2009, a modernized retirement system will be more cost efficient that the current system and will provide:

- prompt, accurate and consistent customer service to all stakeholders;
- accurate and timely payments to benefit recipients;
- accurate and consistent benefits counseling for eligible participants; and
- at least 90 percent customer satisfaction with all retirement services (claims processing, telephone services and retirement counseling).

RIS Goal 2 FERS retirement claims processing times are reduced and more customer services are delivered through self-servicing technology, while customer satisfaction is maintained at FY 2000 levels.

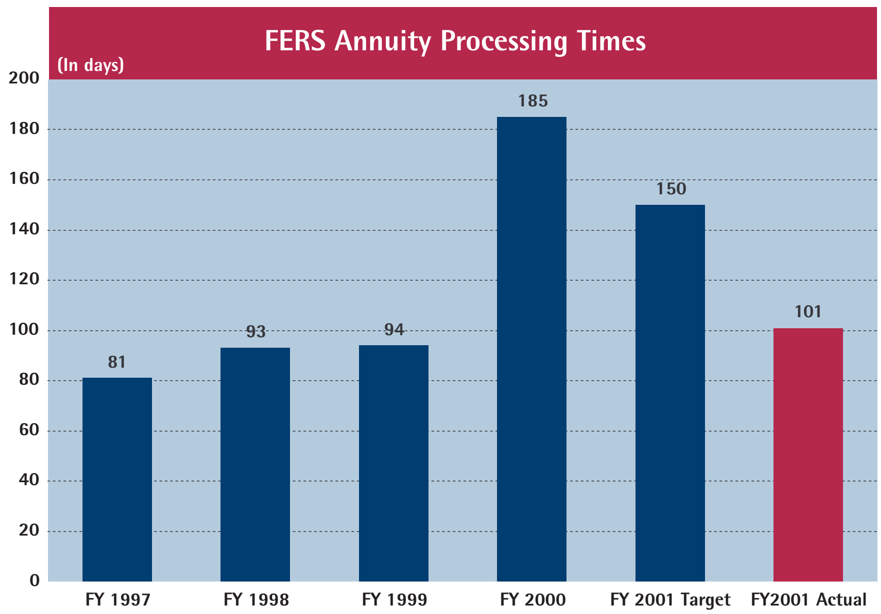
RIS Goal 3 Retiring Federal employees receive benefits counseling and agency benefits officers are provided with improved information and tools for these services. Federal agency human resources staff are provided with improved information and tools to provide benefits counseling and related assistance to Federal employees and retirees.

RIS Goal 4 Complete the planning phase of the Retirement System Modernization Project and begin developing the technology to support modernized retirement.

OPM met its three annual goals concerning the delivery of retirement program services and will achieve its strategic objective as scheduled. For instance, the agency reduced FERS processing times, provided benefits officers with improved information and tools, and proceeded on schedule with the RSM project.

The OPM Web site was enhanced with additional Retirement Coverage Correction information, frequently asked questions on new laws, and posters that advertise retirement information and service sites.

The Retirement Systems Modernization Project (Modernization) proceeded on schedule as the agency met all of the critical milestones established for FY 2001. OPM has virtually completed its design efforts and will begin the phased implementation of the modernized system in FY 2002. Implementation will continue into FY 2008. The agency completed the remaining core process blueprints, the organizational and technology blueprints, and the Project's transition plan. It is now positioned to begin converting historic retirement customer data to electronic format and begin receiving new data in electronic format during FY 2002.



OPM reduced the time it takes to process FERS retirement claims by 45% which far surpassed the FY 2001 target. Other quantitative results regarding the delivery of retirement services are as follows:

Customer Satisfaction	FY 1997 Results	FY 1998 Results	FY 1999 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
New customers received first payment when expected	78%	74%	81%	78%	80%	80%
Customers satisfied with services since annuity began	90%	88%	93%	93%	90%	93%
Retiring employees satisfied with counseling	85%	78%	88%	88%	88%	88%

Business Process	FY 1997 Results	FY 1998 Results	FY 1999 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
CSRS Annuity Processing Time (calendar days)	39	23	32	44	55	54
FERS Annuity Processing Time (calendar days)	81	93	94	185	150	101
Conference Attendance	**FY 1997 Results**	**FY 1998 Results**	**FY 1999 Results**	**FY 2000 Results**	**FY 2001 Target**	**FY 2001 Actual**
Federal Benefits Conference	N/A	378	400	500	500	588
Fall Festival of Training	N/A	150	271	298	270	270

Strategic Objective: Insurance program benefits are comprehensive, quality driven and based on informed choice.

RIS Goal 5 Insurance Program customers can make informed decisions about their health care, and they are provided with quality insurance products and services.

OPM did not meet its annual goal; thus this strategic objective is not yet met. However, the agency positioned Insurance Program customers to make informed choices about their health benefits insurance as it continued its practice of communicating health plan performance information in the annual Open Season materials and continued making these materials easily available through the OPM Web site, as well as in hard copy. Also, customers continued to have available to them quality insurance products and services. This is supported primarily by the fact that 79% of the plans participating in the Federal Employees Health Benefits Programs are either accredited by a health industry accrediting organization, or highly rated based on the Consumer Assessment of Health Plans Survey (CAHPS). The percent of customers enrolled in highly rated plans was 82%—lower than the aggressive 90% target the agency set. The drop is the result of one of the larger fee-for-service plans not being ranked as a highly rated plan in FY 2001, after being highly rated in FY 2000. OPM is working with this plan to improve its rating. Further, OPM will design and implement a health plan performance database in FY 2003. This database will be used to collect and analyze health plan performance data, benchmark it against industry best practices, and develop mechanisms to support improved performance.

However, the 82% figure indicates that most customers are receiving high quality insurance products and services. While overall customer satisfaction levels improved from the previous year, they were slightly below target levels. Finally, processing times for life insurance claims have improved.

Customer Satisfaction	FY 1997 Results	FY 1998 Results	FY 1999 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
Overall satisfaction with HB plan service	N/A	N/A	HMO 60% FFS 70%	HMO 59% FFS 75%	HMO 65% FSS 80%	HMO 62% FFS 77%
Business Process	**FY 1997 Results**	**FY 1998 Results**	**FY 1999 Results**	**FY 2000 Results**	**FY 2001 Target**	**FY 2001 Actual**
Percent of plans that are highly rated	25%	30%	61%	55%	65%	67%
Percent of customers enrolled in highly rated plans	16%	65%	32%	90%	90%	82%
Timeliness of LI claims payments	6.8 days	8.2 days	11.3 days	10.2 days	10.0 days	5.7 days
Accuracy of LI claims as percent of number paid	99.5%	99.6%	99.5%	99.5%	99.5%	N/A*
Financial	**FY 1997 Results**	**FY 1998 Results**	**FY 1999 Results**	**FY 2000 Results**	**FY 2001 Target**	**FY 2001 Actual**
Accuracy of LI claims as percent of dollars paid	99.6%	99.8%	99.8%	99.7%	99.7%	N/A*

*Data for these indicators will not be available until March 2002

Strategic Objective: Our technical assistance and information on human resources policies and programs are timely, useful, accurate, accessible and user-friendly.

OMSOE Goal 5 Encourage and facilitate flexible, effective and innovative merit-based HRM projects within agencies.

OMSOE Goal 6 Encourage and facilitate development of effective accountability systems within agencies.

OMSOE Goal 7 Assist agencies to improve the overall effectiveness of agency human resources management.

OWR Goal 6 Stakeholders receive responsive and useful advice and technical assistance to ensure that employee relations, work/life and wellness initiatives, labor-management relations, and human resources development are a positive part of agencies' fully integrated human resources systems.

ER Goal 4 The governmentwide transition following the 2000 Presidential election is smooth. Leadership and management skills, public service values, and a governmentwide perspective are key factors in selections for all SES positions.

ER Goal 5 Through the biennial executive resources allocation process, maintain an executive workforce that is consistent with Administration policy and the overall size of the Federal Government.

ES Goal 8 Agencies receive clear, accurate, timely staffing advice, assistance, and models to ensure that the lawful rights of employees and applicants (including minorities, veterans, displaced employees) are safeguarded and that managers are aware of staffing tools they can use to accomplish strategic objectives.

WCPS Goal 6 We provide leadership in solving human resources management problems by offering accurate, clear, and useful advice and technical assistance to Federal agencies and OPM program offices on performance management and incentive awards, position classification, employee compensation, and pay and leave administration that keep all users better informed about appropriate system flexibilities and ways in which they can be used to support accomplishment of agency strategic goals.

WCPS Goal 7 Federal agencies receive timely, accurate, and useful advice and technical assistance on classification, compensation, and performance management that keeps them better informed about appropriate systems flexibilities and ways in which they can be used to support accomplishment of agency strategic goals.

This objective is being met as OPM met all but one of the nine annual goals it had established for FY 2001 and in so doing, provided agencies with technical assistance across a broad range of human resources areas.

For instance, OPM continued to assist agencies in developing demonstration projects, and continued to shift towards exercising a broader role in innovation by consulting with agencies on current flexibilities and innovations (i.e., actions they can take without implementing a demonstration project). New tools developed in FY 2001, including "Demonstration Projects and Alternative Personnel Systems: HR Flexibilities and Lessons Learned" and "Human Capital Solutions for Managers" will be of particular value as the agency continues to pursue this broad strategy. It also began working on a special study of pay banding that will provide essential information to agencies as they implement this innovation under the proposed Managerial Flexibility Act of 2001 or other authorities.

In addition, OPM set up an internal workgroup to gather and organize information on HR metrics, both to improve its own staff's command of this emerging area of practice and to improve service to agencies seeking assistance. The agency also acquired and disseminated additional information via our membership in the Corporate Leadership Council, which *produced a major study on HR metrics. This increasing knowledge base helped in drafting the HRM Accountability System Standards, which includes a measurement component, as well as an extensive contribution to the development of the Human Capital Scorecard.*

As part of an internal emergency response task force, on September 12 OPM posted "Handling Traumatic Events: A Manager's Handbook" on the Web site and provided a series of bulletins to agency Employee Assistance Program (EAP) contacts on trauma to use in assisting their clients. The Handbook was highlighted in the Washington Post as an effective tool to help managers assist their employees in coping with the tragic events of that period.

Also, the agency provided immediate assistance to Federal agencies on pay and leave administration and other related issues in the aftermath of the terrorist attacks on the World Trade Center and the Pentagon. Key documents included—

(1) a Presidential memorandum authorizing excused absence for affected employees and directing OPM to establish an emergency leave transfer program (September 12);

(2) an OPM memorandum providing additional information on excused absence, emergency leave transfer, emergency premium pay limitations, and benefits administration matters (September 13);

(3) an OPM memorandum on the rights and benefits of Reservists called to active duty (September 14); and,

(4) questions and answers on pay and leave administration (September 21).

OPM used the biennial SES/Senior Level (SL)/Scientific-Professional (ST) position allocation process to focus agencies' attention on the importance of executive resources planning and analysis, including succession planning, to meet current and future mission requirements. As a result, there was sufficient flexibility to grant limited increases to departments and agencies that demonstrated mission-critical needs while maintaining governmentwide restructuring initiatives.

Although OPM's surveys of HR specialists revealed a mixed bag of results for FY 2001, as shown below, feedback from post-workshop and post-seminar surveys indicated its technical assistance consistently met the needs of agency customers.

Technical Assistance Field (Percent satisfied)	FY 1998 Results	FY 1999 Results	FY 2001 Target	FY 2001 Actual
Position Classification and Position Management	70%	63%	65%	74%
Pay and Leave Administration	82%	83%	83%	82%
Pemium Pay & Hours of Work	78%	81%	81%	78%
Annual Pay Adjustment	83%	81%	81%	79%
Performance Appraisal	71%	68%	70%	68%
Incentive Awards	72%	66%	68%	66%
Selection & Promotion Policies	79%	70%	72%	80%
Veterans' Preference	84%	76%	78%	79%
Reduction in Force	80%	69%	71%	72%
Voluntary Early Retirement and Voluntary Separation Incentives	82%	74%	76%	80%
Career Transition	73%	63%	65%	66%
HR Innovation–Alternative Personnel Systems	N/A	47%	49%	48%
HRM Accountability	N/A	69%	70%	48%
Labor-management Relations	66%	62%	64%	69%
Alternative Dispute Resolution	65%	64%	66%	60%

Post-conference and post-workshop surveys reported the following:

	Overall Conference/Workshop Rating (5-point scale)			
Conference/Workshop	FY 1999 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
Strategic Compensation Conference	4.1	4.2	4.3	4.3
Telecommuting Works	N/A	N/A	N/A	4.2
Leave Workshops	4.3	4.4	4.4	4.4
Performance Management–Basic Workshops	4.1	4.3	4.3	4.4
Symposium on Employee and Labor Relations (SOELR)	4.1	4.2	N/A	4.2

Strategic Objective: Direct services to agencies (both reimbursable and non-reimbursable) provide cost-effective choices to meet individual and governmentwide customer needs.

OWR Goal 7 Through the Training and Management Assistance (TMA) program, assistance is provided to Government agencies in managing the development of training and other human resources management solutions that meet specific short-and long-term agency objectives.

IS Goal 4 The quality of investigations is maintained, and workload demands are met with timely, relevant products.

ER Goal 8 Participation in OPM's executive and managerial training programs is increased and income and costs are balanced. As a revolving fund, OEMD is expected to break even over a period of three years. Total cumulative retained earnings are currently positive.

ES Goal 10 The Presidential Management Intern (PMI) program is operated to result in the hiring of as many PMI's as agencies desire within the limit of 400 established by Executive order.

ES Goal 11 The Administrative Law Judge personnel program is operated to continue to meet the needs of Federal agencies for the services of Administrative Law Judges, while ensuring compliance with applicable laws and regulations.

ES Goal 12 A broad range of cost-effective and high quality reimbursable human resources services are available to meet agency needs, to assist agencies in achieving a diverse and talented workforce, and to contribute to Governmentwide cost savings and mission accomplishments.

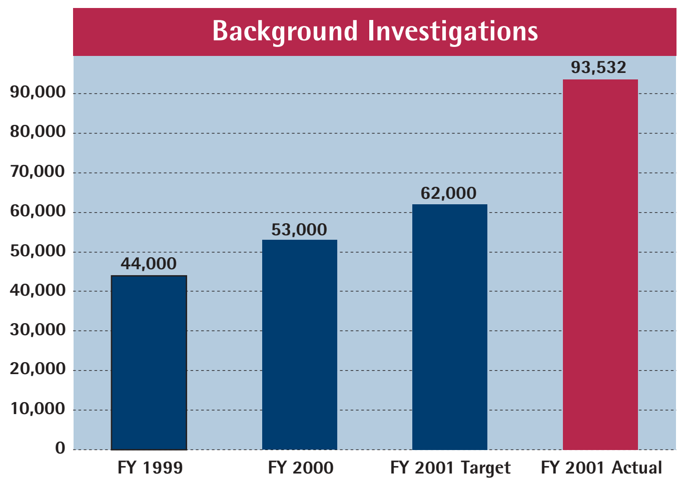
ES Goal 14 Administer the Armed Services Vocational Aptitude Battery for the Department of Defense and provide related services.

This objective is being achieved. OPM's direct services to agencies consistently met customer needs, as demonstrated by steadily increasing requests for services, customer feedback in surveys, and our ability to cover the full cost of delivering services.

The Training and Management Assistance (TMA) program managed more than 250 projects to support the strategic training and human resources management initiatives of numerous Federal agencies, and broke even on revenues of more than $37 million. Agency customer satisfaction surveys reported that 88% felt that TMA made a substantial contribution to the project's success.

The new contract with OPM's investigations provider executed in July 2001 contains specific, quantified performance standards that were not in the previous contract. The contractor has expanded its use of the "investigative source recontact" to obtain more information on how well their investigators are carrying out work for OPM. The agency also continued to convene Investigations Quality Panel meetings between OPM and our contractor's managers to discuss and resolve any quality concerns or issues and to discuss possible investigative enhancements. OPM continued to expand information sharing with agencies by holding a Security Directors' conference to ensure that agency security personnel were fully informed of changes brought about by Executive order 12968.

OPM worked closely with the Federal Aviation Administration to ensure that all procedures were in place to accommodate additional casework to support the Sky Marshal program. This included portable "Livescan" fingerprint equipment which allows OPM personnel to provide immediate on-site criminal history checks from the FBI data banks at FAA's recruitment locations.

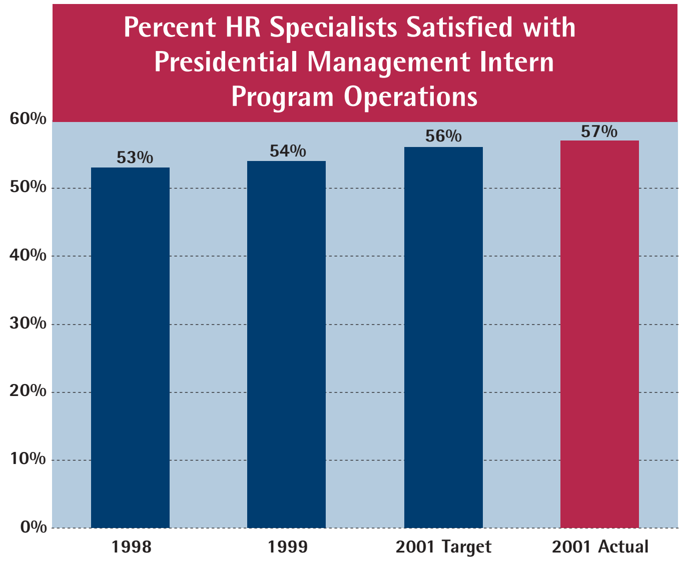


Investigative Workload	FY 1999 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
Background Investigations	44,000	53,000	62,000	93,532
National Agency Checks/ National Agency Checks and Inquiries	125,000	175,000	485,000	366,269
SACI's/SAC's	219,000	231,000	230,000	379,675

Executive training provided a positive balance of $84,000 in FY 2001.

Executive Training	FY 1999 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
Sessions	230	328	340	422
Participants	7,477	10,164	10,655	11,234
Participant Training Days	73,241	87,890	92,407	95,377

Four hundred people, the maximum allowable by Executive order, were hired through the Presidential Management Intern program in FY 2001, the highest in the history of the program. Federal agencies have indicated that their workforce planning includes expanded use of the PMI program to fill future managerial and policy analyst positions. By drawing graduate students from diverse social and cultural backgrounds, the PMI program provides a continuing source of trained men and women to meet the future challenges of public service. A survey of HR Specialists showed increasing satisfaction among agency HR Specialists with PMI Program operations.



OPM vastly expanded the use of USA Staffing, an electronic hiring system, from six agencies in FY 2000 to 48 in FY 2001. The individual user base expanded from 6 to 400.

Strategic Objective: The competencies and leadership effectiveness of Federal executives and managers continuously improve through training, development and voluntary mobility.

ER Goal 6 Continual learning and voluntary mobility are valued as strategies for maximizing executive effectiveness. Agencies and executives increasingly use training, sabbaticals, details, temporary assignments, and movement within and between agencies to broaden perspectives and gain fresh insights on leadership.

ER Goal 7 Form comprehensive long-term strategic alliances with High Impact agencies that will result in identifiable benefits to individual executives, teams, and agency performance.

This objective was achieved. OPM sponsored a conference for agency leaders and Senior Executives to share the experiences of agencies that are implementing results-based performance management programs at the Senior Executive level. In a post-conference evaluation nearly three-quarters of the participants rated the session very good to excellent. The agency also held three "Briefings for New Senior Executives," at which 98% of the respondents affirmed the effectiveness of the briefings as a way to learn about their role as a new SES member and the agenda of the Administration.

Throughout the year OPM worked with stakeholders through an interagency workgroup that conducted focus groups and gathered data on providing an authority for an exchange of executives with the private sector. This workgroup recommended legislation that is part of OPM's legislative agenda. In addition, OPM has testified before both the House and Senate on the benefits of a broad authority under agency management. Subsequently, a Senate report recommends such an authority and both the Senate and the House have introduced private-sector exchange language into their pending legislation, though more targeted than OPM recommended. OPM continues to provide technical support.

The agency established strategic partnerships with 19 Federal agencies or offices having a high impact toward addressing the growing developmental needs for managers at all levels. These agencies included the Department of Treasury, General Services Administration, Wright-Patterson Air Force Base, the Defense Intelligence Agency, the Naval Air Systems Command, and the Department of Health and Human Services.

Five new courses were added to the Leadership for a Democratic Society program at the Federal Executive Institute; organizational design, knowledge management, personal leadership, emotional intelligence, and communications skills.

Strategic Goal IV. The effectiveness of our financial management of the Retirement, Health Benefits, and Life Insurance Programs is evidenced by the unqualified audit opinion the agency received on these financial statements and the low incidence of erroneous payments as a percent of our annual benefit payments.

The agency's Performance Plan described the goal to improve its financial stewardship of the employee benefit programs and ensure that these monies are protected from waste, fraud, abuse, and mismanagement. This goal is supported and expanded upon by the three goals described by the Office of the Inspector General (see Corporate Management Strategies, below). To achieve these results, the agency must assure that the financial management systems substantially comply with Federal Financial Management Improvement Act requirements and that an aggressive financial oversight program is maintained. OPM made significant strides toward these outcomes during FY 2001.

Strategic Objective: The trust fund financial systems are in full compliance with the Federal Financial Management Improvement Act (FFMIA) and the Federal Manager's Financial Integrity Act (FMFIA) by FY 2003.

RIS Goal 7 The trust fund financial systems are brought closer to full compliance with FFMIA and management challenges are addressed.

This objective is being achieved and OPM met its annual goal in FY 2001. As discussed in the Analysis of Our Financial Performance, the "stand alone" annual financial statements for the employee benefit programs for FY 2001 (Retirement, Health Benefits, and Life Insurance) received unqualified opinions from the independent auditors. Also, the agency continued making progress toward resolving the reportable conditions described in the FY 2001 annual FMFIA assurance letter – Enrollments and Premium Reconciliation. This will be resolved in FY 2002 with the implementation of the Centralized Enrollment Clearinghouse System (CLER). The agency awarded a contract to the National Finance Center in November 2000 to develop the CLER and development is on-going. Pilot testing will begin in March 2002, with full implementation in June 2002. CLER will be a Web-based system in which health plans and agencies will report detailed enrollment data. CLER will reconcile the two inputs and generate feedback regarding any discrepancies to the appropriate parties for correction. These corrections will be fed back to CLER and final results provided to all stakeholders.

Trust Fund Financial Management Results

Measure/Indicator	1998 Results	1999 Results	2000 Target	2001 Target	2001 Results
Administrative cost per Annuitant	$40.94	$44.47	$45.00	$45.00	$44.83
Timely payment of Retirement benefits (percent paid on time)	97%	98%	97%	98%	97%
Erroneous Payment Rate– Retirement Program	N/A	0.19%	0.23%	0.20%	0.20%
Erroneous Payment Rate– Health Benefits Program	N/A	0.49%	0.36%	0.40%	0.99%
Erroneous Payment Rate– Life Insurance Program	N/A	0.01%	0.01%	0.01%	0.01%

Corporate Management Strategies and Internal Goals. OPM recognizes that it cannot accomplish its program goals and outcomes without properly managing the agency's internal resources. These resources include the nearly 3,000 well-trained, diverse, and motivated people working at OPM, information technology systems and infrastructure, and financial management systems. Thus, the agency established goals for each of these critical areas and has maintained a cooperative and consultative relationship with the Office of the Inspector General regarding the oversight of these resources. During FY 2001, the agency met 28 of the 30 performance goals in this regard.

Information Technology Management Strategy: OPM's Information Technology (IT) processes and infrastructure meet the evolving technology needs of OPM's program offices and the mandates of the Clinger-Cohen Act.

OCIO Goal 1 IT operational support and services, are provided in an efficient and effective manner, meet customer requirements, and facilitate program offices achieving strategic goals.

OCIO Goal 2 A sound and integrated agencywide IT architecture provides a standards-based, interoperable and secure technology environment that meets OPM staff needs.

OCIO Goal 3 Our mission-critical systems, infrastructure and information are protected by a robust IT security program.

OCIO Goal 4 An information resources management program is in place that meets the requirements of the Paperwork Reduction Act, Freedom of Information Act and the Privacy Act and ensures OPM's critical records are safeguarded.

OCIO Goal 5 Continuing improvements to our IT capital planning, control and development process are implemented to assure optimal decisions on technology investments and the efficient and effective design and operation of the IT systems that achieve our strategic goals.

OPM achieved this corporate management strategy by completing the realignment of agencywide IT support services and centralizing most IT operational support. This included increasing the number and skill levels of contractors responsible for responding to Help Desk inquiries and establishing a three-tier system for responding to problems in order to facilitate rapid escalation of issues when necessary to support mission-critical functions. The agency also instituted a weekly Help Desk Forum open to all staff to address IT support issues and scheduled recurring meetings with program office managers to assess its performance. In addition, OPM crafted a Service Management Agreement between its Office of the Chief Information Officer and the customer organizations it serves that sets performance standards for a wide variety of IT support activities.

The Network Management Center (NMC) is responsible for the agencywide management of its local and wide area network IT infrastructure, including the connection of all IT devices to the network and the installation of software on those devices. This centralized *approach ensures that only approved hardware and software are procured and added to the network.*

During the year OPM developed a new computer security policy that enhanced its IT security program. The agency's IT security was extensively reviewed by an outside auditor and by the Office of the Inspector General. These reviews uncovered no material weaknesses.

All major IT initiatives and proposals are reviewed by technical staff for architectural compliance before funds are committed. These projects follow rigorous project management and development methodologies. OPM has developed an agencywide system development life cycle methodology. The pilot for this system is currently on schedule and on budget.

Human Resources Management Strategy: OPM can recruit, develop, and maintain the highly skilled and diverse workforce necessary to accomplish our current and future strategic goals with efficiency and innovation.

OHREEO Goal 1 OPM manages its workforce strategically and aligns its human resources in a manner that best supports accomplishment of the agency's strategic goals.

OHREEO Goal 2 Recruitment and staffing strategies are based on workforce planning information and facilitate the hiring of a diverse, capable, and flexible workforce.

OHREEO Goal 3 Innovative employee education and training programs and practices cultivate a workforce that is flexible, optimally trained, and capable of adapting to changing technology.

OHREEO Goal 4 OPM's work environment attracts, retains, and satisfies employees and managers.

OHREEO Goal 5 OHREEO uses the best available technology for personnel data, processing, and recordkeeping to provide fast, accurate, and efficient human resources services.

OHREEO Goal 6 OPM's work environment promotes and values diversity, and is free from unlawful discrimination.

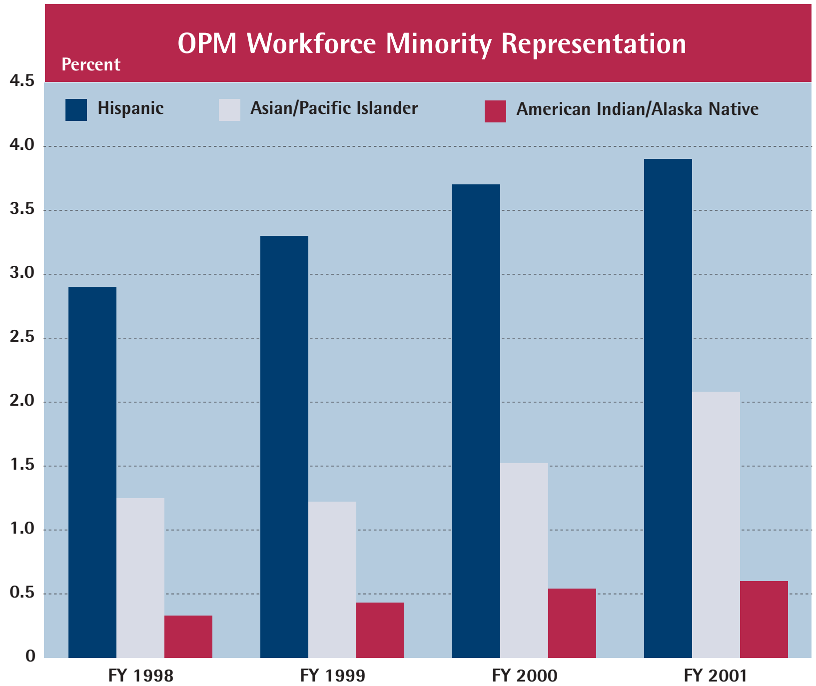
OPM achieved this corporate management strategy by following through on action items that enable us to have the human capital we need to accomplish our mission, goals, and objectives. The agency established a cross-organizational taskforce to develop an action plan for managing leadership succession. The taskforce recommended nearly 20 action items that form the basis for an overall agency succession plan. However, since several of these items have significant resource implications, the agency has delayed implementing them until the current leadership can review them.

In the area of recruitment and staffing, OPM implemented new automated staffing software to streamline staffing processes and established a Delegated Examining Unit in order to facilitate a more efficient and cost effective method of filling positions within the agency. These actions lead to cost savings of $102,000 by issuing 102 job certificates in-house rather than purchasing these services from outside sources. The agency also reduced the average time it takes to issue candidate referrals from 58 days in FY 1999, to 53 days in FY 2000 and 45 days in FY 2001.

In the area of employee training and development, OPM met all but one critical indicator which called for a core curriculum for supervisory /management training to be in place. Nonetheless, significant progress was made in this area by securing training slots for "Introduction to Supervision" so all new supervisors and select aspiring supervisors can receive this important training.

The most significant accomplishment, however, is the effort to lay the groundwork for a new OPM Virtual University. The OPM Virtual University enables OPM employees access to thousands of online training courses. We piloted the University to 250 OPM employees, and we plan to expand the program in FY 2002.

In addition, OPM improved its work environment by expanding the use of certain family friendly flexibilities which, among other things, resulted in almost 30% of OPM employees participating in telecommuting on a scheduled or ad-hoc basis. The agency also promoted other family friendly options, such as nursing mothers' lactation facilities, family-medical leave entitlements, alternative work schedules, and health and wellness programs. Following the events of September 11, OPM's Employee Assistance Program offered counseling sessions to help employees deal with the emotional aftermath of the attacks and coordinated a "special solicitation" of OPM employees that resulted in nearly $10,000 in donations to charities associated with relief efforts.



Finally, OPM took action to identify and reduce/eliminate barriers to increasing representation and advancement of minorities, women, and people with disabilities, and developed EEO Special Emphasis Programs that enhance cultural awareness. These efforts increased the minority representation among key underrepresented groups.

OPM Workforce Minority Representation

Ethnic Group	FY 1998 Baseline	FY 1999 Results	FY 2000 Results	FY 2001 Results
Hispanic	2.90%	3.30%	3.70%	3.90%
Asian/Pacific Islander	1.25%	1.22%	1.52%	2.00%
American Indian/Alaska Native	0.33%	0.43%	0.54%	0.60%

Financial Management Strategy: OPM's financial management systems operate with effective internal controls and no material weaknesses to maintain the integrity of OPM's appropriated and reimbursable funds and the employee benefits trust funds. Timely and accurate integrated financial management support and reporting is provided to OPM programs to assist them in meeting their strategic goals and objectives.

OCFO Goal 1 Prepare financial statements by the statutory due date and earn an unqualified audit opinion on the OPM financial statements.

OCFO Goal 2 Modernize OPM's administrative financial management systems.

OCFO Goal 3 Financial management support and reporting is provided to ensure OPM's core functions can meet their goals and objectives.

OPM achieved this corporate management strategy by preparing and issuing financial statements by the statutory due date of March 1, 2001, and earning an unqualified audit opinion on the agency's consolidated financial statements. The agency implemented the GSA cross-servicing initiative for the automated payroll/labor distribution functions, established a data warehouse of financial and procurement data covering FY 1991 to the present, and awarded a contract for a new core accounting system which took effect at the beginning of FY 2002.

Performance Indicators	FY 1998	FY 1999	FY 2000	FY 2001 Target	FY2001 Result
Timeliness of Payments	90%	91%	94%	98%	97%
Accounts Receivable Delinquency	49%	38%	N/A	22%	12
Identify and Research Cash Accounts Differences with Treasury	>180 days	90 days	30 days	30 days	30 days

OCAS Goal 1 Agency space planning supports program office strategic goals.

OCAS Goal 2 Provide quality procurement services to OPM's program offices.

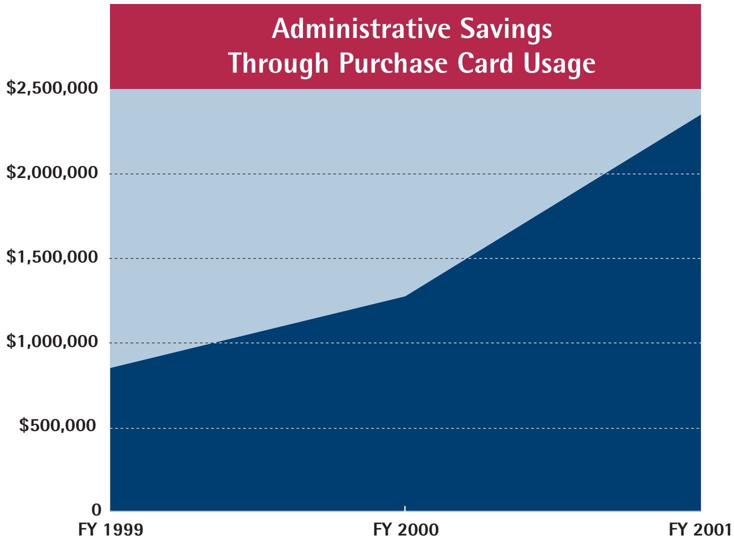
OCAS Goal 3 Improve mail management services to reduce postage and shipping costs.

OCAS Goal 4 Local voice telecommunications services are improved.

OCAS Goal 5 Systems and environments are improved to increase agency efficiency.

OCAS Goal 6 Administration and OPM policy objectives are fulfilled.

OPM met all but the last of these six annual goals. The agency developed a unified space plan that is tied to organizational strategic plans and based on integrated workforce management principles. It continued to monitor and review component rent charges, which led to a reduction in charges at our Macon, GA, facility of $500,000.



The increased usage of purchase cards in lieu of purchase orders resulted in a savings of more than $2.3 million in FY 2001. The agency continued to encourage expanded usage of the cards at training sessions for contracting officers, card holders, and approving officials in February and July. The increased use of "pre-sorting" substantially reduced mailing charges. Also, annual telephone line inventories have reduced costs and corrected billing errors. A new visual messaging system has been established, allowing telephone messages to appear on employee computer screens on a need-to-have basis.

Purchase Card Usage

	FY 1999 Results	FY 2000 Results	FY 2001 Results
Purchase Card Transactions	15,699	19,229	35,507
Administrative Savings ($66 per transaction)	$844,135	$1,269,114	$2,343,462

Pre-sort Discounts

	FY 1999 Results	FY 2000 Results	FY 2001 Target
Mail Eligible for Pre-sort Discount	15%	18%	37%
Total Savings	$36,414	$43,190	$68,833

Telephone Line Inventories

	FY 1999 Results	FY 2000 Results	FY 2001 Results
Lines Eliminated	85	130	432
Savings	$15,000	$20,000	$101,800

OPM has improved building security by creating an automated key-tracking system that tracks keys issued to individuals and those maintained by the security staff, and stores a record of everyone to whom a key has ever been issued. It is reducing energy costs by retrofitting overhead light fixtures throughout the building and replacing aging air conditioning equipment.

The agency made substantial progress in revising and updating the agency Continuity of Operation plan, trained all employees on implementation procedures, and conducted numerous tests on components of the plan.

One of OPM's largest contracts, for background investigations, was recompeted and again awarded to US Investigations Services in July 2001. This company was previously reported as a small business, but, with the new award, they are now a large business. This fact, in addition to a large increase in the number of background investigations performed in the last quarter of FY 2001, greatly increased the agency's total contract dollars that went into the large business category. This precluded OPM from meeting the FY 2001 small business contracting target.

OGC Goal 1 Provide expert legal services to program and senior officials within the Office of Personnel Management, other agencies, Federal employees, and the public.

In addition to reviewing all of the regulatory documents related to human resources issues and Federal civil service laws, OPM helped develop governmentwide guidance and model plans to support the effort to bring people with disabilities into the Federal workforce. The agency was involved in major ongoing cases involving the Administrative Law Judge examination, the proper use of prior discipline in adverse actions, and the application of reduction-in-force regulations and procedures to medical professionals.

OC Goal 1 Human resources management assistance and information is provided to Federal agencies, the media, and the general public.

OPM's normal press outreach was expanded to include minority and labor publications. The agency issued approximately 90 press releases, and responded to approximately 1,000 media calls. Following the September 11, 2001, attack, media calls and responses climbed to an unprecedented level. Marketing and outreach multiplied to include expansion of contacts. OPM introduced a new film showcasing the work of the SES corps as a key step in enhancing the image of the public service.

The OPM Web site continued to provide information to the bulk of customers, stakeholders and partners. It logged in more than 250,000 unique users per week and an average of over six million site-wide hits per week. In a survey of HR Directors, 97% described the Web site as convenient, 91% as user-friendly, and 100% felt it contained relevant information.

OC Goal 2 Improve OPM's implementation of the Government Performance and Results Act (GPRA).

OPM has taken specific steps to improve the implementation of the Results Act. The agency's activities to implement the Results Act are led by a single executive under the leadership of the CFO, and delivered by a working group composed of representatives from each of the program and staff offices. OPM improved its performance measurement program in FY 2001 as it continued implementing the new Corporate Measurement Framework which was created in FY 2000 and introduced in the revised Strategic Plan for FY 2000-2005 (September 2000). The agency plans to have it fully implemented by the end of FY 2003. As a part of this initiative, OPM improved how we stated our annual performance goals and objectives in the FY 2002 annual plan. These were cited by the GAO as an improvement in their review of OPM's GPRA activities, saying "OPM clearly recognizes the strategic challenges it faces, has committed to responding to them, and has important initiatives underway in that regard." The agency has carried this action further for the FY 2003 Annual Performance Plan by creating a more focused set of goals and a more targeted list of useful measures.

In its fall 2001 analysis of "Accountability Reporting Trends and Techniques," designed to share its assessment of best practices, KPMG cited OPM's FY 2001 Performance and Accountability Report for providing a summary chart that identified the status of performance goals under each agency strategic goal. This innovation was introduced in FY 2001.

On a broader note, in FY 2001 the agency began work with the HRMC and a private sector consortium to identify better human capital measures to assess the impact of human resources management, both governmentwide and within specific agencies. These measures will be incorporated into its future performance reports and annual plans. OPM is developing a unified governmentwide survey to assess and provide comparison data on agency human capital actions as a part of this effort; the survey will be administered in FY 2002.

WHF Goal 1 A broad range of qualified applicants are attracted to the White House Fellows program in order to spread the benefits of this leadership development and public service opportunity to remarkable men and women of all backgrounds and professions throughout the U.S.

WHF Goal 2 The selection process is efficient and fair.

WHF Goal 3 The management of the fellowship program can be replicated by new staff in anticipation of a change in Administration.

There was a dramatic increase in the number of applicants in FY 2001, from 242 to 547. This resulted from an expanded effort to involve alumni of the program in the recruitment process. OPM also expanded the Web site to include a downloadable application form.

OD Goal 1 Shape the Administration's direction on Federal human resources policy issues.

OCR Goal 1 Guidance and assistance is provided to agency management and to Congress in the development of human resources management policies and programs to promote a merit-based and cost-effective Federal service and the optimum balance of consistency and agency-specific flexibilities.

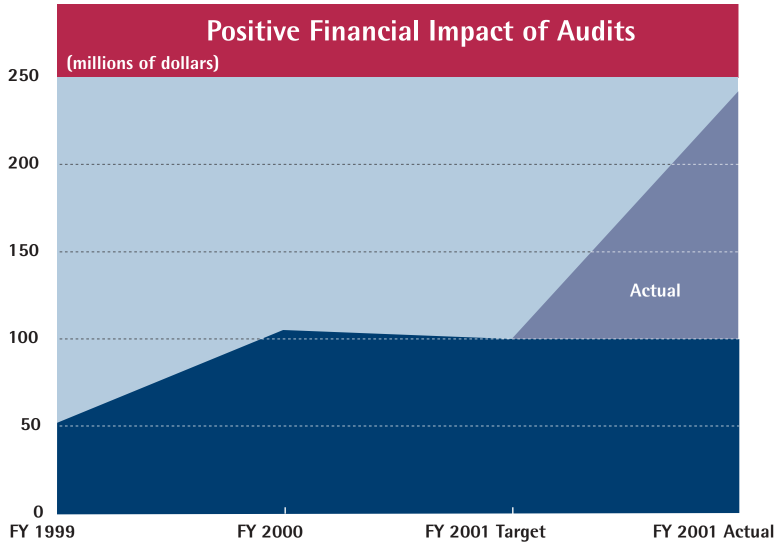
The Administration cleared six legislative proposals as part of the President's "Freedom to Manage" Initiative that were included in the "Managerial Flexibility Act of 2001" which was transmitted to Congress at the start of FY 2002.

OIG Goal 1 Independent oversight of agency programs, operations, functions, and activities is provided.

OIG Goal 2 Assist and work with our customers and stakeholders in a spirit of cooperation.

OIG Goal 3 Fraud against OPM programs is detected and prevented..

The return on investment on OIG activities improved, from $11 per dollar spent in FY 2000 to $25 in FY 2001. This is due to an increase in actual recoveries plus management commitment to collect findings. This ensures that the integrity of the merit-based civil service and employee benefits is protected.



Audits Conducted	FY 1999 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
Insurance Audit Reports Issued	54	68	65	81
CFC Audit Reports	4	8	15	23
Performance Audits	6	4	8	8
Dollars Saved	**FY 1999 Results**	**FY 2000 Results**	**FY 2001 Target**	**FY 2001 Actual**
Positive Financial Impact	$51.9 m	$105.2 m	$100 m	$242.1 m
Return on Investment (per $1 spent)	$6	$11	$10	$25

The number of material weaknesses dropped from 11 in FY 1999 to 5 in FY 2000, and none in FY 2001.

	FY 1999 Results	FY 2000 Results	FY 2001 Target	FY 2001 Actual
Material Weaknesses Identified	11	5	0	0
Determinations by program offices that concur with FEHBP audit findings	74%	72%	74%	85%
Issues Addressed by Quality Improvement Teams	9	10	11	13
Indictments	13	15	15	28
Convictions	14	15	17	22
Common Rule Debarments	2,743	2,706	3,900	4,032

Completeness and Reliability of Performance Data

Based on a review of the performance information used in this Report by OPM's Office of the Inspector General, the agency knows that it needs to improve the policies and procedures for obtaining and compiling performance data. Policies and procedures are an important internal control element in assuring the reliability of performance data. These policies and procedures should include program evaluations and field verification of selected indicators to test the accuracy and reliability of reported data.

During the next year, OPM will develop written policies and procedures for agency offices to use for collecting, maintaining, tracking, and preparing performance data results. Documented policies and procedures decrease the likelihood of errors in performance data in annual performance reports. When developed and implemented, such policies and procedures would improve the reliability, consistency, and auditability of performance data presented in annual performance reports. These procedures will include internal controls, such as recalculating figures and tracing results to supporting documentation, to support the review and certification of the accuracy of performance data.

In light of the release of the President's Management Agenda and other events associated with it, OPM will undertake a review of its outcomes and measures during the spring of 2002. The agency will conduct this review in consultation with the Office of Management and Budget with an eye toward aligning its goals and objectives, and performance measurement system, with the Management Agenda and the Management Challenges identified by the Office of the Inspector General.

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

The Merit System Principles Questionnaire (MSPQ) is distributed to a nationwide random sample of Federal employees in the last quarter of the year, with results timed for use in oversight reviews during the subsequent year. This survey is administered to a small but statistically valid sample of Federal employees. The entire questionnaire was rewritten in FY 1999 to solicit respondents' overall impressions of their work units. Because of this, the FY 1999 results established a new baseline.

The MSPQ includes questions on the perception of merit principles and human resources management (HRM) effectiveness, including effective use of employees. It is the primary measurement tool for determining if the merit principles are being consistently honored and to assess whether OPM is maintaining an effective oversight program. Several offices use the results as surrogate measures of certain objectives and as indicators of needed improvements in policy.

The HR Specialists Customer Satisfaction Survey is administered annually and collects information from agency staff working in human resources management positions regarding the quality, usefulness, and effectiveness of the advice, assistance, training, informational materials, and other support the agency provides to these staff for the administration of HR programs across government. A survey of HR specialists was not conducted during FY 2000 because the questionnaire was being revised to align with OPM's corporate measurement framework that was debuted in the agency September 2000 Strategic Plan.

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

Consumer Assessment of Health Plans Study. The Consumer Assessment of Health Plans Study is the primary vehicle for assessing health plan performance within the Federal Employees Health Benefits (FEHB) Program. This survey instrument is the health care industry's most thoroughly tested and widely accepted tool for obtaining customer feedback regarding health plan performance. CAHPS-based results are published in the annual FEHB Open Season Guide for each carrier participating in the Program.

The American Customer Satisfaction Index. The American Customer Satisfaction Index (ACSI) is an econometric indicator that was developed by the National Quality Research Center at the University of Michigan Business School and has been used in the private sector to measure customer satisfaction since 1994. It is based on modeling of customer evaluations of the quality of goods and services that are purchased in the United States. OPM began participation in the ACSI in 1999 as an objective measurement of customer satisfaction that validates and complements the agency's surveys. Those surveyed were Federal retirees and survivor annuitants. For 2001, OPM=s overall satisfaction score was 78 on a scale of 100. This is a significant 5 points higher than in FY 2000. OPM is delivering services to the annuitants that surpass the private sector score, rated at 70.5.

Summary of Program Evaluation Results

OPM conducts targeted program evaluations, both internal and external, on specific program areas to measure the results of the programs and provide information for our strategic planning activities. Program evaluation activities are primarily conducted within program offices and are supplemented by evaluations conducted by external contractors when necessary. In addition, the Office of Merit Systems Oversight and Effectiveness (OMSOE) conducts special studies on contemporary, crosscutting HRM issues. The Office of the Inspector General conducts periodic evaluation studies and audits of agency programs that provide an additional source of internal feedback. OPM also uses reports produced by external organizations such as the General Accounting Office, the Merit Systems Protection Board, the National Academy of Public Administration and the groups that audit agency trust funds. Examples of evaluation reports, their results, and the actions the agency took are listed below.

- The first, *Telework Works: A Compendium of Success Stories,* showcases examples of telework success stories from a variety of jobs and work situations. OPM undertook this study in recognition of its leadership role to encourage agencies to expand their telework programs. Since its inception in 1990 as a Federal pilot project, telework, also known as telecommuting and flexiplace, has become an important tool in the array of work/life programs.

- The second study, *Veterans: Getting Their Preference?,* was conducted to determine whether Federal agencies fully and fairly considered veterans' preference eligibles in their hiring decisions under delegated examining during FY 1999, and to ensure that staffing flexibilities were not being systematically misused to intentionally avoid hiring veterans.

- Another study, *Supervisors in the Federal Government: A Wake-Up Call,* assessed the status of current efforts in Federal agencies to identify, select, develop, and evaluate first-level supervisors.

- The fourth study, *Federal Benefits Counseling: Putting the Pieces Together,* found that benefits counselors believe that OPM and other agencies do provide enough information to counsel employees. However, the report commits OPM to improving benefits counselor training and marketing benefits counseling tools.

- The fifth study, *A Work in Progress: Openness in the Employment Process II,* study, which examined the extent to which Federal agencies were meeting their obligation to publicly announce FY 1997 vacancies. This study reports a statistically valid estimate for vacancies filled in FY 1999 and finds that notable improvement has occurred since the first study. The report discusses the common reasons cited by agencies for failure to announce. It also includes recommendations to improve compliance.

Consolidated Financial Statements

FY 2001 Consolidated Financial Statements

U. S. Office of Personnel Management
CONSOLIDATED BALANCE SHEET
As of September 30, 2001 and 2000
(In Millions)

	2001	Restated 2000
ASSETS		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	$658	$544
Investments [Note 3]	572,812	540,297
Accounts Receivable:		
Benefit Contributions for Participants	882	983
Interest on Investments	9,230	8,943
Other	63	100
Total Intragovernmental	583,645	550,867
Accounts Receivable from the Public, Net:		
Benefit Contributions by Participants	621	617
Other	340	186
Assets Held by Insurance Carriers	701	441
Property and Equipment	13	10
TOTAL ASSETS	585,320	552,121
LIABILITIES		
Intragovernmental	132	194
Accrued Benefits	6,780	6,072
Accrued Premiums	422	410
Actuarial Liabilities:		
Pension Liability [Note 4]	1,069,500	1,031,100
Postretirement Health Benefits Liability [Note 5]	191,507	192,217
Actuarial Life Insurance Liability [Note 6]	26,149	24,662
Contingent Liability [Note 11]	174	100
Other	842	939
Total Liabilities	1,295,506	1,255,694
NET POSITION		
Unexpended Appropriations	11	13
Cumulative Results of Operations	(710,197)	(703,586)
Total Net Position	(710,186)	(703,573)
TOTAL LIABILITIES AND NET POSITION	$585,320	$552,121

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

U. S. Office of Personnel Management
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2001 and 2000
(In Millions)

	Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Consolidated
Fiscal Year 2001:						
Cost to Provide Benefits and Services	$71,115	$14,520	$20,283	$3,395	$481	$109,794
Less: Earned Revenues	37,725	18,507	15,982	3,341	330	75,885
Net Cost of Operations (Excess of Earned Revenues over Cost)	$33,390	($3,987)	$4,301	$54	$151	$33,909
Fiscal Year 2000 [Restated - Note 10]:						
Cost to Provide Benefits and Services	$70,417	$17,989	$36,553	$2,937	$504	128,400
Less: Earned Revenues	37,534	17,106	14,643	3,167	242	72,692
Net Cost of Operations (Excess of Earned Revenues over Cost)	$32,883	$883	$21,910	($230)	$262	$55,708

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

U. S. Office of Personnel Management
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2001
(In Millions)

Net Cost of Operations	**($33,909)**
Financing Sources Other Than Revenues:	
Appropriations Used	**5,650**
Transfer-in	**21,639**
Imputed Financing	**9**
Net Results of Operations	**(6,611)**
Decrease in Unexpended Appropriations	**(2)**
Change in Net Position	**(6,613)**
Net Position, Beginning of Year - Restated [Note 10]	**(703,573)**
Net Position, End of Year	**($710,186)**

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

U. S. Office of Personnel Management
CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2001
(In Millions)

BUDGETARY RESOURCES	
Appropriations	$5,658
Appropriated Receipts Used to Cover Obligations Incurred [Note 7]	47,533
Spending Authority from Offsetting Collections	19,680
Unobligated Balances - Beginning of Year	26,003
Total Budgetary Resources	98,874
STATUS OF BUDGETARY RESOURCES	
Obligations Incurred	71,252
Unobligated Balances - Available	70
Unobligated Balances - Not Available	27,552
Total, Status of Budgetary Resources	98,874
OUTLAYS	
Obligations Incurred	71,252
Less: Spending Authority from Offsetting Collections	19,680
Subtotal	51,572
Obligated Balance, Net - Beginning of Year	6,373
Less: Obligated Balance, Net - End of Year	7,069
Total Outlays	$50,876

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

U. S. Office of Personnel Management
CONSOLIDATED STATEMENT OF FINANCING
For the Year Ended September 30, 2001

(In Millions)

OBLIGATIONS AND NONBUDGETARY RESOURCES	
Obligations Incurred	$71,252
Less: Spending Authority from Offsetting Collections	19,680
Less: Total Appropriated Receipts	77,948
Other Financing Sources	21,639
Exchange Revenue Not in the Budget	(388)
Imputed Financing	(9)
Other	(8)
Total Obligations, as Adjusted and Nonbudgetary Resources	(5,142)
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS	(214)
COSTS THAT DO NOT REQUIRE RESOURCES	14
FINANCING SOURCES YET TO BE PROVIDED	
Change in Pension Liability	38,400
Change in Postretirement Health Benefits Liability	(710)
Change in Actuarial Life Insurance Liability	1,487
Change in Contingent Liability	74
Total Financing Sources Yet to be Provided	39,251
NET COST OF OPERATIONS	$33,909

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

Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2001 and 2000

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

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

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

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

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

Life Insurance Program. The Program provides group term life insurance coverage to Federal employees, retirees, former employees, family members, and former spouses. The Program was implemented in 1954 and significantly modified in 1980. It is operated through the Employees Group Life Insurance Fund, a revolving trust fund, and is administered, virtually in its entirety, by the Metropolitan Life Insurance Company under contract with OPM. The Program provides Basic life insurance (which includes accidental death and dismemberment coverage) and three packages of optional coverage.

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

B. BASIS OF ACCOUNTING AND PRESENTATION

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and OPM's own accounting policies, as summarized in this note. They have been compiled from OPM's records and presented in accordance with the form and content requirements of Office of Management and Budget (OMB) Bulletins 97-01 (as amended). The statements differ from the reports OPM prepares pursuant to OMB directives to monitor and control the use of its budgetary resources.

On September 25, 2001, OMB issued Bulletin No. 01-09 -- Form and Content of Agency Financial Statements. The provisions of Bulletin No. 01-09 are effective in their entirety for fiscal years beginning after September 30, 2001. Although it is permitted, OPM management has elected not to implement the requirements of Bulletin No. 01-09 that are not mandatory for fiscal year 2001 reporting. The only requirements mandated by Bulletin 01-09 for fiscal year 2001 are the preparation of a comparative Balance Sheet and Statement of Net Cost, which are reflected in the accompanying financial statements. Certain amounts on the prior year's Balance Sheet and Statement of Net Cost have been reclassified to conform with the fiscal year 2001 presentation.

C. USE OF MANAGEMENT'S ESTIMATES

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

D. ADOPTION OF NEW ACCOUNTING STANDARD

Effective on October 1, 2001, OPM adopted Statement of Federal Financial Accounting Standards (SFFAS) No. 10 -- Accounting for Internal Use Software. The standard requires the capitalization of the cost of all internal use software, including "commercial off-the-shelf," contractor-developed, and internally-developed. Previously, OPM expensed the cost of all internal use software.

E. CLASSIFICATION OF ASSETS AND LIABILITIES

Federal financial reporting standards require that entity and non-entity assets be disclosed separately on the balance sheet. Entity assets are those that the reporting entity has the legal authority to use in its operations. All of OPM's assets are classified as entity assets.

OPM has no authority to liquidate a liability unless budgetary resources have been made specifically available to do so. Where budgetary resources have been made available to liquidate it, the liability is classified as being "covered by budgetary resources." Since no budgetary resources have been made available to liquidate the Pension, Postretirement Health Benefits, and the Actuarial Life Insurance Liabilities, they are classified as being "not covered by budgetary resources." With minor exception, all of OPM's "non-actuarial liabilities" are classified as being "covered by budgetary resources."

Intragovernmental assets and liabilities arise from transactions between OPM and other Federal entities, including the U.S. Postal Service (USPS). The determining factor in classifying liabilities and assets as intragovernmental is the source of the liability or asset.

F. NET COST OF OPERATIONS

In accordance with Federal accounting standards, OPM deducts earned revenues associated with the gross costs of providing benefits and services on the accompanying Statement of Net Cost to derive its net cost of operations.

Gross Costs of Providing Benefits and Services. OPM's gross costs of providing benefits and services are presented by major output or responsibility segment. All Program costs (including Salaries and Expenses) are directly traced, assigned, or allocated on a reasonable and consistent basis to a responsibility segment.

The following table associates OPM's gross costs by Program to its responsibility segments:

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

Earned Revenue. OPM has two major categories of earned revenues: Earnings on Investments and Employer and Participant Contributions to the Retirement, Health Benefits and Life Insurance Programs. Federal accounting standards require Earnings on Investments to be classified in the same manner as OPM's predominant source of revenues. Since OPM's only other revenues are earned revenues, Earnings on Investments is also classified as earned revenue. Employer and Participant Contributions represent exchanges of money and services in return for current and future benefits and, as such, they are classified as earned or exchange revenues.

The Employer and Participant Contributions by Program are:

Retirement Program. The law fixes the contributions by and for most CSRS participants at a combined 15.51 and 15.91 percent of basic pay for fiscal years 2001 and 2000, respectively. The service cost of providing benefits to most CSRS employees is 24.2 percent, which represents the percentage of basic pay that should be contributed by and for employees over their working careers to meet their projected retirement benefits. Thus, contributions by and for participants do not cover the service cost of the CSRS. The service cost of providing benefits to most FERS employees (11.5 percent of basic pay), however, is generally fully funded by the contributions made by and for participants.

Health Benefits Program. The Health Benefits Program is contributory; both the covered participant and his/her employer or retirement system make contributions at a ratio of approximately one to two, respectively. The "employer" share for participating Retirement Program annuitants is drawn from an appropriation account. Although the Health Benefits Program provides benefits to participating employees after they retire, neither active employees nor their employing agencies make contributions for post-retirement health benefits [see Note 5].

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

G. FINANCING SOURCES OTHER THAN REVENUE

Certain OPMs inflows of assets are from financing sources other than revenue. As such, OPM has not deducted these inflows from its gross cost to provide benefits and services on the Statement of Net Cost. Rather, they are deducted from net cost of operations on the Statement of Changes in Net Position to derive OPM's net results of operations. OPM's principle financing sources other than earned revenue are:

Transfer from the General Fund. The contributions by and for participants do not cover the service cost of the CSRS. To partially subsidize this under-funding, the law mandates that the Retirement Program receive an annual transfer from the General Fund of the U.S. Government. This inflow of resources is classified as a financing source other than revenue, since it does not require reimbursement from OPM.

Appropriations Used. OPM recognizes a financing source other than revenue at the time it incurs expenses against its appropriated funds.

H. BUDGETARY RESOURCES

The Statement of Budgetary Resources presents the total budgetary resources available to OPM for obligation during the fiscal year. In addition to the unobligated balances at the beginning of the period, most of OPM's budgetary resources derive from the following:

Appropriated Receipts. The collections of the Retirement Program generate budgetary resources in the form of "appropriated receipts." During the fiscal year, the Program's appropriated receipts are available to cover all of its obligations, up to the amount apportioned by OMB. At year-end, the excess of the Program's appropriated receipts over the obligations it has incurred increase the balance of appropriated receipts that are precluded from obligation. Should, in a future fiscal year, appropriated receipts be insufficient to cover the Program's obligations, OPM may draw on its balance of appropriated receipts precluded from obligation to cover them.

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

Appropriated Authority. OPM receives appropriations from the Congress to cover the administrative costs of agency ("Salaries and Expenses") and the Government's contributions to the cost of health and life insurance benefits for Retirement Program annuitants. This authority is available for incurring new obligations for a single fiscal year.

I. FUND BALANCE WITH TREASURY

Fund Balance with Treasury represents OPM's balances in its trust, trust revolving, revolving, and appropriation accounts that are available for immediate expenditure. The Fund Balance with Treasury increases when OPM deposits collections and when investments mature or are redeemed. It decreases when the Treasury makes expenditures on behalf of OPM and when OPM \invests amounts not immediately needed for expenditure.

J. INVESTMENTS

OPM invests all Retirement, Health Benefits, and Life Insurance Program collections that are not immediately needed for expenditure in interest-bearing securities guaranteed by the United States as to principal and interest.

Retirement Program monies are invested initially in Certificates of Indebtedness ("Certificates"), which are issued 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 at par-value, with a yield equaling the average of all marketable Public Debt securities with four or more years to maturity. The Retirement Program also carries, but does not routinely invest in, securities issued by the Federal Financing Bank (FFB) and the U.S. Postal Service (USPS), as well as marketable Treasury securities.

The investments of the Health Benefits and Life Insurance Programs are in "market-based" securities that mirror the terms of marketable Treasury bills, fixed-principal notes and bonds, and inflation-indexed notes and bonds. In addition, OPM invests Health Benefits and Life Insurance Program monies that are immediately needed for expenditure in overnight market-based securities, whose interest rate is equal to an overnight repurchase agreement rate that is calculated by the Federal Reserve Bank of New York.

Investments are stated at original acquisition cost net of amortized premium and discount. Premium and discount are amortized into interest income over the term of the investment, using the interest method. The market-based securities and valued by the market prices quoted for the securities upon which they are based. Quoted market prices are used to value the marketable Treasury securities. There are no quoted market prices for the remaining investments. The market value of the special government account series securities, Certificates, and FFB securities is equal to their par values; the USPS securities are based on yields currently available on comparable securities.

K. ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts owed to OPM by Federal entities ("intragovernmental") and by the public. Most of the balance of intragovernmental accounts receivable represent accrued interest on investments and accrued Government contributions for participants in the Retirement, Health Benefits and Life Insurance Programs. Accounts receivable from the public derive, for the most part, from three sources: (1) accrued participant contributions due to the Retirement, Health Benefits and Life Insurance Programs; (2) amounts due to the Retirement Program by recipients of benefits, who have been subsequently determined to be ineligible for them; and (3) amounts due to Health Benefits Program by participating carriers for disallowed charges to their contracts. The balance of accounts receivable from the public is stated net of an allowance for uncollectible amounts, based on past collection experience and an analysis of outstanding amounts due.

L. ASSETS HELD BY INSURANCE CARRIERS

Assets Held by Insurance Carriers represents the balance of assets held by the experience-rated carriers participating in the Health Benefits Program and by the Life Insurance Program carriers, pending expenditure for Program purposes.

M. PROPERTY AND EQUIPMENT

OPM capitalizes major long-lived software and equipment. Software costing over $10,000 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 worth $10,000 or more is capitalized at purchase cost and depreciated via a straight-line method over five years. The cost of minor purchases, repairs and maintenance is charged to expense as it is incurred.

N. ACCRUED BENEFITS AND PREMIUMS

A liability is accrued for claims for benefits filed by participants in the Retirement, Health Benefits and Life Insurance Programs that are unpaid in the current reporting period. For the Health Benefits and Life Insurance Programs, accrued benefits include an estimate of claims incurred but not yet reported. A liability is also accrued for the amount OPM owes as premiums to community-rated carriers participating in the Health Benefits Program that are unpaid in the current reporting period.

O. ACTUARIAL LIABILITIES AND ASSOCIATED EXPENSES

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

NOTE 2 – FUND BALANCE WITH TREASURY

The following table provides OPM's Fund Balance with Treasury by type of fund for fiscal years 2001 and 2000; all balances have been obligated and are available for expenditure.

	2001	2000
Revolving fund	$ 34	$ 61
Trust revolving funds	572	455
Trust fund	31	11
Appropriated funds	21	17
Total	$ 658	$ 544

NOTE 3 – INVESTMENTS

The following tables summarize OPM's investments by Program for fiscal years 2001 and 2000:

As of September 30, 2001	Cost	Amortized/ Discount/ (Premium)	Investments, Net	Market Value
Retirement Program				
Par-value GAS securities	$500,742	0	$500,742	$500,742
Certificates of Indebtedness	26,447	0	26,447	26,447
FFB securities	15,000	0	15,000	15,000
Other	419	0	419	472
Total Retirement Program	542,608	0	542,608	542,661
Health Benefits Program	6,655	($3)	6,652	6,843
Life Insurance Program	23,694	(142)	23,552	25,062
Total Investments	$ 572,957	($145)	$ 572,812	$ 574,566

As of September 30, 2000	Cost	Amortized/ Discount/ (Premium)	Investments, Net	Market Value
Retirement Program				
Par-valued GAS securities	$470,235	0	$470,235	$470,235
Certificates of Indebtedness	26,332	0	26,332	26,332
FFB securities	15,000	0	15,000	15,000
Other	470	0	470	513
Total Retirement Program	512,037	0	512,037	512,080
Health Benefits Program	5,984	$7	5,991	5,997
Life Insurance Program	22,426	(157)	22,269	22,547
Total Investments	$ 540,447	($150)	$ 540,297	$ 540,624

NOTE 4 – PENSION LIABILITY AND EXPENSE

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

The following table presents the significant economic assumptions used to compute the Pension Liability and Expense:

	2001	2000
Interest rate (%)	6.75	7.00
Rate of inflation (%)	3.75	4.00
Rate of increases in salary (%)	4.25	4.25

The following tables present OPM's Pension Expense for fiscal years 2001 and 2000:

	2001		
	CSRS	FERS	TOTAL
Service cost	$ 12,545	$ 9,329	$ 21,874
Interest cost	62,695	8,579	71,274
Actuarial gain	(4,125)	(3,388)	(7,513)
Pension Expense	$ 71,115	$ 14,520	$ 85,635

	2000		
	CSRS	FERS	TOTAL
Service cost	$ 12,700	$ 8,700	$ 21,400
Interest cost	60,900	7,400	68,300
Actuarial (gain) or loss	(3,183)	1,889	(1,294)
Pension Expense	$ 70,417	$ 17,989	$ 88,406

The following tables present OPM's Pension Liability as of the September 30 measurement date:

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

	2000		
	CSRS	FERS	TOTAL
Pension Liability at October 1, 1999	$ 886,200	$ 101,800	$ 988,000
Plus: Pension Expense	70,417	17,989	88,406
Less: Costs applied to Pension Liability	44,117	1,189	45,306
Pension Liability at September 30, 2000	$ 912,500	$ 118,600	$1,031,100

In accordance with Federal accounting standards, the Pension Liability is reduced by the total operating costs incurred by the Retirement Program. The following table presents the costs applied to the Pension Liability:

	2001	2000
Annuities	$ 46,791	$ 44,849
Refunds of contributions	310	333
Administrative and other expenses	134	124
Costs applied to the Pension Liability	$ 47,235	$ 45,306

Federal accounting standards require employing agencies to recognize the excess of the service cost of a CSRS benefit over the amount contributed by and for their participating employees as an imputed cost.

NOTE 5 — POSTRETIREMENT HEALTH BENEFITS LIABILITY AND EXPENSE

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

The following table presents the significant economic assumptions used to compute the PRHB Liability and associated expense:

	2001	2000
Interest rate (%)	6.75	7.00
Increase in per capita cost of covered benefits (%)	7.00	7.00

The following table presents OPM's PRHB Expense for fiscal years 2001 and 2000:

	2001	2000
Service cost	$ 7,316	$ 6,370
Interest cost	12,111	12,610
Actuarial (gain) or loss	(12,783)	4,781
Total PRHB Expense	$6,644	$ 23,761

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

	2001	2000
PRHB Liability at beginning of year	$ 192,217	$ 175,365
Plus: PRHB Expense	6,644	23,761
Less: Costs applied to the PRHB Liability	7,354	6,909
PRHB Liability at end of year	$191,507	$ 192,217

In accordance with Federal accounting standards, the PRHB Liability is reduced by certain operating costs incurred by the Health Benefits Program. The following table presents the costs that have been applied to the PRHB Liability:

	2001	2000
Current benefits	$5,425	$ 5,158
Premiums	1,277	1,171
Administrative and other expenses	652	580
Total Costs applied to the PRHB Liability	$7,354	$ 6,909

The assumed health care cost trend rates have a significant effect on the amounts reported as the PRHB Liability and associated expense. A one percentage point change in the assumed health care cost trend rates would have the following effects:

	2001		2000	
	8.0% [One Percent Increase]	6.0% [One Percent Decrease]	8.0% [One Percent Increase]	6.0% [One Percent Decrease]
Interest cost component	$13,828	$10,694	$14,422	$11,087
Service cost component	$9,102	$5,912	$ 8,078	$5,046
PRHB Liability	$220,391	$167,728	$221,577	$167,665

Since neither the employing agency nor active employee participants make contributions to PRHB, Federal accounting standards require employing agencies to recognize the entire PRHB service cost as an imputed cost. OPM's actuaries have computed the cost factor to be $3,246 and $2,803 per employee enrolled in the Program for fiscal years 2001 and 2000, respectively.

NOTE 6 — ACTUARIAL LIFE INSURANCE LIABILITY AND ASSOCIATED EXPENSE

The Actuarial Life Insurance Liability is the expected present value (PV) of future benefits to be paid to, or on behalf of, existing Life Insurance Program participants, less the expected PV of future contributions to be collected from those participants. In calculating the Actuarial Life Insurance Liability, OPM's actuary uses assumptions that are consistent with those used in computing the Pension Liability [Note 4].

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

	2001	2000
Expected PV of future benefits	$53,461	$49,979
Less: Expected PV of future contributions by participants	27,312	25,317
Actuarial Life Insurance Liability	$26,149	$24,662

The following table presents OPM's Future Life Insurance Benefits Expense, which equals the change in the Actuarial Life Insurance Liability from the beginning of the year:

	2001	2000
Actuarial Life Insurance Liability at end of year	$26,149	$24,662
Less: Actuarial Life Insurance Liability at beginning of year	24,662	23,575
Future Life Insurance Benefits Expense	$ 1,487	$ 1,087

The Life Insurance Program is funded by means of the "level premium" method — that is, the contributions paid by and for enrollees remains fixed until age 65. Contributions are set at a level that overcharges during early years of coverage to compensate for higher rates of benefit outflows at later years of coverage. The contributions to the Program, when accumulated over the years with interest, are expected to be sufficient to provide for the net outflows during the later years of coverage.

The Future Life Insurance Benefits Expense reflects the accrued cost of both pre-retirement and post-retirement benefits. The portion of the Future Benefits Expense that relates to post-retirement benefits is 0.02 percent of the basic pay of participating employees for both fiscal years 2001 and 2000. Federal accounting standards require employing agencies to recognize this amount as an imputed cost.

NOTE 7 — BALANCE OF APPROPRIATED RECEIPTS TEMPORARILY PRECLUDED FROM OBLIGATION

OPM may use its appropriated receipts [see Note 1] in the amount necessary to cover Retirement Program obligations. Should appropriated receipts be insufficient to cover the Program's obligations, OPM may draw on its balance of appropriated receipts that have been precluded from obligation to cover them.

The following table presents OPM's balance of appropriated receipts that are temporarily precluded from obligation:

Total appropriated receipts during fiscal year 2001	$ 77,948
Less: Appropriated receipts used to cover obligations incurred	47,533
Excess of appropriated receipts over obligations incurred at September 30, 2001	30,415
Balance of appropriated receipts precluded from obligation at October 1, 2000	508,103
Balance of appropriated receipts precluded from obligation at September 30, 2001	$538,518

NOTE 8 – GROSS COST AND EARNED REVENUES BY BUDGET FUNCTION

Federal reporting standards require that OPM disclose its gross cost and associated earned revenues by the functional classifications used in the President's budget. The gross cost and associated earned revenues of the Retirement and Life Insurance Programs are classified in the President's budget as an "Employee Retirement and Disability" function; the Heath Benefits Program as "Health Care Services;" and the Revolving Fund Programs and Salaries and Expenses as "General Government." Substantially OPM's entire gross cost is classified as being "with the public" The principal intragovernmental earned revenues are Earnings and Investments and Employer Contributions. The following table presents OPM's gross cost and associated earned revenue by budget function:

		2001			2000 Restated		
Budget Function	Budget Function Code	Gross Cost	Earned Revenues	Cost Net	Gross Cost	Earned Revenues	Net Cost
Employee Retirement and Disability	602	$89,030	$59,573	$29,457	$ 91,343	$ 57,807	$33,536
Health Care Services	551	20,283	15,982	4,301	36,553	14,643	21,910
General Government	805	481	330	151	504	242	262
Total		$109,794	$75,885	$33,909	$ 128,400	$ 72,692	$ 55,708

NOTE 9 — CONCENTRATIONS IN HEALTH BENEFITS AND LIFE INSURANCE PROGRAMS

During fiscal years 2001 and 2000, approximately half of the Health Benefits Program's benefits were administered by the Blue Cross and Blue Shield Association, an experience-rated plan. Virtually all of the Life Insurance Program's benefits were administered by the principal life insurance carrier, Metropolitan Life Insurance Company

NOTE 10 — RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

The Consolidated Balance Sheet as of September 30, 2000 and the Consolidated Statement of Net Cost for the year ended September 30, 2000 have been restated. The purpose of the restatement is to recognize retroactively the incurrence of a contingent liability of $100 million in the case of NTEU vs. OPM [see Note 11]. Concurrently, other adjustments totaling $45 million to corect previously reported understatements of expenses were applied. The total effect of the restatement is as follows:

Balance Sheet:	As Originally Reported	As Restated	Net Change Increase (Decrease)
Contingent Liability	0	$100	$100
Intragovernmental Liabilities	$149	$194	$45
Total Liabilities	$1,255,549	$1,255,694	$145
Net Position	($703,428)	($703,573)	($145)
Statement of Net Cost:			
Cost to Provide Benefits and Services	$128,255	$128,400	$145
Net Cost of Operations	$55,563	$55,708	$145

NOTE 11 — CONTINGENCIES

NTEU v. OPM. On January 3, 2002, counsel for the plaintiffs and the Federal government signed a proposed settlement agreement to resolve all remaining issues in the case of the National Treasury Employees Union (NTEU) v. Kay Cole James, Director, OPM ["OPM"]. In NTEU v. OPM, the plaintiffs, a class of present and former Federal employees, sued OPM regarding the process by which annual pay increases were applied to certain "special rate" employees. The U.S. Court of Appeals for the Federal Circuit ruled that for several years, OPM had erroneously applied those pay raises and ordered OPM to calculate appropriate damages. Should the proposed settlement be approved by the Court, OPM estimates that approximately $174 million will be paid for relief to the class.

Since any settlement in this case will be paid from the Treasury Judgment Fund (TJF), OPM has recorded $174 million as a contingent liability as of September 30, 2001. In addition, the financial statements as of September 30, 2000 have been restated [see Note 10] to reflect the incurrence of a contingent liability of $100 million, OPM's best estimate at that time of the probable loss arising from the case. As a result, OPM has recognized future funded expenses of $74 million and $174 million in the Statement of Net Cost for the years ended September 30, 2001 and 2000, respectively. If a settlement is ultimately made, OPM will recognize an imputed financing source to reflect the actual amount paid from the TJF.

Health Benefits Program Carriers. OPM is currently a defendant in lawsuits in which carriers participating in the Health Benefits Program are seeking relief for alleged underpayments of premiums. The amount of any probable loss as a consequence of these actions has been determined to be immaterial to the financial statements as of September 30, 2001 and 2000. If settlements are reached in these cases, such settlements will be paid from the TJF. Any ultimate reimbursement to the Treasury Judgement Fund will be made by the affected employing agencies and retirement systems, where enrollment records can provide the basis for premium payments remitted to the carriers by OPM on behalf of those agencies.

Other Litigation. OPM is often involved in other legal and administrative proceedings that arise in the ordinary course of business. OPM management, based upon the opinion of its General Counsel, believes that the combined outcome of all such proceedings, both pending or known to be threatened, will not have a material adverse effect on OPM's financial position or results of operations.

NOTE 12 — SUBSEQUENT EVENTS

Long Term Care Security Act. Public Law 106-265, the Long Term Care Security Act, was signed into law on September 19, 2000. The law requires that OPM implement the Federal Long Term Care Insurance Program (FLTCIP) by October 1, 2002. When implemented, the entire FLTCIP premium will be borne by the participant, who will pay them directly to the carrier. There will be no employer contribution nor will a separate Federal account be established with which to operate the FLTCIP. The expenses incurred by OPM in developing, implementing, and administering the FLTCIP are paid from the Employees Group Life Insurance Fund. The law requires the carrier to reimburse the Employees Group Life Insurance Fund for these expenses once the FLTCIP is implemented. OPM management expects that these costs will not have a material adverse effect on OPM's financial position or results of operations.

Consolidating Financial Statements

SCHEDULE 1

U. S. Office of Personnel Management
CONSOLIDATING BALANCE SHEET
As of September 30, 2001
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	Consolidated
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$31	$566	$6	$34	$21	0	$658
Investments [Note 3]	542,608	6,652	23,552	0	0	0	572,812
Accounts Receivable:							
Benefit Contributions for Participants	559	313	11	0	0	($1)	882
Interest on Investments	8,801	34	395	0	0	0	9,230
Other	0	0	0	60	15	(12)	63
Total Intragovernmental	551,999	7,565	23,964	94	36	(13)	583,645
Accounts Receivable from the Public, Net:							
Benefit Contributions by Participants	169	372	80	0	0	0	621
Other	98	208	0	34	0	0	340
Assets Held by Insurance Carriers	0	126	575	0	0	0	701
Property and Equipment	0	0	0	3	10	0	13
TOTAL ASSETS	552,266	8,271	24,619	131	46	(13)	585,320

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

SCHEDULE 1 - continued

U. S. Office of Personnel Management
CONSOLIDATING BALANCE SHEET
As of September 30, 2001
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	Consolidated
LIABILITIES							
Intragovernmental	4	7	1	129	4	(13)	132
Accrued Benefits	3,746	2,505	529	0	0	0	6,780
Accrued Premiums	0	422	0	0	0	0	422
Actuarial Liabilities:							
Pension Liability [Note 4]	1,069,500	0	0	0	0	0	1,069,500
Postretirement Health Benefits Liability [Note 5]	0	191,507	0	0	0	0	191,507
Actuarial Life Insurance Liability [Note 6]	0	0	26,149	0	0	0	26,149
Contingent Liability [Note 11]	0	0	0	0	174	0	174
Other	380	415	0	24	23	0	842
Total Liabilities	1,073,630	194,856	26,679	153	201	(13)	1,295,506
NET POSITION							
Unexpended Appropriations	0	0	0	0	11	0	11
Cumulative Results of Operations	(521,364)	(186,585)	(2,060)	(22)	(166)	0	(710,197)
Total Net Position	(521,364)	(186,585)	(2,060)	(22)	(155)	0	(710,186)
TOTAL LIABILITIES AND NET POSITION	$552,266	$8,271	$24,619	$131	$46	($13)	$585,320

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

SCHEDULE 1 - continued

U. S. Office of Personnel Management
CONSOLIDATING BALANCE SHEET
As of September 30, 2000

(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	Restated Consolidated
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$11	$449	$6	$61	$17	0	$544
Investments [Note 3]	512,037	5,991	22,289	0	0	0	540,297
Accounts Receivable:							
Benefit Contributions for Participants	596	375	12	0	0	0	983
Interest on Investments	8,520	37	386	0	0	0	8,943
Other	0	0	0	83	27	($10)	100
Total Intragovernmental	521,164	6,852	22,673	144	44	(10)	550,867
Accounts Receivable from the Public, Net:							
Benefit Contributions by Participants	191	345	81	0	0	0	617
Other	102	71	0	13	0	0	186
Assets Held by Insurance Carriers	0	86	355	0	0	0	441
Property and Equipment	0	0	0	3	7	0	10
TOTAL ASSETS	521,457	7,354	23,109	160	51	(10)	552,121

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

SCHEDULE 1 - continued

U. S. Office of Personnel Management
CONSOLIDATING BALANCE SHEET
As of September 30, 2000
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	Restated Consolidated
LIABILITIES							
Intragovernmental	1	7	1	177	18	(10)	194
Accrued Benefits	3,598	1,990	484	0	0	0	6,072
Accrued Premiums	0	410	0	0	0	0	410
Actuarial Liabilities:							
Pension Liability [Note 4]	1,031,100	0	0	0	0	0	1,031,100
Postretirement Health Benefits Liability [Note 5]	0	192,217	0	0	0	0	192,217
Actuarial Life Insurance Liability [Note 6]	0	0	24,662	0	0	0	24,662
Contingent Liability [Note 11]	0	0	0	0	100	0	100
Other	358	544	0	13	24	0	939
Total Liabilities	1,035,057	195,168	25,147	190	142	(10)	1,255,694
NET POSITION							
Unexpended Appropriations	0	0	0	0	13	0	13
Cumulative Results of Operations	(513,600)	(187,814)	(2,038)	(30)	(104)	0	(703,586)
Total Net Position	(513,600)	(187,814)	(2,038)	(30)	(91)	0	(703,573)
TOTAL LIABILITIES AND NET POSITION	$521,457	$7,354	$23,109	$160	$51	($10)	$552,121

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

SCHEDULE 2

U. S. Office of Personnel Management
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2001
(In Millions)

	CSRS	FERS	Total Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	Consolidated
COST TO PROVIDE BENEFITS AND SERVICES									
Pension Expense [Note 4]	$71,115	$14,520	$85,635	0	0	0	0	0	$85,635
Postretirement Health Benefits Expense [Note 5]	0	0	0	$6,644	0	0	0	0	6,644
Future Life Insurance Benefits Expense [Note 6]	0	0	0	0	$1,487	0	0	0	1,487
Future Funded Expense [Note 11]	0	0	0	0	0	0	$74	0	74
Current Benefits and Premiums	0	0	0	13,075	1,792	0	0	0	14,867
Other	0	0	0	564	116	$321	258	($172)	1,087
Total Cost to Provide Benefits and Services	71,115	14,520	85,635	20,283	3,395	321	332	(172)	109,794
EARNED REVENUES									
Employer Contributions	7,972	8,666	16,638	9,762	375	0	0	0	26,775
Participant Contributions	3,613	748	4,361	5,882	1,551	0	0	0	11,794
Earnings on Investments	26,140	9,093	35,233	338	1,413	0	0	0	36,984
Other	0	0	0	0	2	329	173	(172)	332
Total Earned Revenues	37,725	18,507	56,232	15,982	3,341	329	173	(172)	75,885
Net Cost of Operations (Excess of Earned Revenues Over Cost)	$33,390	($3,987)	$29,403	$4,301	$54	($8)	$159	0	$33,909

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

SCHEDULE 2 - continued

U. S. Office of Personnel Management
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2000
(In Millions)

	CSRS	FERS	Total Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	Restated Consolidated
COST TO PROVIDE BENEFITS AND SERVICES									
Pension Expense [Note 4]	$70,417	$17,989	$88,406	0	0	0	0	0	$88,406
Postretirement Health Benefits Expense [Note 5]	0	0	0	$23,761	0	0	0	0	23,761
Future Life Insurance Benefits Expense [Note 6]	0	0	0	0	$1,087	0	0	0	1,087
Future Funded Expense [Note 11]	0	0	0	0	0	0	$100	0	100
Current Benefits and Premiums	0	0	0	12,312	1,831	0	0	0	14,143
Other	0	0	0	480	19	$289	265	($150)	903
Total Cost to Provide Benefits and Services	70,417	17,989	88,406	36,553	2,937	289	365	(150)	128,400
EARNED REVENUES									
Employer Contributions	7,956	8,005	15,961	8,956	363	0	0	0	25,280
Participant Contributions	3,838	865	4,703	5,335	1,430	0	0	0	11,468
Earnings on Investments	25,740	8,236	33,976	352	1,374	0	0	0	35,702
Other	0	0	0	0	0	251	141	(150)	242
Total Earned Revenues	37,534	17,106	54,640	14,643	3,167	251	141	(150)	72,892
Net Cost of Operations (Excess of Earned Revenues Over Cost)	$32,883	$883	$33,766	$21,910	($230)	$38	$224	0	$55,708

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

SCHEDULE 3

U. S. Office of Personnel Management
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2001

(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Consolidated
Net Cost of Operations	($29,403)	($4,301)	($54)	$8	($159)	($33,909)
Financing Sources Other Than Revenues:						
Appropriations Used	0	5,530	32	0	88	5,650
Transfer-in	21,639	0	0	0	0	21,639
Imputed Financing	0	0	0	0	9	9
Net Results of Operations	(7,764)	1,229	(22)	8	(62)	(6,611)
Decrease in Unexpended Appropriations	0	0	0	0	(2)	(2)
Change in Net Position	(7,764)	1,229	(22)	8	(64)	(6,613)
Net Position, Beginning of Year - Restated [Note 10]	(513,600)	(187,814)	(2,038)	(30)	(91)	(703,573)
Net Position, End of Year	($521,364)	($186,585)	($2,060)	($22)	($155)	($710,186)

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

SCHEDULE 4

U. S. Office of Personnel Management

CONSOLIDATING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2001

(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	Consolidated
BUDGETARY RESOURCES							
Appropriations	0	$5,530	$32	0	$96	0	$5,658
Appropriated Receipts Used							
to Cover Obligations Incurred [Note 7]	$47,533	0	0	0	0	0	47,533
Spending Authority from Offsetting Collections	0	15,973	3,367	$367	145	($172)	19,680
Unobligated Balances - Beginning of Year	0	4,085	21,852	48	18	0	26,003
Total Budgetary Resources	47,533	25,588	25,251	415	259	(172)	98,874
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred	47,533	21,170	2,117	352	252	(172)	71,252
Unobligated Balances - Available	0	0	0	63	7	0	70
Unobligated Balances - Not Available	0	4,418	23,134	0	0	0	27,552
Total Status of Budgetary Resources	47,533	25,588	25,251	415	259	(172)	98,874
OUTLAYS							
Obligations Incurred	47,533	21,170	2,117	352	252	(172)	71,252
Less: Spending Authority from Offsetting Collections	0	15,973	3,367	367	145	(172)	19,680
Subtotal	47,533	5,197	(1,250)	(15)	107	0	51,572
Obligated Balance, Net - Beginning of Year	3,942	2,330	114	(15)	2	0	6,373
Less: Obligated Balance, Net - End of Year	4,119	2,785	134	1	30	0	7,069
Total Outlays	$47,356	$4,742	($1,270)	($31)	$79	0	$50,876

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

SCHEDULE 5

U. S. Office of Personnel Management
CONSOLIDATING STATEMENT OF FINANCING
For the Year Ended September 30, 2001

(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	Consolidated
OBLIGATIONS AND NONBUDGETARY RESOURCES							
Obligations Incurred	$47,533	$21,170	$2,117	$352	$252	($172)	$71,252
Less: Spending Authority from Offsetting Collections	0	15,973	3,367	367	145	(172)	19,680
Less: Total Appropriated Receipts	77,948	0	0	0	0	0	77,948
Other Financing Sources	21,639	0	0	0	0	0	21,639
Exchange Revenue Not in the Budget	(222)	(167)	1	0	0	0	(388)
Imputed Financing	0	0	0	0	(9)	0	(9)
Other	0	0	(8)	0	0	0	(8)
Total Obligations, as Adjusted and Nonbudgetary Resources	(8,998)	5,030	(1,257)	(15)	98	0	(5,142)
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS	(3)	(22)	(176)	(2)	(11)	0	(214)
COSTS THAT DO NOT REQUIRE RESOURCES	4	3	0	9	(2)	0	14
FINANCING SOURCES YET TO BE PROVIDED							
Change in Pension Liability	38,400	0	0	0	0	0	38,400
Change in Postretirement Health Benefits Liability	0	(710)	0	0	0	0	(710)
Change in Actuarial Life Insurance Liability	0	0	1,487	0	0	0	1,487
Change in Contingent Liability	0	0	0	0	74	0	74
Total Financing Sources Yet to be Provided	38,400	(710)	1,487	0	74	0	39,251
NET COST OF OPERATIONS							
(Excess of Earned Revenue Over Cost)	$29,403	$4,301	$54	($8)	$159	0	$33,909

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

Required Supplementary Information

INTRAGOVERNMENTAL ASSETS BY TRADING PARTNER

as of September 30, 2001

(In Millions)

OPM is required to report three categories of intragovernmental assets by trading partner: Benefit Contributions for Participants; Interest on Investments; and Fund Balance with Treasury and Investments. For each of these intragovernmental asset categories, the following schedule identifies the amount of the corresponding liability that should be reported by each of OPM's trading partners.

Trading Partner	Fund Balance with Treasury and Investments	Benefit Contributions for Participants Receivable	Interest on Investments Receivable
Agriculture	0	$51	0
Commerce	0	18	0
Defense	0	209	0
Education	0	3	0
Energy	0	17	0
Health and Human Services	0	31	0
Housing and Urban Development	0	6	0
Interior	0	32	0
Justice	0	93	0
Labor	0	8	0
State	0	6	0
Transportation	0	48	0
Treasury	$573,470	75	$9,230
Veterans Affairs	0	32	0
Agency for International Development	0	1	0
Environmental Protection Agency	0	11	0
Federal Emergency Management Agency	0	2	0
General Services Administration	0	7	0
National Aeronautics and Space Agency	0	12	0
National Science Foundation	0	0	0
Nuclear Regulatory Commission	0	2	0
Small Business Administration	0	2	0
Social Security Administration	0	29	0
U.S. Postal Service	0	124	0
Other	0	63	0
Total	$573,470	$882	$9,230

UNAUDITED – SEE ACCOMPANYING INDEPENDENT AUDITORS' REPORT

Required Supplemental Information

INTRAGOVERNMENTAL EARNED REVENUES BY TRADING PARTNER

for the Year Ended September 30, 2001

(In Millions)

OPM is required to report two categories of intragovernmental earned revenues by trading partner: Contributions for Participants and Interest on Investments. The following schedule identifies the amount of the corresponding expense that should be reported by each of OPM's trading partners. Also, reported is OPM's "Full Cost to Generate Revenues", which is equal to the total of these two categories of intragovernmental earned revenues.

Trading Partner	Employer Contributions	Earnings on Investments	Full Cost to Generate Revenue
Agriculture	$856	0	
Commerce	312	0	
Defense	5,419	0	
Education	54	0	
Energy	173	0	
Health and Human Services	507	0	
Housing and Urban Development	99	0	
Interior	524	0	
Justice	1,561	0	
Labor	144	0	
State	106	0	
Transportation	812	0	
Treasury	1,278	$36,984	
Veterans Affairs	1,593	0	
Agency for International Development	15	0	
Environmental Protection Agency	182	0	
Federal Emergency Management Agency	30	0	
General Services Administration	125	0	
National Aeronautics and Space Agency	203	0	
National Science Foundation	12	0	
Nuclear Regulatory Commission	33	0	
Small Business Administration	35	0	
Social Security Administration	489	0	
U.S. Postal Service	11,006	3	
Other	1,207	0	
Total	$26,775	$36,984	$63,759

UNAUDITED – SEE ACCOMPANYING INDEPENDENT AUDITORS' REPORT

Required Supplemental Information

Independent Public Accountant's Report

KPMG

2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report

Director and Inspector General
U.S. Office of Personnel Management:

We have audited the accompanying consolidated balance sheets of the U.S. Office of Personnel Management (OPM) as of September 30, 2001 and 2000 and the related consolidated statements of net cost for each of the years then ended, and the related consolidated statements of changes in net position, budgetary resources, and financing for the year ended September 30, 2001. 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, 2001 and 2000 and the related individual statements of net cost for each of the years then ended, and the related individual statements of changes in net position, budgetary resources, and financing for the year ended September 30, 2001.

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

Summary

As stated in the opinion section of this report, based on our audits and the results of other auditors, the consolidated financial statements of OPM and the individual financial statements of the Programs 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, 2001 and 2000, and the consolidated and individual Programs' net costs for each of the years then ended, and the changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in the following reportable conditions, none of which are believed to be material weaknesses:

1. Electronic data processing (EDP) general control environment
2. Account analysis and other significant reconciliation procedures by the Office of the Chief Financial Officer (OCFO)
3. Budgetary accounting structure of the OCFO
4. Quality control over annual financial statement preparation
5. Controls over program administration for the community-rated health carriers
6. Implementation of documented policies and procedures of the OCFO

The status of prior year findings is presented in Exhibit I.

[redacted]

The results of our tests of compliance with certain provisions of laws and regulations, exclusive of those referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996, disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

Our tests of compliance with FFMIA section 803(a) requirements disclosed instances where the OPM's financial management systems did not substantially comply with Federal financial management systems requirements and the United States Government Standard General Ledger at the transaction level.

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the U.S. Office of Personnel Management as of September 30, 2001 and 2000 and the related consolidated statements of net cost for each of the years then ended, and the related consolidated statements of changes in net position, budgetary resources, and financing for the year ended September 30, 2001. We have also audited the individual balance sheets of the Programs as of September 30, 2001 and 2000 and the related individual statements of net cost for each of the years then ended, and the related individual statements of changes in net position, budgetary resources, and financing for the year ended September 30, 2001. The individual Program financial statements are included in the consolidating financial statements presented as schedules 1 through 5.

We did not audit the financial statements of the experience-rated health carriers, which statements comprise 1.5 percent and 1 percent of total assets reflected in the Health Benefits Program (HBP) individual balance sheets as of September 30, 2001 and 2000, and substantially all of the post-retirement health benefits and current benefits reflected in the HBP individual statements of net cost for the years then ended. The experience-rated carrier financial statements were audited by other auditors, whose reports thereon have been provided to us, and our opinion, insofar as it relates to the amounts included for the experience-rated carriers, is based solely on the reports of the other auditors.

Additionally, we did not audit the financial statements of Metropolitan Life Insurance Company's Office of Federal Employees Group Life Insurance Program (OFEGLI), which statements comprise approximately 2.3 percent and 1.5 percent of total assets reflected in the Life Insurance Program (LP) individual balance sheets as of September 30, 2001 and 2000, and substantially all of the current benefits reflected in the LP individual statements of net cost for the years then ended. Those financial statements were audited by other auditors, whose report thereon has been provided to us, and our opinion, insofar as it relates to the amounts included for OFEGLI, is based solely on the reports of the other auditors.

In our opinion, based on our audits and the results of other auditors, the consolidated financial statements of OPM and the individual financial statements of the Programs 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, 2001 and 2000, and the consolidated and individual Programs' net costs for each of the years then ended, and the changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

The information included in the sections entitled Management Discussion and Analysis (MD&A) and Required Supplementary Information is not a required part of the financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board or OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. 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 the information in the MD&A and Required Supplementary Information sections and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the presented consolidated financial statements of OPM taken as a whole and on the presented individual financial statements of the Programs. The individual financial statements of the Revolving Fund Programs and Salaries and Expenses funds (the Funds) included in the consolidating financial statements, (Schedules 1 through 5), are presented for purposes of additional analysis of the consolidated financial statements of OPM rather than to present the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of the individual Funds. The presented financial statements of the Funds have been subjected to the auditing procedures applied in the audit of the OPM's consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to OPM's consolidated financial statements taken as a whole.

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants (AICPA), reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect OPM's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We noted certain matters, described in items 1 through 6 below, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. However, none of the reportable conditions identified below are believed to be material weaknesses.

A summary of the status of prior year reportable conditions is included in Exhibit I. We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of OPM in a separate letter dated February 15, 2002.

1. Electronic Data Processing (EDP) General Control Environment

Throughout fiscal year 2001, reorganization efforts have been underway to consolidate some information technology functions and to strengthen the role of the Office of the Chief Information Officer (OCIO). Key control areas that require entity-wide level management, which are under the control of the OCIO, include security, network and platform management, change management, and service continuity. Although OPM has recently improved the security and controls over the information systems, certain controls still need to be improved, as required by OMB Circular A-130, *Management of Federal Information Resources*. These conditions could affect OPM's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources.

a. Entity-wide Security Program

As previously reported, OPM has not promulgated and implemented an entity-wide security program, although the program is under development. OPM's security program should assign security responsibilities to the appropriate positions within OPM, establish policies for performing risk assessments, require documentation of security plans for general support systems and major applications, integrate an incident response capability, and provide for periodic training of all staff. An entity-wide security program that contains security policies and an implementation plan is the foundation of an entity's security control structure, and a reflection of senior management's commitment to addressing security risks. As outlined in OMB Circular A-130, an effective security program includes a risk assessment process, a certification process, and an effective plan for incident response and monitoring.

b. Access Controls

As reported in the prior year, certain security access controls should be strengthened. Specifically, OPM is not performing periodic reviews of access listings to identify and remove excessive access, and certain user account groups and security administrators have excessive access privileges to mainframe resources. In addition, OPM has not fully developed or implemented platform configuration standards or password management controls. Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized modification, disclosure, loss, or impairment. The objectives of limiting access are to ensure that (1) users have only the access needed to perform their duties; (2) access to very sensitive resources, such as security software programs, is limited to very few individuals; and (3) employees are restricted from performing incompatible functions or functions beyond their responsibilities.

c. System Software Controls

While OPM has made significant progress toward the implementation of an entity-wide Software Development Life Cycle (SDLC) methodology, OPM has not fully established system software controls that limit and monitor access to the programs and sensitive files that control the computer hardware and secure applications supported by the system.

[redacted]

In addition, OPM has not fully developed procedures to ensure that tests of system software changes are performed and documented, system software changes are reviewed, approval is documented before implementation, and duties are properly segregated. Controls over the modification of system software change controls should provide reasonable assurance that operating system controls are not compromised. Without proper system software controls, unauthorized individuals using the system software could circumvent controls to read, modify, or delete critical or sensitive information or programs.

d. **Software Development and Change Controls**

OPM has not made sufficient progress toward developing formal procedures for controlling changes over customized application software. These controls prevent the use of unauthorized programs or unauthorized modifications to existing programs. In addition, we noted that programmers' duties are not properly segregated. Application programmers responsible for making changes to customized application software also have access to production. Establishing controls over the modification of application software programs assists in ensuring that only authorized programs and authorized modifications are implemented. Without proper controls, there is a risk that security features could be inadvertently or deliberately omitted or "turned-off", or that processing irregularities could be introduced.

e. **Service Continuity**

To mitigate the risk of service interruptions, OPM needs to improve controls over the integration of its Continuity of Operation Plan (COOP) and its Disaster Recovery Plan (DRP). In addition, OPM needs to strengthen controls over LAN connectivity and backup procedures. Losing the capability to process, retrieve, and protect information maintained electronically could significantly affect OPM's ability to accomplish its mission. Thus, procedures should be in place to protect information resources, minimize the risk of unplanned interruptions, and recover critical operations should interruptions occur.

Recommendation

We recommend the OCIO coordinate with the Retirement and Insurance Service (RIS) to develop a formal action plan for reviewing and revising EDP general controls. This plan should address each of the areas discussed above, set forth appropriate corrective action steps, assign responsibilities to employees, and establish target completion dates for each action. This plan should be reviewed by the Office of the Inspector General (OIG) and adopted by the executive management of OPM. In addition, this plan should provide for periodic reviews of progress towards the achievement of corrective actions.

2. **Account Analysis and Other Significant Reconciliation Procedures by the Office of the Chief Financial Officer (OCFO)**

Key internal controls for detecting and correcting accounting errors and preventing misstatements of the financial statements include the performance of periodic account analyses, reconciliation of subsidiary ledgers to general ledger control accounts, and supervisory review and approval of the posting of accounting transactions and related general ledger journal entries.

[redacted]

During fiscal year 2001, the OCFO made significant efforts to improve controls over account analysis and other reconciliation procedures of OPM's Funds. Despite these efforts, the OCFO was unable to provide adequate evidence that its key accounting controls were in place and functioning in the Funds during the audit period. As in the prior year, procedures for reconciling fund balance with Treasury were not applied properly and consistently throughout the fiscal year, not all the Funds' accounts were reconciled, and not all accounting transactions were posted to the general ledger in a timely manner. Consequently, several adjustments and recalculations were necessary to produce the individual Funds' financial statements.

Based on our limited observations of the OCFO's accounting functions, we believe there is inadequate communication among functions within the accounting office, weak enforcement of policies and procedures, and a shortage of personnel with the technical skills necessary to perform and oversee account analysis and reconciliation procedures. Therefore, management and staff have been unable to identify the causes of differences in the Funds' fund balances with Treasury and make corrections in a timely manner.

While the Funds are not material in relation to OPM's consolidated financial statements presented herein, the weaknesses in OCFO's account reconciliation controls indicate significant deficiencies in the operation of OCFO's internal control over financial reporting. In our judgment, these deficiencies adversely affect OPM's ability to accurately record, process, summarize, and report financial data for the Funds.

Recommendations

As we recommended in the prior year, the OCFO should emphasize the importance of timely reconciliation procedures to those responsible for their performance and enforce reasonable deadlines for their completion after each month end. The task of performing reconciliation procedures (including identification of reconciling differences and researching and resolving those differences) should be assigned to individuals with appropriate training and skills. Correction and resolution of reconciling items should be reviewed by appropriate supervisory personnel, properly documented, and posted to the general ledger.

We again recommend the OCFO continue it efforts to take the necessary actions to ensure that:

- Specific duties and control responsibilities are communicated effectively to all employees involved in the OCFO;
- Assignments of responsibility and delegation of authority to deal with operational functions and regulatory requirements are structured to prevent control breakdowns;
- Communication across the different operational team members within the OCFO and program offices is adequate and timely so as to enable OCFO personnel to discharge their responsibilities effectively; and
- Personnel skill levels are appropriate for the size of the department and the nature and complexity of the activities they are required to perform.

3. Budgetary Accounting Structure of the OCFO

During fiscal year 2001, the OCFO began the development of policies and procedures for budgetary accounting. These policies and procedures are scheduled to be implemented in conjunction with a new financial management system by the end of fiscal year 2002. Consequently, the OCFO did not have a functional budgetary accounting structure in place in fiscal year 2001 or 2000 for the Funds.

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In addition, the OCFO does not perform reconciliation procedures between proprietary and budgetary accounts to ensure that key general ledger account relationships exit.

As in previous years, the OCFO did not use budgetary account balances to prepare the SF-133, *Budget Execution* forms and the statements of budgetary resources. As a result, the beginning balances on the fiscal year 2001 Funds' individual statements of budgetary resources do not agree to fiscal year 2000 ending balances, and certain balances in the individual statements of budgetary resources do not agree with the general ledger. In addition, the combination of weak budgetary controls and an unreconciled fund balance with Treasury (See reportable condition No. 2) increase the risk of noncompliance with budgetary laws and regulations.

Recommendations

We strongly recommend the OCFO complete its effort to develop and implement budgetary accounting policies and procedures to ensure that all budgetary transactions are properly recorded. We also recommend the OCFO take the necessary actions to ensure that budgetary transactions are consistently recorded using the Standard General Ledger (SGL) descriptions and posting attributes. Additionally, we recommend the OCFO strengthen control procedures over the budgetary accounting structure to support the preparation, execution, and reporting of the Funds' budgets, in accordance with OMB Circulars A-11 and A-34, and to assure adherence to budgetary laws and regulations.

4. Quality Control Over Annual Financial Statement Preparation

To meet the financial reporting requirements pursuant to the OMB Bulletin No. 97-01, OPM segregated its annual financial reporting responsibilities among the following departments:

- The Benefits Accounting Branch (BAB), which prepared the Programs' individual financial statements and assembled the consolidated financial statements;
- The OCFO, which prepared the Funds' individual financial statements; and
- The Financial Policy Staff, which prepared the footnotes to the consolidated financial statements.

Regular communications and cross-reviews were essential for complete and accurate consolidated financial reporting. However, as in the prior year, the complexity of OMB Bulletin No. 97-01 reporting and disclosure requirements and OPM's staffing limitations affected the adequacy of OPM's quality control function for annual financial reporting. As a result, we observed the following weaknesses over the preparation of the consolidated and individual financial statements and related footnotes:

- Cross-reviews of financial statements and footnote drafts were not performed with sufficient technical oversight to ensure that accounts were properly classified and that all required disclosures were included in the accompanying footnotes; and
- Difficulty was experienced in producing complete and accurate consolidated financial statement drafts in a timely fashion for review by management and the auditors.

Recommendations

As recommended in the prior year, OPM should strengthen the effectiveness of its financial reporting controls to minimize financial reporting errors and inconsistencies, and to improve the timeliness of the year-end financial statement preparation. We recommend OPM:

- Continue to refine its consolidated financial statement preparation process by taking the necessary actions for planning, organizing, directing, and monitoring the consolidated financial statement preparation efforts;
- Position itself to handle more effectively accounting transactions that are recorded and presented in an environment where compressed reporting schedules and significant information gathering from sources external to OPM is the norm. OPM should ensure that personnel have sufficient experience and technical expertise to review the financial statements to assure compliance with applicable accounting principles and disclosures;
- Formalize a detailed plan for preparing the Funds' individual financial statements to ensure that appropriate financial statement relationships exist, and all required disclosures are included; and
- Evaluate OPM's current accounting resources and processing methods to determine whether appropriate skill levels exist and whether additional accounting procedures are needed to accomplish the objectives set forth in the preceding recommendations.

5. Controls over Program Administration for the Community-Rated Health Carriers

OPM remits premiums it receives from federal agencies to Community-Rated Health Carriers (CRCs) twice a month. As noted in prior years, OPM's existing systems were not designed to centrally associate the monies paid as premiums to participating carriers with the enrollees for whom they are being paid. Consequently, the potential exists for carriers to provide benefits to employees who are not covered by their plan at the time the services are rendered.

Recommendations

The Office of Insurance Programs has signed an agreement with a contractor to build, implement, and maintain a centralized enrollment system that will serve as the control for reconciling and resolving enrollment issues between agency payroll offices and CRCs. The database was under development as of September 30, 2001 and is scheduled to be implemented during fiscal year 2002. To reinforce the need for effective enrollment reconciliation, OPM has issued a payroll letter requiring agency payroll offices to provide carriers with the names of enrollees and the amounts withheld from pay for health benefits, by carrier, on a quarterly basis. Until the centralized enrollment system is implemented, OPM must monitor whether payroll offices are complying with these requirements and whether carriers are reconciling their enrollment records regularly.

6. Implementation of Documented Policies and Procedures of the OCFO

The OCFO has not adequately implemented its documented policies and procedures for recording and monitoring deferred revenues, fund balance with Treasury, deposits in transit, and capitalization of internally developed software. Documentation of the internal controls and procedures to record transactions is an integral component of an effective internal control system. In addition, the OCFO has not developed and implemented policies and procedures to determine the adequate accounting treatment of probable losses related to contingencies, claims, and assessments.

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Specifically, we identified several instances where the deferred revenue, fund balance with Treasury, property and equipment, and deposits in transit balances were misstated. In addition, we identified $173 million of contingency liability that was not properly recognized. As a result, the OCFO analyzed these accounts and adjusted the balances, appropriately.

Recommendation

We recommend the OCFO fully implement its documented policies and procedures for recording and monitoring deferred revenues, fund balance with Treasury, deposits in transit, and capitalization of internally developed software. In addition, we recommend the OCFO develop and implement policies and procedures to assure adequate accounting treatment of probable losses related to contingencies, claims, and assessments.

Compliance with Laws and Regulations

The results of our tests of compliance with certain provisions of laws and regulations described in the Responsibilities section of this report, exclusive of the FFMIA, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of FFMIA Section 803(a) requirements disclosed instances, described below, where the OPM's financial management systems did not substantially comply with Federal financial management systems requirements and the SGL at the transaction level.

1. **Federal financial management system requirements**

   OPM's financial management systems do not meet the following Federal financial management system requirements:

   a. *Financial reporting requirements* – The OCFO's financial management systems do not provide accurate and timely financial information necessary for compliance with the requirements of Treasury and OMB Bulletin No. 97-01, as amended. Transactions are not consistently recorded at the time of the event or soon afterward, preventing the OCFO from preparing trial balances that adequately support the Funds' individual financial statements. Additionally, the OCFO's financial management systems do not include a system of internal controls to ensure that resources are used consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and disclosed in reports. These findings resulted in noncompliance with OMB Circular A-127, *Policies and Standards for Financial Management Systems*, as amended.

   b. *Provide adequate system security* – As discussed in the section of our report entitled "Internal Control over Financial Reporting", OPM has several weaknesses in its entity-wide security program that contributes to noncompliance with OMB Circular A-130. OPM has not managed and coordinated entity-wide security procedures, lacks an effective incidence response and monitoring capability, has not conducted periodic entity-wide risk assessments, and has not developed adequate security-related management control processes to protect physical and logical assets from unauthorized access or improper use.

2. **SGL at the transaction level**

   OMB Circular A-127, as amended, states that the criteria for recording financial events in all financial management systems shall be consistent with accounting transaction definitions and processing rules defined in the SGL. The OCFO's general ledger system is unable to produce complete and accurate trial balances for the Funds. Additionally, the OCFO has not implemented an adequate accounting structure to support budgetary controls and to ensure that budgetary transactions are recorded in accordance with posting attributes reflected in the SGL.

Recommendations

The OCFO is responsible for the financial management systems of the Funds, while the OCIO is responsible for systems' hardware and software shared by the OCFO and RIS. As we recommended in the prior year, to achieve substantial conformance with FFMIA, the OCFO must take actions to ensure that the financial management systems supporting the Funds have the ability to:

- Collect accurate, complete, reliable, and consistent information;
- Provide for adequate management reporting;
- Support government-wide and agency level policy decisions;
- Support the preparation and execution of agency budgets;
- Facilitate the preparation of financial statements and other financial reports in accordance with Federal accounting and reporting standards; and
- Provide a complete audit trail to facilitate audits.

Additionally, we again recommend the OCIO take necessary actions to address the finding related to systems security required by Circulars A-127 and A-130. The resolution of these findings should be a priority for fiscal year 2002.

The results of our tests of FFMIA Section 803(a) requirements disclosed no instances in which OPM management did not substantially comply with applicable federal accounting standards.

Responsibilities

Management's Responsibilities

The Government Management Reform Act (GMRA) of 1994 requires each Federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the GMRA reporting requirements, OPM prepares annual financial statements.

Management is responsible for:

- Preparing the consolidated financial statements of OPM and the individual financial statements of the Programs in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting, required supplementary information, and performance measures; and
- Complying with laws and regulations, including FFMIA.

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

Auditors' Responsibilities

Our responsibility is to express an opinion on the presented consolidated financial statements of OPM, taken as a whole, and the presented individual financial statements of the Programs for fiscal years 2001 and 2000, 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* and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the presented consolidated financial statements of OPM and the presented individual financial statements of the Programs are free of material misstatement.

An audit includes:

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

We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinions.

In planning and performing our fiscal year 2001 audits, we considered OPM's internal control over financial reporting by obtaining an understanding of OPM's internal control, determining whether internal controls were placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinions on OPM's presented consolidated financial statements and the presented individual financial statements of the Programs. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objectives of our audits were not to provide assurance on OPM's internal control over financial reporting. Consequently, we do not provide an opinion on internal control over financial reporting.

As required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the MD&A, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on the internal controls over performance measures and, accordingly, we do not express an opinion on such controls.

As part of obtaining reasonable assurance about whether OPM's fiscal year 2001 financial statements are free of material misstatement, we performed tests of OPM's compliance with certain provisions of laws and regulations, 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. 01-02, including certain requirements referred to in the FFMIA.

We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to OPM. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether OPM's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

Distribution

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

KPMG LLP

February 15, 2002

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Exhibit I

Office of Personnel Management
Status of Prior Year Findings
Fiscal Year 2001

No.	Title of Finding from FY00 Report	Program /Fund	Prior Year Status	Current Year Status	Factors Affecting Current Year Status
1.	Electronic data processing (EDP) general control environment	All[1]	Reportable Condition	Reportable Condition – See FY 2001condition No.1	The general control environment has not changed substantially from prior year.
2.	Account analysis and other significant reconciliation procedures by the Office of The Chief Financial Officer (OCFO)	S&E[2], RF[3]	Reportable Condition	Reportable Condition – See FY 2001 condition No.2	Controls over account analysis and other significant reconciliation procedures by the OCFO have not changed substantially from prior year. Controls over fund balance with Treasury have not changed substantially from prior year. However, the Funds' balances do not have a material impact on the consolidated financial statements.
3.	Budgetary accounting structure of the OCFO	S&E, RF	Reportable Condition	Reportable Condition – See FY 2001 condition No.3	Controls over budgetary transactions have not changed substantially from prior year. The OCFO continues to experience difficulties in preparing accurate statements of budgetary resources and financing.
4.	Quality control over annual financial statement preparation	All	Reportable Condition	Reportable Condition – See FY 2001 condition No.4	Quality controls over annual financial statement preparation have not changed substantially from prior year.
5.	Control over program administration for the community-rated health carriers (CRC)	HBP[4]	Reportable Condition	Reportable Condition – See FY 2001 condition No.5	CRC enrollment reconciliation controls have not changed substantially from prior year.

[1] Includes the Retirement Program, Health Benefits Program, Life Insurance Program, Revolving Fund, and Salaries and Expenses
[2] S&E: Salaries and Expenses
[3] RF: Revolving Fund Programs
[4] HBP: Health Benefits Program

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Inspector General's Top Management Challenges

Inspector General's
Top Management Challenges
as of December 1, 2000

THE INSPECTOR GENERAL'S TOP MANAGEMENT CHALLENGES

AS OF DECEMBER 1, 2000

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

OFFICE OF
THE INSPECTOR GENERAL

December 1, 2000

Honorable Fred Thompson
Chairman
Senate Committee on Governmental Affairs
Washington, D.C. 20510-6250

Dear Mr. Chairman:

This is in response to the letter of October 12, 2000, signed by you and four other congressional leaders, requesting me to provide my assessment of the most serious management challenges facing the Office of Personnel Management (OPM).

Like lists I have done in previous years, this year's submission has changed from what I reported on December 1, 1999. Specifically, I now feel that the agency's controls over investments have been properly addressed by management and the issue is no longer a serious challenge to the agency.

While all of the challenges identified below and summarized in the enclosures are critical to the mission of OPM, it should be noted that human resource management is a government wide challenge for which the agency has a leadership role. The challenges covered in my report are:

- Revolving Fund and Salaries and Expenses Accounts
- OPM's Financial Management Oversight of the FEHBP
- Retirement Systems Modernization
- Implementation of the Government Performance and Results Act
- Human Resources Management
- Health Care Fraud in the FEHBP

The first enclosure to this letter includes written summaries of each challenge I have cited above. These write-ups include a description of the efforts of management to resolve each challenge. This is followed by two other enclosures that: summarize all open issues (Enclosure 1a) and detail all resolved issues from previous submissions (Enclosure 1b).

Honorable Fred Thompson 2

Thank you for again allowing me to report to you the management challenges facing the Office of Personnel Management. I believe that agency management with sufficient time and resources can overcome these challenges and the result will be better government for the American people. I want to assure you that OPM management continues to work with my staff to resolve the underlying issues.

If there are any questions, please feel free to call me at (202) 606-1200 or have your staff contact Gary Acker, Congressional Liaison, at (202) 606-2444.

Sincerely,

Patrick E. McFarland

Patrick E. McFarland
Inspector General

3 Enclosures

cc: Joseph I. Lieberman, Ranking Minority Member
Senate Committee on Governmental Affairs

Letters also sent to the following:

Honorable Dan Burton and Henry Waxman
Honorable Richard Armey and Richard Gephardt
Honorable Pete Domenici and Frank Lautenberg
Honorable John Kasich and John Spratt, Jr.
Cynthia Brock-Smith, Director, Office of Congressional Relations

Enclosure 1

MOST SERIOUS MANAGEMENT CHALLENGES
OFFICE OF PERSONNEL MANAGEMENT

1. REVOLVING FUND AND SALARIES AND EXPENSES ACCOUNTS

Correcting material deficiencies in the Office of Personnel Management's (OPM) financial management systems for the Revolving Fund (RF) and Salaries and Expenses (S&E) accounts remain a significant agency challenge. Since the start of full scope audits of the agency's RF and S&E in 1996, OPM has received a disclaimer of opinion on those financial statements. Because of material weaknesses within the financial accounting system, the RF and S&E have not been auditable. While the agency is making progress in correcting both short term and long term problems, full resolution is not expected within the next fiscal year. The following material issues have contributed to the problem:

a. Reconciliation of OPM's Fund Balance With Treasury Account

The OPM Office of the Chief Financial Officer's (OCFO) reconciliations of Fund Balance with Treasury for the RF and S&E accounts have been reported as a material weakness since 1993 in OPM's annual Federal Managers Financial Integrity Act (FMFIA) letter to the President. Also, as reported in the FY 1996 through FY 1999 financial statement audit reports by our office, unreconciled differences between Treasury records and the RF and S&E general ledgers have consistently been in the range of $20 to $60 million for the RF, and up to $35 million for the S&E. These differences have been attributed to timing differences, inaccurate information and errors, unsupported and erroneous manual adjustments, and possibly other unknown factors.

The OCFO has expended significant resources during the last three years in attempting to identify and reconcile these differences. During this time they have made strides in improving monthly reconciliation procedures by including more detailed worksheets of collections and disbursements, and documentation supporting these worksheets. They have also identified and corrected many errors in the recording of transactions. However, reconciliation procedures insufficient, and supervisory review, while increased, continue to require improvement. In addition, there is a lack of sufficient trained personnel devoted to the reconciliation process. For example, SF-224s (Statement of Transactions) and supporting documentation for April and May 2000 were not readily available when we requested to review them in October. Differences as of September 30, 2000 between the RF and S&E and Treasury balances were approximately $40 million, which is determined by netting and adding approximately $40 million of old disbursements in transit transactions that have not been completely resolved or validated.

b. Data Reconciliation and Control

In our financial statement audit reports of the RF and S&E from FY 1997 through FY 1999, we reported that controls over transactions entered into the RF and S&E general ledgers were inadequate. For substantially all material accounts and line items, we found subledgers or other detailed records were not reconciled to general ledger control accounts. Supervisory and analytical reviews of general ledger transactions and balances were also inadequate. Transaction codes, which are used to record general ledger entries, were defined incorrectly in some cases due to inadequate management review and approval over their development and implementation. This resulted in erroneous entries to the general ledger. The absence of these standard accounting procedures and controls was a primary cause of the disclaimers of opinion issued for the financial statement audits of the RF and S&E the last three years.

Program areas or line-items that we attempted to audit for which the OCFO had not performed reconciliations of detail to general ledger control accounts included Investigations Service transactions, Training Management Assistance (TMA) transactions, Fund Balance with Treasury (noted above), Accounts Receivable, and Accounts Payable. The OCFO has made a concerted effort over the last couple of years to correct this situation. They have developed detailed reports and procedures for reconciliation and analysis of account transactions and balances and have begun to implement them. The OCFO has indicated that adjustments totaling approximately $50 million related to Investigations Service transactions have been recorded and are subject to validation. However, significant work remains to resolve longstanding differences that exist between many general ledger control accounts and the supporting detail. For example, differences in TMA project account balances with the general ledger totaling approximately $43 million go back several years, making information needed to resolve differences possibly irretrievable.

The OCFO has also devoted resources to correcting erroneous transaction codes and implementing new ones as necessary. A senior level manager has been assigned responsibility for reviewing and approving all transaction code work. In addition, an extensive review of the financial management function by a systems contractor found a significant gap exists between the capabilities of the current system and the user needs and requirements. As a result, the OCFO plans to revise accounting processes and acquire and implement a new integrated accounting system by the end of FY 2002.

c. Financial Statement Preparation

Over the last few years, the OCFO has experienced difficulties in the timely preparation of adjusted trial balances and financial statements for the RF and

S&E. For FY 2000, OPM is initiating consolidated financial statements for the RF, S&E, and three benefit programs. Preparing the first consolidated financial statements will be a significant challenge, and combined with the difficulties of consolidating very different programs and activities, some of which have a poor history of preparing financial statements, increases the risk of error within the financial statements.

2. OPM'S FINANCIAL MANAGEMENT OVERSIGHT OF THE FEHBP

OPM's financial management of the Federal Employees Health Benefits Program (FEHBP) has been enhanced to provide more effective oversight of its operations. OPM is responsible for oversight of carrier operations, negotiating and administering contracts with insurance carriers, and developing health insurance legislative initiatives. To strengthen its financial management oversight responsibilities, OPM issued an audit guide. This guide requires experienced rated carriers to obtain an annual audit of FEHBP activities and to report on their internal control structures. OPM also collaborated with the OIG and the Office of Management and Budget (OMB) to require CFO Act agencies to engage an auditor to perform certain agreed upon procedures designed to test the accuracy of employee withholdings and agency contributions for the Retirement, Health and Life Insurance Programs on an annual basis. Transactions, such as an employees health insurance decisions, are tested from the process of electing a health plan to confirming that the right amount of monies were remitted to the Earned Benefit Funds.

However, OPM's oversight and monitoring of enrollment and premium reconciliations with community-rated carriers (CRCs) need to be strengthened. OPM remits premiums to CRCs based on amounts it receives from federal agencies on a bi-weekly basis. OPM's existing systems were not designed to centrally reconcile the monies paid as premiums to participating carriers with the enrollees for whom they are being paid. Consequently, the potential exists for carriers to provide benefits to employees who are not covered by their plan at the time the services are rendered. As a result of enrollment discrepancies, carriers alleging underpayment filed several lawsuits. They resulted in a one percent premium surcharge paid to the carriers to cover any losses incurred as a result of this situation.

To reinforce the need for effective enrollment reconciliations, OPM issued a payroll letter requiring agency payroll offices to provide carriers on a quarterly basis with the names of their enrollees and the amounts withheld from pay for health benefits. However, OPM does not have a regular monitoring program to determine whether payroll offices are complying with these requirements and whether carriers are reconciling their enrollment records regularly.

To address this weakness, OPM is working with a contractor to implement a centralized enrollment system that would greatly facilitate the carrier/agency reconciliation process. The system requirements are being defined, and a pilot process is expected to be completed in the next year. In addition, OPM has developed an Agency Payroll Office Control Monitoring Plan. This Plan includes procedures to review Agency Payroll Office policies and procedures relating to FEHBP carrier and other types of reconciliations.

3. RETIREMENT SYSTEMS MODERNIZATION

While not appropriately characterized as a current problem, one of the agency's most significant, high-risk challenges continues to be the modernization of the systems used to administer the Federal Retirement Program. The Federal Retirement Program includes the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). For OPM to maintain and improve service levels to keep pace with customer expectations and to manage the workload associated with significant increases in the FERS retirement annuitant population, the retirement systems must be modernized. The present computerized systems that support the processing of both CSRS and FERS retirement information are inadequate in their processing and programming capabilities.

In 1997, the OPM Retirement and Insurance Service's (RIS) Retirement System Modernization (RSM) project documented both the CSRS and FERS retirement business requirements and also selected a long-term concept of operations. Through 1998/1999, RIS completed work on reengineering its business processes using a dedicated OPM project team, subject matter experts, and a contractor with business process reengineering experience. The RSM project team has identified six core business functions that the future system will utilize to accurately and efficiently process retirement information. These core processes were outlined and presented to senior OPM management and OPM system users, as well as critical stakeholders from several other government agencies.

During FY 2000, the RSM project team has completed process blueprints for four of the six core processes. These blueprints include detailed process flows, functional requirements, business logic, and data needed to perform each process. The final two core process blueprints are scheduled to be completed by the spring 2001. In addition, through a contract with a nationally known information technology firm in the systems development arena, the completed process blueprints are currently being translated into the technical requirements necessary to design the retirement system of the future. Assuming full funding, RSM project managers estimate the project will be completed in 2007.

The OIG agrees with OPM and OMB that only through the reengineering of the various processes that support and provide services to all Federal Retirement Program participants, can OPM ensure the accuracy, consistency, and timeliness of the services that are provided to all stakeholders. However, because of the uncertainty of success for reengineering its business processes, the development and implementation of entirely new computerized systems to support these business processes, and the long-term nature of RSM, the OIG has initiated a systems development life cycle audit of RSM. This audit will attempt to validate the entire process and provide information and advice to RSM project managers, as appropriate, during the system development process.

4. OPM'S IMPLEMENTATION OF THE GOVERNMENT PERFORMANCE AND RESULTS ACT

The Government Performance and Results Act (Results Act) was intended to create a management process by which federal agencies could more effectively plan, budget, execute, evaluate, and account for their programs and activities. The Results Act specifically requires agencies to develop strategic plans that establish what an agency's programs and operations will accomplish over a five-year period. Supplementing the agency's strategic plan are annual performance plans that establish annual goals and objective target levels for each program activity, and annual program performance reports that compare actual performance with the annual goals.

Implementation of the Results Act remains a management challenge, even as OPM continues to improve their plans and reports, because of the significant amount of time and resources involved in the effort, including involvement of the agency's top level managers. In addition, many of OPM's functions are policy-oriented making it more difficult to define measurable goals and indicators or to define achievable outcomes. This task is further complicated because OPM has delegated many human resource management functions to other federal agencies.

OPM reported results of its initial efforts to implement the Results Act in the first annual performance report submitted to the President and Congress covering FY 1999. This submission culminated OPM's first strategic planning cycle, providing information on actual performance and progress toward the goals and objectives iterated in its strategic and annual performance plans.

Overall, the reviews of the FY 1999 annual performance report and FY 2001 annual performance plan found that OPM is making progress in developing more results-oriented goals and performance measures but also identified some areas for improvement. For example, OPM can improve maintenance of documentation that supports reported results. The agency also can clarify the relationship between management challenges with their respective goals and measures in the performance plan.

While OPM's efforts have shown the agency's commitment to results-oriented performance and accountability, it will probably take several more planning cycles to perfect a successful system for performance-based management. Still, we believe OPM's process for strategic planning and performance measurement is moving in the right direction. The OIG continues to work with the agency in the development of its strategic and annual performance plans, providing review, commentary, and recommendations for improvement. We have also initiated reviews to verify and validate performance results. We will continue to work with the agency to help ensure that government leaders will be able to rely on OPM's performance information for decision making and for evaluating OPM's operations.

5. HUMAN RESOURCES MANAGEMENT

Human resource management includes recruiting, developing and maintaining a qualified workforce, as well as, assessing performance of these functions. It has been and continues to become a more demanding government-wide challenge as (1) a large number of employees become eligible to retire, (2) the job market becomes more competitive, (3) the need for better skills in technological positions increases, and (4) the awareness of performance management increases. This challenge is more than an OPM issue. Though OPM has the lead role in ensuring that accountability exists, the actual issue of good human resource management practices is government-wide and each individual agency must be held responsible to OPM and the Congress for its individual roles.

It is clear that OPM, the federal human resource management agency, has a key role in directing, assisting, and reviewing human resource efforts, including promoting broader application of human capital principles. As OPM has delegated human resources management authorities to agencies, it becomes more important that OPM's key responsibility is to lead and support agencies. OPM's leadership role includes working with agencies to better prepare the government to meet future challenges, deal with performance improvement efforts, and ensure more effective oversight of the government's key human resource concerns.

The National Partnership for Reinventing Government, formally the National performance Review, mandated many initiatives that changed the focus of human resources management from just compliance to results. The human resources function has been downsized, regulations reduced and simplified, and human resources authority delegated to line managers. With all these changes, human resources managers must adapt to decentralized systems, and learn to take advantage of the flexibility given them. It also becomes increasingly important to hold managers and supervisors accountable for their human capital decisions.

In addition, the Government Performance and Results Act has played a large part in the government's current focus on accountability and results. The Results Act was intended to create a strategic planning and management process to improve federal program effectiveness, accountability, service delivery, and decision-making. This process focuses on results-oriented goal setting and performance measurement.

Recognizing the importance of human capital strategies to improving the performance of government and holding federal agencies accountable for their programs, President Clinton issued a memorandum addressing this issue on June 9, 2000. The memorandum directed federal agencies to fully integrate human resources management into agency planning, budgeting, and mission evaluation processes, and clearly state specific human resources management goals and objectives in strategic and annual performance plans.

For the first time, the President's fiscal year 2001 budget includes a Priority Management Objective to "align Federal human resources to support agency goals." In undertaking the strategic approach to human resources management, this priority management objective states that OPM is to help agencies strategically assess their human resources to ensure a quality federal work force in the 21[st] Century.

Leading the federal government's efforts is a demanding challenge facing OPM and will require effective planning and participation of all other agencies. OPM has a number of on-going initiatives to address these priorities that should have a significant impact on federal human resources management operations. However, human resources management and accountability will continue to be a management challenge for the foreseeable future.

6. HEALTH CARE FRAUD AND ABUSE IN THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

Health care fraud continues to be recognized as a nationwide problem. The OIG continues to be in the forefront of the federal government's national initiative to combat health care fraud and abuse in partnership with the OIGs at the Department of Health and Human Services and the Department of Defense. Most instances of health care fraud and abuse at the federal level not only affects Medicare/Medicaid and TRICARE, but also the FEHBP. OPM administers over 250 FEHBP health insurance contracts, and the OIG is tasked with providing audit and investigative responsibilities to ensure protection of this $18 billion trust fund. In addition to working with the OIGs involved in oversight of federal health care programs, the OIG at OPM also works with OPM's Retirement Insurance Service, the FEHBP health care carriers' special investigative units, and the FBI in fighting fraud and abuse against health care programs. The OIG will continue to cope with the many dimensions involved in health care fraud and abuse by focusing its limited investigative resources to the problem and working with other OIGs, the FBI, and the health care carriers.

The OIG's ability to investigate and prosecute health care fraud and abuse continues to be adversely affected by the exclusion of the FEHBP from certain civil enforcement provisions of the Health Insurance Portability and Accountability Act (HIPAA) of 1996 (Public Law 104-191), which apply to all other federal health care programs. This is particularly egregious since the FEHBP is the largest employer-sponsored health care program in the United States. This exclusion has made it more difficult for us to participate with prosecutors and other agencies' law enforcement officials in cases involving fraud against multiple health care programs. Further, we are unaware of any basis for treating the FEHBP differently than other Government health care programs.

By excluding the FEHBP from HIPAA, investigators from our Office of the Inspector General are denied the following tools that would assist in the investigative process and prosecution of health care fraud:

- Enhanced sanctions provisions including mandatory exclusion for felony convictions relating to health care fraud or controlled substances and new minimum exclusion periods for certain permissive exclusions. This deters our ability to rapidly remove felons from the FEHBP under our new, independent debarment authority, which will save taxpayers federal dollars and protect the safety of patients.

- Expanded anti-kickback provisions, which would help us prevent FEHBP health care providers from receiving improper gratuities for referrals or related services.

- Enhanced civil monetary penalties (CMPs). HIPAA lowers the standard of proof for fraudulent claims and increases the penalty per false claim from $2,000 to $10,000. In addition, HIPAA allows CMPs to be assessed for incorrect coding, medically unnecessary services and offering remuneration to induce business (e.g. waiving coinsurance or deductible). These additional penalties will allow us to contribute additional funding to the Health Care Fraud and Abuse Control Account.

To address this challenge, the OIG, in conjunction with OPM's Office of Congressional Relations, has been working over the last year and a half to amend HIPAA to include the FEHBP in its definition of a "federal benefit program." The Department of Justice and the Department of Health and Human Services OIG has supported us in these efforts. These efforts have succeeded in including the language that would allow the FEHBP to utilize the sanctions section of HIPAA in the following bills:

- S 751- Seniors Safety Act of 1999 – Senator Leahy
- S 899 – 21st Century Justice Act of 1999 – Senator Hatch
- S 1451 – Medicare Waste Tax Reduction Act of 1999 – Senator Harkin
- HR 1862 Seniors Safety Act of 1999 – Representative Conyers

However, to date, none of these bills have been reported out of their respective subcommittees.

More recently, we have been in contact with staff of select congressional committees who have expressed an interest in supporting our efforts to amend HIPAA to include the FEHBP as a full participating member in the health care fraud provisions of the Act. If we are unsuccessful in obtaining approval of legislation in the 106th Congress, we are prepared to renew our efforts after the new Congress is convined.

Enclosure 1a

SUMMARY OF OPEN ISSUES

Issue Reported	Previously Included in Top Management Challenges	OIG's Recommendation	Audit & Date Recognized or Other Source of Information	Agency Actions
OPM's Financial Management Oversight of the FEHBP (CRC enrollment reconciliations)	December 1999 March 1999 December 1998 August 1998 January 1998	* OPM should continue its efforts to develop a system that will allow for a central control point to reconcile and resolve enrollment issues between APOs and Carriers. In addition, OPM should continue to monitor the agencies and carriers to ensure proper reconciliation procedures are performed until an effective enrollment system can be implemented.	Most Recent: FY 99 Health Benefits Financial Statements Audit First time cited: 1991	* OPM is taking steps to address CRC enrollment reconciliations issues through the development of a centralized enrollment system, which is ongoing.
Reconciliation of OPM's Fund Balance with the Treasury Account	December 1999 March 1999 December 1998 August 1998	* The OCFO should resolve the differences between the general ledger and Treasury cash balances related to transactions prior to FY98. * The OCFO should continue to reconcile new differences within 30 days and should strive to resolve differences within three months on an ongoing basis.	Most Recent: FY 99 RF and S&E Financial Statement Audit First time cited: FY 92	* OCFO has improved cash reconciliation procedures, and devoted significant resources in the last three years to resolving this issue. Large differences continue to exist between RF and S&E cash balances as of September 30, 2000, and the resolution of this issue is not expected in the short-term.

Enclosure 1a

SUMMARY OF OPEN ISSUES

Issue Reported	Previously Included in Top Management Challenges	OIG's Recommendation	Audit & Date Recognized or Other Source of Information	Agency Actions
Data Reconciliation and Control	December 1999 August 1998	Note: The following recommendations apply to the RF and S&E financial statements: * The OCFO should maintain complete and accurate subledgers, compositions, or other detailed support for general ledger accounts. Reconciliations of this detail to general ledger control accounts should be performed on a monthly basis, with reconciling items identified and resolved within 30 days. * The OCFO should establish procedures for supervisory review and approval of all material transactions recorded in the general ledger. * The OCFO should implement periodic analytical reviews of general ledger balances, research any unusual activity, make any corrections necessary, and document the results. * The OCFO should ensure that transaction codes are defined properly so that transactions are recorded to the general ledger in accordance with the SGL.	Most Recent: FY 99 RF and S&E Financial Statement Audit First time cited: FY 96	* The OCFO has developed detail reports supporting general ledger balances to be used in reconciliations. * The OCFO has increased the level of contractor support in assisting with creating and revising transaction codes, and implemented several critical transaction codes recently. *The OCFO has assigned responsibility for all transaction code work to a senior level manager.

Enclosure 1a

SUMMARY OF OPEN ISSUES

Issue Reported	Previously Included in Top Management Challenges	OIG's Recommendation	Audit & Date Recognized or Other Source of Information	Agency Actions
Financial Statement Preparation	New	• The OCFO should continue the development and implementation of transaction codes necessary to properly record transactions in the general ledger. •The OCFO should record all year-end adjusting entries in the general ledger to maintain a complete audit trail. •The OCFO should review and revise the financial statement preparation plan based on lessons learned in previous years. • The OCFO should prepare a Statement of Financing, as required by OMB Bulletin 97-01.	Most Recent: FY 99 RF and S&E Financial Statement Audit First time cited: FY 96	•OCFO has contracted for help with development of needed transaction codes, improved the audit trail for year-end adjusting entries, and is planning to prepare all required financial statements for FY 2000, as OPM will be consolidating their statements for the first time
Retirement Systems Modernization	December 1999	OIG has recently initiated a systems development life cycle audit	Contractor (AMS, IBM) deliverables and briefings; RSM stakeholder meetings; briefings and presentations by contractors and RSM project team	•OPM has put in place a Retirement Systems Modernization (RSM) project team for the reengineering of the retirement business processes.

Enclosure 1a

SUMMARY OF OPEN ISSUES

Issue Reported	Previously Included in Top Management Challenges	OIG's Recommendation	Audit & Date Recognized or Other Source of Information	Agency Actions
OPM's Implementation of GPRA	December 1999	•The agency should ensure that all results have supporting documentation that has been subjected to internal controls, such as supervisory review, and saved for independent review. •For goals that are not met, the performance report should explain why each goal was not met and include a plan for achieving the goal. •The relationship between management challenges and the respective goals and measures needs to be more direct in the performance plans. • OPM should implement, maintain, and monitor control activities, such as mid-year assessments, to ensure that the control activities are working as designed.	First cited: Review of OPM's FY 1999 Annual Performance Report and FY 2001 Annual Performance Plan per Senator Thompson's request. Review of OPM's FY 2000 mid-year assessment process	OPM is planning to strenghten its data validation and verification procedures, will ensure that the next performance report more clearly describes the link between each performance measure and overall strategic goals and more clearly explain how continuing goals and objectives address the agency's management challenges.
		• That OPM-OERM should establish an improved methodology for verifying performance measure results and documenting data, and implement a data control process. We suggest that the procedures specifically address: 1) who performs the review, 2) steps on how to complete the review, 3) document how results are obtained, and 4) who approves the review. Someone should review all data other than the preparer.	First Cited: Verification and Validation review of OPM-OERM FY 1999 Performance Data	OPM-OERM will have numerical data checked by more than one person to ensure accuracy. However, OPM-OERM does not have the resources, nor do they see the benefit of establishing a complex data control process to track and analyze this information.

Enclosure 1a

SUMMARY OF OPEN ISSUES

Issue Reported	Previously Included in Top Management Challenges	OIG's Recommendation	Audit & Date Recognized or Other Source of Information	Agency Actions
Human Resources Management	December 1999	We have made no specific recommendations to the agency in this area. However, OPM should continue to monitor and oversee human resource management in federal agencies.	Presidential memorandum and executive orders on human resources management and human capital training; National Partnership for Reinventing Government (previously known as the National Performance Review) mandates; OMB priority management objectives and OMB Circular A-11; OPM OMSOE efforts; Merit Systems Protection Board reports; and GAO testimony and reports on human capital.	OPM has designed a work force planning model that will allow line managers to analyze their current work force. Also, OPM performs oversight reviews in federal agencies covering human resource management areas, including reviews of agency adherence to merit system principles.

Enclosure 1a

SUMMARY OF OPEN ISSUES

Issue Reported	Previously Included in Top Management Challenges	OIG's Recommendation	Audit & Date Recognized or Other Source of Information	Agency Actions
Health Care Fraud And Abuse In The Federal Employees Health Benefits Program	December 1999	The HIPPA should be amended to allow the FEHBP to participate in the health care fraud sanctions of the act.	A review of the Health Insurance Portability and Accountability Act of 1996 after its passage.	The agency and the OIG have worked together to have the legislation amended. Though an amendment has been included in at least four bills introduced in the 106th Congress, none have passed to date.

Enclosure 1b

SUMMARY OF RESOLVED ISSUES

Issue Reported	Previously Included in Top Management Challenges	Agency Actions
Controls over the Accuracy of Annuity Payments (RP)	March 1999 December 1998 August 1998 January 1998	RIS, OIG, and the IPA performed an audit of the annuity roll in early 1998. Although the IPA recommended that RIS establish additional controls to ensure the accuracy of payments made to annuitants, they issued unqualified opinions on the FY98 and FY99 RP financial statements.
Internal Controls Related to the Accuracy and Completeness of Payroll Withholdings and Information Provided by Other Agencies (BPs)	December 1998 August 1998 January 1998	OPM relies on the accuracy and completeness of the data employing agencies provide. OPM made significant progress in their oversight of other agencies by working jointly with OMB on the issuance of OMB Bulletin 98-08, which required agencies' Inspectors General to review their procedures and report the results to OPM.
Controls over the Accuracy of FEHBP Claim Payments	March 1999 December 1998 August 1998 January 1998	In 1998 we fully implemented the FEHB Plan Audit Guide, which requires experience-rated carriers (ERCs) to have their FEHB-related financial statements audited and to submit the results of other agreed-upon procedures. RIS, the OCFO, and OIG jointly developed this guide and coordinated it with OMB and GAO for government-wide application.

Enclosure 1b

SUMMARY OF RESOLVED ISSUES

Issue Reported	Previously Included in Top Management Challenges	Agency Actions
Audit Cycles (OIG)	August 1998	The implementation of the audit guide for ERCs has brought about better financial accountability and increased oversight to the FEHBP carriers. The use of the IPA audits; combined with OIG audit staff has eliminated the audit cycle material weakness.
Financial Management Policies and Procedures (OCFO)	December 1999 March 1999 December 1998 August 1998 January 1998	* OPM contracted with the Department of Treasury to assist in the development and documentation of accounting manuals in several areas. This work began in August 1997 and is completed. The OCFO continued to document accounting policies for other remaining areas, in some cases with the assistance of Treasury. As of September 2000, documentation was substantially completed in all material areas. In addition, the OCFO assigned a senior manager to be responsible for the development, documentation, and update of policies and procedures.
Debt Collection and Accounts Receivable Processing (OCFO)	December 1999 March 1999 December 1998 August 1998 January 1998	* The OCFO has decided not to send past due notices to all customers until they have cleaned up old A/R records. However, OCFO has established debt collection teams to work with delinquent customers, e.g., DOD and the U.S. Postal Service, and collections have increased. * OCFO has developed a series of A/R reports, including an aging schedule, which classifies the receivables and reconciles to the general ledger. The OCFO is still working on eliminating erroneous data from these reports.

Enclosure 1b

SUMMARY OF RESOLVED ISSUES

Issue Reported	Previously Included in Top Management Challenges	Agency Actions
Financial control environment (a component of OPM's Financial Management Oversight of the FEHBP)	December 1999 March 1999 December 1998 August 1998 January 1998	Weaknesses of the financial control environment were resolved through the implementation of a new financial accounting system and the reengineering of the process for recording ERC activity.
Controls over Investments	December 1999 March 1999 December 1998 August 1998	* OPM is installing a new core financial management system, which includes a separate investment module. In the interim, weaknesses over investments were resolved.
Accounts Payable	December 1999 March 1999 December 1998 August 1998	* The OCFO has completed documentation of policies and procedures for A/P, developed an A/P aging schedule which agrees to detail records supporting the general ledger, and implemented an invoice control log.

Inspector General's Top Management Challenges as of January 28, 2002

THE INSPECTOR GENERAL'S TOP MANAGEMENT CHALLENGES

AS OF JANUARY 28, 2002

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

OFFICE OF
THE INSPECTOR GENERAL

January 28, 2002

MEMORANDUM FOR KAY COLES JAMES
Director

FROM: PATRICK E. McFARLAND
Inspector General

Patrick E McFarland

SUBJECT: Top Management Challenges

The Reports Consolidation Act of 2000 requires the Inspector General to prepare a list of the top management challenges facing the agency for inclusion in the agency's Annual Performance and Accountability report. Similar to prior lists I have done in response to congressional requests, this year's submission is intended to highlight the key challenges facing OPM management, as well as note areas of improvement that we have observed.

While all of the challenges identified below and summarized in the enclosure are critical to the mission of OPM, it should be noted that human resource management is a government-wide challenge for which the agency has a leadership role. The challenges included in my report are:

- Human Resources Management
- Retirement Systems Modernization
- Expanding e-Government
- Implementation of the Government Performance and Results Act
- Revolving Fund and Salaries and Expenses Accounts
- OPM's Financial Management Oversight of the Federal Employees Health Benefits Program (FEHBP)
- Improving the Performance of the FEHBP

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

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

The enclosure to this memorandum includes written summaries of each challenge I have cited above. These write-ups include a description of the efforts of management to resolve each challenge. This information was obtained through our analysis and follow-up discussions with senior agency managers so that the most current, complete and accurate characterization of the challenges could be presented.

I believe that your leadership and support of agency management is critical to meeting these challenges and will result in a better government for the American people. I want to assure you that my staff is committed to provide any technical support needed and that they continue to have an excellent working relationship with your managers.

If there are any questions, please feel free to call me at (202) 606-1200.

Enclosure

TOP MANAGEMENT CHALLENGES
OFFICE OF PERSONNEL MANAGEMENT
JANUARY 28, 2002

I. HUMAN RESOURCES MANAGEMENT

Strategic human resource management (HRM) has been and continues to be a demanding government-wide challenge as a large number of employees become eligible to retire, the job market becomes more competitive, the need for better skills in technological positions increases, and the awareness of performance management increases. For these reasons, GAO added strategic human capital management to its list of government-wide high-risk areas in January 2001. It is clear that OPM, the federal human resource management agency, has the lead role in directing, assisting, and reviewing human resource efforts, including fostering a more results-oriented approach to strategic human resource management across the government and promoting broader application of best practices in human capital management. OPM's leadership role includes assessing the status and plans for addressing human resources management in agencies, working with agencies to better prepare them to meet future challenges and deal with performance improvement efforts, and ensure more effective oversight of the government's key human resource concerns.

OPM's leadership role will require significant attention and resources. Following are some of the steps already being taken by OPM to improve human capital management throughout the government, as well as some of the challenges that are still to be addressed:

- The President's Management Agenda, which was included in the FY 2002 budget, includes a comprehensive agenda of program accomplishment and management reform across the government, and specifically calls for the improvements in the strategic management of human capital. OPM is playing a key role to support this initiative government-wide.
- OPM worked directly with OMB to define the objectives and identify effective strategies for the workforce analyses and restructuring plans that each agency was required to submit as part of its FY 2003 budget submission and annual performance plan. OPM provided training sessions for top agency officials on how to carry out their analyses and provided direct technical assistance when requested.
- OPM partnered with OMB to develop the Standards for Success that are being used in the Executive Branch to assess the status of each agency's efforts to meet the President's objectives.
- In December, OPM issued the OPM Human Capital Scorecard to agency heads, which outlines specific human capital goals for all agencies to incorporate in their annual performance plans, and establishes government-wide measures to track and compare progress in meeting these goals.

- OPM is now working with OMB to go over each agency's proposed human capital action plans, assessing them for weaknesses, and suggesting new strategies to make them successful.
- In July 2001, OPM released, and made available on its website, a document that identifies the various existing personnel flexibilities available to agencies under current law to acquire, develop, and retain talent and leadership. Also, more recently, in December 2001, OPM released an evaluation on various demonstration projects and alternative personnel systems concerning human resources flexibilities and lessons learned.
- Executive Order 13197, dated January 18, 2001, gives OPM authority to require agencies to establish HRM accountability systems that (1) set standards for applying the merit system principles, (2) measure the agency's effectiveness in meeting these standards, and (3) correct any deficiencies in meeting these standards. To meet the requirements of the Executive Order, OPM has been working to establish a framework for agencies' use in measuring the efficiency, effectiveness, and strategic alignment of HRM. In January 2002 OPM issued HRM Accountability System standards that describe essential features required to establish and maintain internal HRM accountability systems. These standards complement the OPM Human Capital Scorecard and also provide OPM a framework for reviewing and evaluating these systems.
- The President's management reform agenda also includes an initiative to expand A-76 competitions. In carrying out this initiative, work now performed by federal employees could be shifted to the private sector, and will have a government-wide impact on federal human resources management operations. As a result, OPM will face the challenge of providing leadership in managing not only the civil service, but also a whole range of contractors who perform work for the federal government.

In this very dynamic and far-reaching effort, OPM is investing significant resources to identify and implement effective policies, and provide clear technical guidance and support. They are also currently reorganizing their operating structure to improve their ability to provide this kind of human capital leadership on a government-wide basis. Leading this effort has and will continue to require executive management's full commitment and support to improve government performance, human resources management and accountability.

2. RETIREMENT SYSTEMS MODERNIZATION

The development of large computer systems is a very risky undertaking, given the variety and amount of resources required. The ongoing modernization of the systems to be used to administer the Federal Retirement Program, along with the related reengineering of business processes, is an example of this, and there is no guarantee of complete success. The Federal Retirement Program includes the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). The present computerized systems that support the processing of both CSRS and FERS retirement information are inadequate in their processing and programming techniques. In order for OPM to not only maintain, but also increase, service levels to keep pace with customer expectations and to manage the workload associated with significant increases in the FERS retirement annuitant population, the retirement systems must be modernized.

In 1997, the Retirement and Insurance Service's (RIS) Retirement System Modernization (RSM) project team documented both the CSRS and FERS retirement business requirements and selected a long-term concept of operations. Through 1998 and 1999, RIS reengineered its business processes using a dedicated OPM project team, subject matter experts, and a contractor with business process reengineering experience. The RSM project team identified six core business functions that the future system will utilize to accurately and efficiently process retirement information. These core processes were outlined and presented to senior OPM management, OPM system users, and stakeholders from several other government agencies. In 2000, the RSM project team completed process blueprints for four of the six core processes and started to translate them into the technical requirements necessary to design the new retirement system.

During 2001, the RSM project team completed the process blueprints for the remaining two core processes. In addition, the RSM project team completed the technical requirements document, performed a staffing analysis, designed the transition strategy, and developed the architectural design of the new system. The RSM project team also began implementing and testing the system in phases. RSM project managers now believe that the project will be completed in 2008; however, it is important to note that in 2001 OPM management started to look at other options for retirement processing, including the possibility of outsourcing. The OIG agrees that reengineering the systems that support the Federal Retirement Program is the best way that OPM can ensure the accuracy, consistency, and timeliness of the services that are provided to all stakeholders.

Managing the risk/reward for this project is very difficult given the uncertainty of success for reengineering OPM's business processes; the development and implementation of entirely new computerized systems to support these business processes; and the long-term nature of RSM. We are assisting in the risk mitigation effort by performing a systems development life cycle audit of RSM. This audit will attempt to validate the entire process and provide information and advice to the RSM project team, as appropriate, during the system development process.

3. EXPANDING E-GOVERNMENT

The President's electronic government (e-government) initiative seeks to enhance access to and delivery of government information and services through expanded use of technology, particularly Web-based Internet applications. OPM is responsible for leading several e-government projects and is challenged to simplify business processes and unify government operations to improve the efficiency and effectiveness of government-wide operations.

OPM has been working on two major government-wide projects, the Human Resources Data Network (HRDN) and Retirement Systems Modernization (RSM). The HRDN project should improve the efficiency of moving HR data electronically between agencies, and provide the basis for the envisioned move to an integrated HR system for the Federal government. The RSM project is related to HRDN in that it will use the electronic data gathered as part of the HRDN, and is OPM's central strategy to meet its long-term customer service, business, and financial management goals for the retirement program.

In addition, in December 2001, OPM was designated by OMB to lead the effort to consolidate and modernize federal payroll systems and services. The challenge will be to modernize payroll systems, reduce the costs of routine operations, consolidate human resource and payroll data and standardize human resource and payroll policy and processes government-wide. This project will require coordination with the HRDN project.

OPM is also leading three other projects: E-Training, E-Clearance, and Recruitment One-Stop. These projects will use Internet-related technologies to accelerate and streamline service delivery to citizens, reduce paperwork burdens on business, improve management and responsiveness of joint federal-state-local programs, and apply commercial best practices to improve government operating efficiency. As a result of simplifying business processes and unifying government operations around citizen needs, each e-government initiative will improve the efficiency and effectiveness of government operations.

4. OPM'S IMPLEMENTATION OF THE GOVERNMENT PERFORMANCE AND RESULTS ACT

The Government Performance and Results Act (GPRA) requires a change from process management to performance management. Data systems and controls need to be in place to achieve performance management. Agencies are required to effectively plan, budget, execute, evaluate, and account for their programs and activities. Many of OPM's functions are government-wide policy-oriented, making it more difficult to define measurable goals and indicators or to define achievable outcomes. This is further complicated because OPM has decentralized many human resource management functions to agencies, and they have limited data collection controls in place to measure performance.

When OPM prepared its first annual performance plan, it acknowledged, and external reviews stated, that a clear customer orientation needed to be presented. As a result, OPM created a new measurement framework presented in its FY 2000 - 2005 Strategic Plan, to provide a clearer picture of corporate achievement at the strategic goal level. In addition, in the FY 2001 and 2002 annual plans OPM began to align its program goals and measures to the strategic goal level for this new framework. However, it will take at least one more planning cycle before the new framework is fully integrated into the annual plans and report. As a consequence, it will be at least one year before it is apparent how annual program goals/measures work within the new framework and to obtain a complete picture of OPM's progress toward meeting strategic goals.

Other GPRA-related challenges facing OPM management include the following:

- Although OPM updated its strategic plan in September of 2000, it has not yet been revised to reflect the policy and initiative decisions of the new Administration. In order to improve its usefulness as a management tool for the agency and as an oversight tool for Congress, OPM should modify its strategic plan to reflect the priorities of the new administration.

- We determined the accuracy and reliability of performance results and tested internal controls in an audit of OPM's FY 2000 performance data. We reported that OPM needs to improve the reliability of its performance data and controls over that performance data. We believe that the cooperative relationship we have established with OPM's GPRA working group will continue to pay dividends in improving these aspects of data collection and controls.

- One of the major management initiatives of the current Administration is to fully integrate performance and budget information. In prior annual budget justifications to OMB and Congress, OPM aligned requested resources with the goals the agency committed to achieve that year. However, full integration of budget and performance requires that agencies are able to link and report not only their budget requests, but the resources actually expended to achieve outcomes. Consequently, in FY 2002, OPM is implementing a zero-based budgeting concept, requiring its organizational components to develop their FY 2002 operating budget plans from the ground up, specifying the minimum level of resources that will be needed to successfully accomplish each of its annual performance goals. This new way of preparing the budget will link the resources expended to accomplishments at the close of FY 2002 and prepare the baseline for OPM's FY 2003 goals.

OPM's strategic plans, annual performance plans, and reports have been subject to on-going and continuous refinement over the years to improve the measurement framework used. The OIG continues to work with the agency in this effort, providing review, commentary, and recommendations for improvement. Although the process is still evolving, we believe the improved focus on outcomes will better show the value OPM provides in managing the federal government's human capital, and will provide more reliable information for short- and long-term decision-making.

5. REVOLVING FUND AND SALARIES AND EXPENSES ACCOUNTS

Developing and implementing internal controls that will correct material deficiencies in the Office of Personnel Management's financial management systems for the Revolving Fund (RF) and Salaries and Expenses (S&E) accounts has been a top agency challenge for several years. While the agency has made great progress in implementing controls and correcting both short-term and long-term problems, particularly during the last year, issues remain which continue to pose a challenge. The following are the key areas that the agency is faced with in financial management of the RF and S&E:

a. Reconciliation of OPM's Fund Balance with Treasury and Disbursements in Transit Accounts

The reconciliations of Fund Balance with Treasury for the RF and S&E accounts were reported as a material weakness from 1993 to 2000 in OPM's annual Federal Managers Financial Integrity Act (FMFIA) letter to the President. In the 2001 FMFIA letter, it was reported as corrected subject to validation. To achieve this improvement, the Office of the Chief Financial Officer (OCFO) implemented internal controls over the cash reconciliation process in fiscal year 2001. These controls included developing standard reconciliation procedures, maintaining documentation supporting all cash transactions, and supervisory review.

The OCFO has also worked diligently to identify and reconcile prior year differences with Treasury. Unresolved differences between the RF and S&E and Treasury cash balances, which had been as high as $47 million in FY 1999, were reduced to approximately $6 million as of September 30, 2001. It should be noted that this difference is net of approximately $40 million of old disbursements in transit (DIT) transactions that have not been completely resolved or validated.

The OCFO needs to maintain the controls and discipline developed in fiscal year 2001 to keep reconciliations current and differences with Treasury under control.

b. Data Reconciliation and Control

Controls over transactions entered into the RF and S&E general ledgers have historically been inadequate. Subledgers or other detailed records were often not reconciled to general ledger control accounts. Supervisory and analytical reviews of general ledger transactions and balances were also inadequate, and transaction codes used to record general ledger entries were defined incorrectly in some cases due to inadequate management review and approval over their development and implementation. This resulted in erroneous entries to the general ledger. The absence of these standard accounting procedures and controls was a primary cause of the financial statements of the RF and S&E being unauditable.

A contributing factor to these problems was that the financial management system used to account for the RF and S&E activity did not meet Federal Financial Management Improvement Act of 1996 requirements, such as using the U.S. Standard General Ledger. In response to this, OPM purchased and implemented a new financial system for the RF and S&E. The system is being implemented in phases, with the first phase going live October 1, 2001, and the remaining modules expected to be implemented during the spring of 2002. As part of the implementation process, the OCFO has worked to clean up the balances in many of the general ledger accounts prior to loading beginning balances in the new system. These accounts or line items included Investigations Service transactions, Training Management Assistance transactions, Fund Balance with Treasury (noted above), Accounts Receivable, Accounts Payable, and others. The OCFO has developed detailed reports and procedures for reconciliation and analysis of account transactions and balances, and has begun to implement them.

Completing the implementation of the new system, along with the implementation of controls, such as timely reconciliations, over transactions processed using the new system will require extensive management efforts. As with the improvement of controls over cash transactions described above, it will be critical for the OCFO to maintain these improvements over time, and not let unresolved differences between general ledger account balances and supporting detail linger and grow.

6. OPM'S FINANCIAL MANAGEMENT OVERSIGHT OF THE FEHBP

In a decentralized payroll processing environment[1], maintaining adequate control over the financial operations of the FEHBP will always be a management challenge. Over the last several years, OPM's financial management of the FEHBP has been enhanced to provide more effective oversight of its operations. OPM is responsible for oversight of carrier operations, negotiating and administering contracts with insurance carriers, and developing health insurance legislative initiatives. To improve its financial management oversight activities, OPM has issued an Audit Guide requiring experienced- rated carriers to obtain an annual audit of FEHBP activities and to report on their internal control structures. In addition, OPM collaborated with the IG and OMB to require the CFO Act agencies to engage an auditor to perform certain agreed-upon procedures designed to test the accuracy of employee withholdings and agency contributions for the Retirement, Health and Life Insurance Programs. Transactions, such as an employees health insurance decisions, are tested from the process of electing a health plan to confirming that the right amount of monies were remitted to the Earned Benefit Funds. These procedures are performed annually.

However, OPM's oversight and monitoring of enrollment and premium reconciliations with community-rated carriers (CRCs) still need to be improved. OPM remits premiums to CRCs based on amounts it receives from federal agencies on a bi-weekly basis. OPM's existing systems were not designed to centrally reconcile the monies paid as premiums to participating carriers with the enrollees for whom they are being paid. Consequently, the potential exists for carriers to provide benefits to employees who are not covered by their plan at the time the services are rendered. Several lawsuits were filed by carriers alleging underpayment as a result of enrollment differences. These lawsuits resulted in OPM paying a 1 percent (approximately $50 million per annum) premium surcharge to the carriers in lieu of the carriers filing lawsuits to recoup losses incurred as a result of this control weakness.

To address this weakness, OPM has engaged a contractor to develop and implement the Centralized Enrollment Clearinghouse System that is expected to greatly facilitate the carrier/agency reconciliation process. This system is scheduled to be operational in the

[1] While government-wide payroll processing is currently decentralized, OMB issued a memorandum December 21, 2001 calling for OPM to lead an effort to consolidate government-wide payroll processing. See challenge #3 for more on this issue.

fourth quarter of FY 2002. Once operational, OPM will need to demonstrate the accuracy of the enrollment figures being used to pay the carriers, so that the 1 percent premium surcharge being paid can be eliminated. The number of parties that will be involved (contractor, payroll offices, OPM) and the lack of an integrated data system make this a substantial challenge for OPM management.

7. Improving the Performance of the Federal Employees Health Benefits Program

OPM's administration of the FEHBP includes responsibility for negotiating contracts with insurance carriers, including the benefits provided and premium rates charged for approximately 9 million individuals. Optimizing the programs' performance (i.e., return on investment) will require a continuous program improvement process and ongoing investments in technology. There are several key strategies that will have to be more fully considered in how best to maximize the performance of the FEHBP. In addition, there are several key factors that affect the programs performance, such as an aging FEHBP population, increases in the use of prescription drugs and medical services, advances in medical technology and decreases in the number of health plans participating in the FEHBP each year.

These factors have contributed to ever increasing premium rates - the average increase in premiums over the last 2 years has been approximately 12% . Controlling these costs is an area of great concern to the government, which is responsible for 72% of the total premium, government employees enrolled in the FEHBP, who are responsible for the remainder of the premium, and OPM management. OPM is often limited in how much it can control cost increases without also cutting desired benefits.

OPM needs to determine and implement the program changes that allow for maximizing resources, and obtain the flexibilities that produce the most cost beneficial benefits package to a population of enrollees that is aging overall. One flexibility that has potential for program improvement, but is not available under current law, is to have OPM directly contract for selective benefits, such as dental and prescription drugs. This and other changes in regulations and the FEHBP law must be considered in the interest of improving the programs' performance. In addition, OPM should also consider what strategic alliances need to be established to provide for maximum cost savings to the government, such as considering how best to partner with the Centers for Medicare & Medicaid Services to provide cost efficient benefits to the aging FEHBP population. Expanding OPM's contracting authority to include delivery systems prevalent in the private sector, possibly including Medical Savings Accounts, is another potential enhancement to the Program's structure that may help control costs.

Appendices

Appendix A—Program Description and Statistics

OPM accomplishes its mission through the administration of Programs that address the full range of federal human resources management issues including oversight of the merit system, design and delivery of employee benefits position, classification, pay and leave systems, maintenance of personnel security, promoting executive development, and the support of workforce relations.

The Retirement Program

The Retirement Program covers essentially all Federal civilian employees. It is comprised of two defined benefit programs: the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). The basic benefits of both systems are paid by the Civil Service Retirement and Disability Fund (CSRDF). By law, CSRDF funds may be used to pay all disbursements and operating expenses of both programs.

The Civil Service Retirement System. The Civil Service Retirement System (CSRS) was created by the *Civil Service Retirement Act* in 1920 to provide retirement benefits for Federal employees. The CSRS is a stand-alone pension system-its defined benefits are not intended to be a supplement to or be supplemented by other retirement benefits. The CSRS covers most Federal employees hired before 1984 and provides benefits to the survivors of deceased CSRS annuitants and employees. For all practical purposes, the system was closed to new entrants in 1984.

The Federal Employees Retirement System. The Federal Employees Retirement System (FERS) was established on June 6, 1986, by the *Federal Employees' Retirement System Act of 1986* (P.L. 99-335). FERS is a three-part pension program, using Social Security as a base and providing a defined benefit component and a thrift savings plan. OPM administers the defined benefit component of FERS. The Federal Retirement Thrift Investment Board, an independent agency, administers the thrift savings plan. The FERS covers most employees first hired after December 31, 1983 and provides benefits to the survivors of deceased FERS annuitants and employees.

Retirement Program Participation. FERS membership among active employees overtook CSRS membership in 1995 and by the end of fiscal year 2000 represents 60% of all covered employees. We expect the CSRS population to decline significantly over the next decade, as CSRS participants retire or leave Federal service for other reasons. The following chart shows CSRS and FERS participation among active employees:

	1997	1998	1999	2000*	2001
CSRS	1,272,000	1,189,000	1,009,165	947,918	911,028
FERS	1,463,000	1,497,000	1,536,339	1,569,656	1,743,449
Total	2,735,000	2,686,000	2,545,504	2,517,574	2,654,477

* Revised

As the FERS employee population has grown, so too has the FERS annuitant population. As can be seen below, the number of FERS annuitants is still quite small, representing only 6 percent of the total annuitant population at the end of FY 2001.

	1997	1998	1999	2000*	2001
CSRS	2,269,074	2,271,188	2,258,757	2,247,691	2,231,499
FERS	83,203	98,162	109,360	128,813	151,502
Total	2,352,277	2,369,350	2,368,117	2,376,504	2,383,001

The Health Benefits Program

The Health Benefits Program was established by the *Federal Employees Health Benefits Act of 1959* (P.L. 86-382). The law made basic hospital and major medical protection available to active Federal employees, annuitants, and their families. The law also allows OPM to contract with qualified carriers and establish program-wide eligibility requirements. The Program has several features that make it one of the Nation's leading health benefits plan: participants have an unparalleled choice in the variety of available health plans; they are not required to pass a medical exam in order to enroll; there are no coverage exclusions for pre-existing conditions or waiting periods; and participants are given an opportunity to change their coverage every year during the annual Open Season.

Types of Plans. In fiscal year 2001, 250 health benefits plans participated in the Program. These plans generally are of two types: Fee-for-Service (comprised of the Federal employees plan offered by the Blue Cross and Blue Shield Association and the employee organization sponsored plans) and health maintenance organizations (HMOs). A Fee-for-Service (FFS) plan is a traditional type of insurance that allows the participant to use any doctor or hospital; they are called FFS because doctors and other providers are paid for each service. An HMO is a health plan that provides care through a network of physicians and hospitals located in particular geographic or service areas.

Health Benefit Program Enrollment. Enrollment in the Program is 4.1 million, or about 86% of the eligible population-2.2 million enrollees are active employees and 1.9 million are annuitants. Including dependents, the Program covers approximately 9 million individuals. Enrollment in the Health Benefits Program, by type of plan, is presented below. As can be seen below, enrollment in the Program as a whole and by type of plan has remained relatively constant since 1996.

	1997	1998	1999	2000	2001
Fee-for-Service	2,920,031	2,888,827	2,892,681	2,898,144	2,918,406
HMO	1,212,985	1,230,354	1,229,969	1,185,642	1,162,722
Total	4,133,016	4,119,181	4,122,650	4,083,786	4,081,128

The Life Insurance Program

The Life Insurance Program was created in 1954 by the *Federal Employees Group Life Insurance Act* (P.L. 83-598) and covers over 4 million Federal employees and annuitants—about 90% of eligible employees and annuitants. Administered through a contract with the Metropolitan Life Insurance Company (MetLife), it is the largest group life insurance program in the world.

Types of Coverage. The Program provides group term life insurance. As such, it does not build up any cash value or paid-up value. It consists of Basic life insurance coverage and three options:

> *Basic life insurance* is determined by the amount of an employee's annual rate of basic pay, rounded to the next highest thousand, plus two thousand dollars. All eligible, or most Federal employees are automatically covered by Basic insurance unless they decline.
>
> *Standard optional insurance* is $10,000 of coverage an employee can elect in addition to Basic insurance. Additional optional insurance is coverage an employee can elect based on multiples of his or her basic pay. Family optional insurance is coverage an employee can elect in multiples of $5,000 up to a maximum of $25,000 for spousal coverage, and in multiples of $2,500 up to a maximum of $12,500 for each eligible child.

Program Enrollment. The following table shows enrollment in the Life Insurance Program for Basic life insurance and the three optional coverages (in thousands). As can be seen, although enrollment in the Program as a whole has remained generally constant since 1996, "Additional" and "Family" coverage has experienced increase in popularity in the last year or two, while enrollment in "Standard" has been consistently falling.

	1997	1998	1999	2000	2001
Basic	3,982	3,973	3,953	3,941	3,905
Standard	1,379	1,356	1,352	1,330	1,353
Additional	1,288	1,277	1,294	1,375	1,352
FAMILY	1,226	1,220	1,299	1,347	1,322

Merit Systems Oversight Programs

Merit Systems and Veterans' Rights Oversight. The administration of a civil service merit system ensures compliance with Federal personnel laws and regulations. Merit principles ensure that Federal agencies invest taxpayers' money only in employees who are most likely to do a good job, and that they base hiring, pay, promotions, and reductions in force on a process that is objective, job-related, and fair. Veterans rights are an integral part of the merit-based personnel system that OPM oversees.

Agency adherence to the merit principles and veterans rights is assessed by conducting oversight reviews at the government-wide, agency, and installation levels. The information gathered from these reviews is used for policy development to ensure compliance with both the merit principles and personnel laws and regulations. Work is conducted with other agencies on demonstration projects to explore potential improvements in personnel systems and better and simpler ways to manage Federal personnel.

Workforce Information System. OPM sets the standards for the maintenance of personnel records at employing agencies and provides instructions for release of personnel data under the Freedom of Information and the Privacy Acts. Data pertaining to the Federal workforce is collected and maintained to support personnel management decision-making. In addition, statistical data on the diversity of the Federal workforce is gathered, analyzed, and maintained and evaluation reports prepared for the Congress.

Employment Programs

Delegated Examining Unit Certification Programs. The authority for most employment examining was delegated to employing agencies in 1994, while responsibility to ensure that they adhere to corporate policies for staffing were retained at OPM. These policies include merit principles, veterans' preference, and a commitment to equal opportunity. To make delegated examining effective, training and reference materials are provided to employing agencies and their examining operations are certified through the Delegated Examining Unit Certification Program.

Workforce Planning Program. The workforce planning program establishes policy, provides guidance, and administers programs for reductions in force, separation incentives, and early retirement, as well as provides advice on internal reorganization and career transition initiatives. These activities ensure that agencies can effectively address their strategic human capital needs and maintain diversity in the workforce. Many of these workforce planning services are provided on a reimbursable basis.

Administrative Law Judge Program. The government-wide Administrative Law Judges (ALJ) program allows employing agencies to fill those positions in a way that protects public confidence. The program reviews and approves competitive employment actions, classify positions, and administers the ALJ loan and senior ALJ employment programs.

Employment Information Program. The employment information program administers a government-wide listing of all job vacancies in the competitive service currently open to outside applicants, plus many vacancies outside of the competitive service. This allows employers to quickly reach a wide-range of potential employees and provides for open competition from all segments of society. Job-seekers find it easy to learn about job openings 24 hours a day, seven days a week, through USAJOBS. USAJOBS uses the Internet, telephones, and touch-screen kiosks, to provide the public more information than ever before about job vacancies throughout the Federal government.

The Federal Personnel Security Program

The Federal Personnel Security Program ensures the fitness and suitability of applicants for and appointees to positions in the Federal service. To carry out this responsibility, OPM sets government-wide investigations policy for the Federal personnel security program and carry out on-site inspections to ensure that employing agencies are following established policies. Personnel investigations relating to personnel suitability and security also are provided, on a reimbursable basis, through a contractor.

Workforce Compensation and Performance Programs

Classification, Pay and Leave Programs. The standards for classifying Federal jobs, establishing pay scales, and enhancing the Federal government's leave package are governed by several laws, regulations, and executive orders. Through the classification, pay, and leave programs these compensation factors are adjusted for labor markets and to address recruitment and retention issues.

Performance Management and Awards Programs. The performance management and awards promote effective performance management and ensure that individual accountability is established and maintained throughout the Federal workforce. The programs set guidelines for evaluating, developing, and rewarding employee performance and also provide agencies with guidance and assistance about how to identify and correct performance problems.

Workforce Relations Programs

Advice and consultation is provided to employing agency officials through a broad range of workforce relation programs to support the development of effective labor-management relations, employee relations practices, life long learning programs, and family-friendly workplaces. These programs help agencies accomplish their missions and develop effective agency policies in these areas. The programs act as a clearinghouse for government-wide information on best practices, innovations, data trends and other information on Federal labor-management and employee relations. Through the Training and Management Assistance (TMA) program, we provide assistance to federal managers in the development of training and other human resource management solutions that meet specific short and long-range agency objectives.

Executive Resources Programs

The development, selection, and management of Federal executives are fostered by the executive resources programs. This is accomplished by allocating senior executive position and appointment authorities; establishing critical competencies used to select and develop new executives; administering qualifications review boards and the Presidential Rank Award program; and overseeing the Senior Executive Service (SES) Candidate Development Programs and the SES Performance Management System.

Appendix B – Acronyms

Abbreviation/Acronym Key:

ACSI	American Customer Satisfaction Index
ADR	Alternative Dispute Resolution
AICPA	American Institute of Certified Public Accountants
ALJ	Administrative Law Judge
BLS	Bureau of Labor Statistics (a component of DoL)
CD	Compact Disk
CFC	Combined Federal Campaign
CFR	Code of Federal Regulations
CIO	Chief Information Officer
CLER	Centralized Enrollment Clearinghouse System
COLA	Nonforeign Area Cost-of-Living Allowance Program
COOP	Continuity of Operations Plan
CPDF	Central Personnel Data File
CSRDF	Civil Service Retirement and Disability Fund
CSRS	Civil Service Retirement System
CSS	OPM Customer Satisfaction Survey
CVS	Clearance Verification System
DCIA	Debt Collection Improvement Act
DCSS	OPM HR Directors' Customer Satisfaction Survey
DEU	Delegated Examining Unit
DoD	U.S. Department of Defense
DoJ	U.S. Department of Justice
EAP	Employee Assistance Programs
EDP	Electronic Data Processing

EEO	Equal Employment Opportunity
EO	Executive Order
ES	Employment Service (a component of OPM)
FEHB	Federal Employees Health Benefits
FEHBP	Federal Employees Health Benefits Program
FEGLI	Federal Employees' Group Life Insurance Program
FEORP	Federal Equal Opportunity Recruitment Program
FERCCA	Federal Erroneous Retirement Coverage Corrections Act
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FFB	Federal Financial Bank
FFS	Federal Financial System
FFS	Fee-for-Service
FLRA	Federal Labor Relations Authority
FMFIA	Federal Managers Financial Integrity Act
FMS	Financial Management Service
FTE	Full-time Equivalent
FWS	Federal Wage System
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GAO	General Accounting Office
GAS	Government Account Series
GPRA	Government Performance and Results Act
GS	General Schedule
GSA	General Services Administration
HB	Health Benefits

HMO	Health Maintenance Organization
HR	Human Resources
HRD	Human Resource Development
HRDC	Human Resource Development Council
HRDN	Human Resources Data Network (formerly VHRDR)
HRM	Human Resources Management
HRMC	Human Resources Management Council
HRTC	Human Resources Technology Council
IRS	Internal Revenue Service
IS	Investigations Service (a component of OPM)
IT	Information Technology
JPAS	Joint Personnel Adjudication System
LI	Life Insurance
LQIP	Laboratory Quality Improvement Panel
LTCI	Federal Long Term Care Insurance Program
LTCSA	Long-Term Care Security Act
MD&A	Management Discussion and Analysis
MSPB	Merit System Protection Board
MSPQ	Merit System Principles Questionnaire
NTEU	National Treasury Employees Union
OAS	Organizational Assessment Survey
OC	Office of Communications (a component of OPM)
OCAS	Office of Contracting and Administrative Services (a component of OPM)
OCFO	Office of the Chief Financial Officer (a component of OPM)
OCIO	Office of the Chief Information Officer (a component of OPM)
OCR	Office of Congressional Relations (a component of OPM)
OD	Office of the Director, OPM

OEMD	Office of Executive and Management Development (a component of OPM)
OERM	Office of Executive Resources Management (a component of OPM)
OGC	Office of the General Council (a component of OPM)
OHREEO	Office of Human Resources and EEO (a component of OPM)
OIG	Office of the Inspector General, OPM
OMB	Office of Management and Budget
OMSOE	Office of Merit Systems Oversight and Effectiveness (a component of OPM)
OPM	U.S. Office of Personnel Management
OWR	Office of Workforce Relations (a component of OPM)
PFI	Positive Financial Impact
PL	Public Law
PMI	Presidential Management Intern
PRHB	Post-Retirement Health Benefits
PV	Present Value
QRB	Qualifications Review Board
QUIC	Quality Interagency Coordination Task Force
RIS	Retirement and Insurance Service (a component of OPM)
RP	Retirement Programs
RSI	Required Supplementary Information
SAOC	Spending Authority Offsetting Collections
SDLC	Systems Development Life Cycle
SES	Senior Executive Service
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
SII	Security/Suitability Investigations Index
SL	Senior Level
SOELR	Symposium on Employee and Labor Relations

ST	Scientific and Professional
TJF	Treasury Judgement Fund
TMA	Training and Management Assistance Division (a sub-component of OPM)
TRB	Theodore Roosevelt Building
U.S.C.	United States Code
USDA	U.S. Department of Agriculture
USPS	U.S. Postal Service
WCPS	Workforce Compensation and Performance Service (a component of OPM)
WHF	White House Fellows