

*United States
of America*

THE UNITED STATES OFFICE
of PERSONNEL MANAGEMENT
FISCAL YEAR 2003
PERFORMANCE & ACCOUNTABILITY REPORT

Working for America



TABLE OF CONTENTS

<i>Message from the Director</i>	1
<i>Message from the Chief Financial Officer</i>	3

INTRODUCTION TO OPM

<i>Agency History and Founding Legislation</i>	5
<i>Transition</i>	6
<i>Location</i>	7

FY 2003 HIGHLIGHTS

<i>Having an Immediate Impact on Homeland Security</i>	9
<i>The Long-Term Strength of the Civil Service</i>	12

MANAGEMENT DISCUSSION AND ANALYSIS

<i>OPM's Mission and Strategic Goals</i>	19
<i>Organizational Structure</i>	19
<i>Analysis of OPM's Program Performance</i>	21
<i>OPM's Strategic Human Capital Plan and FY 2002 Performance</i>	25
<i>Addressing OPM's Top Management Challenges</i>	26
<i>Quality of Performance Data</i>	30
<i>FY 2003 Budgeting Resources by Strategic Goal</i>	31
<i>Analysis of OPM's Financial Performance</i>	31
<i>Systems, Controls and Legal Compliance</i>	35
<i>Limitations of the Consolidated Financial Statements</i>	40

ANNUAL PERFORMANCE GOALS AND RESULTS

<i>Crosswalk from the FY 2003 Annual Performance Plan to This Report</i>	43
<i>FY 2003 Performance Report</i>	50
<i>Strategic Goal I</i>	50
<i>Strategic Goal II</i>	62
<i>Strategic Goal III</i>	76
<i>Management Strategies</i>	93
<i>Completeness and Reliability of Performance Data</i>	116

FINANCIAL INFORMATION

<i>Consolidated Financial Statements</i>	121
<i>Notes to Financial Statements</i>	126
<i>Consolidating Financial Statements</i>	142
<i>Required Supplemental Information</i>	154

INDEPENDENT AUDITORS' REPORT.....

MANAGEMENT CHALLENGES

APPENDICES

<i>Appendix A — Disposition of FY 2003 Goals and Indicators</i>	188
<i>Appendix B — Program Descriptions and Statistics</i>	221
<i>Appendix C — Acronyms</i>	227

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MISSION STATEMENT

*It is OPM's job to build a high quality and diverse Federal workforce,
based on merit system principles, that America needs to guarantee freedom,
promote prosperity and ensure the security of this great Nation.*





A MESSAGE from the DIRECTOR

I am pleased to present the Office of Personnel Management's *Fiscal Year 2003 Performance and Accountability Report*. By all accounts, the year was remarkably productive. This report highlights the work OPM completed in light of Governmentwide realignment of priorities to secure our Nation.

OPM played a significant role — both immediately and in the long-term — in improving our National security. Our most visible contribution related to the creation of the human resources management system for the Department of Homeland Security (DHS). The Homeland Security Act, which President George W. Bush signed into law on November 25, 2002, called for the Director of OPM and the Secretary of DHS to create a flexible, contemporary system for the Department's 140,000 civilian employees. Secretary Ridge and I promised to work closely with employees, managers, unions and other stakeholders to create a world-class human resources management system that would enable DHS to complete its number one mission, to protect America, while fully preserving the merit-based civil service system. I am proud to say that we fulfilled our promise.

I am proud of the professionalism of OPM team members who — with DHS — created and led the design team responsible for researching personnel system options for the new Department. This team, widely praised by stakeholders for their deliberative and inclusive work, provided a model for how diverse groups with disparate interests can work together to accomplish a common goal.

The long-term strength of the Federal civil service is critical to the success of our Nation's prosperity and security. OPM plays a central role in fulfilling President George W. Bush's vision for a citizen centered, results-oriented and market-based Federal workforce. The agency experienced much success in its Governmentwide leadership of the first initiative of the President's Management Agenda, to improve the Strategic Management of Human Capital by providing agencies with all the necessary tools to manage their workforces and get the right people in the right job at the right time.

We implemented a restructuring plan during the year and established TEAM OPM — a new, results-oriented structure that aligned the agency according to its mission and strategic goals. Along with the change in structure, we have reevaluated many performance measures to determine their relevancy within our new mission. As you read this report you will see that we have chosen to focus our actions on those measures that are germane to the role that OPM now plays Governmentwide.

I have only briefly touched on the scope of work conducted at OPM during FY 2003. American taxpayers have a right to expect a Federal workforce that is results-oriented and citizen-centered. I am proud of the accomplishments of our dedicated team members and urge you to examine the tremendous amount and quality of work that has been done on behalf of the Nation.

Sincerely,

A handwritten signature in blue ink that reads "Kay Coles James". The signature is fluid and cursive, written over a light blue rectangular background.

Kay Coles James





A MESSAGE *from the* CHIEF FINANCIAL OFFICER

I join Director James in presenting our *Fiscal Year 2003 Performance and Accountability Report*. This report conveys the outstanding achievements of OPM employees, describing both our programmatic and financial management performance during the past year.

President George W. Bush has made improving the Government's financial performance one of the five Governmentwide initiatives of his Management Agenda. I am pleased to report that OPM has accomplished a great deal in support of the improved financial performance initiative.

For the fourth consecutive year, OPM has received from our independent auditors, KPMG LLP, an unqualified ("clean") audit opinion on our consolidated financial statements. Concurrently, we also received clean audit opinions on the individual financial statements of the three earned benefit programs — Retirement, Health and Life Insurance. These clean audit opinions demonstrate the effectiveness of our stewardship over the \$650 billion of assets we hold in trust for Federal employees and retirees and their families and survivors. Moreover, we achieved our clean audit opinions without our auditors reporting any material weaknesses in OPM's internal controls.

Another key element of the President's Management Agenda is the accelerated timeframes for publishing agencies' annual performance and accountability reports. For FY 2003, we published our report one month ahead of the official due date. For FY 2004, we must publish our Performance and Accountability Report by November 15, 2004. To meet this challenge, we have already begun revising our year-end accounting and financial reporting activities. We fully expect to publish our FY 2004 Report within the new timeframes and continue to receive clean audit opinions with no material weaknesses in internal controls.

The overall measure of our financial performance, however, goes beyond clean audit opinions and meeting financial reporting deadlines. Our focus on sound internal controls and compliance with applicable regulatory requirements has resulted in no material weaknesses in management controls or material nonconformances with Federal financial management requirements. This is the second consecutive year that we have achieved this level of compliance. As a result of the control environment we have fostered, no OPM programs are susceptible to significant erroneous payments. These are important accomplishments, particularly given the magnitude of the financial operations we conduct.

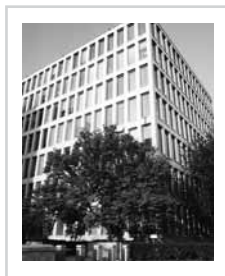
Despite these accomplishments, we know much work remains ahead of us. For FY 2004, in addition to accelerating our financial and performance reporting timeframes, we will strive to resolve the reportable conditions that have long plagued our Revolving Fund and our Salaries and Expenses accounts. We have inaugurated a financial management improvement process with specific actions and timelines that will enable us to effectively address these weaknesses in FY 2004.

We are committed to managing the financial resources under our stewardship in a most judicious and accountable manner. Through the dedication and teamwork of many OPM employees, including program, financial management, actuarial and auditing staff, I know we will continue to be successful in identifying opportunities for improvement and achieving noteworthy results.

Sincerely,

Clarence C. Crawford
Chief Financial Officer





INTRODUCTION TO OPM

Agency History and Founding Legislation: Students of history and those who work in the field of personnel management know that the year 2003 marked the 120th anniversary of the passage of the Civil Service Act of 1883, also known as the Pendleton Act, which established the merit system and created the U.S. Civil Service Commission. They also know it would be impossible to overstate the necessity for either.

For decades, during what has become known as the “spoils era,” presidential elections were like gigantic lotteries, with Government jobs handed out by the winners as prizes to those who supported them, hence the phrase “to the victor belong the spoils.” That did not necessarily mean that incompetent people were appointed; many Government officials were quite good, but the system itself was ill-suited to efficiency. During the Civil War, for example, the Federal Government paid top dollar for shoddy blankets, tainted pork and beef, knapsacks that came unglued in the rain, uniforms that fell apart, and guns that blew the thumbs off the soldiers firing them. And this was only the tip of the corruption iceberg.

Theodore Roosevelt was as responsible as anyone of his era for removing politics and corruption from the Federal appointment process, and creating the civil service reforms we enjoy today. As one of the first commissioners of the Civil Service Commission, Roosevelt fought to reform the Federal workforce from a “patronage system” to one in which individual merit and a person’s honesty and capacity to do the job were prized as honorable assets. In fact, the cornerstone of the modern Federal Government was laid during his administration, and today, most functions of Roosevelt’s Civil Service Commission, as amended by the Civil Service Reform Act of 1978, are now carried out by the Office of Personnel Management.

The work performed by the Federal Government and its employees changed significantly in the 1980s and 1990s, driven by the advent of information technology, knowledge-based work, and a greater emphasis on accountability, customer service and quality. These changes eroded the effectiveness of the one-size-fits-all approach to human resources management that for years had supported the Federal work force, and

brought to the foreground the need for flexibility and a decentralized human resources management system.

Responding to these changes, OPM took on the role of providing the agencies with human resources policy leadership in a manner that balanced flexibility with consistency across Government. For instance, Congress gave OPM authority under title 5, U.S. Code, to set up demonstration projects and alternative personnel systems that allowed a limited number of agencies, in special circumstances, to develop human resources management systems tailored to these circumstances.

At the same time, OPM sustained core civil service values, such as the Merit System Principles, veterans’ preference, workforce diversity, family-friendly policies and protecting employees and the public from prohibited personnel practices. In addition, OPM continued to administer Governmentwide compensation, employee benefits, and automated information systems. OPM also provided assistance and services to agencies through a mix of appropriated, trust, and revolving funds.

Today, OPM is the central human resources agency for the Federal

Government and the primary agency helping the President carry out his responsibilities for managing the Federal workforce. Though many things have changed, including its name, OPM's commitment to the Merit System Principles has stood the test of war and peace, assassination and impeachment, terrorist attack, and even electoral impasse, and in each and every trial has remained rock steady. OPM's core values, as set forth in the Merit System Principles, require that Federal employees be hired, promoted, paid and discharged solely on the basis of merit.

TRANSITION

Historians will someday look back and note that 2003 was a year of great change and challenge at the Office of Personnel Management as it took on additional and unprecedented roles and responsibilities, due in large part to the continuing response to the September 11 terrorist attacks and to its enthusiastic support of the President's Management Agenda.

As the Nation's first Chief Executive to have earned an MBA, President Bush has a management agenda, along with his policy agenda, that describes how he will improve the management and performance of the Federal Government and provide a higher quality of service to the American people.

To do that, he has identified the Strategic Management of (the Federal Government's) Human Capital as one of his Administration's top priorities and directed that OPM be responsible for making it happen. OPM is committed to the President's Management

Agenda and OPM Director Kay Coles James has made Federal agency performance in implementing the Strategic Management of Human Capital a measure of OPM's own record of success.

These shifts in mission and accountability were captured in

OPM's revised Strategic Plan 2002–2007, which was issued in November 2002, a year ahead of schedule. To ensure that OPM was organized to carry out its new roles and responsibilities, Director James approved a major overhaul and restructuring of the Agency to align

NEW ROLES AND RESPONSIBILITIES FOR OPM

The President's Strategic Management of Human Capital Initiative: OPM is responsible for advising agencies on human capital management opportunities, as well as holding them accountable for their strategic human capital management practices. In response, Director Kay Coles James has directed OPM to focus on Federal agency performance as the measure of its success.

Human Capital Flexibilities: OPM plays a critical role in guiding agencies in the use of Governmentwide human resources management flexibilities, as well as helping develop and implement flexible personnel systems for the new Department of Homeland Security and the Department of Defense. In part, OPM accomplishes this through its leadership of the Chief Human Capital Officers Council.

Accountability: OPM has the authority and responsibility to ensure that Federal agencies adhere to Merit System Principles and applicable laws and regulations. As agencies develop alternative personnel systems through legislative initiatives and move to obtain some or all of their human resources management services from other agencies or private sector contractors, OPM must develop new programs to conduct performance audits of human resources management at Federal agencies.

Emergency Preparedness: In these unsettled times, OPM has taken an active role in helping Federal managers and employees prepare themselves, their offices and their families for potential emergencies or terrorist attacks.

Competitive Pay and Benefits: At a time when each and every American has a stake in the Federal Government's ability to attract, retain and manage the best possible people, OPM has enhanced the value of employee benefit programs and has supported modernized pay programs to maintain the Federal Government's status as a competitive employer.

e-Government: OPM is modernizing the way Government does its business with five of the President's priority e-Gov initiatives — interrelated projects that support a Government employee from recruitment through retirement.

Simplified Hiring: To remain competitive, and to ensure that agencies are able to deliver services to the public and meet performance goals, OPM is committed to simplifying the Federal hiring process.

INTRODUCTION TO OPM

its resources to the goals articulated in its Strategic Plan.

OPM successfully implemented this restructuring in March 2003, reorganizing 12 “stove-piped” components into four central divisions that are aligned to provide more efficient service and better coordinated responses to the human capital needs of Federal agencies. The new organizational framework — called TEAM OPM — positions OPM to respond with nimbleness and resolve to meet its unprecedented new responsibilities and sustain a much higher profile than in the past.

For instance, the legislation that created the Department of Homeland Security granted significant new Governmentwide human resources

management flexibilities to agencies and established a structure in law under which Federal agencies appoint Chief Human Capital Officers who are held responsible for planning, managing and measuring their Human Capital Management actions and results. The consolidation of its policy functions in the Strategic Human Resources Policy Division, positioned OPM to focus resources toward this historic large-scale reorganization of Federal resources.

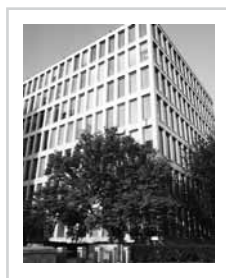
As the Government’s chief advisor on human resources management, OPM is charged to take the lead in supporting the Strategic Management of Human Capital through the President’s Management Agenda. With this new, results-oriented struc-

ture, OPM is focused on its mission and Strategic Goals, and better able to ensure that the Federal Government is citizen-centered, of the people, results-oriented, for the people, and market-based, by the people.

LOCATION

OPM is headquartered in the Theodore Roosevelt Federal Office Building at 1900 E Street, NW, Washington, DC 20415, where many of its approximately 5,000 employees work. OPM also has a field presence in 16 major cities across the country and operating centers in Pittsburgh and Boyers, Pennsylvania, and in Macon, Georgia. OPM’s newly remodeled web site can be found at www.opm.gov.





FY 2003 HIGHLIGHTS

As part of the Nation's continuing response in 2003 to the terrorist attacks, OPM responded to the President's call to make homeland security and the defeat of terrorism the Nation's top priority. OPM directed resources toward initiatives that had an immediate impact on the Government's ability to protect and defend our Nation and respond to emergencies. At the same time, OPM supported policies and programs to expand and strengthen the long-term health and effectiveness of the U.S. civil service. A strong civil service assures the Federal workforce will always be up to the enormous responsibility of protecting our Nation while providing excellent services to its people.

The key to successful planning is knowing when to change the plan.

OPM has, of necessity, made changes to the FY 2003 Annual Performance Plan and focused on new priorities to deliver results and value to the community of Federal agencies and the American people. A new mission requires new goals and performance indicators, and OPM realigned the original FY 2003 Plan to fit its new mission.

HAVING AN IMMEDIATE IMPACT ON HOMELAND SECURITY

Setting Up the New Department of Homeland Security (DHS). DHS was the top priority for OPM during FY 2003. Although establishing this new Department had not been foreseen when the FY 2003 Annual Performance Plan was developed, this landmark effort was absolutely critical to the Nation's response to September 11. OPM shifted resources to help inform Congress of the implications of the historic legislation — the Homeland Security Act — authorizing this major reorganization of the Federal Government and to implement the Act once it was signed by the President.

Director Kay Coles James appointed a Senior Advisor for Homeland Security to lead OPM's work on what quickly became an intensive effort — and one of the largest acquisitions and mergers in the country. It involved pulling together 170,000 employees from 22 different agencies, combining the cultures and human resources systems of those entities, and replacing them with a comprehensive and more flexible system that supports DHS's unique mission

— to eliminate or reduce potential terrorist threats and respond to disasters — while continuing to provide employees with safeguards rooted in the Merit System Principles.

Starting in April 2003, after the legislation was signed by the President, the DHS-OPM Human Resources System Design Team was established, which brought together human resources policy experts in OPM and DHS, DHS managers, and representatives of the major DHS employee organizations. The Design Team provided extensive support to the design effort in all aspects of recruitment, retention, pay and performance issues, and developed a set of options that eventually will be used to shape the new Department and thereby enhance national security.

As DHS initially took shape, OPM became the Department's virtual human resources office, conducting personnel background investigations for the staff for the Office of the Secretary of Homeland Security and providing recruitment and examining services as the Department brought in new employees. OPM also ensured that employees in the Transportation Security Agency — a component of the



“These flexibilities will help agencies move more quickly in their efforts to assist in the reconstruction of Iraq. The President is committed to restoring both the freedom and the infrastructure necessary to support the Iraqi people, and our federal team is fully committed to accomplishing that goal.”

—Kay Coles James, Director

DHS — underwent required background investigations and met the suitability requirements for Federal employment.

Implementing Emergency Preparedness Policies. OPM recognized that every Federal agency has a role in protecting the American homeland and made clear that emergency preparedness must be a part of every agency’s Human Capital Management program. In conjunction with the Department of Homeland Security and other agencies dealing with emergency preparedness, OPM produced a series of emergency publications to educate the Federal workforce and their families. These guides provide information on biological, chemical and radiological risks and what can be done to prepare for an emergency event involving these substances. More than 400,000 copies of these guides have been either downloaded or printed. In addition to publications, OPM began providing training in security and emergency procedures to

managers and supervisors throughout the Federal Government at the Eastern Management Development Center.

OPM is also leading discussions among agency Chief Human Capital Officers (CHCOs) as the CHCO Council has established a subcommittee to develop a Governmentwide approach to address emergency preparedness. The subcommittee’s charter is to specifically define emergency preparedness, outline the issues that need to be addressed, describe the latest actions agencies are undertaking and identify best practices, and recommend future steps.

Getting the Right People To Secure the Nation. It is critical to ensure that people holding Federal positions meet the suitability requirements for their jobs. During FY 2003, OPM delegated more responsibility to the agencies to make employment decisions concerning day-to-day personnel security and suitability issues. OPM began increasing the Government’s capacity to conduct background investigations by

contracting with three additional firms and initiating a process to open field investigations to a larger group of contractors to ensure the highest quality of investigations at the most competitive price.

OPM conducts the background investigations, but agencies are responsible for adjudicating employees’ suitability, and taking appropriate actions as needed, and for granting security clearances. In FY 2003, OPM stepped up its oversight of agency actions taken on the basis of background investigations. In July 2003, Director James asked all executive branch department and agency heads to review all un-adjudicated background investigations performed by OPM for their agencies. OPM worked with agencies on their outstanding adjudicative actions in order for them to comply with the Director’s request. On September 29, 2003, the Director sent a follow-up notice to those agencies that had not fully complied with her request, and gave these agencies 15 days to comply.

OPM continues to work with agencies on reporting their outstanding adjudication actions.

Extended Emergency Hiring

Flexibilities. OPM renewed valuable tools to help agencies quickly hire the staff they need to combat terrorism by providing them with four emergency hiring flexibilities that included:

- Emergency temporary appointments under Schedule A
- SES limited emergency appointments
- Salary offset waivers to reemploy annuitants
- Waivers of requirements to repay voluntary separation incentive payments (buyouts) upon reemployment

OPM authorized agencies engaged in Iraqi reconstruction efforts to appoint individuals whose “fluency in Arabic or other related Middle Eastern languages” will support those efforts.

Responding to the need to quickly fill critical information technology (IT) security positions, and using a new Governmentwide authority, OPM established a direct-hire authority for IT Management (Information Security) GS-2210 positions at the GS-9 level and above, in support of efforts to carry out the requirements of the Government Information Security Reform Act and the Federal Information Security Management Act.

This direct-hire authority enables agencies to make use of a talent pool established through “Scholarship for Service” (SFS), a program created for

the express purpose of helping agencies meet their needs for information assurance professionals.

OPM has worked closely with Federal Executive Boards (FEBs) on regional emergency planning and on recruitment and hiring initiatives to elevate the role of these regional groups in the war on terrorism. The Federal Executive Boards were established in 1961 to provide a vital link between Washington, DC, and Federal employees nationwide on Government policies and initiatives. OPM expanded the range of discussions at FEB-hosted meetings to address integrating the FEBs’ communications networks in the event of national emergencies or threats to homeland security.

Moving beyond emergencies that involve terrorism, OPM approved an emergency request from the United States Forest Service to extend employment time limits for firefighters on temporary appointment who were heroically battling wildfires covering more than half a million acres in Southern California. OPM also granted the use of direct-hire authorities for doctors, nurses, and pharmacists, as well as for the Securities and Exchange Commission to hire accountants, economists, and securities compliance examiners.

Supporting Agencies in Other Security Matters. OPM conducted two seminars for Federal human resources and personnel security managers dealing with the issue of spotting bogus educational achievements claimed on job applications. These sessions also reviewed procedures for identifying diploma mills, which provide false qualifica-

tions for professional positions. These efforts ensure that Federal employees are truly qualified for the positions they hold and are capable of providing the appropriate level of service to the American people.

Supporting the Active Duty Military.

OPM sought opportunities to support the Nation’s armed forces as they took the war on terrorism overseas. OPM was among the first Federal agencies to exercise its discretion as an agency and pay the full premium — both the employee and Government shares — of the Federal Employee Health Benefits (FEHB) program for OPM employees who are reservists and guardsmen activated into duty.

OPM went on to encourage other Federal departments and agencies to exercise their own discretion in this way. Departments and agencies with employees called to active duty responded with enthusiastic support of this program, agreeing to fully cover their employees’ share of FEHB premiums while they are on active duty.

The OPM family found innovative ways to support our fighting men and women and their families. OPM is headquartered in the Theodore Roosevelt Federal Office Building. Partly to acknowledge that connection and partly to once again serve as an example to other Federal agencies, OPM “adopted” the aircraft carrier *USS Theodore Roosevelt* and provided extensive support to its crew and their families during this time of unusual stress. The agency delivered more than 800 toys to the children of crew members at the annual holiday party in November. Throughout the year OPM employees donated books, compact discs, cards,

and other hard-to-come-by gifts to the men and women of the crew while the ship was at sea. When the carrier returned to its home port of Norfolk in May after a five-month deployment in the Middle East, OPM staff were there to welcome it. The ship's commander reciprocated by presenting the Agency with the flag that was flown over the carrier on April 9, 2003, the day that Baghdad fell to coalition forces of liberation, and by inviting OPM employees on a special cruise while the ship was in port.

agencies manage their people. OPM is the owner of this Governmentwide initiative and is committed to providing agencies with the necessary tools to manage their work forces as described in the Human Capital Standards for Success. By achieving these standards, agencies will place the right people in the right jobs at the right time.

OPM's effectiveness in leading the Strategic Management of Human Capital is measured by agencies' progress in achieving the Standards for Success. Under the Standards for

During FY 2003, OPM engaged agencies to transform their Human Capital Management, resulting in improved ratings on their Executive Branch Management Scorecard. When the initiative was introduced in 2001, all but three agencies were rated "red" on status, indicating serious problems. Most agencies were not thinking strategically about their current and future work force needs and Human Capital Management was not viewed as a priority related to mission accomplishment. By the end of FY 2003, after



"Our first obligation as an employer is to make certain that those who perform active military duty are able to leave their employment temporarily with the knowledge that their affairs are in order and their rights protected."

—Kay Coles James, Director

LONG-TERM STRENGTH OF THE CIVIL SERVICE

During FY 2003, OPM took measurable steps to ensure the long-term strength of the Federal civil service. First and foremost, OPM worked with agencies to ensure that sound Human Capital Management practices and the Merit System Principles are followed across Government.

Advancing the Strategic Management of Human Capital. This is the first initiative in the President's Management Agenda (PMA), and the Government's overarching strategy to transform how

Success, one can tangibly assess improvements in Human Capital Management in Federal agencies and thereby gauge OPM's performance. Agencies' achievements toward implementing the Standards for Success are critically evaluated each fiscal quarter, and scorecards showing both their status and progress are published, using a "traffic light" grading system. Under each PMA initiative, an agency is "green" for status if it meets all the Standards for Success, "yellow" if it has achieved some but not all of the Standards, and "red" if it has serious flaws.

more than a year of engagement, nearly half of the agencies (12 of 26) were rated "yellow" in status.

Through its leadership in the Governmentwide effort to transform Human Capital Management, OPM is creating an environment in which agencies are held accountable for managing their work force effectively, efficiently, and in accordance with Merit System Principles, prohibited personnel practices and veterans' preference. By improving work force management, OPM will ensure accountability and build the Federal work force envisioned in its mission statement: A "high qual-

ity and diverse Federal workforce, based on merit system principles that America needs to guarantee freedom, promote prosperity, and ensure the security of this great Nation.”

OPM focused its other resources in support of the Strategic Management of Human Capital by pursuing a variety of initiatives designed to enable Federal agencies to acquire the workforce *talent* they need to achieve their missions, to improve the *capacity of their leaders* to provide vision and to ensure the continuity of leadership in the future, and to establish a strong *culture of diversity and performance* across Government.

Advancing More Modern Merit-Based Systems. In addition to its landmark efforts with the Department of Homeland Security, as noted above, to ensure that new Department has access to a flexible, contemporary human resources management system, OPM worked assiduously to support other agencies in their quests for more modern systems.

Throughout FY 2003, debates ensued about the advisability of granting waivers from Governmentwide laws to large segments of the Federal civil service. The most visible debates occurred over the Administration’s proposal to authorize the Secretary of Defense and Director of OPM to establish by joint regulation a National Security Personnel System (NSPS) for civilian employees in the Department of Defense.

Director James never wavered in her support of granting those flexibilities, pointing out without reservation that the Administration’s proposal included strict system requirements to

follow the Merit System Principles, protect employees’ rights to organize and bargain collectively, comply with general employment laws of this Nation, and protect employees and the public from Prohibited Personnel Practices, including any failure to fulfill veterans’ preference requirements. Further, she emphasized that OPM’s role under chapter 11 of title 5, U.S. Code, as the President’s agent to ensure merit-based approaches to the strategic management of human capital would clearly guide any exercise of flexibility the Congress might make available.

Ultimately, the Congress enacted legislation in the fall of 2003 that authorizes the Secretary of Defense and Director of OPM to establish the NSPS, subject to the system requirements outlined above. OPM considers this an important ratification of the basic soundness of and commitment to using the Merit System Principles as the foundation for the Federal civil service. This show of support and expectation for merit as well as modern from the American people’s elected representatives was made possible in large measure through OPM’s dogged pursuit of both dreams. This successful and very public conclusion goes a long way to sustain the long-term strength of the Federal civil service.

Providing Governmentwide Hiring Flexibilities. Supporting agency efforts to improve the talent of the Federal work force, OPM responded to the call from Federal agencies for new flexibilities in hiring by exporting across Government the significant hiring options provided by the Homeland Security Act. These flexibilities include (1) *direct-hire* authority, (2) a *category rating*, (3) *academic degree*

training authority, and (4) *authorizing voluntary early retirement* to address workforce skills imbalances. When implemented, they help agencies quickly hire qualified applicants for critical positions.

Modernizing the Hiring Process. In *Recruitment One-Stop/USAJOBS*. OPM provided and continuously improved a tool through which agencies can advertise job vacancies and job seekers can apply for these vacancies. With millions of daily users hoping to secure an opportunity to serve their country, the Recruitment One-Stop initiative expanded the capabilities of the USAJOBS Federal Employment Information System. Recruitment-One-Stop made USAJOBS a single application point to streamline the Federal employment application process, improved service delivery to job seekers, and thereby enhanced the Government’s position as a competitor for top talent.

Over the course of the past year, five new features were added to USAJOBS through Recruitment One-Stop:

- 1) Improved job searches;
- 2) Clear, uncluttered, understandable job announcements;
- 3) Electronic résumé submission;
- 4) Résumé data mining; and
- 5) Application status checking.

OPM established an *e-Scholar* web site, a component of USAJOBS, in March 2003. E-Scholar contains hundreds of Federal Government-funded education scholarships, fellowships, grants, internships, and cooperative programs. Within three months of launch, the total value of programs listed on the web site topped \$700 million.

Expanding Recruitment and Retention Incentives. In June 2003, OPM reported to Congress that Federal agencies are increasing their use of the student loan repayment program. During FY 2002, 16 Federal agencies had provided more than \$3.1 million in student loan repayments for 690 Federal employees. Eight other agencies had reported that they have established an agency student loan repayment plan and expected to make use of the program in the near future. Five additional agencies reported that they were in the process of establishing a program.

This is in stark contrast to the prior year, when in March of 2002, OPM had reported that only one agency had authorized a student loan repayment in FY 2001, and three additional agencies had authorized payments in early FY 2002. OPM anticipates use of this recruitment tool will have risen in FY 2003, as agencies implemented their loan repayment plans and as interest in the program increases further.

Providing Flexible Benefits.

Understanding that citizens, including Federal employees, are the best judges of how to spend their health care dollars, OPM began its Flexible Spending Account (FSA) program in June to move the Federal Government into a position more competitive with the private sector. Implemented under existing provisions of the U.S. Tax Code, FSAs are now offered to Federal employees as an attractive opportunity to convert some health care and dependent care expenses from an aftertax expense to a pretax expense and to provide benefits that may not be provided on a pretax basis through the employees' benefits

program. This helps make out-of-pocket expenses such as for over-the-counter medications more affordable. Employees can contribute a maximum of \$4,000 per year to a health care FSA and \$5,000 to a dependent care FSA. During the FY 2003 inaugural open season, 31,747 Federal employees enrolled in the program.

In addition, OPM continued to oversee the largest employee benefits programs in the world: the Civil Service and Federal Employees' Retirement, Health Benefits, Group Life and Long Term Care Insurance programs. During FY 2003, more than 200,000 claims were processed for retirement and survivor benefits and more than \$49 billion in retirement benefits were paid to nearly 2.4 million retirees and survivor annuitants. OPM paid \$24 billion in premiums to support the delivery of health benefit services by more than 180 plans and options participating in the health benefit program, and approximately \$2 billion in life insurance payments for more than 78,000 claims filed under the life insurance program.

Finally, OPM oversaw the health insurance rate negotiations for 2004, achieving the smallest average health benefit premium increase among major U.S. employers. Curtailing premium increases saves budget dollars for the Federal Government, and more importantly, disposable income for more than 4 million Federal employees and annuitants enrolled in the program.

Working for America. To support the new hiring flexibilities, improved recruiting and hiring technology, recruitment incentives, and new flexible benefits, OPM launched a campaign to demonstrate to Americans

that working in the civil service is an honorable and desirable career choice. OPM representatives went out on the road during FY 2003 to locate and recruit the "best and brightest" for the Federal service as part of its "Working for America" initiative. These recruitment fairs highlighted the Federal Government's many career opportunities and benefit options while emphasizing its record as an equal opportunity employer. The first stops on this tour were Los Angeles, Kansas City, San Antonio and Tucson. Future stops will include San Diego, Detroit, Miami and New York.

OPM heavily promoted *Public Service Recognition Week* in May 2003, hosting a series of events honoring the Federal work force and distributing information on a number of employment programs, long-term care insurance, teleworking, e-training, and the Federal Employee Health Benefits program. In addition, OPM marked the 120th anniversary of the Pendleton Act, which established the concept of the professional merit-based civil service system.

Improving Leadership Capacity and Continuity. Improving leadership capacity and ensuring the continuity of leadership in Federal agencies are critical drivers in the Strategic Management of Human Capital. Thus, OPM launched the Senior Executive Service Federal Candidate Development Program (Fed CDP) as part of its Governmentwide effort to create a high-quality, executive leadership corps that reflects the rich diversity of America. The Fed CDP will create pools of qualified executives for SES positions from participating domestic and defense agencies and the private

sector for a unique experience in learning and development. The program will include a variety of elements that prepare candidates for success, including rotational assignments, formal training, mentoring, and performance assessment. Graduates of OPM's Fed CDP are certified by an SES Qualifications Review Board and may be selected for an SES position anywhere in the Federal Government, without further competition. Thus, the Fed CDP offers an important alternative to the traditional, competitive SES selection process and a viable entry mechanism for high-potential candidates who need additional training and experience.

OPM also revamped and proposed the elevation of the Presidential Management Intern program to the Presidential Management Fellows program. The President signed Executive Order 13318 effecting that change on November 21, 2003. The Presidential Management Fellows program, and its new component, a Senior Fellows program, will provide high-level career opportunities to job seekers with exceptional credentials. The goal of the program is to offer valuable developmental opportunities to qualified individuals and cultivate

experienced management professionals to contribute to the success of the Federal Government.

Promoting Continuous Learning. OPM's e-Training initiative, featuring the Gov Online Learning Center (GOLEARN.gov), expanded and matured during FY 2003 with almost 3,000 additional online courses being made available to Federal employees, at a taxpayer-savings estimated at \$1.19 billion over the next 10 years. In addition, OPM announced a major, new e-Training partner, the Department of Homeland Security's Law Enforcement Training Center.

The GOLEARN site has 100,000 registered users, and Federal employees across the globe have completed 60,000 courses since it was unveiled in July 2002. This number is expected to rise dramatically as future enhancements are made. Thirty-seven free courses are available on the site with more than 2000 courses available on a fee-for-service basis.

The e-Training Initiative and Gov Online Learning Center received three awards during FY 2003 because of the benefits it has already realized for Federal employee development and

training. First, the Federal Executive Leadership Council selected the e-Training Initiative and Gov Online Learning Center as one of only two such endeavors awarded the Showcase of Excellence Award for 2003.

Second, the site received the 2003 Training Officers Conference Learning Technology Award for significant accomplishments integrating emerging training and learning technologies and making significant contributions to the Federal training community in the field of human resource development.

Finally, the Government Solutions Center recognized GOLEARN.gov through the 2003 Explorer Award for the use of best practices that resulted in improved Government operations and streamlined processes.

Establishing a Performance Culture. OPM worked within the Administration on two Presidential proposals designed to improve the performance of the Federal workforce. The first was the Human Capital Performance Fund that would give agencies a tool to recognize high-performing and truly outstanding Federal employees who have track records of success. Under the President's plan, the fund would be used to pay a



"It is critical for agencies to utilize available learning technology tools to develop a world-class work force necessary to provide the public with world-class service. Technology allows us to deliver the right kind of training, at the right time, to the right people."

—Kay Coles James, Director

salary add-on to employees who are making more substantial contributions than their equivalent GS-graded colleagues. Agencies tapping the fund would first have to establish merit-based performance management systems that can make credible, objective comparisons of employee performance.

A second Administration proposal was for an SES Performance-Based Pay System. This new pay system will link SES pay more closely to performance and will replace the Senior Executive Service's fixed pay levels with an open pay range. Agencies with executive performance management systems that are certified as making meaningful distinctions based on relative performance will have access to a higher salary cap. Currently, pay is capped at the same level for 60 percent of SES members, the Government's top cadre of managers who oversee many of the nation's most complex programs.

Promoting Workforce Diversity. As a key component of the President's Management Agenda, OPM holds agencies accountable for efforts to diversify their workforce, including their success with respect to mission-critical occupations and leadership positions.

As a result of the President's commitment to create a Federal workforce that looks like America and OPM's comprehensive outreach strategy, Federal agencies are hiring a larger percentage of Hispanic-Americans than in previous years. The hiring statistics compiled in FY 2003 indicate that growth in Hispanic hires increased by 58.1 percent during FY 2002. In addition, Federal hiring among Asian-Pacific Americans improved slightly. OPM continued to focus on workforce diversity during FY 2003 through the Strategic Management of Human Capital and expects further improvement in the overall diversity of the Federal workforce when statistics for FY 2003 become available.

Upholding Veterans' Preference. During FY 2003, the Court of Appeals for the Federal Circuit upheld OPM's application of veterans' preference in its decision regarding the scoring system for the Administrative Law Judge competitive examination. The decision also holds that the scoring system is consistent with the spirit of regulations governing the merit system, promotes the efficiency of the government, and preserves the integrity of the competitive civil service.

Veterans began receiving additional incentives and assistance as they transitioned from military service into the Federal workforce when OPM launched the Veteran Invitational Program (VIP). The VIP is an educational and recruitment strategy that targets military personnel who are transitioning to civilian life.

This much anticipated program is an effort by OPM to work with Transition Assistance Program offices on military bases, veteran services organizations, and other entities closely tied to veterans, to recruit new veterans who become available to the Federal workforce. The VIP targeted veterans nationwide by providing informative educational tools and publications to veteran organizations, Federal regional offices of the Department of Veterans Affairs and Labor. OPM distributed posters and pamphlets and provide a web link for veteran organizations like the American Legion, Veterans of Foreign Wars, and Vietnam Veterans.

Upholding the Merit System. OPM continued to carry out its responsibility under title 5, U.S. Code for oversight of the Merit System Principles by conducting cyclical evaluations and audits of agency



“The Bush Administration’s commitment to increase diversity within the Federal workplace has never been stronger. At OPM, we provide policy guidance and pro-active support to help agencies address Hispanic under-representation and to increase diversity Governmentwide.”

—Kay Coles James, Director

human resources operations to assess compliance with Merit System Principles, law and regulations, including efficiency and effectiveness. As agencies move into an era of increasing flexibility in human resources management systems and practices, OPM recognizes the need for adherence to the nine Merit System Principles that represent the very foundation of the civil service system.

During FY 2003, OPM focused on agencies' use of delegated examining authority as it completed 105 audits. A summary of these findings will not be available until later in FY 2004. Experience in recent years indicates that the number of delegated examining units with severe problems will be very small. In addition, OPM completed field work on its review of the Transportation Security Administration's processing of employee health benefits, retirement processing and background investigations. This was a first major review of an agency's personnel processes as they are executed by a contractor. OPM expects to increase its reviews of such contracts. OPM also completed field work on an audit of agencies' use of delegated authority to waive the dual compensation reduction normally required when an agency reemploys a Federal annuitant. This authority was delegated to requesting agencies to use when needed to reemploy annuitants to respond to emergency situations related to the September 11 attacks.

An OPM merit system accountability audit of recent hiring activity at the Department of Housing and Urban Development (HUD) revealed errors that occurred when five veterans were not hired for positions for which they were qualified. OPM

worked with HUD to develop an immediate corrective action plan, which has already been implemented. The errors, limited in scope, occurred in HUD's delegated examining unit (DEU) and resulted in five veterans being overlooked for jobs in the department or denied jobs for which they are qualified. DEUs evaluate an applicant's qualifications against specific job criteria and consider veterans' preference in the final ranking. OPM controls the DEU process and retains the authority to retract DEU authority delegated to agencies. HUD is taking aggressive action to fix the issues identified in the audit.

The audit of HUD's competitive examining program supports President Bush's Management Agenda, which seeks to review the tools agencies use to recruit a high-performing and diverse work force.

Building OPM's Internal Capacity. During FY 2003, OPM ensured that it has the internal capacity to maintain the health and strength of the civil service. First, the Agency implemented a restructuring plan in March 2003 that established TEAM OPM — a new, results-oriented structure that aligned OPM according to its mission and strategic goals. Immediately following the implementation of the new structure, OPM identified and filled its key executive positions, and moved employees into their new jobs.

OPM is now entering the next phase of restructuring during which it will fill mission-critical positions below the executive level, which will begin to close gaps in the core competencies needed to accomplish its mission.

Complementing its new organizational structure, OPM aligned its

Management Strategy with the President's Management Agenda since the Agenda's five initiatives represent management practices that all Federal agencies — including OPM — should master. The President's Management Agenda includes the following five initiatives:

- 1) Strategic Management of Human Capital
- 2) Competitive Sourcing
- 3) Improved Financial Performance
- 4) Expanded Electronic Government (E-Gov)
- 5) Budget and Performance Integration

During FY 2003, OPM made excellent progress towards meeting the Standards for Success in all of the five initiatives, demonstrating its commitment toward excellence in corporate management, and ensuring it has the internal capacity to fulfill its mission, meet its strategic goals and carry out new responsibilities.

Looking back, FY 2003 was a busy, eventful, and successful year for OPM. As described here, and in the pages that follow, OPM leveraged its traditional role within the Federal Government to take on new leadership responsibilities in America's fight against terrorism and protection of the homeland, while playing a leading role in delivering on President Bush's promise to improve the management and performance of the Federal Government and deliver the highest possible quality of service to the American taxpayers.



MANAGEMENT DISCUSSION and ANALYSIS

OPM's *Mission and Strategic Goals* — 2007 set the foundation for restructuring efforts and provides a roadmap for the historic shift in direction and new priorities that now characterize OPM. For instance, the *Strategic Plan* features a revised mission statement and new strategic goals and objectives, and outlines OPM's management strategy to build its internal capacity to perform its mission. The new *Strategic Plan* is available on the OPM Web site at www.opm.gov/gpra/opmgpra/sp2002.

OPM MISSION STATEMENT.

It is OPM's job to build a high-quality and diverse Federal work force, based on Merit System Principles that America needs to guarantee freedom, promote prosperity, and ensure the security of this great Nation.

OPM STRATEGIC GOALS AND OBJECTIVES

These goals and objectives recognize OPM's responsibilities, and expectations of the President, the Congress, other Federal agencies, and Federal employees and annuitants as described in statute and developed in consultations with these key stakeholders. By achieving these strategic goals and objectives,

OPM has an immediate impact on the security of the Nation, and ensures that the civil service remains a strong and vital component of a Federal Government that will continue to protect America and serve its citizens.

ORGANIZATIONAL STRUCTURE

OPM was completely restructured during FY 2003, establishing TEAM OPM and aligning resources with its Strategic Goals to undertake its new mission. TEAM OPM eliminated organizational barriers and significantly reduced the number of offices within the agency, resulting in a more streamlined and responsive organization.

OPM now has the organizational structure to ensure that human capital policies and programs are developed and implemented in an integrated manner, that agencies adopt the best human capital management practices, and that the right products and services are delivered to customers in a timely and efficient manner. OPM will team with agencies to identify and implement flexible and customized human capital management practices that adhere to the Merit System Principles and attract and retain a high-quality, strongly committed Federal work

force that can secure America in times of emergency and provide its citizens with the kind and level of service they have earned and deserve.

The *Office of Congressional Relations* (OCR) oversees and coordinates all of OPM's congressional relations, including providing legislative analysis to the Director and OPM's program offices. In addition, the OCR oversees the development of strategies for the design and implementation of OPM's legislative program and analyses. The OCR also responds to congressional initiatives that impact Federal human resources management issues.

The *Office of Communications and Public Liaison* (OCPL) promotes and defends, internally and externally, the heritage and principles of America's civil service. In addition, the office ensures that the policies and directives of the President and the Director of OPM are fully supported as they relate to the Strategic Management of Human Capital, and provides the American citizenry, Federal agency customers, and pertinent stakeholders with accurate information to aid in their planning and decision making.

The *Office of the General Counsel* (OGC) assures that OPM's mission is

OPM STRATEGIC GOALS AND OBJECTIVES

Strategic Goal I	Federal agencies adopt human resources management systems that improve their ability to build successful, high-performance organizations.
Objective 1	Agencies use OPM policy and guidance to develop and maintain the capacity of their workforce to continue to meet and improve their strategic performance targets
Objective 2	Provide expert advice and assistance in establishing the Department of Homeland Security and ensure that human capital needs for the homeland security community are met.
Objective 3	Provide the Federal Government with a modern compensation system that is performance-oriented and market-sensitive, and assists Federal agencies in meeting their strategic goals.
Objective 4	Increase the effectiveness and efficiency of the Federal hiring process and make Federal employment attractive to high-quality applicants of diverse backgrounds.
Strategic Goal II	Federal agencies use effective merit-based human capital strategies to create a rewarding work environment that accomplishes the mission.
Objective 1	Provide advice to agencies and promote best practices on solutions, actions and strategies to meet their Human Capital Management needs.
Objective 2	Monitor and assess agencies' effectiveness in implementing merit-based strategies that support their missions.
Strategic Goal III	Meet the needs of Federal agencies, employees and annuitants through the delivery of efficient and effective products and services.
Objective 1	Provide direct human capital products and services that are cost-effective, relevant and useful to agencies.
Objective 2	Facilitate retirement income security for Federal employees by making the transition from active employment to retirement seamless and expeditious.
Objective 3	Federal employees, annuitants and their families can choose from among quality and fiscally responsible carriers to address their specific insurance needs.
Management Strategy	OPM creates an environment that fosters the delivery of services to its customers and employees through effective communication and management of human capital, technology, financial resources, and business processes.

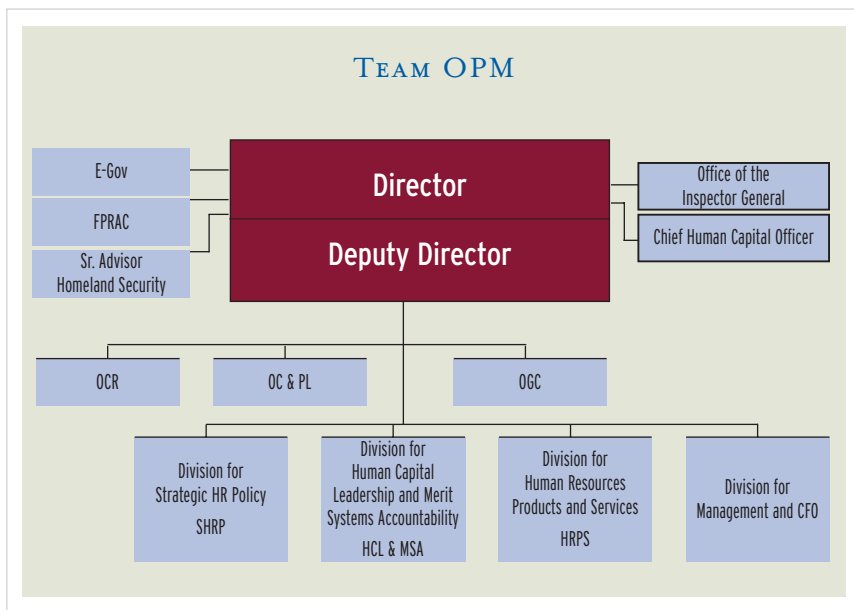
accomplished with respect to both internal and Governmentwide aspects, within the letter and spirit of all applicable statutes, regulations, and Executive orders. The OGC provides legal services to OPM's Director, Deputy Director and Divisions. The OGC also advises other Government agencies in understanding and carrying out their civil service responsibilities and meeting Merit Systems roles, and provides basic information concerning legal rights and responsibilities arising from civil service laws and regulations.

The *Senior Advisor for Homeland Security*, the *Program Director of e-Gov Projects*, the *Chair of the Prevailing Rate Advisory Committee* (FPRAC), the *Chief Human Capital Officer* (CHCO), and the *Inspector General* report to the Director on matters concerning their specific initiatives or programs.

The *Division for Strategic Human Resources Policy* (SHRP) leads the design, development, and implementation of innovative, flexible, merit-based human resources policies and strategies that enable

the Federal Government and its agencies to meet and exceed these high standards.

The *Division for Human Capital Leadership and Merit System Accountability* (HCL & MSA) leads the



transformation of Human Capital Management by providing technical support to Federal agencies so they can better accomplish their missions through effective human capital management programs and practices that integrate technology, and by measuring their results and assuring compliance with the Merit System Principles.

The *Division for Human Resources Products and Services* (HRPS) provides high-quality, cost-effective services and products that help OPM customers recruit and retain the best talent; develop and maintain results-oriented leadership capacity; and support Federal employees, annuitants and their families.

The *Division for Management and Chief Financial Officer* (MCFO) provides integrated financial, human capital, contracting, administrative, information technology, e-Government, equal employment opportunity, security, and emergency services that enable OPM to build and maintain a high-quality and diverse Federal work force. This division is responsible for implementing OPM's corporate management strategy and keeping the agency on track with the President's Management Agenda.

ANALYSIS OF OPM'S PROGRAM PERFORMANCE

During FY 2003, OPM realigned its mission toward increasing the Government's capacity to protect the homeland and win the war against terrorism. However, OPM's FY 2003 Annual Performance Plan did not provide an adequate framework for addressing these priorities. This is because the FY 2003 Annual Performance Plan was written and published before OPM revised its Strategic Plan and underwent restructuring, and before the advent of the sweeping civil service changes brought about by the Homeland Security and Chief Human Capital Officers acts. Despite the limitations of the Annual Performance Plan, OPM's accomplishments during FY 2003 supported the Government's immediate and long term responses to homeland security and the war on terrorism, and met the targets and criteria described in many of the original FY 2003 Annual Performance Goals and indicators.

The FY 2003 Annual Performance Plan set forth 57 annual goals. OPM combined 10 of these original goals where outcomes overlapped and met 38 of the final 47 goals, or 81 percent of them.

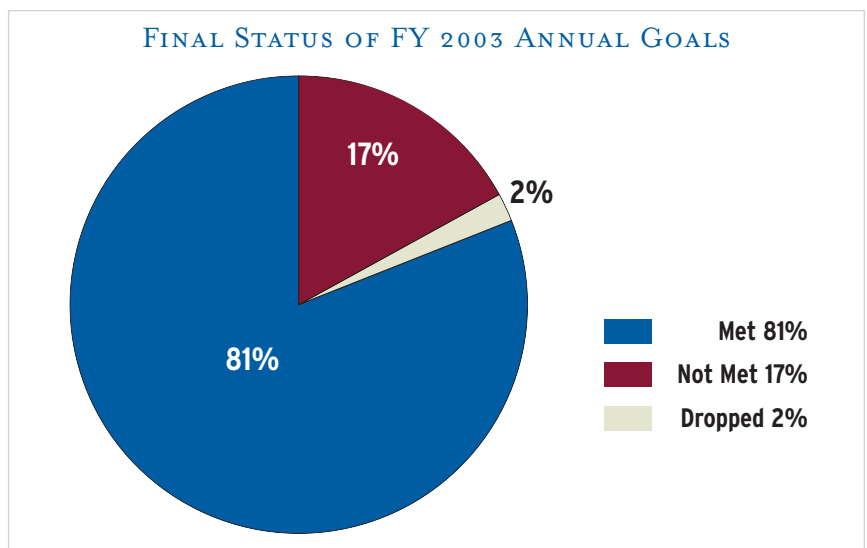
Immediately following restructuring in March 2003, OPM redistributed the original 57 FY 2003 Annual Performance Goals according to the new Strategic Goal to which they pertained and division that became responsible for them. Thus, OPM's new Program Divisions literally inherited goals from the original FY 2003 Annual Performance Plan. To assist readers in understanding this redistribution, a crosswalk is included in the Annual Performance Goals and Results section of this report. The highlights of the redistribution, where goals were combined, and the final status for redistributed performance goals (met, not met, or dropped) is shown in the table at left.

Establishing the Department of Homeland Security and implementing other aspects of the Homeland Security and Chief Human Capital Officers Acts were OPM's primary policy initiatives during FY 2003 and had an immediate impact on the Government's capacity for securing the homeland and carrying out the war on terrorism.

STRATEGIC GOAL I

FEDERAL AGENCIES ADOPT HUMAN RESOURCES MANAGEMENT SYSTEMS THAT IMPROVE THEIR ABILITY TO BUILD SUCCESSFUL, HIGH-PERFORMANCE ORGANIZATIONS.

These two Acts set the stage for greater human resources management flexibility that must occur in order for



STATUS OF ANNUAL PERFORMANCE GOALS BY STRATEGIC GOAL

Strategic Goal/Program Division	Original Annual Performance Goals	Final Performance Goals	Goals Met	Goals Not Met	Goals Dropped
Strategic Goal I: Federal agencies adopt human resources management systems that improve their ability to build successful, high-performance organizations. Program Division: Strategic Human Resources Policy	12	11*	9	1	1
Strategic Goal II: Federal agencies use effective merit-based Human Capital strategies to create a rewarding work environment that accomplishes the mission. Program Division: Human Capital Leadership & Merit Systems Accountability	14	10**	9	1	0
Strategic Goal III: Meet the needs of Federal agencies, employees, and annuitants through the delivery of efficient and effective products and services. Program Division: Human Resources Products & Services	13	8**	6	2	0
Corporate Management Strategy: Program Division: Management and Chief Financial Officer	16	16	13	3	0
Office of the Inspector General	2	2	1	1	0
FY 2003 Totals	57	47	38	8	1

* One goal was actually combined into the e-Gov project (MCF0 Goal 2)

** Goals were combined because of similar program outcomes.

the country to maintain a strong civil service able to fulfill the Federal Government's mission. In addition, the Chief Human Capital Officers Act set in law a structure that ensures that Federal agencies adopt best practices as they recruit, develop, and manage their work forces.

Although those initiatives were not necessarily foreseen in the original FY 2003 Annual Performance Plan, they provided the basis for 7 of the 11 major policy initiatives OPM undertook during FY 2003, as shown on the previous page.

STRATEGIC GOAL II
FEDERAL AGENCIES USE EFFECTIVE MERIT-BASED HUMAN CAPITAL STRATEGIES TO CREATE A REWARDING WORK ENVIRONMENT THAT ACCOMPLISHES THE MISSION.

Through the Strategic Management of Human Capital, OPM is addressing the long-term health and strength of the civil service. During FY 2003, OPM's leadership in this President's Management Agenda initiative resulted in more agencies showing an improved status regard-

Key Human Resources Policy Initiatives

Policy Initiative	Source	New Performance Goal*
Direct Hire Authority	Chief Human Capital Officers Act	SHRP Goal 1
Category Rating Method for Examining	Chief Human Capital Officers Act	SHRP Goal 1
Academic Degree Training Authority	Chief Human Capital Officers Act	SHRP Goal 1
Voluntary Early Retirement Authority Expanded	Chief Human Capital Officers Act	SHRP Goal 1
Voluntary Separation Incentive Payment Authority	Chief Human Capital Officers Act	SHRP Goal 1
Human Capital Performance Fund	Pay Reform Initiative	SHRP Goal 2
SES Pay-for-Performance	Pay Reform Initiative	SHRP Goal 2
Pay Options for DHS	Homeland Security Act	SHRP Goal 2
Flexible Spending Accounts	Flexible Benefits Initiative	SHRP Goal 7
Pharmacy Benefits Managers Audit	Flexible Benefits Initiative	SHRP Goal 7
Integration of FEHBP and Medicare	Flexible Benefits Initiative	SHRP Goal 7

* See Appendix A for definition of SHRP Goals.

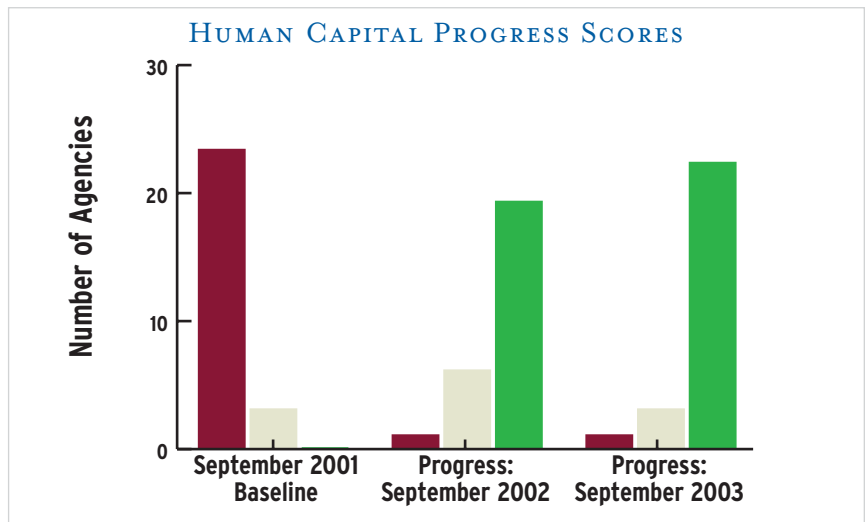
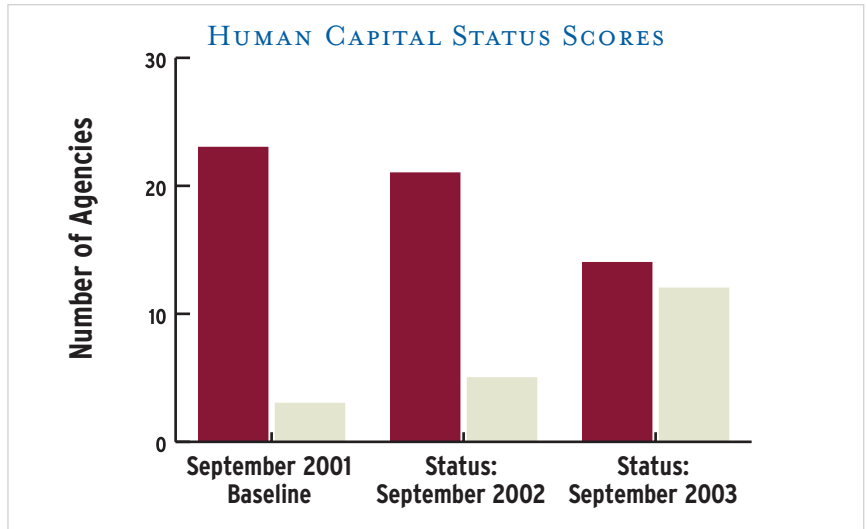
ing the management of their human capital as measured using the Executive Branch Management Scorecard. Consistent themes emerge when examining the improvements made by these agencies. Each agency:

- Developed a human capital plan aligned to the agency’s mission;
- Developed an aggressive action plan for implementation of the activities;
- Implemented a plan to assess its workforce, identify mission-critical occupations and competencies, and develop ways to close skill gaps;
- Linked the performance expectations of its leaders and managers to the agency’s goals and is cascading those performance expectations throughout its organization; and
- Is developing measures to assess improvements.

Through implementation of their human capital plans, these agencies are building stronger organizations with a highly skilled, diverse workforce to carry out their missions.

At the beginning of FY 2003, only five agencies were at “Yellow” status. By the end of the fiscal year, seven more agencies had advanced to “Yellow” status. At the end of FY 2003, 22 agencies received “Green” progress scores, showing effective action on their short-term goals. If they continue to progress, agencies can raise their status scores as well.

Through the Strategic Management of Human Capital, OPM worked with agencies in “Getting to Green” through meeting the Human Capital Standards for Success. One of the key standards is to establish and implement agency accountability for human resources management, including assessing



adherence to Merit System Principles and their supporting requirements.

In addition to addressing human resources management, ensuring that agencies implement personnel security and investigative policies and standards is an important aspect of ensuring that Federal employees meet certain necessary suitability standards, which are essential in supporting Homeland Security. The findings of appraisal efforts have revealed that agencies are still not fully compliant with suitability determination requirements. In July 2003, 23 agencies were in compliance, 29 in partial compliance and 1 was non-compliant. As of September

29, 2003, only eight agencies were still partially compliant, with the rest in full compliance. OPM continues to work with them to achieve full compliance.

STRATEGIC GOAL III
MEET THE NEEDS OF FEDERAL AGENCIES, EMPLOYEES, AND ANNUITANTS THROUGH THE DELIVERY OF EFFICIENT AND EFFECTIVE PRODUCTS AND SERVICES.

During FY 2003, OPM provided products and services to Federal agencies, employees, and retirees that had an

immediate impact on the Nation's ability to respond to homeland security needs. OPM continued to provide Federal agencies with reimbursable talent services that support recruitment, retention, and the development of the Federal work force on a full cost recovery basis in FY 2003.

In the Federal Investigative Services program, contracts with new private sector companies were established to handle the increased workload of Federal applicant background investigations, as OPM conducted personnel background investigations for the Office of the Secretary for Homeland Security, ensured that employees in the Transportation Security Agency underwent required background investigations, and provided the Department with recruitment and examining services as new employees were hired.

OPM supported 60 separate training and human resources management projects for various Department of Homeland Security components as that new agency became operational. Additionally, several upgrades were made to USA Staffing, OPM's automated system for recruitment, assessment, referral, and notification, including accessibility for persons with disabilities, and interaction with customers via Internet with additional security features.

OPM's Leadership Capacity Services program provided a broad range of developmental programs and services to improve the performance of Government leaders and their organizations, including special workshops and conferences in support of the President's Management Agenda and Homeland Security initiatives.

In the Insurance Services program, OPM maintained a high level of

health benefit program enrollees in accredited health plans, enhanced competition in the program by offering an expanded number of health plan choices, and successfully rolled out its new Flexible Spending Account program, which provides a means for employees to effectively manage their out-of-pocket health care and dependent care expenses.

OPM did not meet its ambitious Retirement Services program goal to reduce retirement and survivor annuity claims processing times in FY 2003 owing to staff attrition that eroded claims processing capacity. It is anticipated that the additional resources

planned for FY 2004 will enable OPM to reduce claims processing times to projected targets in the next 2 years. Although OPM handled 3 percent more customer telephone calls from annuitants, this was short of the 7 percent increase targeted for FY 2003. The primary reason OPM did not attain the expected increase was the delay in bringing contractors on-board in FY 2003, stemming from a protest filed the previous year on a contract with an outside firm to handle overflow telephone calls. That has been resolved, and OPM expects to meet its future targets for this performance indicator.

HR PRODUCTS AND SERVICES — KEY PERFORMANCE MEASURES

Key indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results
Background Investigations					
- Received	n/a	64,400	93,852	156,994	101,306
- Closed	44,005	56,032	73,745	83,720	106,209
Reimbursable Talent Services* income fully covers costs					
- Income	\$39.0M	\$39.5M	\$41.2M	\$50.3M	\$52.8M
- Costs	\$39.2M	\$45.1M	\$41.7M	\$43.8M	\$48.6M
Training and Management Assistance Reimbursable Services					
- Revenue	\$40.5M	\$42.3M	\$36.5M	\$30.1M	\$29.7M
- Operating Costs	\$39.1M	\$42.5M	\$36.3M	\$30.1M	\$30.1M
- Gain/Loss	\$1.4M	(\$0.6M)	\$0.2M	\$0	(\$0.4M)
Federal Executive Institute and Management Development Center Number of Participant Training Days**	73,241	87,890	95,377	96,635	84,049**
Initial Annuity & Survivor Claims Unit Cost	\$81.82	\$83.52	\$83.71	\$89.53	\$99.54
Annuity & Survivor Claims Productivity (Claims Processed/FTE)	608.1	627.3	646.8	637.6	597.2

*Talent Services includes products supporting the recruitment, retention, development and management of the Federal workforce. Includes data for DoD testing and other Revolving Fund activities.

** Before FY 2003, data included workload estimates for consulting and coaching services. This data has been dropped from the FY 2003 data. OPM determined this work was not consistent with regularly scheduled classroom programs and was difficult to classify and report as sessions, participants and participant training days. The FY 2003 actual performance levels should be used as the benchmark for future years.

**CORPORATE
MANAGEMENT STRATEGY
OPM CREATES AN ENVIRONMENT
THAT FOSTERS THE DELIVERY OF
SERVICES TO CUSTOMERS AND
EMPLOYEES THROUGH EFFECTIVE
COMMUNICATION AND MANAGE-
MENT OF HUMAN CAPITAL, TECH-
NOLOGY, FINANCIAL RESOURCES,
AND BUSINESS PROCESSES.**

OPM's Corporate Management Strategy recognizes that OPM must have the internal capacity to accomplish its mission, program goals, and outcomes. By implementing a new organizational structure — TEAM OPM — during FY 2003, OPM optimally positioned its resources to these ends, and to support the Nation's priorities of protecting the homeland and fighting terrorism. As the plans for restructuring were developed, OPM recognized that ensuring the security and safety of its employees and corporate assets is a critical part of every agency's management strategy. Consequently, the Center for Security and Emergency Actions was established as part of OPM's restructuring and a senior executive was selected to lead it.

In addition, OPM recognized that the President's Management Agenda (PMA) represented management practices that every agency must perform well. To ensure that these practices are fully implemented and leveraged at OPM, the Agency adopted the PMA as the framework for its Corporate Management Strategy and made the Executive Scorecards for each of the five initiatives the measuring stick for progress. As shown below, OPM maintained a "Green" progress score for every initiative in every quarter during FY 2003 except one. OPM improved the status score for its Competitive Sourcing program to "Yellow" by the third quarter and now has achieved that status in four of the five initiatives.

In addition to progressing on the PMA initiatives, as shown below, OPM improved hiring cycle times for the fourth consecutive year and achieved increases in the diversity of the OPM work force. OPM established competitive sourcing as a tool for addressing work force capacity and conducted competitions for 17 percent of the commercial positions identified in accordance with the Federal Activities Inventory Reform Act. This Act requires Federal agencies to prepare a yearly inventory of

their commercial full-time employee positions and submit it to the Office of Management and Budget.

OPM effectively managed its financial resources. As a result, the Agency received an unqualified audit opinion on its Consolidated Financial Statements from its independent auditors for the fourth year in a row and maintained compliance with the Prompt Payment Act for keeping payment timeliness at acceptable levels.

**OPM'S STRATEGIC HUMAN
CAPITAL MANAGEMENT PLAN
AND FY 2003 PERFORMANCE**

As required by the Chief Human Capital Officers Act, and codified at 5 U.S.C. 1103(c) P.L. 107-296, OPM reviewed performance goals and evaluated the FY 2003 Annual Performance Plan relative to the Plan for the Strategic Management of OPM's Human Capital, dated September 2003. The evaluation considered the following two criteria:

- 1) Capacity versus Performance; and
- 2) The extent to which FY 2003 Annual Performance Goals reflect strategic human capital management.

Capacity versus Performance.

Although OPM did not meet 8 of its 47

OPM PMA Scorecard

Initiative	Begin year		1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Status	Progress	Status	Progress	Status	Progress	Status	Progress	Status	
Human Capital	Yellow	Green	Yellow	Green	Yellow	Green	Yellow	Green	Yellow	
Competitive Sourcing	Red	Green	Red	Green	Red	Green	Yellow	Green	Yellow	
Financial Performance	Yellow	Green	Yellow	Green	Yellow	Green	Yellow	Green	Yellow	
E-Gov	Yellow	Green	Yellow	Green	Yellow	Green	Yellow	Green	Yellow	
Budget & Performance	Red	Green	Red	Yellow	Red	Green	Red	Green	Red	

**MANAGEMENT AND CHIEF FINANCIAL OFFICER —
KEY PERFORMANCE MEASURES**

Key indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results
OPM Hiring Cycle Time (in days)	58	53	29	23	16
Workforce Diversity – % Women in OPM workforce	63.0%	63.2%	63.1%	63.5%	64.8%
Workforce Diversity – % Minorities in OPM Workforce	34.9%	35.2%	36.6%	36.4%	39.9%
Competitive Sourcing – % Commercial Positions Competed	n/a	n/a	n/a	5%	17%
Financial Management Effectiveness – Audit Opinions	Unqualified*	Unqualified**	Unqualified**	Unqualified**	Unqualified**
Financial Management Effectiveness – Payment Timeliness	91%	94%	97%	99%	95%

* Trust Fund Annual Financial Statements only

**Consolidated Financial Statements

Annual Performance Goals in FY 2003, in only one instance was failure to meet a goal the result of competency or capacity gaps among staff supporting the goal. This occurred in the goal relating to the delivery of Retirement Program services (HRPS Goal 7), where attrition among the ranks of claims processing staff resulted in reduced capacity and declining productivity, which was the primary reason this goal was not met.

The remaining unmet goals were due to OPM’s agenda being overtaken by emerging priorities, i.e., the Homeland Security Act and the Strategic Management of Human Capital, and because performance targets were missed for other reasons. Nonetheless, the Plan for the Strategic Management of OPM’s Human Capital outlines the competency gaps that are of concern and provides insight regarding the strategies OPM will take to close the gaps. OPM’s future Performance Budgets and Human

Capital Plans will provide detailed actions that address those needs.

Annual Performance Goals Reflect Strategic Human Capital Management. OPM’s FY 2003 Annual Performance Plan included six annual performance goals that pertained to various opportunities to improve its human capital management. These goals support OPM’s corporate management strategy and demonstrate OPM’s recognition that good human capital management practices are critical if OPM is to continue to meet goals and achieve program outcomes. In addition, 11 of OPM’s original 57 program goals included specific strategies for addressing staff training needs or competency gaps.

ADDRESSING OPM’S TOP MANAGEMENT CHALLENGES

The Reports Consolidation Act of 2000 requires agency Inspectors General to prepare a list of the top management

challenges facing the agency for inclusion in the agency’s Annual Performance and Accountability Report. On December 31, 2002, OPM’s Inspector General identified the following as OPM’s top management challenges for FY 2003.

- Human Resources Management
- Retirement Systems Modernization
- Homeland Security
- Expanding e-Government
- Implementation of the Government Performance and Results Act
- Revolving Fund and Salaries & Expenses Accounts
- Maintaining and Improving the Performance of the Federal Employees Health Benefits Program (FEHBP)
- Restructuring OPM

Most of these challenges align with the President’s Management Agenda and OPM’s business priorities. While OPM agrees that these are its most significant issues, OPM is addressing these challenges and is on the way to resolving them. The OPM Strategic Plan and new organizational structure position the Agency to address them effectively. The Strategic Plan highlights the significance that OPM places on these issues since many of them are featured as objectives supporting revised strategic goals (see the table Addressing Management Challenges on previous page). The new organizational structure aligns OPM resources to achieve these goals and objectives and organizes them under the authority and responsibility of four new executive positions.

During FY 2003, OPM made significant progress in addressing each of the eight management challenges.

The *Human Resources Management* challenge lies at the heart of OPM's mission and is being fully addressed not just by OPM, but by all Federal agencies as the Government moves forward with the Strategic Management of Human Capital. This management challenge is clearly addressed by OPM's Strategic Goal 2, and its primary strategy for resolving it — the implementation of the Human Capital Standards for Success in all Federal agencies — fully addresses the issues pertinent to this Governmentwide challenge. As the leader of the Strategic Management of Human Capital, OPM will continually assess, evaluate, and report the status of human capital across Government.

As discussed in the Annual Performance Goals and Results section of this report, no less than 20 of the 47 FY 2003 Annual Performance Goals address this management challenge in some way. The progress made during FY 2003 in the Strategic Management of Human Capital demonstrates OPM's progress toward resolving the management challenge for Human

Resources Management. For instance, by the end of FY 2003, OPM led nearly half of the agencies represented on the President's Management Council (PMC) to a status of "Yellow" on their Human Capital Scorecards. This means that the agencies have:

- 1) Documented and communicated throughout their organizations a human capital plan that clearly aligns with the agency's mission and strategic goals, fully addressed the Human Capital Standards for Success, incorporated metrics for each Standard, and designated the officials who will be accountable for implementing the plan;
- 2) Optimized their organizational structure from a service delivery perspective;
- 3) Implemented succession strategies, including structured executive development programs to assure continuity of leadership;
- 4) Implemented performance appraisal plans for executives and managers that link to the agency's mission,

goals, and outcomes, and effectively differentiate between various levels of performance;

- 5) Implemented strategies to address underrepresentation, particularly in mission-critical occupations and leadership ranks;
- 6) Implemented a work force planning system to identify and close critical skill gaps; and
- 7) Developed a planning and accountability system using metrics to evaluate performance on all of the Human Capital Standards for Success.

OPM is confident that by the end of FY 2004, 12 of the 26 PMC agencies will have improved their status scores on their respective Executive Scorecards for the Strategic Management of Human Capital, indicating a substantially successful response to the management challenge.

The *Retirement Systems Modernization Project* is a large undertaking in terms of resources, information technology, and business process reengineering,

Addressing Management Challenges

Management Challenge	Related PMA Initiative	Applicable Strategic Goal and Objective
Human Resources Management	Strategic Human Capital Management	Strategic Goal II, Objective 1
Retirement Systems Modernization	Expanding e-Government	Strategic Goal III, Objective 2
Homeland Security	Strategic Human Capital Management	Strategic Goal I, Objective 2
Expanding e-Government	Expanding e-Government	EHRI – Strategic Goal I, Objective 1 e-Payroll – Strategic Goal I, Objectives 2 & 3 e-Clearance – Strategic Goal III, Objective 1 e-Training – Strategic Goal III, Objective 1 Recruitment One-Stop - Strategic Goal III, Objective 1
Implementation of the Government Performance and Results Act	Budget & Performance Integration	Corporate Management Strategies
Revolving Fund and Salaries & Expenses Accounts	Improved Financial Performance	Corporate Management Strategies
Maintaining and Improving the Performance of the Federal Employees Health Benefits Program (FEHBP)	None	Strategic Goal I, Objective 1 Strategic Goal III, Objective 3
Restructuring OPM	None	Corporate Management Strategies

and has been featured prominently in OPM's Annual Performance and Strategic Plans and Annual Performance Reports since FY 1999. To date, OPM has completed the design phase of this long-term project. During FY 2003, OPM reevaluated key aspects of the implementation strategy and determined that a change in direction was warranted. OPM's revised approach was based on emerging trends and capabilities among private sector benefits administrators as well as technological advances stemming from the Government's e-Gov projects.

As stated previously, the launching *Department of Homeland Security* (DHS) successfully was among OPM's top priorities during FY 2003. This was demonstrated in the new Strategic Plan as this initiative is the second of four objectives supporting Strategic Goal 1. OPM's central role in setting up the Department of Homeland Security began in FY 2002 and continued throughout FY 2003. OPM directed considerable resources to this effort, including establishing an executive position to oversee and coordinate all activities in support of establishing the new Department and in directing the effort to design its new human resources management system — a system that meets the unique mission requirements of the Department and protects the civil service rights of its employees. OPM created an opportunity to demonstrate that merit and modernization are compatible through a collaborative and inclusive system design process. This process has won the praise of the General Accounting Office, the recognition of the U.S. Congress, and the support of the presi-

dents of the Department's three largest employee unions. The system design options developed will allow the Department to create contemporary approaches in the areas of pay, classification, performance management, labor relations, employee discipline, and employee appeals that could serve as models for the rest of the Government. Those options are currently under review by the Director of OPM and the Secretary of DHS.

During FY 2004, OPM will continue to be actively engaged in the development of the regulations and procedures that will put this new, flexible and responsive human resources management system in place within the Department of Homeland Security. At the same time, OPM will work closely with the Department to ensure the appropriate observance of Merit System Principles and other civil service protections, and the avoidance of prohibited personnel practices throughout its work force.

OPM is addressing the challenge of *Expanding e-Government* by managing its five e-Gov projects efficiently and effectively. OPM is actively managing the projects' partners, resources (people and dollars), and critical interdependencies to ensure that all five e-Gov projects meet planned performance goals and timelines. OPM has a clear vision of the five e-Gov projects as an interlocking enterprise system based on the employee life cycle beginning with recruitment, continuing through all aspects of employment, and culminating with retirement. Taken together, OPM's e-Gov projects will enable a transformation in human capital management practices to remove redundancies, reduce response

times, eliminate paperwork, and improve coordination among Federal agencies.

Recognizing the importance and risks associated with the e-Gov projects, OPM established an executive position to oversee these projects and report directly to the OPM Director. Each project has a leader who is responsible for day-to-day operations within a specific program area. OPM has submitted Capital Asset Plans as a part of OPM's budget justifications and has received the necessary budgetary support within the Administration. Three of the five projects — Recruitment One-Stop, e-Clearance, and e-Training — are already operational. The remaining two projects — Enterprise Human Resources Integration (EHRI) and e-Payroll — are completing the design phase and implementing civilian payroll consolidation, respectively. As described in the report under the e-Gov goal, OPM met all project milestones described in the FY 2003 Congressional Budget Justification/Annual Performance Plan and maintained a score of "Green" for progress throughout the year on the e-Gov Executive Scorecard. OPM is on schedule to graduate most of its e-Gov projects into normal business operations by FY 2005.

Implementing the Government Performance and Results Act parallels the President's Management Agenda initiative for Budget and Performance Integration, as well as strengthening controls over OPM's *Revolving Fund and Salaries & Expenses Accounts* and is closely related to the PMA initiative for Improving Financial Performance.

During FY 2003, OPM consolidated resources in the Center for Financial Services for the strategic planning, budget, and performance integration functions. Staff developed procedures and defined processes for ongoing performance measurement and reporting responsibilities. In addition, they brought stability to OPM's performance measurement system by applying a "program logic model" approach to the preparation of the budget submission for FY

FY 2003, OPM made substantial progress in improving cash controls and in bringing cash balances in line with Treasury's balances. Progress included:

- Soliciting the assistance of the Office of the Inspector General (OIG) to review controls over cash for the RF and S&E programs
- Establishing a Financial Management Improvement Team (FMIT) to implement OIG's recommendations

ing financial staff, finalizing the draft policies and procedures, and ascertaining that all components of OPM comply with the policies and procedures that have been established.

Maintaining and improving the performance of the Federal Employees Health Benefits Program (FEHBP), was addressed by focusing on developing a comprehensive and competitive benefits package for the Federal work force that offers choices comparable to those in the private sector. Three FY 2003 Annual



"E-Gov is producing results today. Results in tax dollars saved, Government efficiency enhanced, and American citizens better served by their Government."

—Director Kay Coles James

2005. This approach drove significant improvements in how OPM describes and measures program outcomes. OPM began revamping its performance measurement system with indicators that are focused on program outcomes. Many of these new performance indicators will require new data collection mechanisms that will be developed and implemented during FY 2004.

The implementation of a new financial management system during FY 2002 began to address the longstanding problems in resolving financial data discrepancies in the Revolving Fund and Salaries & Expenses accounts. During

- Issuing draft desk procedures for cash reconciliation, as well as other drafting cash-related policies, procedures, and supervisory review procedures
- Developing management reports to compensate for some of the system limitations encountered

However, OPM recognizes that further progress needs to be made in order to achieve its goal of maintaining effective cash controls for the Revolving Fund and Salaries & Expenses accounts. Therefore, its efforts during FY 2004 will be devoted toward properly train-

Performance Goals addressed these program outcomes. To increase program flexibility, OPM increased the number of health care plan choices available for the first time in 5 years and prepared proposed regulations that would give the Inspector General greater oversight over large provider contracts.

As a part of ongoing work to mitigate the effect that the rising cost of health care has on carrier premiums, OPM sent policy guidance to carriers in April 2003 that established the Director's goals for the negotiations for calendar year 2004. Negotiations were conducted in accord with the Director's commitment to preserve benefits and choice,

keep rates as low as possible, assure that plans will be financially viable, and optimize coordination of benefits. A strong negotiation stance led to Director James's announcement on September 16, 2003, of insurance premium increases for 2004 that are significantly lower than the national average.

Finally, OPM's Inspector General continued oversight of the FEHBP. The financial recoveries that result from this oversight directly support improving the FEHBP. These recoveries represent savings to the Program that help mitigate the increasing cost of health care that is driving increases in premiums. This in turn saves budget dollars for the Government and income for Federal employees. In addition, OPM's internal audit work relates to the implementation of the Government Performance and Results Act.

As described previously in this Report, OPM began implementing its *restructuring* plan in March 2003 by establishing TEAM OPM — a new, results-oriented structure that organized OPM according to mission and strategic goals. OPM moved its employees to new positions in the new structure and filled key executive positions. OPM's Congressional Budget Justification/Annual Performance Plan for FY 2004 aligns with the revised Strategic Plan and new organizational structure, and better reflects OPM's new priorities. OPM prepared a Strategic Plan for the Management of OPM's Human Capital that describes the relationship between OPM's human capital issues and OPM initiatives supporting the President's Management Agenda and OPM's Strategic Goals, and identified critical competency gaps across the agency. As OPM moves forward, it will continue to fill critical vacancies, aligning budget and performance planning and

financial management systems with OPM's new organizational structure, and achieve the standards applied in the Executive Scorecards for each of the initiatives under the President's Management Agenda.

QUALITY OF PERFORMANCE DATA

In accordance with the requirements of the Government Performance and Results Act, OPM ensures that performance information in this Performance and Accountability Report accurately reflects OPM performance during FY 2003, and is based on reliable information.

The restructuring of OPM during FY 2003 provided a unique opportunity to reexamine the goals and indicators that appeared in the FY 2003 Annual Performance Plan that was created in FY 2001. Some goals addressing similar issues have been combined in instances where responsibilities have been brought together in the same unit under the new organizational structure.

In the process of reassigning the goals to the new OPM structure, it was determined that a significant number of performance indicators were no longer relevant to OPM's new mission, or had been overtaken by events in such a manner that they were no longer a useful measure of OPM success. Therefore, OPM focused this report on measurable outputs and outcomes, even in instances where the goal or indicator does not call for measurable data. The status of all goals and indicators is summarized in Appendix A, including those that have been dropped or combined.

As part of restructuring, OPM established the Strategic Planning,

Budget and PMA Scorecard Group in the Center for Financial Services of the Division for Management and Chief Financial Officer. This Group is responsible for developing OPM's Strategic Plans, Performance Plans and Budgets, and Performance and Accountability Reports and related activities. During FY 2003, the Group strengthened controls over the reporting of performance data by creating a GPRA Procedures Manual that includes formal procedures for reporting, verifying, and validating performance information, and by collecting background data to support what was reported under each annual performance goal and performance indicator. In addition, the Chief Financial Officer required the Associate Directors to formally certify the accuracy, completeness, and reliability of the performance information they reported for their annual performance goals.

In addition to these internal controls, OPM relies on traditional reviews and audits by the Office of the Inspector General, the General Accounting Office, the Office of Management and Budget, the Mercatus Center at George Mason University, and independent auditors who may identify issues in performance measurement and reporting. These reviews have informed OPM about opportunities for improving policies and procedures for the preparation of performance budgets and performance reports and the collection and reporting of performance information. The reviews have indicated where controls over performance information can be strengthened. Also, they pointed out instances in which reported results do not completely

address pertinent performance indicators. OPM has accepted all of the recommendations made by these reviewers and auditors.

To further improve performance information and the reporting of that information, OPM implemented a program logic model methodology for future performance budgets. Called the Human Capital Logic Model (see the Completeness and Reliability of Data, page 117), this methodology organizes OPM's activities on a program basis, defines the purpose and intended outcomes for each program, and describes quantitative performance indicators that enable OPM to determine the extent to which these outcomes are being met. OPM will use the Human Capital Logic Model to develop goals and performance indicators for future Performance Budgets and is working with the Office of Management and Budget to improve these goals and performance indicators under the Budget and Performance Integration initiative within the President's Management Agenda. OPM is reviewing the performance indicators included in the FY 2004

I certify that the performance information disclosed in this Performance and Accountability Report is complete, accurate, and reliable as required by the Government Performance and Results Act.

Kay Coles James
Director

Congressional Budget Justification/Annual Performance Plan to identify opportunities that strengthen them using the metrics developed through the Human Capital Logic Model.

ANALYSIS OF OPM FINANCIAL PERFORMANCE

Balance Sheet

OPM's Balance Sheet presents the resources available to meet its statutory requirements [assets], the amounts that it owes that will require payments from these resources [liabilities], and the difference between them [net position].

Assets. OPM held \$650 billion in assets at the end of FY 2003, compared with \$620 billion at the end of FY 2002, an increase of 5 percent. The balance sheet separately identifies intragovernmental assets from all other assets. Almost all — \$649 billion — of OPM's assets are intragovernmental, representing its claims against other Federal entities.

The largest category of assets, *Investments* [\$637 billion], represents 98 percent of all of OPM's assets. OPM invests all Retirement, Health Benefits, and Life Insurance Program balances that it does not immediately need for payment, but only in special securities issued by the U.S. Treasury. As OPM routinely collects more money than it disburses, its investment portfolio continued to grow — by 5 percent this year. The increase in investments is the major factor in the increase in total assets. OPM's next largest asset — *Interest Receivable* — reflects the interest owed to OPM on its investments by the U.S. Treasury — more than \$9 billion.

FY 2003 BUDGETARY RESOURCES BY STRATEGIC GOAL (\$ in thousands)

Funding Source	Goal I		Goal II		Goal III		Corporate Management		Totals	
	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE
Salaries & Expenses	\$28,947	136	\$22,069	204	\$24,857	203	\$53,448	442	\$129,321	985
Inspector General	\$0	0	\$0	0	\$0	0	\$1,459	12	\$1,509	12
Trust Fund	\$4,785	37	\$9,643	14	\$122,412	891	\$17,845	92	\$154,685	1,034
Inspector General	\$0	0	\$0	0	\$0	0	\$10,815	81	\$10,815	81
Advances & Reimbursements	\$0	0	\$612	1	\$1,057	13	\$0	0	\$1,669	13
Revolving Fund	\$0	0	\$0	0	\$691,000	680	\$0	0	\$691,000	680
Total Resources	\$33,731	173	\$32,325	219	\$839,327	1,787	\$73,618	627	\$989,000	2,805

The dollar amounts and FTE levels shown in the table above are estimates based on initial decisions regarding OPM's restructuring, which was in progress at the time this report was prepared.

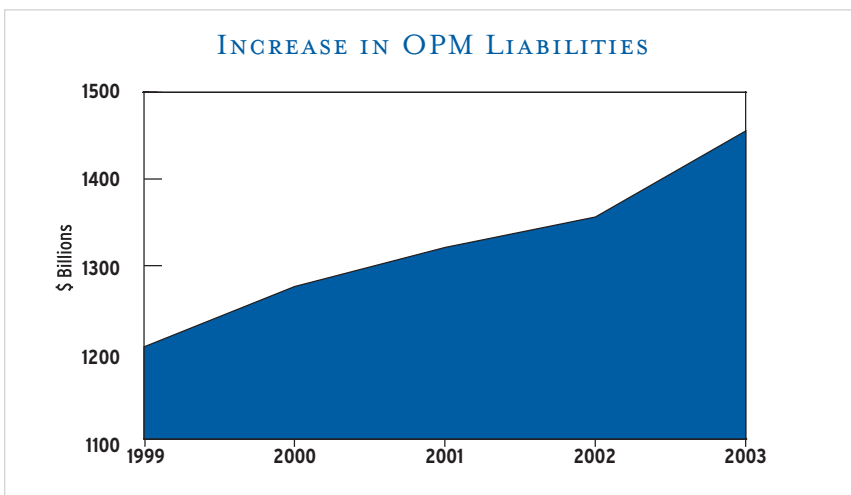
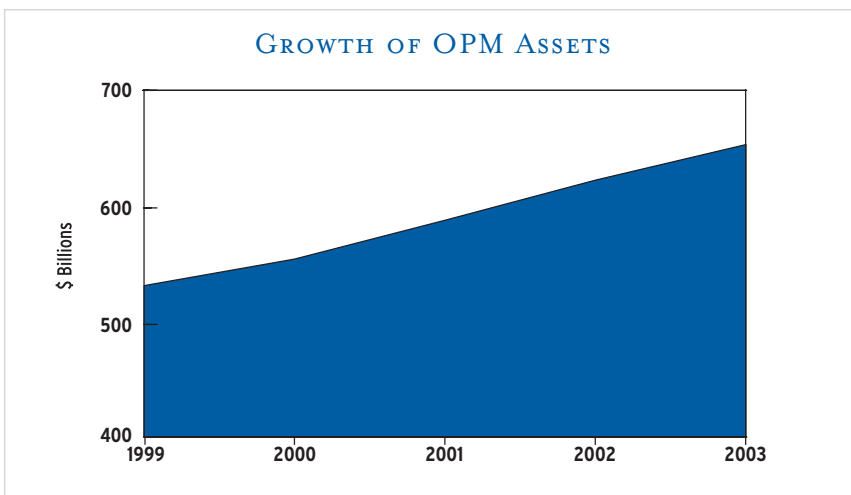
Liabilities. Most of OPM’s total liabilities are composed of three line items — the Pension, Postretirement Health Benefits, and the Actuarial Life Insurance Liabilities. These liabilities reflect estimates of the future cost, expressed in today’s dollars, of providing benefits to participants when they become eligible. To compute these liabilities, OPM’s actuaries make many assumptions about the future economy and about the demographics of the future Federal workforce and annuitant population.

The *Pension Liability*, which represents an estimate of the future cost to provide Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) benefits to current employees and annuitants, is approximately \$1,136 billion at the end of FY 2003, an increase of approximately \$54 billion, or 5 percent, from the end of last year. The increase is attributable to the increase in Pension Expense [see discussion of the increase in Pension Expense within the Statement of Net Cost section].

The *Postretirement Health Benefits Liability*, which represents the future cost to provide health benefits to active employees after they retire, is approximately \$240 billion at the end of FY 2003. This reflects an approximate \$33 billion, or 16 percent, increase from the amount at the end of FY 2002. This increase is attributable to the increase in the Postretirement Health Benefits Expense [see discussion of the increase in the Postretirement Health Benefits Expense within the Statement of Net Cost section].

The *Actuarial Life Insurance Liability* is different from the Pension and Postretirement Health Benefits Liabilities (PRHB). Whereas the other two are liabilities for “postretirement” benefits only, the Actuarial Life Insurance Liability is an estimate of the future cost for both preretirement and postretirement life insurance benefits. The Actuarial Life Insurance Liability increased by approximately \$1.8 billion, or 7 percent, in FY 2003 to approximately \$29 billion. The increase is attributable to the increase in Future Life Insurance Benefits Expense [see discussion of the increase in Future Life Insurance Benefits Expense within the Statement of Net Cost section].

Net Position. At the end of FY 2003, OPM’s Net Position was approximately negative \$764 billion, a decrease of approximately \$57 billion, or 8 percent. This decrease is directly attributable to a large actuarial loss as a result of the differences between economic assumptions and actual experiences [see Statement of Net Cost section for further analysis]. In other words, OPM’s assets were not sufficient to cover its liabilities. However, the vast majority of OPM’s liability will not be paid until



NET ASSETS AVAILABLE TO PAY BENEFITS

(\$ in Billions)	2003	2002	Change
Total Assets	\$650.4	\$619.6	\$30.8
Less "Non-Actuarial" Liabilities	\$9.5	\$9.2	\$0.3
Net Assets Available to Pay Benefits	\$640.9	\$610.4	\$30.5

future years. These large actuarial liabilities are reported in accordance with Federal accounting standards. In fact, the Retirement, Health Benefits, and Life Insurance Programs are funded with the intent that sufficient assets will be available to pay benefits well into the future. The chart below shows that the net assets that OPM has available to pay benefits increased by almost 5 percent in FY 2003:

Statement of Net Cost

The Statement of Net Cost presents OPM's cost of providing four major categories of benefits and services: CSRS, FERS, Health Benefits, and Life Insurance Benefits, as well as Human Resources Services. OPM derives its Net Cost by subtracting the revenues it earned from the gross costs it has incurred in providing each of these benefits and services. OPM's total FY 2003 Net Cost of Operations was \$86 billion.

OPM's four major categories of benefits and services and the Net Cost to provide each are discussed in the following sections.

Net Cost to Provide CSRS

Benefits. As presented in the table below, the Net Cost to Provide CSRS Benefits increased by over \$30.5 billion in FY 2003. This is attributable almost entirely to a large increase in Pension Expense due to an actuarial loss in FY 2003 as compared to a large actuarial gain in FY 2002. The actuarial loss in FY 2003 is a result of

the actual pay raises granted to Federal employees being larger than estimated and a change in economic assumptions (such as one pertaining to the cost-of-living allowance given to Federal annuitants).

Federal accounting standards do not require disclosure of the entire amount OPM paid in CSRS benefits on the Statement of Net Cost. The reader may be interested to know that, in FY 2003, OPM paid benefits of \$47.2 billion, as compared to the \$46.9 billion in FY 2002. The increase in paid benefits is due to the effect of the cost-of-living allowance paid to a relatively constant number of CSRS retirees compared to last year.

Net Cost to Provide FERS

Benefits. As shown in the following chart, the Net Cost to Provide FERS Benefits increased by over \$13.5 billion in FY 2003. As with the CSRS above,

this is attributable to a major extent to a large increase in Pension Expense due to an actuarial loss in FY 2003 as compared to an actuarial gain in FY 2002. The actuarial loss in FY 2003 for FERS was caused by factors similar to the actuarial loss relating to CSRS.

As with the CSRS, the amount OPM paid in FERS benefits is not required to be disclosed on the Statement of Net Cost. In FY 2003, OPM paid benefits of \$1.8 billion, compared with \$1.5 billion in FY 2002, the 20 percent increase reflecting both a larger number of FERS retirees and the effect of the cost-of-living increase.

Net Cost to Provide Health Benefits. The Net Cost to Provide Health Benefits in FY 2003 increased by \$16.6 billion this year. This is attributed to the increase in the Postretirement Health Benefits Expense as a result mainly of a large actuarial loss relating to actual experience being different than the actuary's economic and demographic assumptions.

In accordance with Federal accounting standards, a portion of the costs of

Actuarial Gains and Losses

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

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

NET COST TO PROVIDE CSRS BENEFITS

(\$ in Billions)	2003	2002	Change
Gross Cost	\$73.1	\$47.6	\$25.5
Associated Revenues	32.8	37.8	(5.0)
Net Cost	\$40.3	\$9.8	\$30.5

NET COST TO PROVIDE FERS BENEFITS

(\$ in Billions)	2003	2002	Change
Gross Cost	\$29.5	\$14.2	\$15.3
Associated Revenues	22.0	20.2	1.8
Net Cost	\$7.5	\$(6.0)	\$13.5

NET COST TO PROVIDE HEALTH BENEFITS

(\$ in Billions)	2003	2002	Change
Gross Cost	\$57.6	\$38.9	\$18.7
Associated Revenues	19.9	17.8	2.1
Net Cost	\$37.7	\$21.1	\$16.6

(\$ in Billions)	Disclosed	Applied to PRHB	Total 2003	Total 2002
Claims	\$12.4	\$6.4	\$18.8	\$16.7
Premiums	3.5	1.7	5.2	4.8
Administrative and other	0.7	0.7	1.4	1.5

NET COST TO PROVIDE LIFE INSURANCE BENEFITS

(\$ in Billions)	2003	2002	Change
Gross Cost	\$3,813	\$3,360	\$453
Associated Revenues	3,453	3,449	4
Net Cost (Excess of Revenue)	\$360	\$(89)	\$449

the Health Benefits Program is not required to be disclosed. So that the reader may have information about these costs, they are presented in the table above:

The total of the claims and premiums increased by \$2.5 billion, or 11.6 percent, in FY 2003. This increase is indicative of the overall increase in the cost of health benefits in the economy as a whole.

Net Cost to Provide Life Insurance Benefits. OPM's Net Cost to Provide Life Insurance Benefits increased by \$449 million in FY 2003. This increase can be attributed almost entirely to an approximate \$412 million increase in the Future Life Insurance Benefits Expense, attributable to actual mortality experience higher than expected and a shift in

populations between the different option plans.

Statement of Budgetary Resources

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

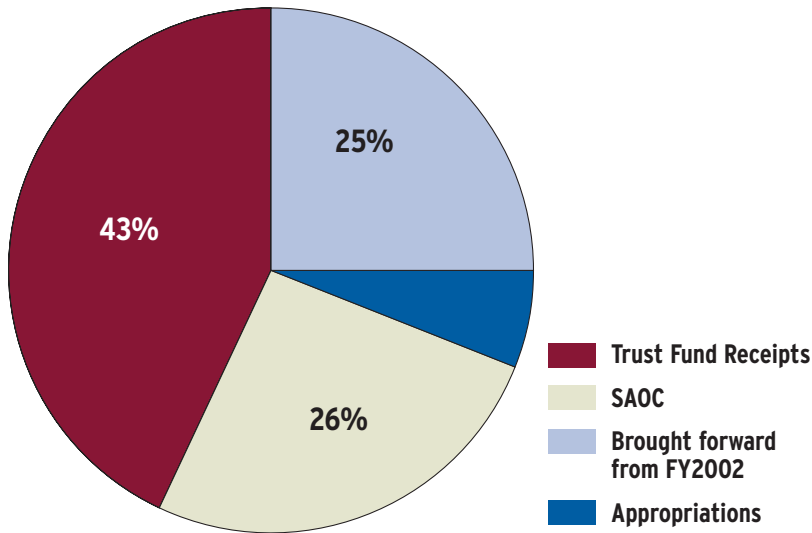
As presented in the Statement of Budgetary Resources, a total of \$118.1 billion in budgetary resources was made available to OPM for FY 2003. OPM's budgetary resources in FY 2003 derive from those resources carried forward from FY 2002 (\$30.0 billion) as well as the three major sources of new budgetary resources:

- (1) Appropriations Received = \$6.9 billion
- (2) Trust Fund receipts = \$50.5 billion
- (3) Spending Authority from Offsetting Collections (SAOC) = \$30.8 billion.

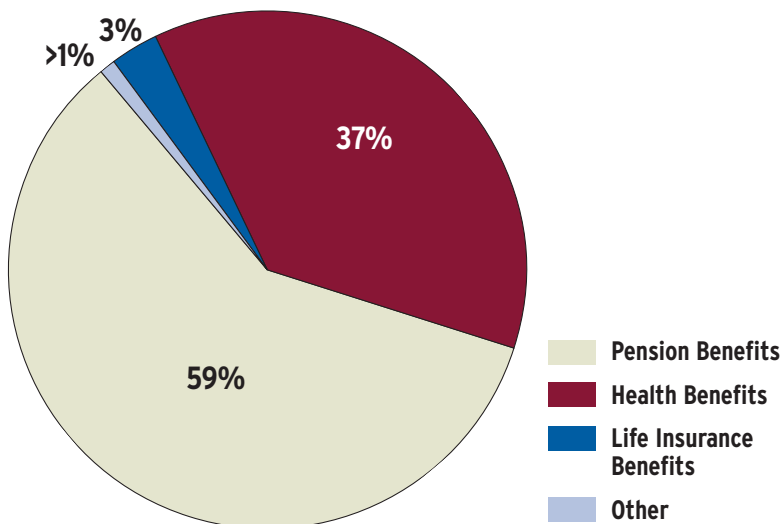
Appropriations are funding sources resulting from specified Acts of Congress that authorize Federal agencies to incur obligations and to make payments for specified purposes. OPM's appropriations were principally to fund contributions for retirees and survivors who participate in the Health Benefits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

Both *Trust Fund Receipts* and *Spending Authority from Offsetting Collections* generally derive from collections. Collections by the

SOURCE OF BUDGETARY RESOURCES



OBLIGATIONS INCURRED BY CATEGORY



Retirement Program, such as earnings on investments and contributions made by and for those participating, are classified as “Trust Fund Receipts,” whereas collections by the Health Benefits and Life Insurance and Revolving Fund Programs are classified as “Spending Authority from Offsetting Collections.”

From the \$118.1 billion in budgetary resources OPM had available during FY 2003, it incurred obligations of \$85.3 billion, mainly for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs. Most of the excess of budgetary resources OPM had available in FY 2003 over the obligations it

incurred against those resources is classified as being “unavailable” (for obligation) at year end.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Report on Compliance with the Federal Managers Financial Integrity Act

In accordance with the requirements of the Federal Managers Financial Integrity Act of 1982 (FMFIA) and applying OMB guidelines, OPM has evaluated its systems of management control. In so doing, OPM relied on the judgments of its senior executives of their program and administrative functions, the input of its Office of the Inspector General, and on its internal program of quality assurance reviews.

OPM’s management controls are designed to provide reasonable assurance that obligations and costs are in compliance with applicable laws and regulations; funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and revenues and expenditures applicable to its operations are properly recorded and accounted for to enable it to prepare reliable financial reports and maintain accountability over its assets.

OPM’s evaluation of its systems of management control disclosed no material weaknesses in management control. OPM believes, therefore, that its systems of management control provide reasonable assurance that it is in compliance with the FMFIA.

Report on Compliance with the Federal Financial Management Improvement Act

The Federal Financial Management

Improvement Act of 1996 (FFMIA) is intended to improve Federal financial management by ensuring that Federal financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. FFMIA requires each agency to implement and maintain systems that comply substantially with (1) Federal accounting standards, (2) United States Government Standard General Ledger (SGL) at the transaction level, and (3) Federal financial management systems requirements.

FFMIA requires that the auditors of financial statements report on whether they believe an agency complies with the requirements of FFMIA. As such, KPMG LLP has reported that it believes that OPM, as a whole, does comply substantially with FFMIA.

Nevertheless, KPMG LLP has also reported that the systems and processes supporting the Revolving Fund Programs and Salaries & Expenses accounts are substantially noncompliant with FFMIA because they do not provide for the recording of financial events in a manner consistent with the SGL. OPM believes it will be able to implement the necessary systemic and procedural changes in FY 2004 to ensure that the Revolving Fund Programs and Salaries & Expenses account substantially comply with FFMIA by the end of FY 2004.

Report on Compliance with the Debt Collection Improvement Act

The Debt Collection Improvement Act (DCIA) has had a major impact on the

I am pleased to certify with reasonable assurance that the U.S. Office of Personnel Management is in compliance with the provisions of the Federal Managers Financial Integrity Act of 1982.

Kay Coles James
Director

way OPM makes its payments and collects the monies owed to it. The Act requires Federal agencies to refer delinquent nontax debts to the Treasury's Financial Management Service (FMS) for purposes of collection by offset of nontax payments. OPM complies with the DCIA in the following ways:

Cross-Servicing. The DCIA established the FMS as the collection agency for all Federal agency receivables that are delinquent for more than 180 days. As a consequence, OPM transfers all such receivables to FMS for collection or "cross-servicing." To collect on the accounts transferred, FMS issues demand letters to debtors, administratively offsets, performs wage garnishment and refers accounts to private collection agencies. To date, 7,577 of OPM's receivables for more than \$2.6 million have been collected via FMS cross-servicing.

Data-Matching. OPM believes that it is as important to prevent overpayments in the first place as it is to collect them once they become debts. Thus, OPM maintains an aggressive and active program integrity function to prevent waste, fraud, and abuse of Retirement Program benefit payments. One of the primary tools supporting this function is the use of data-matching, through which OPM

exchanges payment information with other benefit-paying agencies to identify individuals who have died or are otherwise no longer eligible for benefits. In FY 2003, these activities identified more than \$54.1 million in overpayments and prevented an additional \$144.8 million from being overpaid.

Receivables Management. The charts on the following page summarize OPM's receivables management activity for FY 2003 and FY 2002:

Electronic Payments. OPM excels in sending annuity payments electronically. Ninety-four percent of OPM's 2.4 million monthly Retirement Benefit Program payments are sent via electronic funds transfer, far exceeding that of any other Federal benefits-paying agency.

OPM is concentrating on increasing electronic payments to its international recipients. As of September 30, 2003, 73

Upon review of our independent public accountant's report and other information I considered to be relevant, I have determined that the U.S. Office of Personnel Management as a whole substantially complies with the Federal Financial Management Improvement Act. I understand that there are subsidiary processes that are not substantially compliant and I have directed my staff to implement the changes necessary to be substantially compliant in FY 2004.

Kay Coles James
Director

RETIREMENT PROGRAM

(\$ in Millions)	2003	2002
Total receivables at beginning of year	154.5	140.7
New receivables and accruals	177.5	184.6
Less collections, adjustments, and amounts written off	167.0	170.8
Total receivables at end of year	165.0	154.5
Total delinquent	47.1	43.8
Percent delinquent of total receivables	28.6%	28.4%

HEALTH BENEFITS PROGRAM

(\$ in Millions)	2003	2002
Receivables at beginning of year	125.9	212.4
New receivables and accruals	28.2	108.6
Less collections and adjustments	118.6	195.1
Receivables at the end of year	35.5	125.9
Less management decisions in appeal	7.5	14.1
Currently available for collection	28.0	111.8

percent of OPM’s recipients in Italy and 60 percent in Canada received their monthly payments electronically. OPM plans to expand electronic payments in FY 2004 to Panama, Mexico, and the United Kingdom.

The following table shows the percentage of payments OPM made electronically in FY 2003 by major category.

Report on OPM’s Compliance with the Improper Payments Act

The President has made the reduction of erroneous payments a major focus of his Management Agenda. The Congress has followed the President’s lead by

enacting the Improper Payments Information Act of 2002 (P.L. 107-300). The Act requires Executive Branch agencies, including OPM, to identify programs that are susceptible to significant erroneous payments and report on the actions they will take to reduce them. On May 21, 2003, OMB issued Memorandum M-03-13 which provides guidance to agencies on compliance with the Act.

In accordance with OMB’s definition, OPM considers the following to be its reportable erroneous payments:

- * Overpayments and underpayments

of Retirement Program annuities, refunds, and lump-sum payments;

- * Program management decisions agreeing with the findings of the Office of the Inspector General in its audits of the carriers participating in the Health Benefits Programs; and
- * Overpayments and underpayments to beneficiaries by the principle Life Insurance carrier.

Although its erroneous payment rate is very low, OPM has long had a strong commitment to reducing erroneous payments in the programs it administers. Director James has continued and reinforced OPM’s commitment, which is supported by a statement that the Honorable Linda M. Springer, Controller, Office of Federal Financial Management, Office of Management and Budget gave before the United States House of Representatives. On May 13, 2003, Ms. Springer testified:

“We should commend agencies like the Office of Personnel Management, which manages the Federal Employee Health Benefit Program and the Federal retirement benefit programs... for keeping their error rates low.”

RETIREMENT PROGRAM

Description. The Retirement Program pays over \$50 billion per year in defined benefits to retirees as well as their survivors and families. The Program is composed of the Civil Service Retirement System and the Federal Employees Retirement System.

PERCENTAGE OF PAYMENTS MADE ELECTRONICALLY IN FY 2003

Retirement benefits	94%
Salary	92%
Carriers participating in Health Benefits and Life Insurance Programs	100%
Other vendors	89%

Control Environment. Erroneous payments rates have been very low in the Retirement Program due to OPM’s strong internal control environment, including an active data-matching program with other large payment agencies and annual surveys of benefit recipients to verify that they continue to meet eligibility requirements.

Causes of Erroneous Payments.

Most (70 percent) of the erroneous payments in the Program occur because beneficiaries or family members delay reporting changes in status (death, marriage, recovery from disability, etc.) that would result in a different benefit payment. Only a very small number occur because of adjudication errors by OPM’s employees.

Risk Analysis Performed. As part of OPM’s financial statement audit, a combined team of internal and external auditors tests payments made to those on OPM’s “annuity rolls” to determine their propriety and accuracy. The sample used in this test exceeds that required by M-03-13.

Conclusion. Based upon the criteria included in M-03-13, which have been confirmed by OPM’s risk analysis, the Retirement Program is not at risk of significant erroneous payments.

HEALTH BENEFITS PROGRAM

Description. By contract with participating carriers, the Health Benefits Program provides hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. Payments of over \$5 billion are paid annually as premiums to the community-rated carriers in the Program; participating experience-rated carriers

RETIREMENT PROGRAM				
(\$ in Millions)	Total Payments		Erroneous Payments	
	\$		\$	%
2002	48,970		184.3	.38
2003	50,368		177.3	.35
2004 (target)	51,956		181.8	.35
2005 (target)	53,595		176.9	.33
2006 (target)	55,285		171.4	.31

pay over \$18 billion in benefits to Program participants.

Control Environment. Erroneous payments rates have been maintained at low levels in the Program due to OPM’s strong oversight of carrier activities, such as:

- Periodic contract audits of participating carriers by OPM’s OIG.
- A requirement that the largest carriers engage an independent public accountant to perform annual audits of Program activities, including sampling claims and certain administrative charges for accuracy and appropriateness.
- The inclusion of performance standards in the contracts with the carriers that hold them accountable for providing accurate benefit payments.
- A contractual requirement that the carriers aggressively identify and collect the overpayments they make to their providers.

Causes of Erroneous Payments.

OPM’s OIG audits the carriers to ensure that they meet their responsibilities under their contracts with OPM. As a consequence of these audits, the OIG issues reports that contain recommendations for monetary adjustments from the carriers. If the contracting officer agrees with the

recommendations and disallows charges the carriers have made to their contracts, the amounts so disallowed are deemed to be erroneous payments.

Risk Analysis Performed. The OIG’s audits of the carriers participating in the Program cover a very large proportion of the premiums paid to community-rated carriers and benefits paid by experience-rated carriers to Program participants. The sample size far exceeds that required by M-03-13.

Conclusion. Based upon the criteria included in M-03-13, which have been confirmed by risk analysis, the Health Benefits Program is not at risk of significant erroneous payments

LIFE INSURANCE PROGRAM

Description. By contract with a large insurance corporation, the Program provides life insurance benefits to the beneficiaries of Federal employees and retirees. Payments to beneficiaries by life insurance carriers exceed \$2 billion per annum.

Control Environment. Erroneous payments rates are extremely low in the Program due to strong controls required of employing agencies, oversight of carrier activities provided by periodic audit by the OIG, and a requirement that the carrier engage an independent public accountant to perform annual audit

HEALTH BENEFITS PROGRAM

(\$ in Millions)	Total Payments	Erroneous Payments	
	\$	\$	%
2002	28,721	108.1	.38
2003	31,568	28.2	.09
2004 (target)	34,637	124.7	.36
2005 (target)	38,004	129.2	.34
2006 (target)	41,698	133.4	.32

LIFE INSURANCE PROGRAM

	Total Payments	Erroneous Payments	
	(\$ in Millions)	(\$ in Thousands)	%
2002	1,994	437	.02
2003	2,056	448	.02
2004 (target)	2,136	214	.01
2005 (target)	2,218	222	.01
2006 (target)	2,304	230	.01

of Program activities, which includes the sampling of claims for accuracy and appropriateness.

Causes of Erroneous Payments. The very few erroneous payments to beneficiaries that do occur are mainly a result of incorrect certifications of coverage by employing agencies and retirement systems.

Risk Analysis Performed. Due to the miniscule error rates in this Program, OPM has concluded that no risk analysis need be performed.

Conclusion. The Life Insurance Program is not at risk of significant erroneous payments.

TRAVEL AND PURCHASE CARD USAGE

OPM measures its effectiveness vis-à-vis travel and purchase card usage by monitoring the percentage of the total outstanding balances for each that is 61 or more days old. The charts on the

following page compare OPM’s percentages that are 61 or more days old to Governmentwide rates.

The charts also show OPM’s percentage of travel and purchase card outstanding balances that are 61 or more days old are less than the related Governmentwide averages.

RECOVERY AUDITS

OMB requires that agencies have a cost-effective program of internal control to prevent, detect, and recover erroneous payments to contractors resulting from payment errors. For agencies with contracts that have a total value of more than \$500 million in a fiscal year, OMB requires recovery audits as part of these internal controls. A recovery audit is a review of an agency’s books and other information supporting its payments to identify overpayments to contractors that are due to erroneous payments.

OPM’s OIG performs comprehensive audits of its contracts with the Health Benefits and Life Insurance Program carriers, which, if excluded, reduce the annual value of OPM’s contracts to well below \$500 million. These audits have proven to be highly effective in detecting and recovering erroneous payments. Since the terms and conditions of all of OPM’s contracts with Health Benefits and Life Insurance Program carriers provide for adjustments based on the OIG’s audits, OPM has excluded them from the requirement for recovery audits.

REPORT ON COMPLIANCE WITH THE INSPECTOR GENERAL ACT AMENDMENTS

The Inspector General Act Amendments of 1988 (P.L. 100-504) require that OPM report on the status of unresolved audit findings by its OIG. This report covers the period from October 1, 2002 through September 30, 2003, and is summarized by the chart on the following page.

As of September 30, 2003, there was only one finding with a questioned cost of \$2.1 million, for which there has been no management decision for six months. This is the same finding that was outstanding for six months as of the beginning of FY 2003. A management decision on this finding has been deferred at the request of the OIG.

TRAVEL CARDS

(\$ in Thousands)	September 2003	September 2002
Outstanding Balance	\$224.1	\$224.9
Outstanding more than 61 days	\$8.6	\$13.9
% outstanding more than 61 days (OPM)	3.84	6.18
% outstanding more than 61 days (Governmentwide)	4.27	5.95

PURCHASE CARDS

(\$ in Thousands)	September 2003	September 2002
Outstanding Balance	\$1,531.3	\$726.9
Outstanding more than 61 days	0	0
% outstanding more than 61 days (OPM)	0	0
% outstanding more than 61 days (Governmentwide)	1.18	0.44

INSPECTOR GENERAL AUDIT FINDINGS

(\$ in Millions)	Number of Findings	Questioned Costs
Reports with no management decision on October 1, 2002	10	\$8.0
Reports requiring management decisions	37	60.8
Management decisions made during the year:	32	40.5
Costs disallowed	-	37.2
Costs not disallowed	-	3.3
Reports with no management decision on September 30, 2003	15	28.3

LIMITATIONS OF THE CONSOLIDATED FINANCIAL STATEMENTS

- The principal financial statements have been prepared to report OPM's financial position and results of operations, pursuant to the requirements of 31 U.S.C. 3515(b).
- The statements have been prepared from OPM's books and records in accordance with generally accepted accounting principles for Federal

entities and the formats prescribed by the 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

(Unaudited—See accompanying Independent Auditor’s Report)

OPM’s FY 2003 Annual Performance Goals were not developed for its new organizational structure and new Strategic Plan. Therefore, during FY 2003, OPM redistributed its FY 2003 Annual Performance Goals according to its new structure. Goals were assigned to the OPM Division where they best aligned with the functional responsibilities of that office. Thus, OPM Divisions literally inherited their FY 2003 Goals from the former organizational structure.

To show the results of this redistribution, OPM developed the chart below which describes the original goals and indicates to which Strategic Goal and OPM Division they were assigned.

CROSSWALK FROM FY 2003 ORIGINAL ANNUAL PERFORMANCE GOALS TO NEW PERFORMANCE GOAL DESIGNATIONS

FY 2003 Original Annual Performance Goal	New Strategic Goal	New Performance Goal Designation
OMSOE Goal 1 - Improve the overall effectiveness of Government through broad, crosscutting initiatives aimed at innovative, merit-based HR policies and practices.	Strategic Goal II — Effective, Merit-based HC Strategies	HCL&MSA Goal 2
OMSOE Goal 2 - Provide analyses of current HRM topics to the HRM community in order to improve HRM policies, practices and programs.	Strategic Goal II — Effective, Merit-based HC Strategies	HCL&MSA Goal 8
OMSOE Goal 3 - Improve and support the high standard of agency adherence to the Merit Systems Principles — and other laws, rules, regulations and public policies governing Federal human resources management.	Strategic Goal II — Effective, Merit-based HC Strategies	HCL&MSA Goal 3

ANNUAL PERFORMANCE GOALS *and* RESULTS

CROSSWALK FROM FY 2003 ORIGINAL ANNUAL PERFORMANCE GOALS
TO NEW PERFORMANCE GOAL DESIGNATION

FY 2003 Original Annual Performance Goal	New Strategic Goal	New Performance Goal Designation
OMSOE Goal 4 - Develop and improve agency accountability for conducting HRM in accordance with the Merit Systems Principles and in alignment with mission.	Strategic Goal II — Effective, Merit-based HC Strategies	HCL&MSA Goal 3
OMSOE Goal 5 - Meet the workforce information needs of the White House, OMB, Congress, Federal agencies, the public, and other customers through the Central Personnel Data File (CPDF).	Strategic Goal I — Effective HR Policy	SHRP Goal 11
OMSOE Goal 6 - To ensure that voting rights are protected under the Voting Rights Act.	Strategic Goal III — Effective Products & Services	HRPS Goal 6
ES Goal 1 - Federal agencies are provided with a full complement of staffing solutions (policies, authorities, flexibilities, organizational assessment tools, and technology) with which to address their human capital challenges, to simplify the process and reduce the time required to recruit and hire a diverse, high-quality work force.	Strategic Goal I — Effective HR Policy	SHRP Goal 1
ES Goal 2 - Competitive examining is conducted correctly to ensure that Federal agencies comply with civil service laws, rules, regulations, and executive orders and support the merit system principles.	Strategic Goal II — Effective, Merit-based HC Strategies	HCL&MSA Goal 4
ES Goal 3 - Agency requests for variations, exceptions, extensions, waivers, and adjudications are responded to in a manner that is both timely and consistent with law and Merit Systems Principles so that agencies can proceed in a timely manner.	Strategic Goal I — Effective HR Policy	SHRP Goal 9
ES Goal 4 - Agencies receive clear, accurate, and timely staffing advice and assistance 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.	Strategic Goal II — Effective, Merit-based HC Strategies	HCL&MSA Goal 10
ES Goal 5 - Provide expert human resource products and services that meet agency-specific needs to ensure that Federal agencies receive high-quality, cost-effective employment services needed to run high-performing, results-oriented organizations.	Strategic Goal III — Effective Products & Services	HRPS Goal 4
ES Goal 6 - Administer the Armed Services Vocational Aptitude Battery for the Department of Defense and provide related services.	Strategic Goal III — Effective Products & Services	HRPS Goal 4

CROSSWALK FROM FY 2003 ORIGINAL ANNUAL PERFORMANCE GOALS
TO NEW PERFORMANCE GOALS

FY 2003 Original Annual Performance Goal	New Strategic Goal	New Goal Designation
WCPS Goal 1 - Modernizing the Federal compensation system by developing and, where possible, implementing a flexible, competitive, and performance-oriented strategic rewards environment that allows the Government to recruit, manage, and retain a high-quality and diverse Federal workforce by FY 2003	Strategic Goal I — Effective HR Policy	SHRP Goal 2
WCPS Goal 2 - Promote and support retention efforts and flexibilities, communicate effective workforce compensation and performance program policies, and develop proposed HR/payroll policies and procedures to support the establishment of an integrated Governmentwide HR/payroll delivery system(s). (Ongoing)	Strategic Goal I — Effective HR Policy	SHRP Goal 3
WCPS Goal 3 - Federal agencies receive timely, accurate, and useful advice and technical assistance on performance, classification, and employee compensation that keeps them better informed about appropriate system flexibilities and ways in which they can be used to support accomplishment of agency strategic goals.	Strategic Goal II — Effective, Merit-based HC Strategies	HCL&MSA Goal 10
WCPS Goal 4 - Administration of current workforce compensation and performance systems continues to provide cost-effective and improved Governmentwide service.	Strategic Goal I — Effective HR Policy	SHRP Goal 4
WCPS Goal 5 - Federal agencies receive timely, accurate and useful advice and technical assistance on performance, classification, and employee compensation that keeps them better informed about appropriate system flexibilities and ways in which they can be used to support accomplishment of agency strategic goals.	Strategic Goal II — Effective, Merit-based HC Strategies	HCL&MSA Goal 10
IS Goal 1 - Support the Merit Systems Principles — by issuing policy and taking action to ensure that only suitable applicants, appointees and employees are hired for, and remain in, the Federal competitive service.	Strategic Goal III — Effective Products & Services	HRPS Goal 1
IS Goal 2 - Promote uniform application of investigative standards mandated by statute and executive order by developing and implementing Governmentwide investigative policy.	Strategic Goal III — Effective Products & Services	HRPS Goal 1
IS Goal 3 - Agency personnel security programs are made more effective as a result of OPM evaluations that identify deficiencies and make recommendations for improvement.	Strategic Goal III — Effective Products & Services	HCL&MSA Goal 1

ANNUAL PERFORMANCE GOALS *and* RESULTS

CROSSWALK FROM FY 2003 ORIGINAL ANNUAL PERFORMANCE GOALS
TO NEW PERFORMANCE GOAL DESIGNATION

FY 2003 Original Annual Performance Goal	New Strategic Goal	New Performance Goal Designation
IS Goal 4 - The quality of investigations is maintained and workload demands are met with timely, relevant products.	Strategic Goal III — Effective Products & Services	HRPS Goal 1
OWR Goal 1 - Increase Federal agency implementation of work/life, wellness, human resources development, employee relations and labor relations programs as tools that managers can use to improve organizational performance.	Strategic Goal I — Effective HR Policy	SHRP Goal 8
OWR Goal 2 - Ensure third party decisions are consistent with Civil Service law, rules, and regulations and OPM exercises formal intervention, reconsideration, or judicial review when warranted.	Strategic Goal I — Effective HR Policy	SHRP Goal 10
OWR Goal 3 - Provide expedient and accurate technical advice and assistance to Federal agencies to meet specific agency needs and objectives, improve the management and deployment of human resources, and advance the President's vision of a more responsive Government.	Strategic Goal II — Effective, Merit-based HC Strategies	HCL&MSA Goal 10
OWR Goal 4 - Through the Training Management and Assistance Program, assistance is provided to Government agencies in managing the development of training and other human resource management solutions that meet specific short- and long-range agency objectives.	Strategic Goal III — Effective Products & Services	HRPS Goal 5
ER Goal 1 - Continue the comprehensive, long-term study of the organization, structure, and composition of the Senior Executive Service and other senior personnel systems begun during FY 2001.	Strategic Goal I — Effective HR Policy	SHRP Goal 5
ER Goal 2 - SES performance management systems help agencies to improve individual and organizational performance, hold executives accountable for results, and provide an adequate basis for personnel decisions.	Strategic Goal II — Effective, Merit-based HC Strategies	HCL&MSA Goal 6
ER Goal 3 - All career SES selections, particularly those of noncareer employees for career SES appointments, comply with merit system principles; agencies comply with statute and regulation in their use of noncareer and limited appointment authorities.	Strategic Goal II — Effective, Merit-based HC Strategies	HCL&MSA Goal 9
ER Goal 4 - Leadership and management skills, public service values, and a Governmentwide perspective are key factors in selections for all SES positions.	Strategic Goal II — Effective, Merit-based HC Strategies	HCL&MSA Goal 5

ANNUAL PERFORMANCE GOALS *and* RESULTS

CROSSWALK FROM FY 2003 ORIGINAL ANNUAL PERFORMANCE GOALS
TO NEW PERFORMANCE GOALS

FY 2003 Original Annual Performance Goal	New Strategic Goal	New Goal Designation
ER Goal 5 - Through the biennial executive resources allocation process, maintain executive resource levels that are consistent with Administration policy and the overall size of the Federal Government.	Strategic Goal II — Effective, Merit-based HC Strategies	SHRP Goal 6
ER Goal 6 - Continual learning and voluntary mobility are valued as strategies to improve the executive's ability to promote a Government that is citizen-centered, results-oriented, and market-based. Agencies and executives use training, development, sabbaticals, details, temporary assignments, and movement within and between agencies to broaden perspectives and gain fresh insights on leadership.	Strategic Goal III — Effective Products & Services	HRPS Goal 3
ER Goal 7 - Demonstrate improvements in individual Government leaders' performance and/or organizational performance as a result of training or development experiences.	Strategic Goal III — Effective Products & Services	HRPS Goal 3
OHREEO Goal 1 - OPM manages its workforce strategically and aligns its human resources in a manner that best supports accomplishment of strategic goals and furthers the President's HR management improvement objectives.	Corporate Management Strategy	MCFO Goal 3
OHREEO Goal 2 - Recruitment and staffing strategies are based on workforce planning information and facilitate the hiring of a diverse, capable, and flexible workforce.	Corporate Management Strategy	MCFO Goal 4
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.	Corporate Management Strategy	MCFO Goal 5
OHREEO Goal 4 - OPM's work environment attracts, retains, and satisfies employees and managers.	Corporate Management Strategy	MCFO Goal 6
OHREEO Goal 5 - OHREEO uses the best available technology for personnel data processing and record-keeping to provide fast, accurate, and efficient human resources services.	Corporate Management Strategy	MCFO Goal 7
OHREEO Goal 6 - OPM's work environment promotes and values diversity, and is free from unlawful discrimination.	Corporate Management Strategy	MCFO Goal 8

ANNUAL PERFORMANCE GOALS *and* RESULTS

CROSSWALK FROM FY 2003 ORIGINAL ANNUAL PERFORMANCE GOALS
TO NEW PERFORMANCE GOAL DESIGNATION

FY 2003 Original Annual Performance Goal	New Strategic Goal	New Performance Goal Designation
EHRI Goal - Reengineer Governmentwide HRM record-keeping and reporting practices to facilitate the use of human resources data, streamline and improve Governmentwide reporting.	Corporate Management Strategy	MCFO Goal 2
E-Gov Goal - OPM's e-Gov projects (e-Clearance, e-Training, e-Payroll, and Recruitment One-Stop) achieve the President's Management Agenda for expanded electronic Government and improved efficiency and effectiveness of Government operations. (Ongoing)	Corporate Management Strategy	MCFO Goal 2
OCIO Goal 1 - IT operational support and services are provided in an efficient manner, meet customer requirements and facilitate program offices achieving strategic goals.	Corporate Management Strategy	MCFO Goal 9
OCIO Goal 2 - OPM's IT systems and infrastructure are implemented in accordance with its IT Architecture and are protected by a robust IT security program.	Corporate Management Strategy	MCFO Goal 10
OCIO Goal 3 - OPM's information resources management program meets the requirements of the Paperwork Reduction Act, Freedom of Information Act, and Privacy Act and ensures that OPM's records are safeguarded.	Corporate Management Strategy	MCFO Goal 11
OCAS Goal 1 - Provide quality procurement services to OPM's program offices.	Corporate Management Strategy	MCFO Goal 12
OCAS Goal 2 - Provide quality administrative services to program offices.	Corporate Management Strategy	MCFO Goal 13
Executive Service Goal - Shape the Administration's direction on Federal human resources management policy to effectively support the President's Management Agenda, through leadership, communication, congressional relations, and legal services.	Corporate Management Strategy	MCFO Goal 1
OCFO Goal 1 - Maintain the integrity of OPM's financial data by receiving an unqualified audit opinion, provide financial management support to all OPM offices, and improve OPM's implementation of the Government Performance and Results Act.	Corporate Management Strategy	MCFO Goal 14

ANNUAL PERFORMANCE GOALS *and* RESULTS

CROSSWALK FROM FY 2003 ORIGINAL ANNUAL PERFORMANCE GOALS
TO NEW PERFORMANCE GOAL DESIGNATION

FY 2003 Original Annual Performance Goal	New Strategic Goal	New Performance Goal Designation
WHF Goal - A broad range of qualified applicants are attracted to and selected for the fellowship 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.	Corporate Management Strategy	MCFO Goal 16
RIS Goal 1 - The Federal employee benefit programs are enhanced to offer a more flexible range of higher quality benefits.	Strategic Goal I — Effective HR Policy	SHRP Goal 7
RIS Goal 2 - Customer satisfaction improves as processing times are reduced by 20 percent and the number of customer calls handled is increased by 7 percent.	Strategic Goal III — Effective Products & Services	HRPS Goal 7
RIS Goal 3 - More retiring Federal employees receive benefits counseling as agency Benefits Officers are provided with improved information and tools for these services.	Strategic Goal II — Effective, Merit-based HC Strategies	HCL&MSA Goal 7
RIS Goal 4 - The Retirement Systems Modernization Project will convert historic hard-copy employee data to electronic format, establish electronic transfer of retirement data on a recurring basis, and expand Web-enabled self-servicing for Federal employees.	Strategic Goal III — Effective Products & Services	HRPS Goal 8
RIS Goal 5 - Insurance programs customers are provided with quality insurance products and services and continue to make informed decisions about their health care.	Strategic Goal III — Effective Products & Services	HRPS Goal 2
RIS Goal 6 - The new Long Term Care Insurance Program is operational and begins accepting enrollments.	Strategic Goal III — Effective Products & Services	HRPS Goal 2
RIS Goal 7 - Fraud and abuse in the Federal Employees Health Benefits Program is prevented and monitored; erroneous payments in all the Trust Fund programs are maintained at the FY 2000 levels.	Corporate Management Strategy	MCFO Goal 15
OIG Goal 1 - Provide independent oversight of OPM programs, operations, functions and activities.	Corporate Management Strategy	OIG Goal 1
OIG Goal 2 - Detect and prevent fraud, waste, and abuse against OPM programs.	Corporate Management Strategy	OIG Goal 2

FY 2003 PERFORMANCE REPORT
(Unaudited—See accompanying Independent Auditor’s Report)

STRATEGIC GOAL I:

FEDERAL AGENCIES ADOPT HUMAN RESOURCES MANAGEMENT SYSTEMS THAT IMPROVE THEIR ABILITY TO BUILD SUCCESSFUL, HIGH-PERFORMANCE ORGANIZATIONS.

SHRP FY03 Goal 1

ES Goal 1: Federal agencies have a full complement of staffing solutions (policies, authorities, flexibilities, planning and assessment tools, and technology) with which to address their human capital challenges, to simplify the process and reduce the time required to recruit and hire a diverse, high quality workforce.

Status: This goal was met.

Key Results: Through this initiative OPM provided agencies with the kind of flexible staffing solutions envisioned by the goal. OPM published interim regulations that implemented human resource flexibilities provided by the Chief Human Capital Officers Act. These flexibilities simplified the hiring process and reduced the time required to recruit and hire a diverse, high quality workforce.

Link to Management Challenge: This goal supported the resolution of the management challenge concerning Human Resources Management. Federal agencies are better equipped to respond to workforce challenges as they address human resources management issues, through the human resource flexibility interim regulations and OPM-sponsored Governmentwide briefings on the new authorities. The flexibilities for hiring and developing Federal employees improved agencies’ ability to recruit and retain the workforce needed to meet their missions, and thereby better serve the American people. OPM’s ability to respond quickly to the requirements of the Chief Human Capital Officers Act is indicative of its ability to marshal limited resources to address the management challenges identified by the Office of the Inspector General.

Performance Indicators:

- Results from the HR Directors’ Survey and informal feedback that OPM is collaborating with others and generating effective workforce planning strategies. [Critical Indicator]

OPM does not have results from the HR Directors’ Survey because it discontinued that data collection as it revamped its performance measurement system (see Appendix A). However, the underlying outcome is whether OPM has provided agencies staffing solutions (policies, authorities, flexibilities, planning and assessment tools, and technology) to address their human capital challenges. OPM achieved this outcome during FY 2003 by publishing interim regulations to implement flexibilities provided by the Chief Human Capital Officers Act. These flexibilities simplified the hiring process and reduced the time required to recruit and hire a diverse, high-quality workforce.

The interim regulations pertained to:

- (1) direct-hire authority,
- (2) category rating,
- (3) academic degree training authority,
- (4) voluntary early retirement authority, and
- (5) voluntary separation incentive payments

All of these are important strategies agencies can use to implement their workforce plans. To increase Federal agencies' understanding of these new regulations, OPM provided two on-site briefings to HR Directors, HR specialists and contractors, and presented several workshop and/or conference sessions. It received high marks and positive comments on the evaluation surveys completed by attendees following the briefing sessions.

In addition, OPM released the results of the Governmentwide Information Technology (IT) occupational study to the Chief Information Officers Council. This study assisted agencies in the development of the Clinger-Cohen assessment tool as it linked Governmentwide information technology competencies to the Clinger-Cohen Act information technology competencies. This tool will help agencies assess the current status of their IT workforce, analyze IT workforce needs, and develop workforce planning strategies to address those needs.

Finally, OPM completed a study of science and engineering occupations across Government to identify critical tasks and competencies and provided the results of this study to the Joint Security Training Consortium to support Federal security workforce planning goals.

- **The Federal Equal Opportunity Recruitment Program (FEORP) Report reflects the extent to which diversity in the Federal workforce is equivalent to the relevant labor market.**

OPM issued the annual "Federal Equal Opportunity Recruitment Program Report" to Congress and the semi-annual report on "Statistical Information on Hispanic Employment in Federal Agencies" to the President in June 2003. The FY 2002 FEORP Report showed that both women and Hispanics were under-represented relative to the civilian labor force; although the Federal Government is making good progress in improving the representation of Hispanics. The Federal representation for Hispanics rose from 6.7 percent in FY 2001 to 6.9 percent in FY 2002. While representation for women remained at 44.0 percent, agencies continue to develop and implement innovative targeted recruitment and retention strategies to increase diversity in the Federal Government.

- **The Disabled Veterans Affirmative Action Program reflects the extent to which veterans' employment in the Federal workforce is equivalent to that of the relevant labor market.**

Compared to the civilian labor force, the Federal Government employed more than twice the percentage of veterans, approximately three times the percentage of Vietnam-era veterans, more than five times the percentage of disabled veterans, and more than six times the percentage of 30-percent disabled veterans. The FY 2002 annual summary report showed that the Government employed 450,100 veterans. To ensure that the Federal Government continues to be a leader in employment of veterans, OPM created a veterans' employment task force and continues to collaborate with the Department of Defense, the Department of Veterans Affairs, the Department of Labor, and others to share program information in order to promote veterans' employment in the Federal workforce.

- **Results from the evaluation studies of specific hiring improvement initiatives reflect that OPM provides assessment tools that enable the agencies to improve their workforce.**

Although no formal evaluations of hiring initiatives were conducted during FY 2003, statistics published in OPM's "Federal Civilian Workforce Statistics Report—Employment and Trends in 2003, May 2003" reflect increases in new hires. During FY 2005, OPM plans to evaluate the effectiveness of new hiring flexibilities, specifically category rating.

SHRP FY03 Goal 2

WCPS Goal 1: Modernizing the Federal compensation system by developing and, where possible, implementing a flexible, competitive, and performance-oriented strategic rewards environment that allows the Government to recruit, manage, and retain a high-quality and diverse Federal workforce by FY 2003.

Status: This goal was met.

Key Results: OPM's efforts to modernize the Federal compensation system took a giant leap forward in 2003 with the enactment of sweeping reforms to make the system more performance sensitive. OPM developed a senior executive Pay-for-Performance System legislative proposal, which was included in the proposed FY 2004 National Defense Authorization Act. This new pay system will link SES pay more closely to performance. Coupled with provisions of the Chief Human Capital Officers Act of 2002, the new system will allow higher base pay and bonuses to senior executives and senior professionals if their agency demonstrates that it has developed and implemented performance appraisal systems that make meaningful distinctions in their employees' relative performance. An agency will be certified by OPM and OMB if its appraisal systems assure rigorous performance planning, administrative oversight and accountability, and performance differentiation in the appraisal and pay-setting process. This new SES pay-for-performance system will allow agency heads to make meaningful distinctions in the relative performance of their senior employees, thereby strengthening the linkage between performance and pay.

OPM also provided leadership and technical guidance to support the Administration's legislative proposals related to the Human Capital Performance Fund (HCPF). The HCPF is the first major step in developing a new pay-for-performance system for employees below the Senior Executive Service level. The new HCPF promotes greater performance in the Federal Government by allowing agencies to recognize and reward their highest performing and most valuable employees. OPM is authorized to allocate money from the HCPF to agencies whose plans that demonstrate a direct linkage between their HCPF policies and overall performance appraisal systems, strategic plans, human capital goals, mission requirements, and performance recognition programs. OPM also assisted the Department of Homeland Security in developing a variety of options for new HR systems, including pay and performance recommendations.

Link to Management Challenges: Modernizing Federal pay is a core component of the management challenge for Human Resources Management. The options developed for the DHS Senior Review Committee regarding pay are expected to be a model for addressing the larger issues surrounding Federal pay on a Governmentwide scale. Therefore, the progress OPM made during FY 2003 ultimately contributes toward resolving the challenge of Human Resources Management for Federal agencies.

Performance Indicators:

- **The integrated set of policy alternatives addresses all aspects of white-collar compensation, helps agencies meet special needs for recruitment and retention, and incorporates tools commonly used in the private sector.**

The DHS-OPM Human Resources System Design Team developed a wide range of compensation options for possible use by the Department of Homeland Security. These options, once implemented, will serve as models for the rest of the Federal workforce.

In addition, OPM has developed initiatives that address a wide variety of issues related to modernizing

Federal compensation in ways that address pressing agency recruitment and retention problems. For example, pay-for-performance initiatives deal with a higher aggregate compensation limit for Senior Executive Service (SES) members and SL/ST employees (contained in the Chief Human Capital Officers Act legislation). Additional basic pay increases for very high performing employees at GS-15 and below and an open-range pay-for-performance plan for SES members (both in the proposed FY 2004 National Defense Authorization Act) strengthen the link between performance and pay. These initiatives will enable agencies to attract and retain the kind of high-performance workforce needed to carry out critical agency missions. They move toward the kinds of pay flexibility found in the private sector where employers are not bound by rigid, time-based compensation structures. At the same time, each introduces a performance factor that ensures that higher payments will be made only where agencies have systems and plans in place to make meaningful distinctions among employees to identify those in the workforce who are the very best performers.

SHRP FY03 Goal 3

WCPS Goal 2: Promote and support retention efforts and flexibilities, communicate effective workforce compensation and performance program policies, and develop proposed HR/payroll policies and procedures to support the establishment of an integrated Governmentwide HR/payroll delivery system(s). (Ongoing)

Status: This goal was met.

Key Results: Pay for law enforcement officers has become a high-profile concern since September 11, 2001. The demand for employees with law enforcement skills has increased in all sectors of the labor market. In addition, many officers have been consolidated into the Department of Homeland Security, and pay practices for them vary widely. OPM's report to Congress laid a foundation on which important compensation recommendations will be based.

Special salary rates are a tool available to agencies to help recruit new employees for hard-to-fill positions. The new Web-based forms for requesting special rates make it easier for agencies to make use of this tool.

The proposed Human Capital Conference Fund and SES pay system improvements are part of the Administration's priorities related to creating and sustaining a high-performance culture with emphasis on greater compensation for high-performing employees.

Link to Management Challenges: OPM's leadership role in Human Resources Management requires it to spearhead efforts to help ensure Federal agencies' ability to attract, retain, and motivate a well-qualified, high-performing workforce. Accomplishment of agencies' missions depends very heavily on workforce quality. Getting and keeping good employees requires up-to-date compensation practices that enable agencies to offer fair and competitive wages to new employees. In addition, agencies need flexibility to offer financial incentives to motivate those employees they wish to retain. Sound performance management programs help managers distinguish between good and poor performers. This permits them to reward good performers and deal with poor performers, thus improving workforce quality.

Performance Indicators:

- **New or revised policy guidance and regulations are issued in a timely manner, so that agency needs are met without delay, and informal feedback from agencies through direct contacts, interagency meetings, and comments on the Customer Satisfaction Surveys and at seminars and conferences indicate that these policies are beneficial to agencies. [Critical indicator]**

In June 2003, OPM transmitted to Congress a report providing a comprehensive summary of the duties, responsibilities and entitlements of employees with law enforcement duties. During the year it established more than 20 new title 5 special rate tables, concurred on more than 80 title 38 special rate tables, and completed the 2003 annual review of special salary rates for more than 400 special rate schedules. OPM also developed new user-friendly Web-based forms for requesting special salary rates and transmitted to Congress reports on the increased use of human resources flexibilities (i.e., the student loan repayment program and physician's comparability allowance program). Establishing title 5 and title 38 special rate tables is critical to enabling agencies to recruit and retain a well-qualified workforce. In OPM's "2002 Student Loan Repayment Report to Congress," agencies reported the guidance on OPM's Web site on the Student Loan Repayment Program was especially helpful in creating and implementing their internal programs.

OPM also prepared a legislative proposal to create the Human Capital Performance Fund. The Human Capital Performance Fund will be a new pay-for-performance system for employees below the Senior Executive Service level.

OPM continues to provide substantial advice and guidance to agencies on pay and performance management programs, policies and practices. In 2003, it issued numerous compensation policy memoranda, fact sheets, and policy guidance, all of which are available on OPM's Web site at <http://www.opm.gov/oca>.

- **Statutory and regulatory changes have been proposed for the HR policies and procedures governing personnel actions linked to the calculation of Federal pay and benefits.**

OPM developed pay and leave administration technical amendments and improvements. Three regulations were issued in the Federal Register in 2003. In addition, OPM drafted 15 regulations on various pay and performance policies and programs.

- **Stakeholder groups are satisfied with the policy leadership provided by OPM in the development of proposed HR/payroll policies and procedures, as measured by written comments received by OPM on the revised policies and procedures and through surveys of the Deputy Secretaries for Administration and the Payroll Users Network.**

An initial analysis by payroll experts across Government identified more than 80 opportunities for standardization of policies or procedures. A focus group has been formed under the guidance of the Payroll Action Committee and is currently investigating those opportunities and drafting guidance for standardizing payroll systems processing.

OPM has also taken a central role in developing proposed HR/payroll policies and procedures to support the establishment of a consolidated, integrated Governmentwide HR/payroll delivery system(s) (e-Payroll). It is drafting comprehensive regulations to standardize pay, leave, and hours of work rules to simplify payroll processing under the e-Payroll project and to aid agencies in the administration of these programs. The draft regulations have been informally reviewed by agency HR and payroll representatives. Standardization of pay, leave, and hours of work rules and policies will lead to more efficient payroll processing system(s) for the entire Federal Government.

SHRP FY03 Goal 4

WCPS Goal 4: Administration of current workforce compensation and performance systems continues to provide cost-effective and improved Governmentwide service that meets or exceeds customer expectations. (Ongoing)

Status: This goal was met.

Key Results: OPM provided agencies with sufficient and timely information to implement new pay schedules for their employees and worked with the Federal Salary Council to complete its recommendations and transmit them to the President's Pay Agent on a timely basis.

Link to Management Challenges: OPM's leadership role in Human Resources Management requires it to spearhead efforts to help ensure Federal agencies' ability to attract, retain, and motivate a well-qualified, high-performing workforce. The ability of agencies to accomplish their missions depends very heavily on workforce quality. Getting and keeping good employees requires up-to-date compensation practices that enable agencies to offer fair and competitive wages to new employees. In addition, agencies need flexibility to offer financial incentives to motivate those employees they wish to retain. Sound performance management programs help managers distinguish between good and poor performers. This permits them to reward good performers and deal with poor performers, thus improving workforce quality.

Performance Indicators:

- **All actions necessary to make new pay schedules effective are accomplished within statutory deadlines, and agencies are provided with sufficient information to implement new pay schedules on a timely basis.**
[Critical indicator]

Using its Web site and published documents, OPM provided agencies with sufficient and timely information to implement new pay schedules for their employees. Following the issuance of the President's executive order on Federal pay, it issued pay tables in January 2003 for the General Schedule, including locality pay rates and locality pay areas and rates of pay for members of the Senior Executive Service, Administrative Law Judges, employees in senior-level and scientific or professional positions, Contract Appeals Board members, and Executive Schedule officials. In March 2003 OPM posted revised pay tables to incorporate a retroactive 1 percent increase approved by Congress.

OPM worked closely with stakeholders covered by the nonforeign area Cost-of-Living Allowance program pursuant to the settlement agreement of *Caraballo v. United States*. It met with stakeholders in these areas, issued information for new rates for the Caribbean allowance areas and conducted price surveys in Anchorage, Juneau, and Fairbanks, Alaska, as well as the Washington, DC, area.

In addition, OPM issued guidance to Federal agencies on capping Federal Wage System pay adjustments in January 2003 and March 2003 and approved special rates for positions for which agencies were experiencing recruitment or retention difficulties.

- **The annual report by the President's Pay Agent is issued in a complete and timely manner.**

OPM worked within the Administration and was prepared submit the final report to the Presidents' Pay Agent on the established deadline, November 30, 2003.

- **Declining weighted average age of classification standards indicates that standards are more current.**

ANNUAL PERFORMANCE GOALS *and* RESULTS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY2003 Target	FY 2003 Results
Weighted Average Age Baseline of Standards (in Months)	219	228	178	188	178	198

Data source: FY 2003 Final Average Age of Classification Standards PC Database

If no new standards are published in any given year, the average age of standards increases by 12 months. Standards published in FY 2003 covered a small number of employees, resulting in an increase of 10 months in the average age of standards.

OPM will redirect resources toward this work during FY 2004 and FY 2005 to improve this performance indicator, as noted in the Performance Budgets for these two fiscal years.

- **Performance management products address features and explain the five fundamental processes of performance management (planning, monitoring, developing, rating, and rewarding performance).**

Three products were prepared in FY 2003: a “Handbook for Measuring Managerial Performance;” a paper on group incentives; and “Achievements,” a report on agency awards activity for FY 2000. The handbook addresses planning, monitoring, and rating performance. The paper and the “Achievements” report address the rewarding aspect of performance management.

SHRP FY03 Goal 5

ER Goal 1: Continue the comprehensive, long-term study of the organization, structure, and composition of the Senior Executive Service and other senior personnel systems begun during FY 2001.

Status: This goal was dropped as the effort to conduct the SES study was absorbed into activities necessitated by the Homeland Security Act. An accounting of the performance indicators described for this goal in the original Annual Performance Plan for FY 2003 can be found in Appendix A.

Key Results: In FY 2003 OPM adjusted its goals to focus on supporting the creation of the Department of Homeland Security and its leadership team. In response to changing organizational priorities and reduced staffing levels, it deferred implementation of this goal. However, OPM continued to advise the Internal Revenue Service on the implementation of its demonstration project to test possible approaches for restructuring the Senior Executive Service.

Link to Management Challenges: None of the management challenges identified by the Office of the Inspector General pertain to the organization, structure, and composition of the Senior Executive Service as described in the goal above.

SHRP FY03 Goal 6

ER Goal 5: Through the biennial executive resources allocation program, maintain executive resource levels that are consistent with Administration policy and the overall size of the Federal Government.

Status: This goal was not met as the resources supporting it were redirected to perform work necessitated by the Homeland Security and Chief Human Capital Officers Act. An accounting of the performance indicators described for this goal in the original Annual Performance Plan for FY 2003 can be found in Appendix A.

Key Results: Although OPM began the executive resource allocation process with the intention of maintaining overall Governmentwide allocation levels, the creation of the Department of Homeland Security in FY 2003 necessitated an increase of more than 100 SES allocations. OPM plans to use the FY 2004-2005 biennial allocation process (begun in early FY 2003) to make needed adjustments in overall executive resource allocations to reflect these shifts in the Government's organization and leadership structure, the redeployment of existing allocations to higher priority needs, and the Administration's goals of streamlining and delayering management structures.

Link to Management Challenges: None of the management challenges identified by the Office of the Inspector General pertain to the SES biennial executive resources allocation program as described in the goal above.

SHRP FY03 Goal 7

RIS Goal 1: The Federal employee benefit programs are enhanced to offer a more flexible range of higher quality benefits as OPM explores new benefit offerings.

Status: This goal was met.

Key Results: In 2003, OPM successfully enhanced the Employee Benefit Programs by making them more flexible, and proposed new benefit offerings for Federal employees and annuitants, as described below. For the first time in five years it increased the number of health care plan choices available, introduced two new consumer-driven products, and prepared proposed regulations that would give the Office of the Inspector General greater oversight over large provider contracts.

Link to Management Challenge: This goal is linked to the management challenge for Maintaining and Improving the Performance of the Federal Employees Health Benefits Program. OPM sent policy guidance to carriers in April 2003 that established the Director's goals for the negotiations for calendar year 2004.

Performance Indicators:

- **Adherence to commitments and project timetables:**

- * Implementing regulations are published, and other milestones are met, within the time frames described in authorizing legislation.

Flexible Spending Accounts — Hired a third-party administrator to provide health care and dependent care Flexible Spending Accounts for Federal employees, filling a significant gap in the Federal benefits package and helping make agencies more competitive in the job market.

Pharmacy Benefits Managers and Audit — Published proposed regulations that will help the OPM Inspector General perform audits of health plan contracts involving Pharmacy Benefits Managers.

Life Insurance — Published proposed regulations to remove life insurance premium quotes from regulation and put new premiums and age bands in effect for the life insurance program. Acting on issues arising from the 9/11 attacks, OPM contractually corrected an inequity in the life insurance program to extend the time period from 90 days to 365 days when accidental death and dismemberment benefits are payable after an employee dies or is dismembered.

Military — OPM provided guidance relating to military furloughs, supporting the Nation's efforts in Iraq, and secured agency cooperation in funding employees' health benefits premiums during a period of leave without pay while on active military duty which does not require the employee to repay the premiums upon return to Federal civilian service.

Retirement for Postal Service employees — OPM prepared legislation which reformed the mechanism for funding retirement benefits for Postal Service employees. The Service will now accurately pay its costs (no longer overfunding benefits) and can stabilize its rates for several years.

During FY 2003, OPM developed new quantitative performance indicators, based on experiences in applying the Program Assessment and Rating Tool (PART) to the Retirement and Life Insurance programs. The PART was developed by the Office of Management and Budget to evaluate the design, planning, and management of Federal programs. As OPM applied the PART to the Retirement and Life Insurance programs, it became evident that the original performance indicators (based on the now defunct HR Directors' Survey) did not address a key program outcome for the employee benefit programs, the extent to which these programs enable Federal agencies to recruit and retain the workforce they need to meet their mission. To assess this aspect of program performance, OPM developed new performance indicators to collect data on the following:

- 1) Whether potential employees think the benefits programs available to them are competitive with those of other employers they have considered;
- 2) Whether new hires think the benefits programs available to them were important in their decision to apply; and
- 3) Whether employees think their benefits programs are an important factor in their staying in public service.

OPM is developing mechanisms to collect data for these new indicators, and will formalize the benchmarking process and use literature searches as a yardstick for the competitiveness of its programs. OPM is implementing these indicators and will use them in future Performance Budgets and Performance and Accountability Reports.

SHRP FY03 Goal 8

OWR Goal 1: Increase Federal agency implementation of work/life, wellness, human resources development, employee relations and labor relations programs as tools that managers can use to improve organizational performance. (See also HCL&MSA Goal 11.)

Status: This goal was met.

Key Results: In FY 2003, the number of Federal employees who telecommute increased by more than 15,000. OPM developed and implemented the HealthierFeds campaign to both improve Federal employees' health status and help reduce demand for services under the insurance program.

Link to Management Challenge: None of the management challenges identified by OPM's Inspector General pertain to work/life and wellness programs. However, these programs are part of OPM's overall solution to the management challenge covering Human Resources Management.

Performance Indicators:

The performance indicators for this goal described in the FY 2003 Annual Performance Plan were dropped and replaced with indicators that target (1) the extent to which agencies believe the Federal employee and family support programs support recruitment and retention; and (2) whether potential, new, and career employees think the programs available to them are competitive with those offered by other employers and are important to their decision to accept a job offer. These indicators will be reflected in the Performance Budget for FY 2005, and will be used to assess performance during FY 2004.

- **The number of Federal employees who telework and the number of employees who are eligible for this flexible workplace arrangement.**

Telework Statistics (77 reporting agencies)	FY 2001 Results	FY 2002 Results
Teleworkers	74,487	90,010
% of total workforce	4.2%	5.0%
Eligible for telework	521,542	625,313
% of total workforce	29%	35%

Data source: OPM Report to the Congress – “The Status of Telework in the Federal Government, January 2003”

OPM launched a wellness initiative — HealthierFeds — as part of the President’s Healthier US initiative. Through this campaign it will educate Federal employees and retirees and their families on fitness, healthy lifestyles, care management, and prevention strategies. OPM is in the process of involving agencies in this education campaign. Federal Employee Health Benefits carriers have included the HealthierFeds message on their member Web pages and in their publications.

- **Agencies report satisfaction with OPM seminars, conferences, working groups, and other special-interest meetings in that OPM initiatives and guidance help them address work/life and wellness needs.**

OPM conducted a variety of conferences, working groups, and other meetings on work/life matters, including the annual Employee Assistance Program Coordinators conference, quarterly Telework coordinators meetings, work/life coordinators meetings, and sessions of the Interagency Federal Child Care Council.

Participant evaluations scores were consistently 3.5 or better on a 1-5 point Likert scale, and/or 75 percent or more of the individual ratings were good to outstanding.

SHRP FY03 Goal 9

ES Goal 3: Agency requests for variations, exceptions, extensions, waivers, and adjudications are responded to in a manner that is both timely and consistent with law and Merit Systems Principles so that agencies can proceed in a timely manner.

Status: This goal was met.

Key Results: During the first half of FY 2003, human resources policy staff continuously responded to staffing policy casework within the established 10-day timeliness standard.

Link to Management Challenges: Although OPM's Inspector General has not identified this goal as a management challenge, responding to these requests in a timely manner contributes to agencies' efficiently managing their human resources system, and thus indirectly supports the resolution of the management challenge concerning Human Resources Management.

Performance Indicator:

- **Respond to staffing policy casework within the 10-day timeliness standard developed by OPM.**

During the first half of FY 2003, OPM consistently responded to staffing policy casework within the established 10-day timeliness standard. As a result of OPM's restructuring, these program requirements shifted to the newly established Human Capital Officers.

SHRP FY03 Goal 10

OWR Goal 2: Ensure that third-party decisions are consistent with civil service laws, rules and regulations, and that OPM exercises formal intervention, reconsideration or judicial review of decisions when warranted.

Status: This goal was met.

Key Results: OPM continued to fulfill legal requirements to review third-party decisions as approximately 10,000 third party decisions were reviewed to ensure that they were consistent with civil service laws, rules and regulations. While this remains an important function, it does not represent a program outcome and should not be the subject of an agency annual performance goal. In the FY 2004 and FY 2005 Performance Budgets, it appears as an activity supporting the Human Resource Accountability and Audits Program.

Link to Management Challenges: None of the management challenges identified by the Office of the Inspector General pertain to OPM's review of third party-decisions made by the Merit Systems Protection Board, the Federal Labor Relations Authority, and Federal arbitrators.

Performance Indicators:

- **All decisions of the Merit Systems Protection Board and appropriate Federal Labor Relations Authority, court and arbitration decisions are reviewed, and intervention or judicial review is recommended in appropriate cases. [Critical Indicator]**

OPM continues to review all decisions of the Merit Systems Protection Board and appropriate Federal Labor Relations Authority, court, and arbitration decisions (approximately 10,000 decisions annually). While there were no new interventions this year, a number of older cases worked their way through the administrative and judicial review process that resulted in favorable decisions. One such case concerned the legal test for determining when an employee is entitled to "whistleblower" protections (*White v. Air Force & OPM*).

- **OPM interventions help to maintain the integrity of the merit system and the principles of sound public management as measured by Labor Relations and Employee Relations Network groups.**

A survey of the Labor Relations Group showed a satisfaction rate of 4.4 out of 5.0 on the question of whether information provided to the Group contributed to the effectiveness of group members' abilities to effectively address labor relations issues at their agencies.

SHRP FY03 Goal 11

OMSOE Goal 5: Meet the workforce information needs of the White House, OMB, Congress, Federal agencies, the public, and other customers through the Central Personnel Data File (CPDF).

Status: This goal was met.

Key Results: OPM provided accurate and timely guidance to more than 1,600 Federal personnel offices regarding personnel record keeping, data standards, and transaction processing. Eighty-eight percent of customers expressed appreciation for receiving CPDF and personnel guidance. It also maintained CPDF data accuracy above 90 percent, and successfully certified and accredited the CPDF system. Certification and accreditation placed CPDF in compliance with the Federal Information Security Management Act.

Link to Management Challenge: The improved maintenance of the CPDF during FY 2003 enabled OPM and other Federal agencies to

- 1) perform workforce planning, and
- 2) track the use of recruitment and retention incentives, work/life and wellness programs, and participation in the employee benefit programs.

OPM will leverage this information to propose new initiatives that support the Strategic Management of Human Capital which is OPM's primary strategy in addressing the management challenge covering Human Resources Management. CPDF is the primary source of Federal civilian demographic information that can be used by OPM and Federal agencies to address the management challenge for Human Resources Management. OPM will rely on CPDF data to review agency human resources programs and foster a more results-oriented approach to human resources management across the Federal Government.

Performance Indicators:

- The quantitative performance targets described in the table below are met. [Critical Indicators are in bold].

Customer Satisfaction Indicators	FY 1999 Result	FY 2000 Result	FY 2001 Result	FY 2002 Result	FY 2003 Target	FY 2003 Result
Increased customer satisfaction with information products and services ¹	n/a	96%	n/a	91%	80%	88%

ANNUAL PERFORMANCE GOALS *and* RESULTS

Business Process Indicators	FY 1999 Result	FY 2000 Result	FY 2001 Result	FY 2002 Result	FY 2003 Target	FY 2003 Result
Increase in customers using self-service, web-based workforce information products – hits per week ²	n/a	n/a	n/a	60,000	60,500	80,000
CPDF submission accuracy rate for status files. ³	n/a	95%	97%	97%	97%	97% (For 3 QTRS)
CPDF submission accuracy rate for dynamic files. ³	n/a	91%	93%	92%	92%	91% (For 3 QTRS)
Maintain CPDF status file processing time (in days). ³	6.6	7.7	3.9	2.6	No Target	3.3% (For 3 QTRS)
Maintain CPDF dynamics processing time (in days). ³	3.3	2.9	2.6	2.2	No Target	2.6% (For 3 QTRS)

1 – CPDF User Surveys;

2 – FedScope Web site hits;

3 – CPDF status files and dynamic files reports. This measures the accuracy of agency submissions to the database. These measures were established in FY 2003 and therefore had no targets. OPM examined historic records during FY 2003 to determine prior year values.

SHRP FY03 Goal 12

EHRI Goal: Reengineer Governmentwide human resources management (HRM) record keeping and reporting practices to facilitate the use of human resources data and to streamline and improve Governmentwide reporting.

This goal was combined with OPM's e-Gov goal (MCFO Goal 2) since the activities supporting it pertain to the EHRI Project. See MCFO Goal 2 for a full report on EHRI and OPM's other e-Gov Projects.

STRATEGIC GOAL II:

FEDERAL AGENCIES USE EFFECTIVE MERIT-BASED HUMAN CAPITAL STRATEGIES TO CREATE A WORK ENVIRONMENT THAT ACCOMPLISHES THE MISSION.

HCL&MSA FY03 Goal 1

IS Goal 3: Agency personnel security programs are made more effective as a result of OPM evaluations that identify deficiencies and make recommendations for improvement.

Status: This goal was met.

Key Results: As a result of OPM's restructuring, the function of appraising agency personnel security programs and the related resources were absorbed into the Center for Merit Systems Compliance. This will strengthen oversight of agencies' personnel security programs. OPM has established a schedule of agency appraisals, including follow-up with agencies that have not complied with the requirement to report their adjudicative actions to OPM no later than 90 days from the date of the closed investigations report. In a memorandum to agency heads, the Director reinforced to agencies the need to report on these adjudicative actions and on OPM's commitment to make agency personnel security programs more effective in holding agencies accountable and conducting appraisals of agencies that do not comply.

Link to Management Challenge: The Office of the Inspector General did not specifically identify personnel security programs as a management challenge. However, OPM believes that providing quality and timely investigative services indirectly addresses the management challenge covering Human Resources Management because efficient investigations reduce the time needed to hire new Federal employees and allow agencies to more quickly fill competency gaps and better serve the American people.

Performance Indicators:

• **Improvements made in agencies' security and suitability programs. [Critical indicator]**

OPM's appraisal reports on agency personnel security/suitability programs and assistance to agencies conducting self-appraisals cite areas needing improvement and present recommendations for making those improvements. Agencies that follow these recommendations improve their security and suitability programs consistent with applicable law, executive order, and regulation, and contribute to the improved security of our Nation. While OPM has found that agencies are still not fully compliant with requirements, improvements are being made. For example, the Director's July 9, 2003, memorandum to agency heads reminded them of the requirement in E.O. 10450 to report agency adjudicative actions to OPM no later than 90 days from the date of the closed investigations report. Twenty-three agencies were in compliance, with 29 in partial compliance and 1 non-compliant. The Director issued a follow-up memorandum on September 29, 2003, to some agencies to ensure compliance. The result was that only eight agencies are now partially compliant, and OPM is working with them to achieve full compliance. OPM plans to conduct on-site appraisals in FY 2004 to ensure that all agencies are fully compliant in their security and suitability programs.

• **Results of agency security appraisal self-assessments.**

While working with the Commodity Futures Trading Commission to complete an agency security self-appraisal, OPM helped identify areas for improvement and provided suggestions that will improve their program.

• **Quality of agencies' personnel security operations.**

OPM issued three reports in FY 2003 that appraised agency personnel security programs, and conducted an on-site appraisal of OPM's internal personnel security program. These reports were for the Securities and Exchange Commission, the Pension Benefit Guaranty Corporation, and the Equal Employment Opportunity Commission. OPM found that many agency positions are underdesignated, investigations are not requested in a timely manner, and OPM is not notified in a timely manner of agency adjudicative actions. OPM has also completed an internal security appraisal of its own Personnel Security/Suitability Program as requested by the Director, although the report has not yet been issued. In all cases, reports cited areas that agency personnel security operations need to improve, and provided recommendations or requirements for doing so. Over the long term, these efforts should result in improved agency personnel security operations, and better security for the Nation.

HCL&MSA FY03 Goal 2

OMSOE Goal 1: Improve the overall effectiveness of Government through broad, crosscutting initiatives aimed at innovative, merit-based HR policies and practices.

Status: This goal was met.

Key Results: By redirecting resources toward implementing the Strategic Management of Human Capital, OPM has pursued improvements in Human Capital Management.

- The Homeland Security Act included the establishment of Chief Human Capital Officer (CHCO) positions in President's Management Council (PMC) agencies to lead the implementation of Strategic Management of Human Capital in their agency. The Director has already met with the CHCO Council, laying the foundation for using the combined expertise and synergy of the group and OPM to further improvements in human capital management Governmentwide.
- A joint DHS/OPM team developed options for a new human resources management system.
- Scoring of agencies on the Strategic Management of Human Capital under the President's Management Agenda demonstrates significant progress in integrating human resources management into strategic planning. When this initiative was introduced in 2001, all but 3 of 26 agencies were rated "Red" on current status, as a result of serious human capital problems. To improve a score, an agency must show progress against criteria that include integrating and implementing human capital into strategic planning. The most recent status scores now show that 12 agencies are rated "Yellow." The most recent progress scores show that 22 are "Green" and 3 are "Yellow."

Link to Management Challenge: This goal is directly linked to the management challenge covering Human Resources Management. The improved agency scores described above indicate that human capital transformation is occurring Governmentwide. This is the key to improving agency performance, resultant services, and ultimately, providing better value to the American public.

Performance Indicators:

OPM analyzed the human capital efforts of agencies and shared insights and guidance with them to help them improve. OPM developed and provided agencies with workshops, tools (including survey instruments such as the Federal Human Capital Survey and the Human Capital Assessment and Accountability Framework) and links to resources providing more in-depth guidance and information on specific human capital areas. In addition, OPM developed and refined the Human Capital Standards for Success and guided agencies through the process of setting intermediate goals that keep agencies focused on the key dimensions of Human Capital Management.

During FY 2003, the agencies designated their Chief Human Capital Officers. The role of these key positions, at senior management levels above the agency's Human Resources Director, is to shepherd and drive the Strategic Management of Human Capital. By working with OPM, these Officers will be a central focus of and responsible for leading the transformation of human capital in their agencies.

As authorized under the Chief Human Capital Officers Act, OPM established a Chief Human Capital Officers Council, with the OPM Director as the chair and the Deputy Director of OMB as the vice chair. The Council is made up of the Chief Human Capital Officers of Cabinet departments and large executive agencies, along with representatives of smaller agencies. It serves as a high-level policy planning body that can address and advance such matters as modernizing human resources systems, improving the quality of human resources information, and advancing legislation affecting human resources operations and organizations, as well as the Administration's strategic objectives for human capital.

As a first step in this transformation, OPM extended the availability of categorical ratings Governmentwide, moving this innovative hiring practice previously available in only a few agencies, beyond the demonstration project level. Another practice now available to agencies is direct-hire authority in times of emergency or disaster, when events create a critical hiring need or when there is a severe shortage of candidates.

As a part of the Federal Government's continuing efforts to hire the best and the brightest, OPM authorized the development of the Senior Executive Service (SES) Candidate Development Program. This program is designed to create pools of qualified executives for SES positions and includes a variety of elements that will prepare candidates for success, such as rotational assignments, formal training, mentoring and performance assessments. The program brings together a cadre of potential executives from participating agencies and the private sector for a unique experience in learning and development. Graduates of the program may be selected for SES positions anywhere in the Federal Government, without further competition.

OPM also conducted a significant overhaul of the Presidential Management Intern Program. OPM has proposed changing the program's name to the Presidential Management Fellows Program, and it will be relocated from Philadelphia to Washington, DC. The limit on the number of participants is being lifted, and new pay authorities are being sought. Senior Presidential Management Fellow positions have been proposed as a new component of this program, now being created to provide high-level opportunities to candidates with exceptional credentials and experience. The target is to revitalize the program and raise its visibility, offer valuable developmental opportunities to qualified individuals and cultivate experienced management professionals to contribute to the Federal government's success.

- **Continued expansion of the use of demonstration projects, alternative personnel systems and existing flexibilities. For formally evaluated projects and systems, evidence that they are contributing to organizational effectiveness**

The number of agencies and employees covered by alternative personnel systems and existing flexibilities has continued to expand. For example, categorical rating has been made available to all agencies, enabling them to consider more candidates for jobs while still protecting veterans' preference.

OPM approved a five-year extension of a Department of Commerce demonstration project that significantly expanded the number of employees covered. The formal evaluation of the project showed that it contributed to organizational effectiveness.

OPM also worked with the Internal Revenue Service in designing a demonstration project that covers senior-level program officials, and assisted agencies in making use of the Voluntary Separation Incentive Payments and Voluntary Early Retirement Authority for strategic alignment purposes, processing over 100 such requests in FY 2003.

- **Changes in policy, law, rule and regulation result from evaluation, lessons learned, and best practices of demonstration projects and alternative personnel systems.**

OPM regularly assesses policies, laws and regulations in light of lessons learned. The most far-reaching example of how demonstration projects and alternative personnel systems inform policymaking is in the Homeland Security Act, which provides for implementing a flexible personnel system for DHS that takes advantage of successful practices in demonstration projects and alternative systems in areas such as compensation and performance, and the Chief Human Capital Officers Act, which established Governmentwide

hiring flexibilities originally touted in demonstration projects. On a smaller scale, an example of alternative personnel systems informing policymaking is the evaluation of the delegated examining operations of the Forest Service's Automated Staffing Application Program. OPM's evaluation found unauthorized use of category rating for filling temporary positions. Following discussions among the Department of Agriculture, the Forest Service, and OPM on possible corrective actions and options, a Federal Register Notice was issued that extended the authority for category rating to include temporary positions in the Forest Service (prior to the passage of the Chief Human Capital Officers Act).

- **Evidence that an increasing number of agencies are effectively integrating HRM into strategic planning.**

PMC agencies are steadily improving their scores on the Strategic Management of Human Capital criteria that require integrating and implementing human capital into strategic planning, an area that Human Capital Officers have been emphasizing with agencies. It includes assisting agencies in formulating plans that include identifying and addressing human resources and human capital concerns to help ensure long-term success in accomplishing mission objectives. The success of this work is reflected in the most recent President's Management Agenda status scores, which show that 12 of 26 PMC agencies are rated "Yellow." Progress scores for the 4th quarter of FY 2003 show that 22 agencies are "Green" and 3 are "Yellow."

HCL&MSA FY03 Goal 3

OMSOE Goal 3: Improve and support the high standard of agency adherence to the Merit Systems Principles – and other laws, rules, regulations and public policies governing Federal human resources management.

OMSOE Goal 4: Develop and improve agency accountability for conducting HRM in accordance with the Merit Systems Principles – and in alignment with mission.

Status: This goal was met.

Key Results: The human capital initiative shows that agencies have developed plans for establishing and implementing Accountability, one of the six Standards for Success used in implementing the Strategic Management of Human Capital under the President's Management Agenda (PMA), which addresses adherence to the merit system principles. OPM has established a more robust program, including working with the Human Capital Officers to institute into agency evaluations those elements that will review critical aspects of their human capital, which may inform the scoring process as agencies progress toward their human capital objectives. The increase in the number of agencies receiving progress scores of "Yellow" or "Green" on the Strategic Management of Human Capital Executive Scorecard under the President's Management Agenda is a direct reflection of improvement in this area.

Fourteen of 26 agencies now have accountability systems. In FY 2003 OPM emphasized agency accountability for competitive examining in its reviews of agencies' delegated examining operations. It also sponsored a series of interactive learning events for human capital and human resource professionals that included accountability and accountability systems.

OPM conducted an audit of significant human resource issues at the Transportation Security Administration and found serious shortcomings in the processing of background security investigations for the screener workforce, as well as in health benefits and retirement coverage decisions for these employees. This was a unique, high-visibility audit involving human resource outsourcing and could serve as a model for future audits of contracting out efforts. OPM's oversight efforts also included

audits to ensure that veterans were receiving their proper preference and that agencies were properly using authority granted by the Director to reemploy annuitants while waiving the dual compensation requirements when needed to respond to the emergency conditions resulting from the events of September 11, 2001.

Link to Management Challenge: Improving and supporting agency adherence to Merit System Principles — and supporting requirements is an important part of meeting accountability criteria of the Standards for Success, which ties directly to the management challenge covering Human Resources Management.

Performance Indicators:

- **Agencies increasingly adhere to the Merit System Principles and comply with HR laws and regulations. [Critical indicator]**

OPM's focus on the Strategic Management of Human Capital was to work with agencies in "Getting to Green" through meeting the Standards for Success. One of the key standards is to establish and implement agency accountability for human resources management, including assessing adherence to Merit System Principles and supporting requirements. Agency scores for these Standards continue to improve. Fourteen agencies now have accountability systems in place.

- **Ninety percent of problems found during the review process are resolved in accordance with regulations in a timely manner. [Critical indicator]**

When reviews find Merit System Principles — violations of regulations, law, rule, or executive order, OPM requires agencies to comply. While responses to all reviews in FY 2003 are not yet in, virtually 100 percent of regulatory violations have been resolved in a timely manner, i.e., corrective actions are taken, or plans for taking corrective actions are developed, within 60 days of the issuance of the report which cited the violations and required the corrective action(s). In reviews conducted in FY 2003, there was only one regulatory violation that was not resolved within this schedule (the Railroad Retirement Board Inspector General's Delegated Examining Unit). OPM is following up with the agency to ensure that the corrective action is completed in a timely manner.

- **OPM's agency review schedule is met.**

During FY03, OPM completed the review of six agencies, including the Corporation for National and Community Service, the Federal Retirement Thrift Investment Board, the National Planning Commission, the National Capital Region of the GSA Liaison Office, the Overseas Private Investment Corporation and the Woodrow Wilson National Fellowship Foundation. OPM also focused compliance efforts to ensure agency adherence to the Merit System Principles. OPM conducted 96 audits of agencies' use of their delegated examining authority and completed a review of the Transportation Security Administration's processing of employee health benefits, retirement processing, and background investigations. OPM completed audits of agencies' consideration and hiring of individuals with Veterans' Preference as well as agencies' use of delegated authority to waive the dual compensation reduction.

Though this indicator was not met, OPM has put a plan in place to meet it in the future. In FY 2005, it will accelerate its review schedule, reducing the 4-year review cycle to a 3-year cycle in order to have more current information for the agencies represented on the President's Management Council. OPM has developed new approaches that it can use to strategically address special areas of interest and concern related to nontra-

ANNUAL PERFORMANCE GOALS *and* RESULTS

ditional areas of oversight, e.g., human resources outsourcing and non-title 5 agencies. The retooled approach will have a stronger audit focus, linked to an overall assessment of human resources program effectiveness. As part of this process, OPM is working with the Human Capital Officers to institute into its agency evaluations elements that will review critical aspects of their Human Capital Management, which may be used in the scoring process as agencies progress toward their “Proud to Be” objectives.

- **Maintain high customer satisfaction with the review process by obtaining a rating of 4.5 on OPM’s customer survey responses in FY 2003.**

	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
Average Customer Ratings	4.4	4.3	4.6	4.5	4.3

Data source: Merit Systems Review End of Review Surveys

OPM received average ratings of 4.5 or higher on items such as: the review clearly stated the objectives at the beginning of the visit; provided useful information about observance of the merit principles and related laws, rules and regulations; accurately presented my organization’s position if disagreements or disputes existed; was conducted with a minimum of disruption of operations; and that the report was easy to read and to understand; provided a clear explanation of conclusions; and provided a clear link between reported problems, merit principles, and related personnel laws, rules, and regulations.

Also, OPM received average ratings of 4.0 from agencies concerning the following issues:

- 1) Addressing human resources management issues important to their organization’s mission;
- 2) Providing useful feedback for improving human resources management policies and processes; and,
- 3) Providing clear reasons for required and recommended actions.

The lowest of these items, the ability to show an understanding of the mission of the organization, received a 3.5.

- **Classification appeals, pay claims and Fair Labor Standards Act (FLSA) program decisions comply with regulations and are completed in a timely manner.**

The following table shows the percent of classification appeals, pay claims, and FLSA decisions issued within OPM’s 90-calendar-day time frame.

% Classification appeals, pay claims, and FLSA decisions made timely	FY 2001 Results	FY2002 Results	FY2003 Results
Classification Appeals	76%	76%	82%
Pay Claims	98%	92%	100%
FLSA Decisions	n/a	55%	100%

Data source: Classification Appeals Database

- **Overall accountability for HRM, including strategic alignment and adherence to merit principles, increases in agencies as measured by the results of oversight reviews and appropriate special studies.**

As a result of OPM’s restructuring, these resources were focused on efforts to move agencies forward on

the Strategic Management of Human Capital. OPM pushed forward to assist agencies to develop and improve internal accountability in human resources management. Fourteen PMC agencies now have accountability systems. At the start of FY 2003, five agencies had “Yellow” status ratings. The most recent status ratings included 12 “Yellow” ratings.

HCL&MSA FY03 Goal 4

ES Goal 2: Competitive examining is conducted correctly to ensure that Federal agencies comply with civil service laws, rules, regulations, and executive orders and support the Merit System Principles.

Status: This goal was met.

Key Results: The results of OPM’s reviews of agencies’ delegated examining operations show that most Federal agencies and delegated examining units (DEU) conduct competitive examining in compliance with civil service laws, rules, regulations, and executive orders and Merit System Principles.

Link to Management Challenge: OPM’s Office of the Inspector General has not specifically included competitive examining as a part of the management challenge covering Human Resources Management. However, it recognizes that these services play a role in Federal agencies’ recruitment and selections strategies, and in their accountability for carrying out delegated authorities properly. OPM considers its actions and accomplishments in this regard a part of the overall response to this issue. Its oversight of competitive examining across Government during FY 2003 revealed that Federal agencies are in compliance with competitive examining standards and that the Federal hiring process continues to be fair and equitable. The American people can be assured that Federal agencies hire on the basis of merit and job qualifications as they select the best people to do the work of Government.

Performance Indicators:

- **The extent to which agency delegated examining units adhere to law, regulation and Merit System Principles, and agency effectiveness in managing delegated examining units to support mission accomplishment as measured by the oversight study of delegated examining units conducted by OPM. [Critical indicator]**

In FY 2003, OPM completed 105 audits. Although the analysis of these audits has not been completed, past trends and preliminary results indicate only a small percentage of delegated examining units with severe problems.

Compliance Status Reviews	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results
# of Reviews	84	96	105	available in 2004
% w/No or Only Minor Problems Found	52%	42%	50%*	available in 2004
% w/Moderate Problems Found	46%	55%	47%*	available in 2004
% w/Severe Problems Found	2%	3%	4%*	available in 2004

Data source: Analysis of DEU Reviews

*Rounding has resulted in a total over 100%

Note: “No or only minor problems” or deficiencies are items such as documentation errors that had no impact on outcomes. “Moderate problems” are items that, to a limited extent, had a harmful impact on the examining process, or significant documentation deficiencies that preclude reconstruction, or problems that could reduce public confidence in the examining system. “Severe problems” are systemic and could or do invalidate the examining process, or isolated practices with special circumstances (e.g., with intent to manipulate the system) that invalidate the examining process, or significant practices that could destroy public confidence in the examining system.

ANNUAL PERFORMANCE GOALS *and* RESULTS

The DEU reviews in FY 2003 increased emphasis on the implementation of agency internal accountability systems over their DEU operations. A number of reports contained recommendations or requirements for agencies to improve their accountability systems over DEU operations. This will be reported in FY 2004. The on-site evaluators provided agencies with technical assistance and advice to improve compliance and overall effectiveness and efficiency of DEU operations, some of which is reflected in the feedback forms.

- **The HR Specialists’ Survey and informal feedback reflects that OPM’s delegated examining unit assistance results in increased agency customer satisfaction.**

OPM does not have FY 2003 data for this indicator since the HR Specialists’ Survey was deferred while its performance measurement system is being revamped to focus on the outcomes of the Strategic Management of Human Capital. However, performance indicators based on agency satisfaction with OPM’s technical assistance and services will continue to be an important element in the performance measurement system, and plans to conduct a retooled HR Specialists’ Survey during FY 2004.

As an alternative source of customer feedback for this goal, the average ratings collected from agency staff attending OPM’s DEU training classes is shown below. Based on a five-point scale, the results for FY 2003 show improvement in five of the six service dimensions covered.

DEU Training Area	FY 2002 Results	FY 2003 Results*
Objectives were achieved	4	5
Content was relevant	4	5
Level of detail was appropriate	4	5
Length was appropriate	3	4
Materials were well organized	5	4
Overall met my needs	4	5

Data source: Post-session Surveys of DEU Training Classes

* Reported results represent first half of FY 2003.

HCL&MSA FY03 Goal 5

ER Goal 4: Leadership and management skills, public service values, and a Governmentwide perspective are key factors in selections for all SES positions.

Status: This goal was met.

Key Results: For the cases which were part of OPM’s merit system review, leadership and management skills, public values, and a Governmentwide perspective were key factors for selection into SES positions. Executive qualifications, particularly leadership skills, are the primary selection criteria for the SES. While technical job-specific qualifications are important, the essence of the SES is the ability to lead. OPM has developed executive core qualifications that represent the critical leadership skills all executives need to succeed. Additionally, one of the Human Capital Standards for Success is Leadership and Knowledge Management. In its work with the agencies on human capital, OPM has emphasized planning and preparation for continued strength of leadership and succession planning at the highest levels to help ensure and sustain continuity of capable agency leadership.

Link to Management Challenge: Strengthening leadership, particularly among Federal executives, is one of the dimensions of the Human Capital Standards for Success. Thus, OPM's actions and accomplishments in this area link to the management challenge covering Human Resources Management.

Performance Indicators:

- **Agency vacancy announcements, Qualifications Review Board cases, merit staffing reviews, and/or contacts with HR Specialists with ER responsibility and/or with HR Directors show that agencies are emphasizing leadership qualifications and requirements in their selections for entry into the SES. [Critical indicator]**

Merit staffing reviews and Qualifications Review Board cases show that agencies are emphasizing leadership qualifications and requirements in announcing, considering and selecting candidates for the SES.

- **Alternative, quicker methodologies are identified and/or developed that agencies could use in assessing the qualifications of SES candidates.**

OPM designed an alternative, quicker 30-day model for filling SES vacancies, which it used to fill many SES positions. The model is now available to all agencies to utilize in filling SES positions.

- **Favorable ratings and comments on evaluations and/or informal feedback collected at briefings on the Executive Core Qualifications and other forums show that attendees understand and value information provided about the importance of developing and demonstrating the leadership qualifications.**

Executive Core Qualifications Briefing	FY 1999 Result	FY 2000 Result	FY 2001 Result	FY 2002 Result	FY 2003 Result
% Attendees Satisfied	n/a	n/a	91%	85%	98%

Date source: SES Briefing Surveys

HCL&MSA FY03 Goal 6

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

Status: This goal was met.

Key Results: Fifteen of the 26 agencies implementing the Strategic Management of Human Capital under the President's Management Agenda have implemented performance appraisal plans for SES and managers that link to agency mission, goals, and outcomes, and hold executives accountable for results.

Link to Management Challenge: Strengthening leadership, particularly among Federal executives, is one of the dimensions of the Human Capital Standards for Success. OPM's actions and accomplishments in this area link to the management challenge covering Human Resources Management.

Performance Indicators:

OPM dropped the two original indicators that were activity-based rather than outcome-based and developed a new indicator that better measures the outcome of this goal and reflects results from the implementation of Strategic Management of Human Capital under the President's Management Agenda. It continued to work directly with agency SES performance contacts to structure their SES performance

ANNUAL PERFORMANCE GOALS *and* RESULTS

management systems so as to incorporate balanced indicators and hold executives accountable for results. OPM participated in the development of new regulations and guidance that will further strengthen the linkage between SES pay and performance. One of the Human Capital Standards for Success is Leadership and Knowledge Management. OPM has emphasized succession planning at the highest levels to help ensure continuity of capable agency leadership.

- **Agencies implement performance appraisal plans for SES and managers that link to agency mission, goals and outcomes, and hold executives accountable for results. [Critical Indicator]**

Fifteen of the 26 agencies implementing the Strategic Management of Human Capital under the President's Management Agenda have implemented performance appraisal plans for SES and managers that link to agency mission, goals, and outcomes, and hold executives accountable for results.

HCL&MSA FY03 Goal 7

RIS Goal 3: More retiring Federal employees receive benefits counseling as agency Benefit Officers are provided with improved information and tools for these services.

Status: This goal was met.

Key Results: Agency Benefits Officers were better equipped to provide retirement counseling as a result of attending an increasing range of workshops and breakout sessions at the Fall Festival of Training and the Annual Federal Benefits Conference, and because OPM continued to provide agency Benefits Officers with benefits-related informational materials on the OPM Web site.

Link to Management Challenge: Although there is no management challenge regarding OPM's support for agency Benefits Officers, the actions in this regard indirectly support the challenge covering Human Resources Management. That is, retention rates of the Federal workforce can be indirectly affected by the agencies' ability to assist their employees in benefits and work/life planning, particularly as it pertains to preparing employees for retirement. OPM is required by 5 U.S.C. 8350 to "establish a training program for all retirement counselors of agencies of the Federal Government" and that "the training program established ... shall provide for comprehensive training in the provisions and administration" of Federal benefits.

Performance Indicators:

- **The quantitative performance targets described in the table below are met. [Critical indicators are in bold]**

Customer Satisfaction Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
% of retiring employees satisfied with retirement counseling ¹	88%	88%	89%	94%	88%	87%

Business Process Indicators	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY2003 Results
% of retiring employees who received retirement counseling.¹	68%	70%	74%	86%	70%	72%

ANNUAL PERFORMANCE GOALS *and* RESULTS

Conferences and Training Sessions	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY2003 Results
Attendance at the Federal Benefits Conference remains steady or increases ²	460	500	588	629	500	768
% of Federal Benefits Conference attendees who rate training very good or higher³	No Data Collected	88%	88%	85%	85%	92%
Attendance at the Fall Festival of Training remains steady or increases ⁴	271	270	250	240	270	270
% of Fall Festival of Training attendees who rate training very good or higher⁵	n/a	88%	89%	89%	89%	89%

1 - RIS Client Satisfaction Survey

2 - Attendance figures collected during Federal Benefits Conference

3 - Course evaluations completed by Federal Benefits Conference attendees

4 - Attendance figures collected during Fall Festival of Training

5 - Course evaluations completed by Fall Festival of Training attendees

HCL&MSA FY03 Goal 8

OMSOE Goal 2: Provide analyses of current HRM topics to the HRM community in order to improve HRM policies, practices and programs.

Status: This goal was met.

Key Results: OPM has continued to provide analysis, options and technical assistance to agencies in order to add value and promote mission-related needs through improving human resources management policies, practices and programs. This assistance is tailored to the specific needs of each particular agency. Human Capital Officers were assigned to each PMC agency, allowing each officer to learn about and to anticipate the needs of that agency, and develop a positive working relationship with agency leadership. For example, OPM focused intensively on the initial establishment of the DHS-OPM HR System Design Team. This included providing the Design Team with a wide range of options in establishing flexibilities for a personnel system that ensures sound Human Capital practices and is rooted in the Merit System Principles. In addition, OPM responded to more than 8,000 written inquiries from agencies on a wide range of subjects.

Link to Management Challenge: The analysis of and information on the Strategic Management of Human Capital that OPM provided during FY 2003 supports and links to the management challenge covering Human Resources Management. Such analyses provide agencies with examples of successful Human Resources Management practices that could be adopted to improve their own practices.

Performance Indicators:

- **Special studies produce valuable information that contributes to policy or program proposals. [Critical indicator]**

Even though OPM did not issue any special studies in FY 2003, it continued to provide information on innovative and tested approaches to improve human resources management. This included presentations

and technical assistance through the Knowledge Exchange Workshops and Professional Development Workshops developed for human capital and human resources professionals. These workshops included Addressing Diversity Issues, Workforce Planning, Accountability and Performance Culture. Also, OPM has provided information to and conducted briefings for individual agencies, e.g., Department of Defense Education Activity and the Smithsonian Institution. In addition, information from ongoing demonstration projects was influential in developing the Department of Defense's proposed legislation to implement a new National Security Personnel System.

HCL&MSA FY03 Goal 9

ER Goal 3: All career SES selections, particularly those of noncareer employees for career SES appointments, comply with merit system principles; agencies comply with statute and regulation in their use of noncareer and limited appointment authorities. (Ongoing)

Status: This goal was not met.

Key Results: OPM reviewed and approved six of seven SES career appointments of individuals from non-career-type positions proposed by agencies. In the one case it did not approve, the agency was advised and educated about the reason that the appointment was not approved. While OPM did not review all SES selections, contacts with agencies on proposed appointments provided OPM an opportunity to further educate agencies.

Link to Management Challenge: Strengthening leadership, particularly among Federal executives, directly links to the management challenge covering Human Resources Management challenge because it enables leaders to promote results-oriented cultures.

Performance Indicators:

- **Agency practices conform to merit system principles, including all SES career appointments of individuals from noncareer-type appointments. [Critical indicator]**

Since OPM did not review all SES and noncareer-type appointments made during FY 2003, it cannot assert with certainty that agency practices conform to Merit Systems Principles. However, results of merit staffing reviews and Qualifications Review Board actions show that all approved actions met requirements. For instance, agency executive resources staff members regularly commented that the checklist for merit system reviews helped them verify their adherence to SES merit staffing requirements and identify deficiencies. Agency executive resources staff members asked OPM staff questions in advance to ensure that cases met all requirements and could be processed efficiently by OPM officials when they arrived. Qualifications Review Boards reviewed 711 cases in FY 2003, with 669 cases approved and 42 disapproved.

HCL&MSA FY03 Goal 10

ES Goal 4: Agencies receive clear, accurate, timely staffing advice and assistance to ensure that the lawful rights of employees and applicants (including minorities, veterans, and displaced employees) are safeguarded and that managers are aware of staffing tools they can use to accomplish strategic objectives.

WCPS Goals 3 and 5: Federal agencies receive timely, accurate, and useful advice and technical assistance on performance, classification, and employee compensation that keep them better informed about appropriate system flexibilities and ways in which they can be used to support accomplishment of agency strategic goals.

OWR Goal 3: Provide expedient and accurate technical advice and assistance to Federal agencies to meet specific agency needs and objectives, improve the management and deployment of human resources, and advance the President's vision of a more responsive Government.

Status: This goal was met.

Key Results: As part of the Strategic Management of Human Capital initiative, OPM provides timely advice and assistance to agencies on most Governmentwide human resources functions. In FY 2003, these included:

- Making presentations on the transformation of the human capital effort and, based on OPM's work with agencies, identifying areas for improving responses to agency requests (i.e., Voluntary Separation Incentive Payments, buyouts), etc.;
- Providing briefings on the new staffing tools and flexibilities made available under the Chief Human Capital Officers Act;
- Making information available on the Web site covering the proper handling of human resources actions and information on staffing tools and flexibilities;
- Responding to agency questions and providing advice on options and flexibilities they may consider to better accomplish their objectives; and,
- Responding to more than 8,000 emails, written correspondence and phone inquiries for assistance from agency representatives, congressional and White House officials, Federal employees, and applicants on a wide range of topics and concerns.

Link to Management Challenge: Providing advice and assistance to Federal agencies across the full spectrum of human resources programs supports agencies' efforts to achieve the Standards for Success in the Strategic Management of Human Capital. As OPM has already established, this initiative is the central strategy toward resolving the management challenge covering Human Resources Management. The support that OPM provided agencies during FY 2003 was a factor in agencies improving their ratings in the Human Capital PMA Executive Scorecard and means that they are better managing their human capital resources, which will lead to better performance and service to the American public.

Performance Indicators:

In consolidating these three goals into one goal under the restructured OPM, many of the performance indicators for this goal were dropped. See Appendix A for an accounting of all of the performance indicators for this goal as they were described in the original Annual Performance Plan for FY 2003.

- **OPM information, policy, guidance and reference is made available through a variety of methods to ensure that agencies are well informed and have increased access to its services and programs as measured by surveys, interviews, informal feedback, evaluation instruments, or other qualitative measures. [Critical indicator]**

OPM provided information, policy guidance and references using a variety of methods. It made presentations to human resources and human capital officials, such as the Knowledge Exchange and Professional Development Workshops, and to Federal executives through Federal Executive Boards and SES briefings. OPM held conferences such as the Fall Festival of Training and the Symposium on Labor and Employee Relations. The Web site provides other updated information including press releases announcing new flexibilities such as the availability of category rating.

- Agencies are satisfied with the advice OPM provides, as demonstrated by their positive response to publications in the CSS and/or informal comments, and increased requests for advice and assistance through various media, as demonstrated by responses to Web site customer surveys and other means. OPM maintains an automated customer satisfaction survey on the Web site for the Performance Management Technical Assistance Center.

User satisfaction with Performance Management Technical Assistance Center	FY 2001 Result	FY 2002 Result	FY 2003 Result
Information is useful	84%	83%	77%
Pages are easy to navigate	83%	75%	75%
User plans to revisit Web site	86%	84%	73%

Data source: Web site survey for the Performance Management Technical Assistance Center

OPM has noted the declines in the user satisfaction with the Performance Management Technical Assistance Center, and although this indicator will not be used in future Performance Budgets, it expects satisfaction with this Web site to improve as it continues to engage agencies to develop a performance culture within their organizations under the Strategic Management of Human Capital.

STRATEGIC GOAL 3:

MEET THE NEEDS OF FEDERAL AGENCIES, EMPLOYEES, AND ANNUITANTS THROUGH THE DELIVERY OF EFFICIENT AND EFFECTIVE PRODUCTS AND SERVICES.

HRPS FY03 Goal 1

IS Goal 1: Support the Merit System Principles by issuing policy and taking action to ensure that 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.

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

Status: These goals were met and were combined into a single annual goal that focuses on the outcomes of the investigations program, rather than on its underlying activities.

Key Results: OPM has taken an aggressive approach to ensuring that only suitable persons are employed in the Federal competitive service and to improving investigation case timeliness and uniform application of investigative standards by:

- Establishing contracts with new private sector companies so that there are more contractors to handle the workload;
- Maintaining continuous liaison with National Agency Check repositories and state and local law enforcement entities to expedite the receipt of record information;
- Fostering dialogue and interaction with Federal agencies regarding investigative standards; and
- Arranging the detail of a staff person to the FBI to assist with the processing of investigative files requested by OPM.

Link to Management Challenge: OPM’s Inspector General did not specifically identify employment suitability or personnel investigations as management challenges for OPM. However, ensuring that Federal employees meet suitability standards and providing quality and timely investigative services indirectly address the management challenge covering Human Resources Management. Federal employees who meet Federal employment suitability standards are more likely to meet agencies’ workforce needs. Efficient investigations reduce the time needed to hire new Federal employees and allow agencies to more quickly fill competency gaps. Both of these human resources enhancements allow agencies to better serve the American people.

Performance Indicators:

- Carry out suitability casework for agencies. [Critical indicators are in bold]

SUITABILITY DECISIONS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
Agency referrals	1507	1,419	1,561	1,489	750	1,472
Determinations Completed	1560	1,433	1,588	1,456	750	1,259
Extensive Investigation Completed	402	467	407	364	425	269
Ineligible Rulings	148	175	206	160	200	185
Ineligible/Non Response Rulings	285	363	381	353	250	306
Direct Removals	58	37	41	39	50	42
Merit System Investigations	19	8	8	21	No target set	35

New suitability regulations, which became effective in March, 2001, delegated more responsibility to agencies for applicant suitability cases and gave them the authority to make most applicant suitability determinations on their own. To help ease the transition, OPM has continued to accept applicant suitability referrals while agencies begin to assume responsibility for all but the most egregious suitability cases. The number of cases referred to OPM is expected to decline over the next couple of fiscal years.

By providing for uniform application of suitability guidelines, OPM allows agency security and suitability programs to focus their scarce resources on day-to-day security and suitability issues. This allows OPM to be more citizen-centered—by making timely decisions—and ensures that only suitable persons hold positions in the Federal competitive service.

- **Minimize the number of suitability decisions overturned by Merit Systems Protection Board (MSPB) on appeal.**

OPM received a total of 39 appeals of suitability decisions this fiscal year. One appeal was reversed by MSPB (0.08 percent of total determinations completed). Of the remaining, 21 appeals were settled, 14 decisions were upheld, and 3 were dismissed.

- **Timeliness of suitability case processing.**

Ninety-six percent of applicant suitability determinations were completed within contract timeframes, and 3 percent exceeded the standard by 30 days or more.

Ninety-two percent of National Agency Check and Inquiries (NACI) and background investigation (BI) cases were completed within contract timeframes, and 4 percent exceeded the standard by 30 days or more.

A random review of fieldwork scheduled as part of a suitability determination showed that of the 67 cases reviewed, the fieldwork was completed within the contract delivery date in 37 cases (55 percent).

- **Respond to agency examining office requests for investigations into alleged merit systems abuse.**

OPM completed 35 investigations into alleged abuse of the merit system in FY 2003. These investigations resulted in 8 ineligible rulings, 11 individuals determined to be ineligible for Federal service because they failed to respond to official correspondence, and 1 instance in which an agency was directed to remove an individual.

- **Continue as an active member of the Personnel Security Working Group of the National Security Council, the Federal Working Group of the Criminal Justice Information System Advisory Policy Board, the Crime Prevention and Privacy Compact Council, and the Joint Security Training Consortium. [Critical Indicator]**

OPM served on the Joint Security Training Consortium, an Intelligence Investigations Community group, chaired by the Department of Defense. The Consortium will support the development of a Government Security Professional workforce through the Federal Security Professional Program, which will provide a multidisciplinary approach to address the knowledge, skills, and abilities needed by Federal security professionals.

- **Increased Governmentwide uniformity in the application of investigative standards.**

In July 2003, OPM Director Kay Coles James formally notified all Executive Branch Department and Agency Heads of their responsibility to promptly adjudicate background investigations performed by OPM for their agency as required by executive order and regulation. Agency Heads were asked to complete a review of all on-hand adjudication actions within 60 days and report the results to OPM.

OPM worked with agencies on their submission of outstanding adjudicative actions in order for them to comply with the Director's request. On September 29, 2003, the Director sent a follow-up notice to those agencies that had not fully complied with her request, and gave these agencies 15 days to comply. OPM continues to work with agencies on reporting their outstanding adjudication actions.

- **Feedback from Investigations Customer Satisfaction Assessment Survey.**

INVESTIGATIONS CUSTOMER SATISFACTION ASSESSMENT SURVEY

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results
% of customers satisfied with content & quality of investigations	97%	95%	93%	91%	Avail 1/04
% of customers satisfied with investigative policy guidance	92%	95%	95%	89%	Avail 1/04

Source: Investigations Customer Satisfaction Assessment Survey.

The Investigations Customer Satisfaction Assessment Survey, which covers performance for FY 2003, will be conducted in the first quarter of FY 2004. Results will be available in January 2004 and included in OPM's Congressional Budget Justification/Performance Budget for FY 2005.

- **Quality of the contractor's case products: OPM continues to work with its prime contractor to improve the quality of the work it performs.**

BUSINESS PROCESS INDICATORS

	FY 2001 Result	FY 2002 Result	FY 2003 Target	FY 2003 Result
Case Quality – % of Cases returned by customers for quality corrections	.043%	.045%	< 1%	0.18%

During FY 2003, 570,519¹ investigations were closed and only 1,049 returned to OPM for additional work due to quality concerns. This equates to a 0.18 percent product deficiency rate, which is higher than in the previous two years but well below the tolerance level of 1 percent.

- **OPM recovers program operating costs through effective case pricing.**

Based on preliminary financial results showing revenue of \$312 million, OPM incurred a slight loss of 0.2 percent for FY 2003.

- **Ensure that agency security personnel are informed of investigative procedural changes.**

OPM sent 7 Federal Investigations Notices to over 6,000 Federal and contractor offices that submitted investigation requests, and to approximately 2,000 Federal security offices that receive and adjudicate completed investigations from OPM. These notices communicated a variety of operational information about OPM investigations from case prices to investigative procedure changes.

- **Meet customer workload demands. [Critical Indicator]**

¹Total cases closed for quality measurement includes full-scope products only. Special agreement check product numbers were not included as there is little likelihood of error in these products due to limited content.

WORKLOAD INDICATORS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results
Background Investigations					
- Received	n/a	64,400	93,852	156,994	101,306
- Closed	44,005	56,032	73,745	83,720	106,209
NAC/NACI's					
- Received	n/a	187,691	368,711	469,014	440,464
- Closed	124,969	180,970	289,716	409,042	464,456
SAC/SACI's					
- Received	n/a	237,024	538,897	1,300,555	503,288
- Closed	218,580	256,045	536,111	1,303,821	508,749

Data source: Personnel Investigations Processing System

• **Provide new services to agencies.**

OPM continued to provide specialized training and services to its customers upon request and supported the President's Management Agenda by helping expand e-Government through the e-Clearance project.

* The e-Clearance Lab briefed and provided hands-on learning experiences on several investigations products and services. The investigations processing electronic questionnaire is in a deployment phase that will continue over many months. Two agencies are on-line, with four others in preparation to go on-line. Personnel security questionnaires have and will continue to be made available on-line.

* OPM completed a linkage with a Department of Defense system that allows an authorized user to verify a security clearance and most recent investigation. This linkage reduces paperwork, the time involved in passing clearances, and unnecessary investigative processing for both Government and contract personnel.

* Over 150,000 civilian agency security clearances are currently posted in the OPM portion of the Clearance Verification System (CVS). OPM expanded its Security/Suitability Investigations Index to civilian agencies to accommodate clearance information as directed by OMB.

* A secure portal was established and is in use to exchange sensitive but unclassified information. The portal permits secure transmittal of data and reports that otherwise would have had to be mailed or hand carried.

HRPS FY03 Goal 2

RIS Goal 5: Insurance Programs customers are provided with quality insurance products and services and continue to make informed decisions about their health care.

RIS Goal 6: The new Long Term Care Insurance Program becomes operational and begins accepting enrollments.

Status: These goals were met and were combined into a single annual goal that focuses on the delivery of services for all of OPM's insurance programs.

Key Results: OPM's quality insurance products and consumer information were supported by the following accomplishments in FY2003:

- * OPM completed implementation of the first significant enhancement to employee benefits since the Federal Employees Retirement System Act of 1983 as the Federal Long Term Care Insurance Program became fully operational;
- * OPM's strong negotiation stance led to health insurance premium rates lower than the national average for 2004;
- * Federal employees have an increased number of health plan choices — there will be 205 options next year, including two additional consumer-driven product options;
- * OPM successfully rolled out its new Flexible Spending Account program, which provides a means for employees to effectively manage their out-of-pocket health care and dependent care expenses;
- * OPM's FEHBP Web site offered several tools for consumers to use in making informed decisions about quality health care: a new plan-comparison tool and customized Web-based decision support tools; and
- * New in 2003, OPM published data from the Health Plan Employer Data and Information Set (HEDIS) to give customers the ability to evaluate the clinical quality of health plans along a variety of factors and make value-based health plan decisions. HEDIS also encourages health care plans to make internal efforts for quality improvement.

Link to Management Challenge: OPM's efforts to control costs through strong negotiation strategies and implementing program changes to strengthen health plan accountability represent a part of its response to the management challenge regarding the overall performance of the Federal Employees Health Benefits Program. Additionally, enhancing the benefit choices available to Federal employees with options such as long term care insurance addresses Human Resources Management because the program enables agencies to be competitive employers and to recruit and retain the workforce talent needed to meet their missions.

Performance Indicators:

• **Adherence to commitments and project timetables (Health Benefits):**

* **Health Benefits Open Season information and plan brochures are available to customers on time.**

Director James announced on September 16, 2003, insurance premium increases for 2004 that are significantly lower than the national average. Negotiations were conducted in accord with the Director's commitment to preserve benefits and choice, keep rates as low as possible, assure that plans will be financially viable, and optimize coordination of benefits. The FEHB Guide and other materials were approved for publication in September 2003 for printing and formatting and for Web site posting. Brochures were slated to be available by mid-October 2003, well before the Open Season began on November 10, 2003.

* **Initiatives to reduce the incidence of medical errors are implemented within the Federal Employees Health Benefits Program.**

OPM continued its two-year effort to promote the growing culture of patient safety in the health care community. The FEHB Program Call letter for the 2004 Open Season articulated OPM's resolve to reduce the incidence of errors and ensure safe practices and environments, imperative for both medical and economic reasons. For FY 2004, the goal is to bring the patient safety message directly to the consumer. Carriers were requested to report in detail on their patient safety initiatives and programs by August 29, and the information will be posted on the FEHBP Web site so current and potential health benefit

ANNUAL PERFORMANCE GOALS *and* RESULTS

enrollees can decide for themselves on carrier commitment to patient safety. This year's OPM-sponsored Health Plan Carrier Conference (March 2003) featured executives from several carriers discussing their ongoing and future initiatives to reduce medical errors.

- **The quantitative performance targets described in the table below are met. [Critical Indicator in bold]**

CUSTOMER SATISFACTION INDICATORS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
Overall customer satisfaction scores for enrollees in FEHB health plans meet or exceed the industry standard. ¹	FEHB Plans: 58%	FEHB Plans: 59%	FEHB Plans: 62%	FEHB Plans: 64%	FEHB Plans: 65%	FEHB Plans: 65%
	Industry: 57%	Industry: 57%	Industry: 59%	Industry: 62%	Industry: 64%	Industry: 61%

BUSINESS PROCESS INDICATORS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
% of accredited FEHB plans meets or exceeds the prior year. ²	n/a	62%	69%	71%	72%	69%
% of customers enrolled in FEHB accredited plans meets or exceed the prior year.²	n/a	72%	72%	76%	77%	76%
Timeliness of Life Insurance Claims Payments – paid w/in 10 days.	11.3 Days	10.2 Days	5.7 Days	6.0 Days	10.0 Days	5.2 Days
Accuracy of Life Insurance Claims Payments as % of Number Paid. ³	99.5%	99.5%	99.6%	99.9%	99.5%	99.6%

1 – Data Source: Consumer Assessment of Health Plans Survey (CAHPS) & NCQA Quality Compass data;

2 – Data Source: Accreditation Organization data (NCQA, JCAHO, URAC, and AAAHC) from OPM Insurance Services database. Data includes health plan accreditation status as of August 2003 and FEHB enrollment as of March 2003;

3 – Data Source: CRIS Quality Assurance Group Reviews of FEGLI Paid Claims.

Note: the above table reflects updated performance indicators as outlined in the FY 2004 Congressional Budget Justification/Performance Budget (CBJ). OPM is reporting on these indicators rather than those in the FY 2003 CBJ/APP because they more accurately reflect the current standards in the health care industry. OPM had planned to report on financial indicators but has dropped these indicators because no industry benchmarks were available for comparison purposes.

- **Adherence to commitments and project timetables (Long Term Care). [Critical Indicator]:**

* **The Long Term Care Insurance program is operational and accepting enrollments by October 2002.**

An early enrollment period was held from March 25, 2002, to May 15, 2002. The first full open season began on July 1, 2002, and continued through December 31, 2002.

* **Market penetration will be comparable to industry benchmarks.**

As of August 2003, market penetration was 5 percent of the Federal and postal employees and active members of the uniformed services population. A U.S. Department of Health and Human Services study entitled "A Survey of Employers Offering Group LTC Insurance to Their Employees" (May 2000), states that for all employers "the median participation rate among active employees was 3.1 percent." The first-

year market penetration rate of over 5 percent compared favorably with that of the California Public Employees Retirement System (CalPERS) in its initial offering period. The Federal LTC Insurance Program has about 200,000 enrollees and has surpassed CalPERS, which has been in operation for seven years, as the largest long term care insurance program in the country.

*** Carrier contracts will include quantitative indicators of profits and incentive awards based on performance.**

OPM has a signed SF 26 Standard Form Award/Contract (December 18, 2001) with Long Term Care Partners (LTCP). This contract includes OPM's Request for Proposals which outlines requirements for making a proposal, and the winning best and final offer which specifies details of the services LTCP has agreed to provide. The contract also contains quantitative indicators of profits and incentive awards based on specific performance standards

HRPS FY03 Goal 3

ER Goal 6: Continual learning and voluntary mobility are valued as strategies to improve the executive's ability to promote a Government that is citizen-centered, results-oriented, and market-based. Agencies and executives use training, development, sabbaticals, details, temporary assignments, and movement within and between agencies to broaden perspectives and gain fresh insights on leadership.

ER Goal 7: Demonstrate improvements in individual Government leaders' performance and/or organizational performance as a result of training or development experiences.

Status: These goals were met and were combined because they both focus on improving individual Government leaders' performance and/or organizational performance as a result of training, development experiences, sabbaticals, details, and temporary assignments.

Key Results: During FY 2003, OPM provided a broad range of developmental programs and services to improve the performance of Government leaders and their organizations. As the performance indicators below show, participants report improvements in areas such as teamwork, communications, clarity of mission, decision making and work quality. OPM also offered special workshops and conferences in support of the President's Management Agenda and Chief Human Capital Officers Act policy initiatives. Because resources were redirected to develop a Governmentwide SES Federal Candidate Development Program and revamp the existing Presidential Management Intern Program, the survey of the Senior Executive Service was discontinued.

Specific accomplishments in several critical areas of leadership development included:

- * Developing a Governmentwide SES Federal Candidate Development Program;
- * Completing work on a new Executive order to revitalize and expand the Presidential Management Intern Program;
- * Drafting the Chief Human Capital Officers Academy design;
- * Approving the initial concept for a Governmentwide Executive Readiness Program;
- * Establishing and maintaining agency partnerships to provide ongoing management, leadership and executive development assistance;

ANNUAL PERFORMANCE GOALS *and* RESULTS

* Conducting succession planning and development programs; and

* Supporting virtual team programs.

Link to Management Challenge: This indicator supports the management challenge covering Human Resources Management by developing the skills and abilities of Federal managers and executives needed to create results-oriented cultures that better serve the American public.

Performance Indicators:

- The quantitative performance targets described in the table below are met.

FEI AND MDC RESULTS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
Number of Training Sessions	230	328	422	461	463	356 ¹
Number of Participants	7,477	10,164	11,234	13,125	13,287	10,984 ¹
Number of Participant Training Days	73,241	87,890	95,377	96,635	95,051	84,049 ¹

Data source: Training Server database and Center for Leadership Capacity Services quarterly Resource Summaries

1 – The targets were not met because of changes in the performance indicator data. Before FY 2003, data include workload estimates for consulting and coaching services. These have been dropped from the FY 2003 data. OPM determined that this work is not consistent with regularly scheduled classroom programs and is difficult to classify and report as sessions, participants and participant training days. The FY 2003 actual performance levels should be used as the benchmark for future years.

- **Measuring the impact of Leadership Capacity programs on individual and agency performance will be demonstrated by the following data collected in FY 2003 by the use of the a 4 Level Evaluation Model. [Critical Indicator]**

FEI:

Level 1 (Reaction to training) — All 10 Leadership for a Democratic Society programs were evaluated.

Level 2 (Learning) — Nine Leadership for a Democratic Society programs were evaluated.

Level 3 (On-the-job skill use) & 4 (Impact on organization performance) — Three Leadership for a Democratic Society programs were evaluated.

At the Federal Executive Institute, the Leadership for a Democratic Society programs average 4.7 out of 5 on Level 1 of the four-level framework. On Level 2 (Learning), the programs generally averaged between 4.0 and 4.2 out of 5 on a range of outcomes. OPM evaluated Level 3 (Skill use) for its Applied Learning Programs, and on a 60-day post program follow-up evaluation, a significant percentage of participants reported gains in work-related areas such as improved teamwork, communications, clarity of mission, decision making and work quality. The follow-up evaluation also reported significant improvements in personal well-being resulting in fewer days lost from work and better work performance.

MDCs:

Level 1 (Reaction to training) — All seminars and programs were evaluated.

Level 2 (Learning) — All residential seminars were evaluated.

Level 3 (On-the-job skill use) & 4 (Impact on organization performance) — A total of 11 FY 2003 programs and offerings are being evaluated.

At the Management Development Centers, programs averaged 4.7 out of 5 on Level 1 of the four-level framework. On Level 2 (Learning), the programs averaged 4.4 out of 5. OPM evaluated Level 3 (Skill use) for custom work performed for the Department of the Air Force. The overall results were positive and included the following: 1) the course was useful for improving participants' job performance; 2) new skills were learned from attending the course; 3) the course improved participants' ability to apply new knowledge and skills in the workplace; and 4) the course was a good investment for the Air Force. Several other Level 3 evaluations are under way.

- **OPM continues to receive favorable ratings and comments on participant evaluations of SES leadership forums, briefings for new SES members, and other presentations. Participants report that the information received in these forums increases their job effectiveness. [Critical Indicator]**

Participants unanimously agreed the SES briefing was an effective way to learn about their role as new SES members and the programs and priorities of the Executive branch. Participants also unanimously agreed that they would recommend the program to other new SES members.

- **Will establish or maintain a total of 18 agency partnerships in FY 2003.**

OPM established or maintained more than 20 agency partnerships in FY 2003.

- **Succession planning training and/or development programs will be developed or maintained with four agency partners in FY 2003.**

Succession planning training and/or development programs were developed for six Agency Partners.

- **Two virtual team programs will be maintained in FY 2003.**

Two virtual team programs were maintained in FY 2003 and a new open enrollment program was offered.

- **On-line payment capability will be available for OPM Government customers by FY 2003.**

On-line payment capability was made available for OPM Government customers.

- **The cost of programs model will be implemented in FY 2003. Cumulative retained earnings reserves will be maintained at a positive balance.**

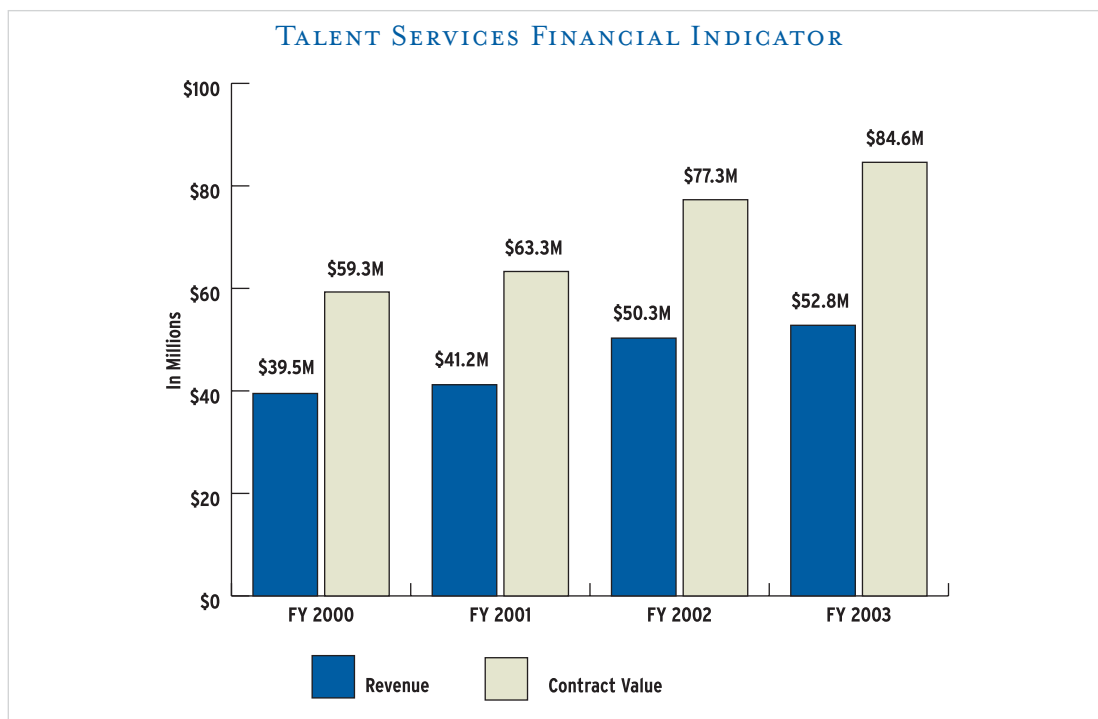
OPM began using the cost of programs model in FY 2003 and cumulative retained earnings reserves were maintained at a positive balance.

HRPS FY03 Goal 4

ES Goal 5: Provide expert human resources products and services that meet agency-specific needs to ensure that Federal agencies receive high-quality, cost-effective employment services needed to run high-performing, results-oriented organizations.

ES Goal 6: Administer the Armed Services Vocational Aptitude Battery for the Department of Defense (DoD) and provide related services.

Status: These goals were met and were combined because they both focus on the reimbursable services OPM offers to Federal agencies in support of their human resources programs.



Key Results: During FY 2003, OPM provided agencies with high-quality, timely, and cost-effective human resources products and services that support the recruitment, retention, development and management of the Federal workforce. This is demonstrated by the improvement in all of the performance indicators — particularly the financial indicators — for the Talent Services Programs.

Link to Management Challenge: The improvements made in OPM’s reimbursable services and the expansion of this business line during FY 2003 contributed to OPM’s ability to address the management challenge covering Human Resources Management. These services assisted other agencies in becoming high-performing organizations. The product lines OPM offers through these services are aligned with the Human Capital Standards for Success. In addition, the Recruitment One-Stop e-Government project is a key component of OPM’s effort to meet the e-Government management challenge.

Performance Indicators:

- Quantitative targets shown below are met. [Critical Indicators are in bold]

FINANCIAL INDICATORS¹

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results
Program revenue²	\$39.0M	\$39.5M	\$41.2M	\$50.3M	\$52.8M
Contract value³	\$59.2M	\$59.3M	\$63.3M	\$77.3M	\$84.6M
Income fully covers costs					
– Income	\$39.0M	\$39.5M	\$41.2M	\$50.3M	\$52.8M
– Costs	\$39.2M	\$45.1M	\$41.7M	\$43.8M	\$48.6M

BUSINESS PROCESS INDICATORS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results
USAJOBS Web site hits ⁴	13.1M	15.4M	20.7M	29.4M	44.4M
The number of hires is sustained at high levels approaching 400 hires.	366	338	400	368	385

1 – Includes data for DoD and Non-DoD Revolving Fund activities

2 – Source: OPM Income Statement

3 – Source: Government Financial Information System

4 – Source: OPM monthly USAJOBS Statistical Report, HRPS, Macon Technical Services Group

The improved performance reflected in the indicators above was the result of the following actions undertaken during FY 2003:

- * Supported Federal agencies’ recruiting and testing needs through reimbursable services agreements valued at more than \$16 million, including many Homeland Security components.
- * Assisted the US Postal Service with its recruitment and staffing programs by implementing new electronic staffing procedures, and expanded its Postal Service Management Intern Program which is modeled after OPM’s Presidential Management Intern Program.
- * Increased by 30 percent the demand for OPM’s Performance America suite of balanced measurement tools, a set of validated, research-based survey tools with Governmentwide benchmarks.
- * Upgraded USA Staffing, including providing easy access for persons with disabilities, interaction with customers via the Internet and additional security features. The number of external users of this automated examining system continues to increase, up to 496 subscriptions.
- * Drafted a proposed new Presidential Management Fellows Executive order as part of OPM’s efforts to revitalize the Presidential Management Intern Program. The new Executive order will: 1) change the name of the PMI program to the “Presidential Management Fellows Program;” 2) remove the 400-hire annual cap established under the previous executive order; and 3) establish a new “Senior Presidential Management Fellows” component.

In addition, OPM established baselines for new customer satisfaction indicators: 96 percent of customers were satisfied with the quality of its talent services, 95 percent agreed that services were timely, 92 percent agreed that services are a good value for the money, and 82 percent agreed that OPM’s services improved their organization’s effectiveness. These new indicators will continue to be used in OPM’s future Performance Budgets beginning in FY 2004.

- **Favorable customer satisfaction with employment information continues, as indicated by the “satisfied” ratings obtained from the USAJOBS on-line user surveys.**

During FY 2003, OPM participated in the American Customer Satisfaction Index (ACSI) to assess user satisfaction with its USAJOBS Web site. Based on the ACSI results, user satisfaction during FY 2003 was 71 points (of a total of 100). This is consistent with the Governmentwide average of 70.9 points for the 21 e-Gov Projects that participated. OPM will continue to use the ACSI to assess user satisfaction with the USAJOBS Web site in its future Performance Budgets.

- **DoD contract continues.**

OPM continued to administer the Armed Services Vocational Aptitude Battery on a fee-for-service basis. It streamlined administrative processes to better support this effort in the most efficient manner, e.g., moved billing collections for services from an expensive, manual paper process to simple credit card transactions.

- **Requests for student test sessions by DoD are met. [Critical Indicator]**

During FY 2003, OPM met the Department of Defense request for test sessions. In FY 2003, OPM conducted 14,907 student test sessions and 21,607 enlistment test sessions.

- **Quarterly feedback sessions with DoD program managers show increased customer satisfaction.**

During FY 2003, OPM held quarterly meetings with DoD program managers on program delivery operations. These managers provided informal feedback that they were satisfied with the administration of the program.

HRPS FY03 Goal 5

OWR Goal 4: Training and Management Assistance (TMA) program provides assistance to Federal agencies in the development of training and other human resources management solutions that managers can use to meet specific short and long-range agency objectives.

Status: This goal was met. Beginning in FY 2004, the Training and Management Assistance program is represented under a single annual goal that covers all of OPM's reimbursable talent-related services.

Key Results: In addition to improving customer satisfaction and maintaining the gain/loss ratio for TMA services within an acceptable range, OPM supported 60 separate training and strategic human resources management projects for the DHS that facilitated DHS's ability to fulfill its mission to protect the Nation against threats to the homeland.

Link to Management Challenge: The services that OPM provides to agencies through the TMA program address two management challenges: Human Resources Management and Expanding e-Government. The assistance provided agencies during FY 2003 better enabled them to build the kind of high-performing organizations that will ultimately support human capital transformation and resolve the management challenge for Human Resources Management. Similarly, OPM's progress in its e-Gov projects demonstrates the successful implementation of these projects and their graduation into OPM's regular business lines.

Performance Indicators:

Through the Training and Management Assistance program reimbursable vehicle, OPM:

- * Supported 60 separate training and strategic human resources management projects, totaling \$7 million, for various Department of Homeland Security components;
- * Managed more than 250 projects supporting the training and strategic human resources management initiatives of numerous Federal agencies;
- * Developed a multimedia training program for the proper handling of materials for the U.S. Air Force Civil Engineer Support Agency;
- * Provided project management and contractor support for all OPM e-Gov projects (e-Training/GOLEARN, e-Payroll, e-Clearance, Recruitment One-Stop and EHRI); and,

ANNUAL PERFORMANCE GOALS *and* RESULTS

* Served as the preferred contract vehicle for development of customized distribution on the “GOLEARN” platform of the e-Training component of the President’s Management Agenda.

- **Financial indicator: Income earned ensures that the program maintains the appropriate level of retained earnings as determined by Chief Financial Officer. Standard accounting methods and tracking software are used to verify financial indicators.**

See table below.

- **Customer satisfaction indicators: End-of-project quality surveys and interviews are used to determine if specific agency objectives are met and to measure the level of customer satisfaction with service provided by the TMA program. TMA uses the results of these surveys and interviews as well as internal and external audits/evaluations to enhance program effectiveness. [Critical indicators are in bold]**

The table below addresses these indicators and demonstrates that TMA program targets were met. Though not an indicator that OPM is required to report on, it has included data on its Deliverable Acceptance Rate to demonstrate its customers’ satisfaction with its deliverables, and plans to report on it in future years.

FINANCIAL INDICATORS¹

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY2002 Results	FY2003 Results
Revenue	\$40.5M	\$42.3M	\$36.5M	\$30.1M	\$29.7M
Operating Costs	\$39.1M	\$42.9M	\$36.3M	\$30.1M	\$30.1M
Gain/Loss	\$1.4M	(\$0.6M)	\$0.2M	\$0	(\$0.4M)

BUSINESS PROCESS INDICATORS¹

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY2002 Results	FY2003 Results
No. of Accepted Deliverables	No Data	No Data	2,027	1,796	1,264
Total Number of Deliverables	No Data	No Data	2,048	1,805	1,265
Deliverable Acceptance Rate	No Data	No Data	99.0%	99.5%	99.9%

CUSTOMER SATISFACTION INDICATORS²

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY2002 Results	FY2003 Results
TMA Service					
Substantial contribution to the project's success:	No Data	NoData	88%	63%	78%
Contribution to the project's success	No Data	No Data	12%	37%	22%
Products					
Exceeded agency expectations	No Data	NoData	58%	50%	67%
Met agency expectations	No Data	No Data	42%	50%	33%
Contractor Involvement					
Always	No Data	NoData	89%	100%	94%
Sometimes	No Data	No Data	11%	0%	6%

1 Source: Protrac (database for reimbursable services) and Government Financial Information Systems (data restated from previous reports)

2 Source: OPM reimbursable client satisfaction survey

HRPS FY03 Goal 6

OMSOE Goal 6: To ensure that voting rights are protected under the Voting Rights Act.

Status: This goal was met.

Key Results: OPM remains committed to serving the American people by assisting the Department of Justice in administering the Voting Rights Act. It responded fully to all Department of Justice calls for voting rights observers.

Link to Management Challenge: None of the eight management challenges set forth by the Office of the Inspector General has any relationship to OPM's support for the Voting Rights Act. Although OPM has no strategic outcomes or objectives that pertain to its statutory requirement under the Voting Rights Act, the FY 2003 Annual Performance Plan included an annual goal to account for the resources dedicated to the provision of Federal poll observers.

Performance Indicators:

- **The Department of Justice's requirements for observers, reports and voter list maintenance are met.**
[Critical Indicator]

During FY 2003, OPM provided 547 observers to cover 16 elections in 11 states and at 24 staging sites. OPM also provided examiner coverage for 52 elections in 12 states, and observer and examiner coverage for a total of 68 elections in FY 2003, 75 elections in FY 2002, 70 elections in FY 2001, and 50 elections in FY 2000.

HRPS FY03 Goal 7

RIS Goal 2: Customer satisfaction improves as processing times are reduced by 20 percent and the number of customer calls handled is increased by 7 percent.

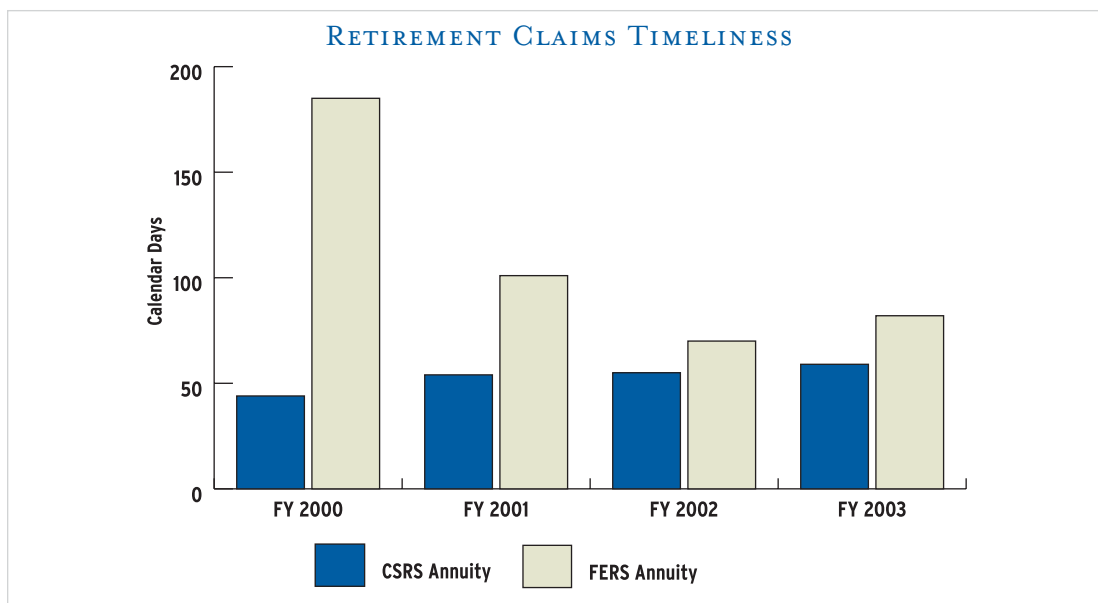
Status: This goal is being reported as not met because the targets set for retirement claims processing times were not met. However, OPM exceeded by more than 5 percent the revised target for the number of customer calls handled, which was nearly a 4 percent improvement over FY 2002. Thus, the goal could be considered partially met.

Key Results: OPM did not meet the ambitious goal to reduce claims processing times by 20 percent in FY 2003. As shown in the charts on the next page, processing times for both CSRS and FERS retirement claims increased above FY 2002 levels and, therefore, did not meet the targets set for them. This primarily was caused by staff attrition as on-board strength dropped by 5.9 percent (or 47 employees) from the end of FY 2001 to FY 2003, eroding OPM's ability to process new claims as quickly as planned. However, CSRS survivor claims processing times improved slightly, and OPM continued to make interim payments, approximating 85 percent of the full monthly annuity benefit due to these customers, within 4 days after the necessary records were received from the employing agencies.

Some improvements were achieved in providing retirement services as the number of customer calls handled increased by nearly 4 percent, while falling short of the 7 percent increase described in the goal. The primary reason for missing this target was the delay in bringing contractors on board in FY 2003, stemming from a protest filed the previous year on an overflow call handling contract. While OPM ultimately prevailed, this impacted the timely implementation of the contract. Related indicators in call handling remained at the same level as in FY 2002, or declined slightly. Now that this protest is resolved, OPM anticipates that the number of calls handled will continue to rise in FY 2004.

Link to Management Challenge: OPM's Inspector General has identified no management challenges that pertain to the administration of the Retirement Program or the payment of retirement benefits.

ANNUAL PERFORMANCE GOALS *and* RESULTS



Performance Indicators:

- The quantitative performance targets described in the table below are met. [Critical Indicators are in bold]

CUSTOMER SATISFACTION INDICATORS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
% of New customers who received first payment before or when expected ¹	81%	78%	79%	78%	80%**	72%
% of Customers very or generally satisfied with services since annuity began ¹	93%	93%	93%	93%	93%	93%

BUSINESS PROCESS INDICATORS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
Interim Payment Processing Time – in calendar days ²	3.4 Days	4.8 Days	2.8 Days	1.9 Days	2.0 Days**	4.4 Days
CSRS Annuity Processing Time – in calendar days ²	32 Days	44 Days	54 Days	55 Days	55 Days**	59 Days
FERS Annuity Processing Time – in calendar days²	94 Days	185 Days	101 Days	70 Days	70 Days**	83 Days
CSRS Survivor Claims Processing Time – in calendar days ²	14 Days	20 Days	24 Days	31 Days	25 Days**	30 Days
CSRS Annuity Claims Accuracy ³	88.3%	93.8%	93.4%	96.0%	96.0%	93.5%
FERS Annuity Claims Accuracy ³	92.4%	89.5%	93.8%	90.9%*	92.0%**	96.4%
CSRS Survivor Claims Accuracy ³	98.7%	96.8%	93.9%	97.2%*	97.0%	97.5%
Customer Service Transactions Handled by Self-Servicing²	33.3%	34.3%	34.4%	36.8%	38.0%**	33.4%
Number of Calls Handled ²	1,133,890	1,221,786	1,324,591	1,425,452	1,400,000**	1,476,853
Call Handling Rate ² (% of Calls Answered/Calls Received)	87%	88%	93.4%	95.2%	90%**	96.2%

ANNUAL PERFORMANCE GOALS *and* RESULTS

WORKFORCE INDICATORS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
Annuity and Survivor Claims Productivity (Claims Processed/FTE) ²	608.1	627.3	646.8	637.6	650.0	597.2
Overall Customer Service Productivity (Transactions/FTE) ²	7,460.2	7,302.7	7,601.5	7,726.3	8,500.0	8,723.6

FINANCIAL INDICATORS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
Initial Annuity & Survivor Claims Unit Cost ²	\$81.82	\$83.52	\$83.71	\$89.53	\$98.00**	\$99.54
Customer Services Unit Cost ²	\$6.04	\$6.44	\$6.41	\$6.45	\$6.00	\$6.07

1 – Data Source: CRIS Client Satisfaction Survey;

2 – Data Source: CRIS Management Information System;

3 – Claims accuracy represents the percentage of cases adjudicated correctly, without substantive error (defined as an error which results in an overpayment or underpayment of at least \$1.00 per month or \$25.00 one time). Data source: CRIS Quality Assurance Group Reviews.

* Revised from previous reports.

** Target revised by FY 2004 Annual Performance Plan.

HRPS FY03 Goal 8

RIS Goal 4: Retirement Systems Modernization Project will convert historic hard-copy employee data to electronic format, establish electronic transfer of retirement data on a recurring basis, and expand Web-enabled self-servicing for Federal employees.

Status: This goal was not met. Action was deferred while OPM reevaluates methods of delivering the Retirement Systems Modernization project through an outsourced vendor.

Key Results: In FY 2003, the Retirement Systems Modernization project continued to work on implementation segments, electronic data planning and foundation elements. However, two factors impacted the implementation of the goal for FY 2003 and caused OPM to not meet this goal:

- 1) The need to evaluate and leverage recent advancements from e-Gov projects; and
- 2) The need to thoroughly assess competitive sourcing as an alternative implementation of Retirement Systems Modernization.

In light of these factors, OPM is evaluating alternatives for delivering the Retirement Systems Modernization project.

Link to Management Challenge: OPM's Inspector General has listed the Retirement Systems Modernization project among the top management challenges because it is a very large, long-term information technology project that will require significant resources and several years to implement. OPM's decision on the future of RSM and licensing technology will minimize the risks associated with the project and enable OPM to provide sound retirement benefits administration in the future. The vision of RSM is to enable OPM to continue to provide quality customer service to retiring employees and their families, and to offer new

retirement services to employees comparable to those found in the private sector to help make the Federal Government an equal competitor with private sector employers for human capital talent.

Performance Indicators:

• **Adherence to commitments and project timetables. [Critical Indicator]**

* **Large-scale conversion of historic data for current employees is begun.**

OPM issued a Request for Information as part of the Retirement Systems Modernization Programwide Data Planning effort to gather information for planning the large-scale conversion. Early next year OPM will issue a Request for Proposal to award a contract for the conversion.

* **Receipt of data is begun from agencies not participating in the Human Resource Data Network (now known as Enterprise Human Resources Integration).**

The purpose of this segment was to begin receiving agency electronic data prior to the Enterprise Human Resources Integration goal for providing it. Rather than receiving data from the USPS as planned, OPM began working with the agencies migrating under the e-Payroll project to receive their electronic data. This change serves two valuable purposes:

- 1) It avoids the creation of paper data and a subsequent conversion back to electronic data that OPM must store temporarily for the migrating agencies; and
- 2) It begins population of OPM's data repository for use by smart tools.

* **Web-enabled self-service tools for employees are launched.**

As a result of RSM Reassessment, the development of self-service tools was deferred and will be achieved through licensing arrangements.

* **New automated correspondence tracking is implemented.**

Action on the automated correspondence tracking also was deferred and will be achieved through licensing arrangements.

* **The Coverage Determination Application is fully implemented.**

The Coverage Determination Application will be deployed to 100 users in various Federal agencies by the end of CY 2003. Full deployment will begin in early FY 2004.

MANAGEMENT STRATEGY:

OPM'S MANAGEMENT STRATEGY IS TO CREATE AN ENVIRONMENT THAT FOSTERS THE DELIVERY OF SERVICES TO ITS CUSTOMERS AND EMPLOYEES THROUGH EFFECTIVE COMMUNICATION AND MANAGEMENT OF HUMAN CAPITAL, TECHNOLOGY, FINANCIAL RESOURCES AND BUSINESS PROCESSES.

Following the tragic events of September 11, 2001, OPM redirected resources to focus on strengthening homeland security. During FY 2003 it developed and conducted training courses dealing with security and emergency action at the Eastern Management Development Center, upgraded the headquarters building

guard force, and installed wireless emergency communications systems at major facilities. OPM then restructured its Continuity of Operations Plan to ensure that critical personnel were properly identified and could be transported to their deployment locations in case of emergency.

Efforts to heighten physical security at each major employment location, design formal emergency procedures, and train employees in how to respond to various emergency situations continued throughout the year. This included creating a new Shelter-in-Place program to be used when an emergency occurs that precludes employees from leaving the building for an extended period. Critical supplies (water, food, blankets, light sources, and so on) have been stockpiled on every floor at the major employment locations, and employees have been trained in how to utilize individual emergency kits. OPM is now in a position to continue to perform critical functions even in the face of renewed attacks.

MCFO FY03 Goal 1

Executive Services Goal: Shape the Administration's direction on Federal human resources management policy to effectively support the President's Management Agenda through leadership, communication, congressional relations, and legal services.

Status: This goal was met.

Key Results: OPM played a critical role in establishing the Department of Homeland Security and implementing key features of the Chief Human Capital Officers Act. In addition, OPM led the transformation of Human Capital Management across Government, and completely restructured its internal organization to better serve the American people, the President, and other Federal agencies.

Link to Management Challenge: This goal and OPM accomplishments during FY 2003 address all of the eight management challenges identified by the Inspector General:

- 1) Human Resources Management (Strategic Management of Human Capital);
- 2) Expanding e-Government;
- 3) Retirement Systems Modernization;
- 4) Revolving Fund and Salaries & Expenses Accounts;
- 5) Maintaining and Implementing the Government Performance and Results Act;
- 6) Establishing the Department of Homeland Security;
- 7) Maintaining and Improving the Performance of the Federal Employees Health Benefits Program; and
- 8) Restructuring the Office of Personnel Management

Performance Indicators:

- **Specific program accomplishments that contribute to effective Strategic Management of Human Capital in the Federal Government and the implementation of specific Administration priorities. [Critical Indicator]**

OPM's many accomplishments during FY 2003 are described in detail throughout this Performance and Accountability Report. The most significant achievements were:

- 1) Playing a leadership role in implementing the legislation that established the Department of Homeland Security, and established agency Chief Human Capital Officers and the council of the same name
- 2) Expanding the Strategic Management of Human Capital, resulting in improved Human Capital Management across Government;
- 3) Making excellent progress on its five e-Gov projects;
- 4) Implementing an agency-wide competitive sourcing program;
- 5) Taking several steps to improve the safety and security of OPM employees, facilities, systems, and other assets; and,
- 6) Implementing TEAM OPM, the new organizational structure.

- **Enactment of the legislative proposals put forth by OPM and the Administration affecting Federal human resources management issues.**

The enactment of the Homeland Security and Chief Human Capital Officers Acts provides the most sweeping legislation to affect Federal human resources management in many years. Establishing the new Department of Homeland Security and implementing other key provisions of these laws were OPM's top mission priorities during FY 2003.

MCFO FY 2003 Goal 2

E-Gov Goal: OPM's e-Gov projects (e-Clearance, e-Training, e-Payroll, Recruitment One-Stop and Enterprise Human Resources Integration) achieve the President's Management Agenda for expanded e-Government and improved efficiency and effectiveness of Government operations. (Ongoing)

Status: This goal was met.

Key Results: All e-Government milestones and goals were met.

Link to Management Challenge: OPM's accomplishments in its e-Gov projects address the Management Challenge for Expanding e-Government and strongly support improved Human Resources Management. OPM's five e-Gov projects are creating efficiencies in how Federal agencies handle all aspects of their employees' work lives, from how they search for and apply for a Federal job, to how they are trained for and plan their careers, to how they retire from Federal service and enjoy a secure retirement. Within a few years, OPM will graduate most of these projects into its on-going business systems.

Performance Indicators:

- **e-Clearance:**

- * e-Clearance information is successfully uploaded to OPM's investigations system and connect it to the DoD system.
- * Security clearance information is more accessible and more timely.

The e-Clearance Verification System was deployed during FY 2003. This system provides a single point of access to clearance information located within OPM and the Department of Defense systems and is designed to accommodate 98 percent of all clearances in one virtual database.

In addition, the Electronic Questionnaires for Investigations Processing (an automated, on-line version of the SF-86 paper-based security clearance application) was created and made available Governmentwide. Finally, OPM initiated electronic imaging of agency investigative reports.

• **e-Training:**

- * Redundancy of e-Training services reduced.
- * Enhanced access to a wider array of e-Training services is provided.
- * The first implementation phase of the e-Training Capital Asset Plan is completed.

Modules 2 and 3 of e-Training were released, providing fee-for-service courseware and learning management system support. This completed the first implementation phase of the Capital Asset Plan.

OPM provided enhanced access to a wide array of e-Training services, such as e-Mentoring capability and Books 24x7, produced the Information Technology Workforce Development Roadmap, and reduced redundancy of e-Training services as 32 agencies or components migrated to GoLearn during FY 2003 and reduced or eliminated their single-agency programs.

• **e-Payroll:**

- * An integrated enterprise HR/Payroll architecture is completed.
- * Standardized Governmentwide interface requirements for HR/Payroll systems are defined.

OPM standardized the Governmentwide interface requirements for HR/Payroll systems and selected four continuing payroll providers to form two partnerships for providing Federal payroll services. Non continuing agencies have each selected a new provider and established migration plans.

OPM completed a preliminary integrated enterprise HR/Payroll architecture study that, when made final, will lead to the replacement of current technology.

• **Recruitment One-Stop:**

- * The process for applying for a Federal job is easier, faster and more understandable.
- * Agencies have access to a broader range of applicants.

The new USAJOBS Web site, www.usajobs.opm.gov, was launched, which includes enhanced features for job seekers and recruiters. The site logged nearly 9.3 million unique visitors during FY 2003, and posted more than 127,000 new resumes. Resume mining as a candidate sourcing tool was implemented with the new system, along with an improved job announcement layout and enhanced on-line application capability. OPM published standards for integrating on-line applications, and created specifications and language for a completely redesigned job announcement development and display.

• **EHRI:**

OPM completed the EHRI design, including the Logical Data Model, notional architecture and Privacy Impact Assessment. The EHRI repository became operational in September 2003 with Release 1, Initial Operating Capability. This release provides the proof of concept for workforce forecasting and improves analysis across the EHRI data repository (eight years of records for 1.8 million Executive branch employees). Release 1 also includes the initial electronic employee record.

MCFO FY03 Goal 3

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 and furthers the President's Management Agenda.

Status: This goal was met.

Key Results: In March 2003, OPM implemented a fundamental restructuring that eliminated 12 “stovepiped” organizations and aligned its human capital into four new divisions — three divisions that combine functions that directly support and are aligned to OPM's Strategic Goals, and one division that combines management support functions that serve OPM as a whole. In addition, staff offices were realigned to better support OPM's public affairs, legal, congressional affairs, and e-Gov functions. A comprehensive “Plan for the Strategic Management of OPM's Human Capital FY 2004–2007” was developed which lays out a systematic, integrated, and goal-specific approach to improving the management of OPM's human capital. This strategically focused document provides a guidepost to help ensure that human capital outcomes lead to organizational results. It provides an assessment of OPM's current human capital status and outlines specific improvement actions, milestones, and targets to achieve intended results in line with the Strategic Goals.

Link to Management Challenge: OPM's accomplishments under this goal during FY 2003 represent significant steps toward resolving the management challenge for Restructuring OPM. Restructuring the agency created a foundation for OPM that focuses human capital on achieving Strategic Goals and the President's Management Agenda. OPM successfully met the challenge of restructuring by selecting its new Associate Directors early in the year and relying on their leadership to finalize and implement the new organizational structure, while continuing to meet mission and Strategic Goals. By the end of the fiscal year, TEAM OPM was firmly in place.

Performance Indicators:

- **Approved restructuring and organizational changes are implemented according to schedule.**
[Critical Indicator]

OPM's restructuring efforts culminated in the realignment of all employees into the new organizational structure in March 2003. Realignment actions included the development of functional statements, an assessment of human capital needs and the designation of staffing levels for each organization, development or modification of employee position descriptions, appropriate negotiation with union locals, and the processing of more than 3,500 personnel actions to document the realignment of employees into the new organization.

MCFO FY03 Goal 4

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

Status: This goal was met.

Key Results: OPM continued its efforts to streamline the internal staffing and hiring process and facilitate the hiring of diverse and highly qualified employees. Workforce planning data was gathered that identified recruitment and staffing needs and was used to develop initiatives to address them, as described in the “Plan for the Strategic Management of OPM's Human Capital.” OPM expanded the use of

automation in the staffing process (through USAStaffing), established a 30-day SES hiring model that allowed it to fill a total of 20 SES positions in an expedited fashion, reduced the time it takes to issue candidate referrals for GS-level positions, and engaged in recruitment and outreach activities that contributed to improved diversity in its SES cadre.

Link to Management Challenge: The Office of the Inspector General has identified no management challenges that pertain to internal recruitment and staffing strategies.

Performance Indicators:

- **Reduced recruitment and hiring cycle times. [Critical Indicator]**

REDUCED RECRUITMENT AND HIRING CYCLE TIME

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results
Time to issue a certificate of eligibles	58 days	53 days	29 days	23 days*	16 days

*FY 2002 data have been recalculated.

MCFO FY03 Goal 5

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.

Status: This goal was not met.

Key Results: OPM undertook a variety of actions to strengthen its employee education and training programs, and the results of many performance indicators reflect that progress was made toward meeting this goal. However, the results of a recent agency-wide skills assessment show that skills gaps exist in two of five agency-wide competencies (shown below), and that skills gaps of varying degrees exist in certain mission-critical occupations. OPM is developing initiatives and programs to mitigate skills gaps in individual occupational groups, and each OPM division has been tasked to identify and address specific skills gaps in its mission-critical occupations. OPM will also corporately focus on facilitating the closure of specific and previously unidentified gaps that exist in the agency-wide competencies. Accordingly, OPM will identify new initiatives that use economies of scale to close any gaps in the overarching corporate competencies. The FY 2003 skills assessment provides baseline data on the degree to which critical skills gaps exist. In FY 2004 another skills assessment will allow OPM to determine whether new initiatives and actions are successful at helping to close these gaps.

Link to Management Challenge: In identifying restructuring as a management challenge for FY 2003, the Inspector General recognized the need for OPM to “get people with the proper skill levels in the proper positions to best serve OPM customers and to accomplish its goals in the Strategic Plan.” As described above, the skills assessment completed in FY 2003 provides the baseline information that OPM needs to close the skills gaps that this analysis identified and thus resolve this aspect of the management challenge concerning Restructuring OPM.

ANNUAL PERFORMANCE GOALS *and* RESULTS

Performance Indicators:

- **NEW INDICATOR: Degree to which gaps exist in critical competencies. [Critical indicator]**

CRITICAL COMPETENCY

	Current Level	Required Level	Future Level	Current Gap	Future Gap
Reasoning	3.6	4.5	5.0	None (≤ 1)	1.4
Problem Solving	3.0	4.8	5.0	1.8	2.0
Creative Thinking	3.1	4.0	4.1	None (≤ 1)	None (≤ 1)
Customer Service	3.3	4.5	4.6	1.2	1.3

Scale: 1 – Basic Competency Required
 2 – Between Basic and Intermediate
 3 – Intermediate
 4 – Between Intermediate and Advanced
 5 – Advanced

Note: Competency “gaps” are defined as those areas that have a difference of more than one level between the competency level that currently exists, and the level that is required currently and/or in the future. The above data establish a baseline against which OPM will measure progress when it completes another skills assessment in FY 2004.

MCFO FY03 Goal 6

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

Status: This goal was met.

Key Results: OPM employees reported better than average levels of satisfaction with the work environment, as shown in the Federal Human Capital Survey, and in most cases, their responses to questions dealing with dimensions of satisfaction were more positive than the Governmentwide responses. These results were not originally contemplated as an indicator for this goal, since the survey did not exist when the goal was established. Nevertheless, OPM has determined that it is the best indicator for this goal, and has dropped all previously identified indicators in favor of using the survey results.

Link to Management Challenge: This performance goal loosely relates to the management challenge concerning Restructuring OPM in that in order to achieve its mission, OPM must have a work environment that attracts, retains, and satisfies good employees. As indicated by the results of the Federal Human Capital Survey, OPM employees expressed higher than average levels of job satisfaction.

Performance Indicators:

- **NEW INDICATOR: OPM employees report high levels of satisfaction in various dimensions of employee satisfaction (as measured by the Federal Human Capital Survey).**

FHCS QUESTION

	OPM Positive Responses	Governmentwide Positive Responses
Considering everything, how satisfied are you with your job?	70%	68%
Considering everything, how would you rate your overall satisfaction in your organization at the present time?	59%	55%
This is a friendly place to work.	73%	68%
I would recommend my organization as a good place to work.	61%	60%
How would you rate your organization as an organization to work for compared to other organizations?	55%	52%

MCFO FY03 Goal 7

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

Status: This goal was met.

Key Results: OPM continued to achieve high levels of quality and accuracy in personnel data transaction processing by meeting Governmentwide standards for transmission of data to the Central Personnel Data File, as well as time standards for the processing of retirement actions. In addition, more than 3,500 personnel transactions were processed electronically during FY 2003, as all OPM employees were realigned into their new organizations during restructuring. These efforts ensured that employees could be assigned to the appropriate organizational and accounting codes, and more importantly, that the focus on detail and accuracy ensured that employees continued to be paid correctly and on time.

Link to Management Challenge: This performance goal does not directly relate to any management challenges identified by the Office of the Inspector General.

Performance Indicators:

- Streamlined services and automated systems are in place and are responsive to e-Gov projects.

OPM continued to use a variety of automated systems to facilitate operations and service to employees. These include self-service systems like EmployeeExpress which allows employees to make a variety of benefits, tax withholding, and address changes. In addition, the use of the USAStaffing automated staffing system was expanded by training more staff and using the system to process more recruitments/vacancy announcements. OPM laid the groundwork for implementing an on-line skills assessment tool that will enable it to collect and track employee competency data and facilitate efforts to identify and close skills gaps. OPM established a subscription to Golearn.gov, which will provide all employees with expanded access to the variety of on-line courses available through this e-learning project.

ANNUAL PERFORMANCE GOALS *and* RESULTS

- “Canned” electronic reports and data are available to meet managers’ and supervisors’ needs.

OPM developed a variety of reports and statistics for Human Capital Management planning. These included reports on diversity representation, retirement eligibility, occupational and grade representation, and other data that were used to form the basis for action items and initiatives in the “Plan for the Strategic Management of OPM’s Human Capital.” In addition, reports and data from OPM’s human resources system were relied upon heavily throughout the restructuring process, as managers made decisions about staffing levels in the new organization and about the placement of individual employees.

- The quantitative performance targets described in the table below are met.

TIMELINESS AND ACCURACY OF HR TRANSACTIONS

Quality and accuracy of data transmitted to CPDF is consistently at or above OPM standard. [Critical indicator]	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results
Percent of personnel actions that meet the timeliness and accuracy standard for submission of human resources transactional data to the CPDF.	96%	96%	96%	96%	97%

TIMELINESS OF SEPARATION ACTION PROCESSING IS CONSISTENTLY AT OR ABOVE OPM’S STANDARD

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results
Percent of separations that meet the Governmentwide standard (80 percent).	91%	90%	95%	81%	89%

MCFO FY 03 Goal 8

OHREEO Goal 6: OPM’s workforce environment promotes and values diversity, and is free from unlawful discrimination.

Status: This goal was not met.

Key Results: The proportions of the OPM workforce that were racial/ethnic minorities and women dropped slightly in FY 2003. The employment level of minorities missed the ambitious target value by 0.2 percentage points. However, OPM continues to be a model employer in this field, substantially exceeding the civilian labor force figures, in which 22 percent are minorities and 46 percent are female.

Link to Management Challenges: This goal does not link to any management challenges identified by the Office of the Inspector General.

Performance Indicators:

- Improved representation of women, minorities, and disabled employees in identified underrepresented EEO categories (as evidenced in the “Affirmative Employment Program Annual Accomplishment Report and Update for Minorities and Women,” and the “Affirmative Action Program Accomplishment Report and Update for People with Disabilities for FY 02-03.”)

REPRESENTATION OF WOMEN AND MINORITIES

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
Representation of Women in OPM Workforce	63.0%	63.2%	63.1%	63.5%	62.8%	62.8%
Overall Minority Representation in OPM Workforce [Critical indicator]	34.9%	35.2%	36.7%	35.9%	36.6%	36.4%
Race/National Origin – Hispanic (underrepresented groups only)	3.3%	3.7%	3.9%	4.0%	4.2%	4.2%
Race/National Origin – Asian/Pacific Islander (underrepresented groups only)	1.2%	1.5%	2.0%	2.1%	1.8%	2.0%
Race/National Origin – American Indian/Alaska Native (underrepresented groups only)	0.4%	0.5%	0.6%	1.0%	1.0%	0.4%

- Increased numbers of EEO complaints are resolved through Alternative Dispute Resolution methods. In FY 2003, OPM offered alternative dispute resolution to all complainants during the informal and formal administrative process of the complaint adjudication process. However, they chose not to use it.

MCFO FY03 Goal 9

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. (Ongoing)

Status: This goal was met.

Key Results: As part of OPM’s restructuring, all computer support functions were brought into a single organization, which enables standardized IT procedures and practices. This enabled OPM’s computer network Help Desk to service a substantially increased volume of calls for support (28 percent) without increasing staffing levels.

In order to reduce the network’s vulnerability to hacker attacks, OPM replaced the firewalls used at its computer centers and upgraded the protective systems on all personal computers.

Link to Management Challenges: No management challenges concerning OPM’s IT operational support have been identified by the Office of the Inspector General. However, many IT accomplishments during FY 2003 supported e-Government projects and contribute to the resolution of that management challenge.

Performance Indicators:

- **The information technology infrastructure meets established performance standards. [Critical Indicator]**

OPM continued to improve the agency-wide information technology infrastructure through planned technology refreshment and continuous evaluation and improvement of its infrastructure — telecommunications equipment, local area network servers, associated hardware and software, cabling design and layout, data recovery, redundant operations, and monitoring/diagnostic toolkits. Technology refreshment resulted in increased throughput between servers and desktops, eliminated data bottlenecks, and contributed to a more stable computing environment. Maintaining currency also facilitates meeting OPM’s current business needs and lays the groundwork for meeting future technological requirements.

In another enhancement to improve network performance, OPM replaced firewalls in its two main computer centers with new-generation firewalls and migrated all users and applications to these devices. This action increased infrastructure security, network performance, bandwidth utilization, and manageability, and enabled OPM to securely exchange pertinent information with other Government agencies. For example, the new firewalls allowed OPM to collaborate with Department of Defense, Homeland Security and other agencies to exchange vital personnel information.

OPM continued an agency-wide server and domain consolidation effort implemented "Active Directory," all of which will significantly improve network operations and performance. OPM is establishing improved baseline indicators for future performance measurements, but based on the current data, there has been a decrease in problems regarding network downtime, server outages, email performance problems and other infrastructure-related issues during FY 2003.

• **Application systems meet customer requirements and are delivered on time and on budget.**

All major customer objectives for delivering and maintaining application systems were accomplished in accordance with customer expectations. These included:

- * Changes to the Personnel Investigations Processing System to enable processing of personnel security investigations by multiple providers;
- * Changes to support the processing of investigations by the Federal staff proposed for transitioning from the Defense Security Service;
- * Two components of the e-Clearance project that were successfully completed by implementing an electronic linkage with the Air Force's Joint Personnel Adjudication System;
- * The initial load of personnel security clearance information in the Clearance Verification System; and,
- * Technical direction for the EHRI e-Gov project.

• **Customer support to OPM staff is prompt and effective and meets service management agreements.**

OPM enhanced customer support to staff offices by consolidating information technology support. This resulted in efficiencies by offering one-stop support, saving the funding for Help Desk functions and improved problem resolution between software developers and information technology staff.

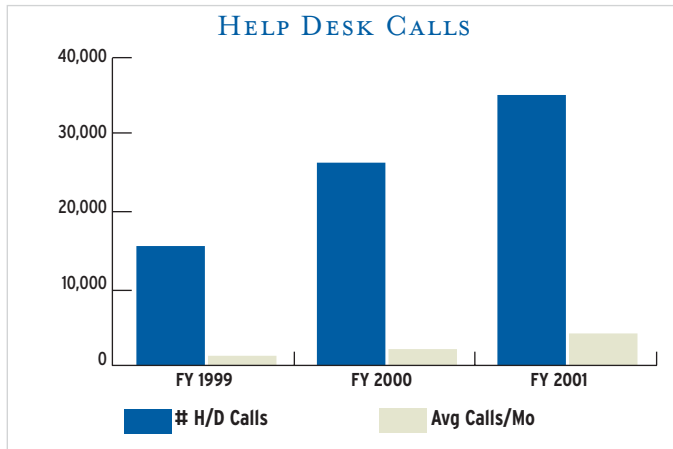
OPM IT staff continued to improve upon the utilization of a Help Desk tracking system (Remedy Ticketing System) by standardizing data input, collecting indicators, and analyzing reports. This helped to identify source and type of request, adjust staffing levels, and improve time to close Help Desk calls for the more than 35,000 calls received during the year. The system has provided a baseline of information for future years, and the steady increase in Help Desk calls has been handled without a significant increase in staff.

MCFO FY03 GOAL 10

OCIO Goal 2: IT systems and infrastructure are implemented in accordance with IT Architecture and are protected by a robust IT security program. (Ongoing)

Status: This goal was met.

Key Results: Reviews of OPM's information technology security program by the Office of the Inspector General and the independent auditor, KPMG, identified no material weaknesses. An agency-wide security assessment determined that more than 90 percent of OPM's operational systems had completed



certification and accreditation requirements.

Link to Management Challenge: The Office of the Inspector General did not identify any management challenges concerning IT infrastructure or security programs.

Performance Indicators:

- **IT infrastructure and systems comply with the IT Architecture. [Critical Indicator]**

OPM's Enterprise Architecture complies with OMB guidance and the Federal Enterprise Architecture Framework, and all OPM information technology acquisitions and implementations comply with this Architecture.

OPM's information technology infrastructure is centrally managed to ensure that only Architecture-compliant hardware and software are procured and added to this environment. In addition, automated tools and monitoring capabilities are used to provide hardware and software inventories, which further assures that all technology is compliant with the Enterprise Architecture standards.

During FY 2003, OPM developed a "Center for Information Services Information Resources Management Strategic Plan FY 2003–2007" and a "Capital Asset Plan" for its information management infrastructure, as required by OMB. These actions support compliance with OPM's Enterprise Architecture.

- **Few security weaknesses are identified during tests and evaluations and those that are identified are not material and are rectified promptly. [Critical Indicator]**

To ensure that IT systems are adequately protected against loss or compromise, OPM maintains an updated agency-wide "Computer Security Policy and Computer Security Program Plan." The plan provides detailed guidance to the program offices on implementing OPM's security policy and meeting the requirements of the Federal Information Security Management Act (FISMA). OPM's IT Security Working Group received specialized training on the implementation of the Agency's IT security policy, and in particular, on certification and accreditation responsibilities and procedures. Plans of Action and Milestones were updated quarterly, and more than 90 percent of the weaknesses were addressed during the year. OPM's annual Federal Information Security Management Act Report demonstrated that security evaluation criteria were met, including completed certification and accreditation on more than 90 percent of operational systems. As a result of its active computer security program, OPM has found no intrusions of infrastructure or losses of information.

OPM's information technology security program was reviewed by the Independent Auditor, KPMG, as part of their audit of its financial systems and by our Inspector General as part of the required FISMA review and report to OMB. While these audits identified several findings, none constituted material weaknesses. These findings were addressed in FISMA Plans of Action and Milestones reports.

- **Staff members are trained in computer security, as necessary.**

OPM completed the mandatory annual computer security awareness training for all staff members and contractors using a Web-enabled commercial awareness training program. In addition, key computer security staff participated in a variety of technical training sessions, and specific security training was provided to OPM's Information Technology Security Working Group.

MCFO FY03 Goal 11

OCIO Goal 3: The information resources management program meets the requirements of the Paperwork Reduction Act, Freedom of Information Act, and Privacy Act, and ensures OPM's records are safeguarded.

Status: This goal was met.

Key Results: OPM designed a new tracking system for Freedom of Information Act requests, established new procedures for reporting significant requests, and developed a new schedule for disposition of old records.

Link to Management Challenge: The Office of the Inspector General did not identify any management challenges with regard to OPM's adherence to the Paperwork Reduction Act, the Freedom of Information Act, the Privacy Act, or the records safeguard program.

Performance Indicators:

- **Reporting requirements meet imposed timeliness standards.**

OPM's information resources management program continues to meet the essential legal and regulatory requirements. This included completing the annual Freedom of Information Act report, reporting progress to OMB on implementing the Government Paperwork Reduction Act, and obtaining OMB clearances for OPM's many data collections.

- **Few problems are identified during evaluations and those that are identified are not material weaknesses and are rectified promptly. [Critical Indicator]**

OPM's IT staff continued to work directly with its program offices in areas related to various information management disciplines, e.g., Freedom of Information Act (FOIA), Privacy Act, records management, and reports and forms management. To meet the requirements of the Office of the Director and to ensure that critical FOIA requests are properly dealt with, OPM instituted agency-wide reporting requirements for significant FOIA requests. A new FOIA tracking system was also developed that will be implemented during FY 2004. No weaknesses were identified during the fiscal year.

- **Staff members are provided appropriate guidance and training in information resources management.**

The IT staff who support and manage information programs participated in a variety of training programs and conferences during the year to maintain and update their skills in these areas. They were also active members of a variety of professional organizations which provided them with the opportunity to exchange information and ideas on issues related to managing these programs.

- **Policies and procedures are in place to safeguard OPM's records.**

OPM revised its records management procedures and placed them on the Agency's Intranet site, THEO. Records management staff worked closely with the National Archives and Records Administration to ensure that OPM's procedures reflect their evolving guidance on management of electronic records. IT staff also worked closely with program offices on special records issues.

MCFO FY03 Goal 12

OCAS Goal 1: Providing quality procurement services to OPM's program office reduces program office costs and the time needed for procurement actions necessary to implement critical human resources to meet OPM's Strategic Plan.

Status: This goal was met. However, as written, the goal does not reflect the importance that OPM's competitive sourcing program represented during FY 2003 and the significant accomplishments achieved during the year.

Key Results: OPM was one of three Federal agencies to achieve a "Yellow" status rating on the President's Management Agenda Competitive Sourcing Executive Scorecard. This score was achieved as a result of completing five competitive sourcing actions involving 104 of our full-time equivalent positions performing commercial activities. In addition, OPM initiated a standard competition utilizing the revised OMB Circular A-76 procedures involving 180 full-time equivalent positions.

Finally, OPM avoided costs totaling more than \$4 Million dollars by using purchase cards to make more than 58,000 purchases during the fiscal year.

Link to Management Challenge: No management challenge pertains to OPM's competitive sourcing program or procurement services.

Performance Indicators:

- OMB Circular A-76 and FAIR Act planning materials are developed and coordinated with all program offices. The FAIR inventory of commercial activities is submitted to OMB by June 30. OPM will conduct public-private or direct conversion competitions on 15 percent of its commercial activities by the end of FY 2003 and complete public-private or direct conversion competitions on 50 percent of its commercial activities by the end of FY 2004.

OPM completed the compilation of its 2003 FAIR Act inventory and submitted it on time to OMB. In addition, it completed 5 competitive sourcing actions involving 104 full-time equivalent positions performing commercial activities, and initiated a standard competition utilizing the newly revised A-76 procedures involving 180 full-time equivalent positions. Upon completion of the ongoing standard competition, OPM will have completed competitions on more than 17 percent of its commercial positions.

- Reduced procurement costs as a result of using the purchase card for OPM purchases.

PURCHASE CARD RESULTS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results
Purchase Card Transactions	15,699	19,229	35,507	49,798	58,000
Administrative Savings*	\$1,103,458	\$1,269,114	\$2,413,766	\$3,486,156	\$4,060,000

*Based on savings of \$66 per transaction as estimated by the Office of Federal Procurement Policy, Office of Management and Budget, and the Procurement Executives study group.

- **The small business contracting and subcontracting goals established with the Small Business Administration are met.**

SMALL BUSINESS CONTRACTING AND SUBCONTRACTING

	FY 2003 Target \$	FY 2003 Target %	FY 2003 Results \$	FY 2003 Results %
Small Business	\$37,689,680	17.0%	\$27,906,054	11.7%
Women Owned	\$12,283,000	5.6%	\$11,854,640	5.0%

MCFO FY03 Goal 13

OCAS Goal 2: FY 2003 Provide quality administrative services to program offices.

Status: This goal was met.

Key Results: During FY 2003, OPM took a number of actions to improve its emergency preparedness program and begin the mass renovation of office space as a part of the restructuring effort.

Link to Management Challenge: Although there is no management challenge that pertains to OPM's administrative and emergency action services programs, the office renovations completed during FY 2003 supported the resolution of the management challenge for Restructuring OPM.

Performance Indicators:

- **OPM's continuity of operations (COOP) and business continuity and contingency plans are developed and implemented. [Critical Indicator]**

During FY 2003, protecting OPM's employees, facilities, and other assets became OPM's top internal management priority. Director James continued her open communications strategy to ensure that all OPM employees were fully informed about any emergency-related incidents that occurred in or near OPM facilities. Employees were also kept fully apprised of the agency's emergency planning and emergency alert status.

Drawing on lessons learned for the attacks on the World Trade Center where most of the survivors had participated in emergency drills, OPM began conducting evacuation and shelter-in-place drills so that employees knew how to respond to a variety of emergency situations. Supporting these drills was newly installed glow-in-the-dark signage in stairwells and hallways to inform and remind building occupants of how to respond to certain situations.

As a part of its restructuring, OPM established an executive level organization, the Center for Security and Emergency Actions, and selected a senior executive to lead it and oversee all of OPM's emergency planning and response activities. Through this Center, OPM revised its Occupant Emergency Plan, which included reorganizing its Emergency Floor Teams and training more than 100 employees to support the Occupant Emergency Plan.

The agency's first shelter-in-place program was developed, which included distributing 4,000 emergency survival kits for employees in all of OPM's headquarters and field offices. Emergency closets were constructed on each floor of the Theodore Roosevelt Building (TRB) and stocked with additional supplies for the agency's shelter-in-place program. These included medical supplies, cases of water, emergency blankets and food, particulate masks and additional plastic and duct tape. Finally, blast-resistant window film was installed on nearly all of the TRB's windows.

To ensure that OPM could continue operations in the event of an emergency, two COOP facilities were established that are geographically separated from the Washington, DC Headquarters and from each other. These two facilities are equipped with state-of-the-art secure and non-secure telecommunications and data systems. Both facilities are designed to be activated within extremely short-notice and be operated for extended periods of time. To provide flexibility and survivability, these two facilities can operate independently or in a complimentary mode. Ready or "Go-Teams" are on notice 24 hours a day, 7 day a week for immediate advance deployment to these sites if warranted. Furthermore, alert notification and deployment exercises were conducted on a regular basis to ensure successful operation of the OPM COOP, and quarterly testing was implemented for communications and data systems with other COOP and Government facilities as coordinated by the Defense Information Systems Agency and the Federal Emergency Management Agency. OPM has been one of the few agencies to have a 100% success rate in all areas of communications connectivity (i.e., data, secure and non-secure voice/fax, and satellite).

Finally, OPM replaced its unarmed guard force with GSA-approved armed guards and purchased new x-ray and magnetic detection equipment for its Washington, DC Headquarters and offices at Boyers, PA.

• **TRB/Service Center space projects that are initiated and completed reflect effective infrastructure planning, space design and construction. [Critical Indicator]**

OPM established an agency-wide workgroup to plan the large-scale office moves and space renovations emanating from restructuring. This group developed a "global approach" for allocating floor space for the various programs and a plan to move personnel into their new offices in phases.

The large scale renovations and moves implemented during FY 2003 included:

- * Redesigning office space to accommodate the dramatically increased e-Gov staff, which expanded from fewer than 30 staff to over 100 by the year's end;
- * Expanding and consolidating of the space available to the IT program staff for several functions now dispersed around the headquarters; and,
- * Establishing offices for more than 20 new SES hires made during the last half of the fiscal year.

Security requirements also affected OPM's infrastructure during FY 2003 as a Sensitive, Compartmented Information Facility was created for the security and emergency actions programs.

- **Monthly rent reviews are conducted, and rent charges are accurate and equitably distributed among programs.**

OPM reviewed rent bills from the GSA each month to ensure their accuracy and completeness. Errors totaling \$104,754 were identified and had been corrected through June 2003.

- **Training conducted for local voice administrative contacts.**

The voice telecommunications staff trained more than 75 employees during FY 2003 on OPM's automated, computer-linked phone message display system, Visual Messenger.

- **Make automated local voice services available to employees.**

OPM expanded and tailored automated voice telecommunications services for several offices during the year. These automated programs serve to reduce the staff-time required to receive and direct calls and ensure that calls are properly routed, because the recording is reviewed and approved by the customer for accuracy and completeness before it is activated.

- **Minimize costs and number of lines by conducting annual phone line inventories and correcting billing errors.**

Unneeded telephone lines continued to be eliminated in FY 2003, resulting in savings of more than \$17,000.

TELEPHONE LINE INVENTORIES

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Results
Lines Eliminated	85	130	432	377	89
Savings	\$15,000	\$20,000	\$101,800	\$ 85,918	\$17,897

- **Building services, security systems and mechanical systems or components are replaced, upgraded or improved.**

Throughout the year, during both the cooling and heating seasons, OPM reviewed the efficiency and effectiveness of the TRB's air conditioning and heating ductwork. As a result, major elements of the building's ductwork were replaced in over a dozen locations.

In addition, OPM completed plans for the installation of fire suppression sprinklers throughout the building, replaced much of the TRB's aging high voltage equipment, and installed a building-wide public address system.

- **Funding sought from GSA and alternative sources for major TRB renovations.**

OPM successfully negotiated with GSA and obtained nearly \$2,000,000 in funds to replace one of the two heating systems for the TRB. This ensured that the TRB remained a safe and professional location for headquarters operations.

MCFO FY03 Goal 14

OCFO Goal 1: Maintain the integrity of OPM’s financial data by receiving an unqualified audit opinion, provide financial management support to all OPM offices, and improve OPM’s implementation of the Government Performance and Results Act (GPRA).

Status: This goal was met.

Key Results: For the third year in a row, OPM received a clean audit opinion on its consolidated financial statements, improved cash controls, and implementation of the Government Performance and Results Act.

Link to Management Challenge: OPM’s accomplishments under this goal relate directly to two management challenges identified by the Office of the Inspector General, the Management of the Revolving Fund and Salaries and Expenses Accounts and Implementation of the Government Performance and Results Act.

Performance Indicators:

During FY 2003, OPM made substantial progress in improving cash controls and in bringing cash balances into alignment with Treasury’s balances. To accomplish this, OPM solicited the assistance of its Office of the Inspector General (OIG) in reviewing controls over cash for the Revolving Fund and Salaries and Expenses accounts. It issued draft desk procedures for cash reconciliations, and other draft cash-related policies and procedures, including supervisory review procedures, in order to improve cash controls.

However, OPM recognizes that further progress needs to be made in order to have effective cash controls for the Revolving Fund and Salaries and Expenses accounts. Therefore, efforts during FY 2004 will be devoted toward refresher training for financial staff, finalizing the draft policies and procedures, and ascertaining that all components of the agency consistently comply with the policies and procedures that have been established.

- **Material weaknesses are eliminated and OPM receives a clean audit opinion on the consolidated financial statements. [Critical Indicator]**

In FY 2003, OPM received its fourth consecutive unqualified audit opinion on its consolidated financial statements from its Independent Auditor, KPMG. No material weaknesses were outstanding.

- **Improved accounting:**

PERFORMANCE INDICATORS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
Timeliness of payments	91%	94%	97%	99%	98%	95%
Accounts Receivable Delinquency (Percent of debt over 181 days, versus total debt)	n/a	32%	12%	24%	20%*	36%**
Identify and Research Cash Accounts Differences with Treasury	30 days	30 days	30 days	30 days	30 days	30 days

* Target level adjusted in FY 2004 Annual Performance Plan, based on FY 2002 performance.

**This figure includes long-term outstanding debts from DoD for testing and investigations.

- **Timely completion of all required documents and reports each year, as required by the Results Act and applicable OMB guidance. [Critical Indicator]**

OPM completed all Results Act-related documents — “The FY 2002 Performance and Accountability Report,” and the “Congressional Budget Justification/Annual Performance Plan for FY 2004” — within established timeframes. Controls were strengthened with regard to performance information as the Strategic Planning, Budget and PMA Scorecard Group was established as a part of TEAM OPM to coordinate the collection of performance information and the publication of OPM’s budget and performance documents. During FY 2003, this Group developed and distributed a standardized GPRA Procedures Manual to improve the completeness, accuracy, and reliability of performance information.

- **Improved evaluations of OPM’s Strategic Plans, Annual Performance Plans, and Performance Reports by OPM’s OIG, the General Accounting Office (GAO) and other stakeholders. [Critical Indicator]**

OPM’s “FY 2002 Performance and Accountability Report” received a greatly improved evaluation from the Mercatus Center. On a 60-point scale, OPM improved from 19 to 28, elevating its ranking among the 24 scored agencies from being tied for 20th place in FY 2002 to being tied for 12th place in FY 2003. Only three other agencies showed greater improvement over their previous year’s score.

M&CFO FY03 Goal 15

RIS Goal 7: Fraud and abuse in the Federal Employees Health Benefits Program is prevented and monitored, and erroneous payments in all the Trust Fund programs are maintained at FY 2000 levels.

Status: This goal was not met.

Key Results: Erroneous payment rates in the benefit programs — Retirement, Health Benefits, and Life Insurance — exceeded the targets established for FY 2003; therefore, this goal was not met. However, these erroneous payment rates remained remarkably low, all being less than 1 percent of annual program disbursements. Nevertheless, OPM has established a working group to develop an erroneous payment improvement plan and will work through the recommendations offered by this working group to reduce the incidence of erroneous payments in the benefit programs.

Link to Management Challenge: The Office of the Inspector General has not specifically identified financial management of the benefit programs as a management challenge. However, OPM recognizes that there is a connection between the rate of erroneous payments in the Federal Employees Health Benefit Program (FEHBP) and overall performance of the program as described in the management challenge for Maintaining and Improving the Performance of the FEHBP.

Performance Indicators:

- **The FY 2003 annual financial statements for all three of the benefit programs receive unqualified opinions from the Independent Auditors.**

OPM’s “stand alone” FY 2002 annual financial statements for the benefit programs received an unqualified audit opinion from its Independent Auditors during FY 2003.

- **The audit reports of the FY 2003 annual financial statements describe no new material weaknesses in the benefit programs’ internal controls.**

ANNUAL PERFORMANCE GOALS *and* RESULTS

In their audit of the “stand-alone” FY 2002 financial statements for the benefit programs, the Independent Auditors found no reportable issues.

- The quantitative performance targets described in the table below are met.

CUSTOMER SATISFACTION INDICATORS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
Percent of all annuitants who agree that they receive their regular monthly benefit payments on time. ¹	98%	97%	97%	98%	98%	98%

FINANCIAL INDICATORS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
Retirement Programs - Erroneous Payment Rate (%) ³	0.19%	0.23%	0.35% ⁴	0.38%	0.20%	0.35%
Health Benefits Program - Erroneous Payment Rate (%) ³	0.49%	0.36%	1.14% ⁴	0.38%	0.40%	0.09%
Life Insurance Program - Erroneous Payment Rate (%) ³	0.01%	0.01%	0.01% ⁴	0.02%	0.01%	0.02%
Percent of Total Receivables that are Delinquent ²	31.1%	27.3%	26.8%	28.4%	25.0%	28.6%
Retirement Program Overpayments Collected (In Millions) ²	\$ 131	\$ 133	\$ 146	\$156	\$137	\$148
Number Referred to Treasury's Referral & Offset Program ²	215	215	183	233	275	1,250
Amount referred to Treasury's Referral & Offset Program (In Millions) ²	\$ 1.6	\$ 1.6	\$ 1.7	\$1.3	\$ 2.1	\$7.9
Administrative cost per annuitant ²	\$44.47	\$45.00	\$44.43	\$51.07	\$45.00	\$54.30

1 - Data Source: RIS Client Satisfaction Survey ; 2 - Data Source: RIS Receivables Management System; 3 - total overpayments as a percent of total benefits paid - Data Source: RIS Year-end financial statistics; 4 - Starting in 2002, erroneous payments are calculated using a new methodology (data prior to 2002 is not comparable to post-2002 data).

MCFO FY03 Goal 16

WHF Goal: A broad range of qualified applicants are attracted to and selected for the fellowship 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.

Status: This goal was met.

Key Results: The number of applicants for the White House Fellows program for the class of 2003-2004 was the largest in six years.

Link to Management Challenge: None of the management challenges identified by the Office of the Inspector General are directly linked to this goal.

Performance Indicators:

- Statistical profiles of applicants and fellows.

PERFORMANCE INDICATORS

	Class of 1997-1998	Class of 1998-1999	Class of 1999-2000	Class of 2000-2001	Class of 2001-2002	Class of 2002-2003	Class of 2003-2004
No. of Applicants	541	425	263	244	432	419	477
Male	360	271	172	165	276	181	302
Female	181	154	91	79	156	138	175
No. of Fellows	15	17	16	15	12	13	12
Male	11	10	12	10	6	12	9
Female	4	7	4	5	6	1	3
Percent Minority	33%	47%	63%	27%	25%	46%	50%
African American	2	2	3	2	1	2	1
Latino	1	2	3	0	1	2	1
Native American	0	0	0	0	0	0	0
Asian	1	3	4	1	1	0	4
Other	1	1	0	1	0	2	1

- Response of agencies in the placement of Fellows in work assignments.

The placement opportunities for Fellows remained high and competitive, which is a strong measure of the quality of Fellows selected for the program. Twenty-four agencies requested to interview Fellows.

- Quality of applicant pool.

The number of qualified applicants was the highest since the class of 1997. The program alumni continued to participate in the recruitment process. Twenty-five applicants heard about the program through alumni.

- Program runs smoothly and meets deadlines.

The White House Fellows Commission remained in place, with 30 members, and continued to have high attendance at meetings.

- Fellows are selected and placed efficiently and effectively. Their work is useful to the Government, and the Fellowship experience enhances their ability to be future leaders of the Nation.

The updated White House Fellows Program Manual continued to be used by agencies that were assigned a White House Fellow, serving as an effective management and communications tool.

OIG FY 2003 Goal 1

Provide independent oversight of agency programs, operations, functions and activities.

Status: This goal was met.

Key Results: While many of the performance indicators for this goal were not met, the OIG clearly

ANNUAL PERFORMANCE GOALS *and* RESULTS

provided a significant and effective level of oversight for agency programs, operations, functions and activities. For instance, during FY 2003 the OIG issued 83 audit reports, an 11 percent increase over FY 2002. However, these audits did not uncover financial issues as large as in recent years. Setting increasing targets for each oversight activity is problematic because such a practice assumes that the OIG has control over the amount of waste, fraud, and abuse that is occurring in the programs audited. For example, a successful audit does not necessarily result in large financial recoveries. An audit or review without significant findings may indicate that OPM is achieving its program outcome — to reduce the amount of fraud, waste, and abuse occurring in its programs.

In addition, the measure of impact far exceeds quantitative results. Having a strong audit and investigative presence within OPM programs is itself a substantial deterrent for fraud, waste, abuse, and mismanagement. This sentinel effect is critical in maximizing the impact of OIG operations.

Thus, while quantitative indicators are an important mechanism in reporting the OIG’s success, they are not the only factor in determining whether workload goals are met.

Link to Management Challenge: The vast majority of OIG FY 2003 accomplishments, including financial recommendations and recoveries, directly support maintaining and improving the performance of the Federal Employees Health Benefits Program. Recoveries represent savings to the Program that help mitigate the increasing cost of health care that is driving increases in premiums. This in turn saves budget dollars for the Government and income for Federal employees. In addition, much internal audit work relates to Implementation of the Government Performance and Results Act.

Performance Indicators:

- **The quantitative performance targets described in the table below are met. [Critical Indicators are in bold]**

While OPM did not meet many of these financial indicators, significant oversight did occur. The OIG achieved the level of planned activities, but the financial impact of these efforts was less than in previous years. This is the result of fewer financial issues being discovered in audits conducted on FEHBP carriers.

POSITIVE FINANCIAL IMPACT (BY FISCAL YEAR IN WHICH DETERMINATIONS WERE MADE)

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
Total (dollars in millions)*	\$51.9	\$105.2	\$242.1	\$116.0	\$102.0	\$40.2
Audits	\$49.5	\$101.5	\$233.5	\$111.2	-	\$37.2
Investigations	\$2.4	\$9.7	\$8.6	\$4.8	-	\$3.0
Joint	\$0.0	\$6.0	\$0.0	\$0.0	-	\$0.0

* Total equals Audits plus Investigations less Joint.

ANNUAL PERFORMANCE GOALS *and* RESULTS

RETURN ON INVESTMENT

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
Return on Investment	\$6.0	\$11.0	\$25.0	\$12.0	\$10.0	\$4.0

NON FINANCIAL INDICATORS

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
FEHBP Audit Recovery Rate	74%	72%	85%	58%	70-75%	92%
FEHB Audit Cycle	5.4 Years	4.5 Years	4.0 Years	4.0 Years	4.0 Years	4.0 Years
Average FEHB Unaudited Years	5.5 Years	5.4 Years	5.2 Years	5.1 Years	5.1 Years	5.1 Years
Number of Carriers Not Audited Within 5-year Retention Period	197	153	145	135	130	110

OIG Goal 2: Detect and prevent fraud, waste, and abuse against OPM programs.

Status: This goal was not met.

Key Results: While the performance indicators for this goal were not met, the OIG performed significant criminal investigative and administrative sanction activities to ensure that fraud, waste, and abuse against OPM programs were detected and prevented to the greatest extent possible. Setting target levels for investigative and administrative sanction activities is problematic because much of this work is done in concert with other law enforcement agencies and this often leads to complications and delays.

During FY 2003, investigative activities resulted in 10 arrests, 14 indictments, 13 convictions, and financial recoveries totaling approximately \$3 million. The OIG accomplished these results despite the lengthy mandatory training of two new criminal investigators and the complexity of a number of investigations. Among these complex investigations were multiyear examinations of FEHBP health care providers (some of which have taken over 1,000 hours of criminal investigator time) and a large employee fraud case which occupied the majority of the time for a senior criminal investigator.

In addition to these investigative accomplishments, the OIG issued regulations implementing the debarment and suspension provisions of P.L. 105-266, the Federal Employees Health Care Protection Act of 1988, and began using this authority during the second half of FY 2003. In total, the OIG issued 3,405 debarments and suspensions and responded to 2,741 related inquiries.

The measure of the OIG's impact far exceeds quantitative results. Having strong investigative and administrative sanction operations is itself a substantial deterrent for fraud, waste, and abuse. This sentinel effect is critical in maximizing the impact of OIG operations. Thus, while quantitative indicators are an important mechanism in reporting OIG's success, they are not the only factor in determining whether its workload goals are met.

Link to Management Challenge: The vast majority of OIG FY 2003 accomplishments, including administrative sanctions, positive financial impact and a portion of arrests, indictments, and convictions directly support Maintaining and Improving the performance of the Federal Employees Health Benefits Program.

ANNUAL PERFORMANCE GOALS *and* RESULTS

Performance Indicators:

- The quantitative performance targets described in the table below are met.

	FY 1999 Results	FY 2000 Results	FY 2001 Results	FY 2002 Results	FY 2003 Target	FY 2003 Results
Number of Arrests	17	14	27	16	22	10
Indictments	13	14	28	17	20	14
Number of Convictions	14	14	22	24	20	13
Number of Debarments and Suspensions	2,743	2,706	4,032	3,380	4,200	3,405
Number of Debarment Inquiries Responded to	1,101	1,725	2,119	3,827	3,000	2,741

COMPLETENESS AND RELIABILITY OF PERFORMANCE DATA

The performance information used by OPM in this Performance and Accountability Report for FY 2003 is reasonably complete and reliable, as defined by the Government Performance and Results Act. The kind of performance information used in this report was driven primarily by the nature of the performance indicators included in OPM's original Annual Performance Plan for FY 2003. These performance indicators can be characterized in two ways:

- * Narrative or qualitative indicators based on performing core activities, or achieving critical milestones that point toward a program outcome; and
- * Quantitative, objective indicators that are focused on either program output or outcomes.

Most of the performance indicators supporting the goals inherited by OPM's human resources policy and human capital leadership functions were narrative. OPM recognizes that some of the resulting performance information does not lend itself to trend analysis from which an observer can determine whether progress is being made over time. However, this information provides insight as to whether program outcomes are being achieved and is useful for that reason. During FY 2003, OPM began overhauling its performance measurement system as a part of its budget and performance planning for FY 2004 and FY 2003. New performance indicators were developed for the policy areas that are more focused on program outcomes. These new indicators are being implemented and will be used in OPM's Congressional Budget Justification/Performance Budget for FY 2005, and reported in its FY 2004 Performance and Accountability Report.

The performance information reported by the products and services and corporate management programs is generally quantitative and more objective. This information is collected from ongoing business transactions, i.e., claims processing, benefit payments, etc., and more easily supports a determination of whether goals are met and program outcomes achieved.

The FY 2003 Annual Performance Plan was written in 2001. Several of the more than 300 performance indicators established at that time were no longer appropriate in FY 2003 as OPM began operating in a new structure with a new mission. These indicators were dropped for this reason. Retrospectively, OPM determined that other indicators did not provide meaningful performance information. These indicators also were dropped.

Finally, the data collections that supported a third group of indicators were suspended during FY 2003 because OPM began revamping its performance measurement system. For these reasons, data for these indicators is not included in the Annual Performance Goals and Results section of this report. Nonetheless, all of the goals and indicators that appeared in the FY 2003 Annual Performance Plan are accounted for in Appendix A.

OPM took steps during FY 2003 to strengthen controls over the collection and reporting of performance information and began to revamp its performance measurement system using a program logic model methodology. Through the program logic model, OPM defined its program outcomes and developed quantitative performance indicators that can be used to assess the extent to which these outcomes are being achieved.

- First, OPM established a *GPRA Procedures Manual* for use by OPM's program offices in tracking their data and verifying its accuracy. As the use of quantitative performance indicators is expanded, this manual will be updated with information on data quality and procedural documentation standards.
- Second, OPM began implementing a system of certifications wherein the head of each reporting office certifies the accuracy, reliability and completeness of the data submitted by their organization for use in the report. As this process takes hold, OPM offices will establish better controls over the collection and reporting of performance data.
- Third, as part of the agency restructuring, OPM established a new Strategic Planning, Budget and PMA Scorecard Group within the Division for Management and Chief Financial Officer which is responsible for producing Performance and Accountability Reports and Performance Budgets. This unit works with the divisions to identify performance indicators and serves as a central repository for evidence supporting the information in the report.
- To further improve the quality of performance data as suggested by the Office of the Inspector General, OPM will continue to develop formal written procedures dealing with the internal processing and tracking of information within the newly restructured agency. These policies and procedures will improve the reliability, consistency, and auditability of performance data as they are presented in the performance plans and reports. These procedures include:
 - * Internal controls, such as recalculating figures to ensure their accuracy;
 - * Tracing results to supporting documentation; and
 - * Establishing an automated executive information system that will report performance information across the agency on a regular basis throughout the year. This will allow OPM to identify potential problem areas before they become critical, and redirect resources as needed to ensure that vital targets are achieved.

The most important step in improving performance information was the evolution of the Human Capital Logic Model, which defines OPM's program in a way that aligns with the Program Assessment and Rating Tool (PART), and establishes clear relationships between program activities, outputs, outcomes, and quantitative performance indicators. This system replaces nonquantifiable descriptions of activities with measurable program outcomes, and narrative performance measures with quantitative indicators that support observing trends over time. It also creates a framework which will support the development of efficiency measures across all programs.

To develop the Human Capital Logic Model, OPM drew from three sources:

- 1) Experiences in preparing PARTs for the Retirement, Life Insurance, and IG FEHB Integrity programs;
- 2) The outcomes and measures described by the Human Capital Assessment and Accountability Framework; and
- 3) A program logic model approach to defining the agency's activities, outputs, and outcomes along program lines.

The PARTs of the Retirement and Life Insurance programs revealed that under its new organizational structure, OPM programs are spread across operating divisions. That is, every program has policy components that are carried out by the Division for Strategic Human Resources Policy, support and oversight components that are the responsibility of the Division for Human Capital Leadership and Merit Systems Accountability, and products and services that are delivered by the Division for Human Resources Products and Services. Drawing from the PART, the purpose of each program was defined and the activities carried out by each OPM division were described, along with resulting program outputs and intended outcomes.

OPM recognizes the need to improve the design and administration of some of its principal data collection instruments, particularly those that collect feedback from core stakeholder groups concerning the usefulness and effectiveness of its policies, programs, and initiatives. During FY 2004, the primary audiences for major program areas will be identified and OPM will develop the best instruments for gathering data from each. These instruments may include focus groups, automated surveys, structured interviews, and other information gathering techniques targeting people seeking Federal jobs, newly hired Federal employees and human resources management staff across Government.



FY 2003 CONSOLIDATED FINANCIAL STATEMENTS

U.S. OFFICE OF PERSONNEL MANAGEMENT CONSOLIDATED BALANCE SHEETS

As of September 30, 2003 and 2002

(In Millions)

	<u>2003</u>	<u>2002</u>
ASSETS		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	\$922	\$853
Investments, Net [Note 3]	637,397	606,421
Interest Receivable on Investments	9,121	9,400
Accounts Receivable [Note 4]	1,272	1,159
Total Intragovernmental	<u>648,712</u>	<u>617,833</u>
Accounts Receivable from the Public, Net [Note 4]	962	1,016
Assets Held by Insurance Carriers	713	735
General Property and Equipment, Net	13	19
TOTAL ASSETS	<u><u>650,400</u></u>	<u><u>619,603</u></u>
LIABILITIES		
Intragovernmental	465	462
Federal Employee Benefits:		
Benefits Due and Payable	7,974	7,513
Pension Liability [Note 5]	1,136,100	1,082,500
Postretirement Health Benefits Liability [Note 6]	239,525	207,331
Actuarial Life Insurance Liability [Note 7]	29,349	27,543
Total Federal Employee Benefits	<u>1,412,948</u>	<u>1,324,887</u>
Contingencies [Note 14]	49	205
Other [Note 8]	966	986
Total Liabilities	<u><u>1,414,428</u></u>	<u><u>1,326,540</u></u>
NET POSITION		
Unexpended Appropriations	64	11
Cumulative Results of Operations	<u>(764,092)</u>	<u>(706,948)</u>
Total Net Position	<u><u>(764,028)</u></u>	<u><u>(706,937)</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$650,400</u></u>	<u><u>\$619,603</u></u>

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

**U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENTS OF NET COST**
For the Years Ended September 30, 2003 and 2002
(In Millions)

		2003	2002
	Intragovernmental Gross Costs	-	-
	Less: Intragovernmental Earned Revenue	\$29,338	\$34,215
	<i>Intragovernmental Net Costs</i>	<u>(29,338)</u>	<u>(34,215)</u>
<i>Provide</i>	Gross Costs with the Public	73,129	47,603
<i>CSRS Benefits</i>	Less: Earned Revenue with the Public	3,467	3,542
	<i>Net costs with the public</i>	<u>69,662</u>	<u>44,061</u>
	Total Net Cost	\$40,324	\$9,846
<hr/>			
	Intragovernmental Gross Costs	-	-
	Less: Intragovernmental Earned Revenue	\$21,200	\$19,497
	<i>Intragovernmental Net Costs</i>	<u>(21,200)</u>	<u>(19,497)</u>
<i>Provide</i>	Gross Costs with the Public	29,524	14,187
<i>FERS Benefits</i>	Less: Earned Revenue with the Public	812	724
	<i>Net Costs with the Public</i>	<u>28,712</u>	<u>13,463</u>
	Total Net Cost	\$7,512	(\$6,034)
<hr/>			
	Intragovernmental Gross Costs	-	-
	Less: Intragovernmental Earned Revenue	\$12,652	\$11,240
	<i>Intragovernmental Net Costs</i>	<u>(12,652)</u>	<u>(11,240)</u>
<i>Provide</i>	Gross Costs with the Public	57,619	38,850
<i>Health Benefits</i>	Less: Earned Revenue with the Public	7,277	6,543
	<i>Net Costs with the Public</i>	<u>50,342</u>	<u>32,307</u>
	Total Net Cost	\$37,690	\$21,067
<hr/>			
	Intragovernmental Gross Costs	-	-
	Less: Intragovernmental Earned Revenue	\$1,740	\$1,787
	<i>Intragovernmental Net Costs</i>	<u>(1,740)</u>	<u>(1,787)</u>
<i>Provide</i>	Gross Costs with the Public	3,813	3,360
<i>Life Insurance</i>	Less: Earned Revenue with the Public	1,713	1,662
<i>Benefits</i>	<i>Net Costs with the Public</i>	<u>2,100</u>	<u>1,698</u>
	Total Net Cost	\$360	(\$89)
<hr/>			
	Intragovernmental Gross Costs	\$59	\$108
	Less: Intragovernmental Earned Revenue	398	345
	<i>Intragovernmental Net Costs</i>	<u>(339)</u>	<u>(237)</u>
<i>Provide</i>	Gross Costs with the Public	468	385
<i>Human Resource</i>	Less: Earned Revenue with the Public	1	40
<i>Services</i>	<i>Net Costs with the Public</i>	<u>467</u>	<u>345</u>
	Total Net Cost	\$128	\$108
<hr/>			
	Intragovernmental Gross Costs	\$59	\$108
	Less: Intragovernmental Earned Revenue	65,328	67,084
	<i>Intragovernmental Net Costs</i>	<u>(65,269)</u>	<u>(66,976)</u>
<i>Total</i>	Gross Costs with the Public	164,553	104,385
<i>Net Cost</i>	Less: Earned Revenue with the Public	13,270	12,511
<i>of Operations</i>	<i>Net Costs with the Public</i>	<u>151,283</u>	<u>91,874</u>
	Total Net Cost of Operations	\$86,014	\$24,898

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
 For the Years Ended September 30, 2003 and 2002
(In Millions)

	2003			2002		
	Cumulative Results of Operations	Unexpended Appropriations	Net Position	Cumulative Results of Operations	Unexpended Appropriations	Net Position
BEGINNING BALANCES						
As previously reported	(\$706,948)	\$11	(\$706,937)	(\$710,197)	\$11	(\$710,186)
Cumulative effect of accounting change [Note 15]	-	-	-	(178)	-	(178)
<i>Beginning Balances, as adjusted</i>	<u>(706,948)</u>	<u>11</u>	<u>(706,937)</u>	<u>(710,375)</u>	<u>11</u>	<u>(710,364)</u>
FINANCING SOURCES						
Budgetary:						
Transfer-in from General Fund	21,878	-	21,878	22,109	-	22,109
Appropriations:						
Received	-	6,872	6,872	-	6,218	6,218
Used	6,801	(6,801)	0	6,205	(6,205)	0
Cancelled	-	(33)	(33)	-	(13)	(13)
Other Financing Sources	191	15	206	11	-	11
<i>Total Financing Sources</i>	<u>28,870</u>	<u>53</u>	<u>28,923</u>	<u>28,325</u>	<u>0</u>	<u>28,325</u>
NET COST OF OPERATIONS	<u>86,014</u>	<u>-</u>	<u>86,014</u>	<u>24,898</u>	<u>-</u>	<u>24,898</u>
ENDING BALANCES	<u>(\$764,092)</u>	<u>\$64</u>	<u>(\$764,028)</u>	<u>(\$706,948)</u>	<u>\$11</u>	<u>(\$706,937)</u>

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

**U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINED STATEMENTS OF BUDGETARY RESOURCES**

For the Years Ended September 30, 2003 and 2002

(In Millions)

	<u>2003</u>	<u>2002</u>
BUDGETARY RESOURCES		
Appropriations:		
Received	\$6,872	\$6,218
Cancelled	(33)	(13)
Trust Fund Receipts:		
Appropriated	78,365	80,070
Precluded from Obligation [Note 9]	(27,853)	(30,961)
Spending Authority from Offsetting Collections:		
Collected	30,512	27,834
Changes in Receivables from Federal Sources and Unfilled Customer Orders	272	51
<i>Subtotal</i>	<u>30,784</u>	<u>27,885</u>
Unobligated Balance - Beginning of Period	<u>29,968</u>	<u>27,685</u>
Total Budgetary Resources	<u><u>118,103</u></u>	<u><u>110,884</u></u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred: [Note 11]		
Direct	84,762	80,354
Reimbursable	526	562
<i>Subtotal</i>	<u>85,288</u>	<u>80,916</u>
Unobligated Balance:		
Available	171	106
Not available	32,644	29,862
<i>Subtotal</i>	<u>32,815</u>	<u>29,968</u>
Total, Status of Budgetary Resources	<u><u>118,103</u></u>	<u><u>110,884</u></u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligations Incurred	85,288	80,916
Plus: Obligated Balance, Net - Beginning of the Period	7,462	6,960
Less: Obligated Balance, Net - End of the Period:		
Accounts Payable and Undelivered Orders	9,621	9,006
Accounts Receivable and Unfilled Customer Orders	(1,836)	(1,544)
<i>Subtotal</i>	<u>7,785</u>	<u>7,462</u>
Less: Changes in Receivables from Federal Sources and Unfilled Customer Orders	272	51
Disbursements	<u>84,693</u>	<u>80,363</u>
Collections	<u>(30,512)</u>	<u>(27,834)</u>
Net Outlays	<u><u>\$54,181</u></u>	<u><u>\$52,529</u></u>

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

**U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENTS OF FINANCING**
For the Years Ended September 30, 2003 and 2002
(In Millions)

	2003	2002
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	\$85,288	\$80,916
Spending Authority from Offsetting Collections	(30,784)	(27,885)
Appropriated Trust Fund Receipts	(78,365)	(80,070)
Net Budgetary Resources Obligated	(23,861)	(27,039)
Transfer-in from the General Fund	21,878	22,109
Other	206	11
Total Resources Used to Finance Activities	(1,777)	(4,919)
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS	64	35
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Increase in Actuarial Liabilities	87,600	30,218
(Decrease) Increase in Contingent Liabilities	(156)	31
Exchange Revenue not in the Budget	175	(384)
Components not Requiring or Generating Resources	108	(83)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	87,727	29,782
NET COST OF OPERATIONS	\$86,014	\$24,898

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

NOTES TO FINANCIAL STATEMENTS

*U.S. Office Of Personnel Management
Notes To Financial Statements
September 30, 2003 And 2002
[In Millions]*

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 financial statements present OPM's financial position, net cost of operations, change in net position, status of budgetary resources, and a reconciliation of its net cost of operations to its budgetary obligations as required by the Chief Financial Officers Act of 1990 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 via the Civil Service Retirement and Disability Fund (CSRDF), 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 trust revolving funds: the Employees Health Benefits Fund and the Retired Employees Health Benefits Fund. To provide benefits, OPM contracts with two types of health benefits carriers: *fee-for-service*, whose participants or their health care providers are reimbursed for the cost of services, and *health maintenance organizations* (HMOs), which provide or arrange for services on a prepaid basis through designated providers. Most of the contracts of carriers that provide fee-for-service benefits are *experience-rated*, with the amount contributed by and for participants affected by, among other things, the number and size of claims. Most HMO contracts are *community-rated*, so that the amount paid by and for participants is essentially the same as that paid by and for participants in similarly-sized subscriber groups.

Life Insurance Program. The Program provides group term life insurance coverage to Federal employees and retirees. The Program was implemented in 1954 and significantly modified in 1980. It is operated through the Employees Group Life Insurance Fund, a trust revolving fund, and is administered, virtually

in its entirety, by the Metropolitan Life Insurance Company under contract with OPM. 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* provides the resources used by OPM for the administrative costs of the agency.

B. BASIS OF ACCOUNTING AND PRESENTATION

These financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources and reconciliation of net cost to budgetary obligations of OPM as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. These financial statements have been prepared from the books and records of OPM in accordance with accounting principles generally accepted in the United States of America (GAAP), Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements." GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal Government. These financial statements present proprietary and budgetary information. OPM, pursuant to OMB directives, prepares additional financial reports that are used to monitor and control OPM's use of budgetary resources.

OMB financial statement reporting guidelines for FY 2003 require the presentation of comparative financial statements for all of the principal financial statements. OPM has presented comparative FY 2002 financial statements for the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources and Consolidated Statement of Financing. Certain prior amounts have been reclassified to conform to current year presentation.

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

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

C. USE OF MANAGEMENT'S ESTIMATES

The preparation of financial statements in accordance with 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. ACCOUNTING CHANGE

Effective on October 1, 2001, OPM adopted Federal Accounting Standards Advisory Board (FASAB) Technical Bulletin 2002-1 — *Assigning to Component Entities Costs and Liabilities that Result from Legal Claims against the Federal Government*. Technical Bulletin 2002-1 requires OPM to recognize a liability for certain legal costs that have been paid by the Treasury Judgment Fund (TJF). Previously, OPM had not recognized a liability in such instances.

E. FINANCIAL STATEMENT CLASSIFICATIONS

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

Intragovernmental and Other Balances. Throughout these financial statements, intragovernmental assets, liabilities, revenues and costs have been classified according to the type of entity with which the transactions are associated. OPM classifies as intragovernmental, those transactions with other Federal entities, including the U.S. Postal Service (USPS). Even though they are remitted to OPM by Federal entities, employee contributions to the Retirement, Health Benefits and Life Insurance Programs are classified as revenues "from the public." All of OPM's costs to provide Retirement, Health and Life Insurance benefits are classified as "with the public."

Exchange vs. Non-Exchange Revenue. Exchange or earned revenue is an inflow of resources to a Government entity that the entity has earned; it arises when each party to transaction sacrifices value and receives value in return. All of OPM's revenues are classified as exchange revenues. Federal reporting standards require that earnings on investments be classified in the same manner as the entity's "predominant source of revenue;" OPM, therefore, classifies it as earned revenue. Employing agency and participant contributions to the Retirement, Health Benefits and Life Insurance Programs (as well as the special contributions by the USPS) are classified as exchange revenues, since they represent exchanges of money and services in return for current and future benefits.

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

Net Position. OPM's Net Position is classified into two separate balances. The *Cumulative Results of Operations* comprises OPM's net results of operations since its inception. *Unexpended Appropriations* is the balance of appropriated authority granted to OPM against which no outlays have been made.

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

NOTES TO FINANCIAL STATEMENTS

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

F. NET COST OF OPERATIONS

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

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

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

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

G. BENEFIT PROGRAM FUNDING

Retirement Program

CSRS. The CSRS is contributory; both employing agencies and participants contribute a percentage of payroll to the CSRDF to fund coverage. Employee and employing agency contributions for most participants are approximately 7.0 and 8.51 percent of payroll in both fiscal years 2003 and 2002.

In accordance with the Postal Civil Service Retirement System Funding Reform Act of 2003 (P.L. 108-18), the USPS must contribute to the CSRDF an amount equal to the service cost of the CSRS less the amount contributed by its participating employees. Accordingly, effective in March 2003, the USPS began to contribute approximately 17.4 percent of payroll. P.L. 108-18 also repeals the provisions of law that required the USPS to amortize over 15 years the increases in future CSRS annuities resulting from annual employee pay raises and retiree COLAs. Instead, beginning in fiscal year 2004, the USPS must amortize over 40 years a "supplemental liability" that has arisen as a result of CSRS benefits earned by USPS employees.

FERS. The FERS is also contributory; both employing agencies and participants must contribute a percentage of payroll to the CSRDF to fund coverage. The participant contribution is set by law to be equal to the CSRS participant contribution rate less the Old Age Survivor and Disability Insurance deduction rate. Total contributions by and for most FERS participants are 11.5 percent of payroll for both fiscal years 2003 and 2002. The service cost for these participants is 12.0 and 11.5 percent of payroll for fiscal years 2003 and 2002, respectively.

Health Benefits Program. The Program is contributory; both participants and their employing agency or retirement system must make contributions. The law provides a formula for computing a percentage of a premium negotiated with each carrier that the employing agency will pay; the participant pays the remainder. For Retirement Program annuitants, the employing agency share is drawn from an OPM appropriation account.

Life Insurance Program. Both participants and their employing agencies or retirement systems are required to make contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis. For Retirement Program annuitants, the employing agency share is drawn from an OPM appropriation account. For optional coverage, the entire contribution is borne by the participant.

H. FINANCING SOURCES OTHER THAN EARNED REVENUE

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

Transfer-in from the General Fund. Since the contributions by and for participants do not cover the service cost of the CSRS, the U.S. Treasury is required by law to transfer an amount annually to the Retirement Program from the General Fund of the U.S. to subsidize in part this under-funding.

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

I. BUDGETARY RESOURCES

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

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

Trust Fund Receipts. Collections by OPM that are credited to the CSRDF generate budgetary resources in the form of trust fund receipts. Trust fund receipts are considered to be immediately appropriated and available to cover the valid obligations of the Retirement Program as they are incurred. At the end of each fiscal year, the amount by which OPM's collections have exceeded its incurred obligations are temporarily precluded from obligation and added to OPM's trust fund balance [see Note 9].

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

J. FUND BALANCE WITH TREASURY

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

K. INVESTMENTS, NET

OPM invests the excess FBWT for the Retirement, Health Benefits, and Life Insurance Programs in securities guaranteed by the United States as to principal and interest. Retirement Program monies are invested initially in Certificates of Indebtedness (“Certificates”), which are issued by the Treasury at par value and mature on the following June 30. The Certificates are routinely redeemed at face value to pay for authorized Program expenditures. Each June 30, all outstanding Certificates are “rolled over” into special government account series (GAS) securities that are issued by the Treasury at par-value, with a yield equaling the average of all marketable Public Debt securities with four or more years to maturity. The Retirement Program also carries, but does not routinely invest in, securities issued by the Federal Financing Bank (FFB) and a small amount of other securities.

Health Benefits and Life Insurance Programs monies are invested in “market-based” securities that mirror the terms of marketable Treasury securities. In addition, OPM invests Health Benefits and Life Insurance Program monies that are immediately needed for expenditure in “overnight” market-based securities, with a yield equal to the overnight repurchase agreement rate 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 are valued using the quoted market prices for the securities upon which they are based. There are no quoted market prices for the remaining securities: the market value of the special GAS securities held by the Retirement Program, the Certificates, and the FFB securities is equal to their par values.

L. ACCOUNTS RECEIVABLE

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

M. ASSETS HELD BY INSURANCE CARRIERS

This 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 disposition on behalf of OPM.

N. GENERAL PROPERTY AND EQUIPMENT

OPM capitalizes major long-lived software and equipment. Software costing over \$10 thousand is capitalized at the cost of either purchase or development, and is amortized using a straight-line method over a useful life of five years. Equipment costing over \$10 thousand is capitalized at purchase cost and depreciated via a straight-line method over five years. The cost of minor purchases, repairs and maintenance is expensed as incurred.

O. BENEFITS DUE AND PAYABLE

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

P. ACTUARIAL LIABILITIES AND ASSOCIATED EXPENSES

OPM records actuarial liabilities and associated expenses in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 5 — *Accounting for Liabilities of the Federal Government*. The actuarial liabilities 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.

Q. CUMULATIVE RESULTS OF OPERATIONS

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

R. TAX STATUS

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2 — FUND BALANCE WITH TREASURY

Fund Balances. FBWT balances by account type at the end of fiscal years 2003 and 2002 are:

2003

	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Revolving Fund	-	-	-	\$109	\$109
Trust Fund	\$28	-	-	-	28
Trust Revolving Funds	-	\$12	\$3	-	15
Appropriated Funds	-	675	4	91	770
Total	\$28	\$687	\$7	\$200	\$922

2002

	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Revolving Fund	-	-	-	\$136	\$136
Trust Fund	\$26	-	-	-	26
Trust Revolving Funds	-	\$12	\$5	-	17
Appropriated Funds	-	605	3	66	674
Total	\$26	\$617	\$8	\$202	\$853

Status of Unexpended Balances. OPM's unexpended balances are comprised of its FBWT and its investments, (at par, net of original discount). The following table presents the portions of OPM's unexpended balances that are obligated, unobligated and precluded from obligation at the end of fiscal years 2003 and 2002:

FY 2003

	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Unexpended Balance					
FBWT	\$28	\$687	\$7	\$200	\$922
Investments	601,706	9,025	26,279	-	637,010
Total, Unexpended Balance	\$601,734	\$9,712	\$26,286	\$200	\$637,932
Status of Unexpended Balance					
Obligated	\$4,402	\$3,158	\$247	\$(22)	\$7,785
Unobligated:					
Available	-	-	-	171	171
Unavailable	-	6,554	26,039	51	32,644
Precluded (Note 9)	597,332	-	-	-	597,332
Total, Status of Unexpended Balance	\$601,734	\$9,712	\$26,286	\$200	\$637,932

NOTES TO FINANCIAL STATEMENTS

FY 2002

	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Unexpended Balance					
FBWT	\$26	\$617	\$8	\$202	\$853
Investments	573,711	7,544	24,801	–	606,056
Total, Unexpended Balance	\$573,737	\$8,161	\$24,809	\$202	\$606,909
Status of Unexpended Balance					
Obligated	\$4,258	\$2,894	\$214	\$96	\$7,462
Unobligated:					
Available	–	–	–	106	106
Unavailable	–	5,267	24,595	0	29,862
Precluded (Note 9)	569,479	–	–	–	569,479
Total, Status of Unexpended Balance	\$573,737	\$8,161	\$24,809	\$202	\$606,909

NOTE 3 – INVESTMENTS, NET

All of OPM's investments are in securities issued by other Federal entities and are therefore classified as intragovernmental. The following tables summarize OPM's investments by Program at the end of fiscal years 2003 and 2002:

As of September 30, 2003	Cost	Amortized Discount/ (Premium)	Investments Net	Market Value
Retirement Program:				
Par-value GAS securities	\$577,442	–	\$577,442	\$577,442
Certificates of Indebtedness	23,987	–	23,987	23,987
Other	280	–	280	280
Total Retirement Program	601,709	–	601,709	601,709
Health Benefits Program	9,088	0	9,088	9,196
Life Insurance Program	26,412	\$188	26,600	27,754
Total Investments	\$637,209	\$188	\$637,397	\$638,659

As of September 30, 2003	Cost	Amortized Discount/ (Premium)	Investments Net	Market Value
Retirement Program:				
Par-value GAS securities	\$531,347	–	\$531,347	\$531,347
Certificates of Indebtedness	27,086	–	27,086	27,086
FFB securities	15,000	–	15,000	15,000
Other	280	–	280	321
Total Retirement Program	573,713	–	573,713	573,754
Health Benefits Program	7,624	(\$12)	7,612	7,815
Life Insurance Program	25,172	(76)	25,096	27,104
Total Investments	\$606,509	(\$88)	\$606,421	\$608,673

NOTES TO FINANCIAL STATEMENTS

NOTE 4 — ACCOUNTS RECEIVABLE, NET

Intragovernmental. The balances comprising OPM’s intragovernmental accounts receivable as of September 30, 2003 and 2002 are:

	2003	2002
Contributions due for benefit program participants	\$1,154	\$1,073
Other	118	86
Total Intragovernmental Accounts Receivable	\$1,272	\$1,159

From the Public. The balances comprising the accounts receivable OPM classifies as “from the public” at September 30, 2003 and 2002 are presented in the following tables as the gross amount due, the allowance for uncollectible amounts, and the net amount due:

As of September 30, 2003	Gross	Allowance	Net
Contributions by participants	\$725	–	\$725
Overpayments of Retirement Program benefits, net	165	\$55	110
Due from Health Program carriers, net	36	1	35
Other, net	92	–	92
Total Accounts Receivable from the Public, Net	\$1,018	\$56	\$962

As of September 30, 2002	Gross	Allowance	Net
Contributions by participants	\$693	–	\$693
Overpayments of Retirement Program benefits, net	155	\$50	105
Due from Health Program carriers, net	126	3	123
Other, net	95	–	95
Total Accounts Receivable from the Public, Net	\$1,069	\$53	\$1,016

NOTE 5 — PENSION LIABILITY

In computing the Pension Liability and associated 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.

Economic Assumptions. The Board of Actuaries of the Civil Service Retirement System approved a revised set of economic assumptions for use in calculating the Pension Liability and related expense for fiscal year 2003. These assumptions were adopted after the Board reviewed statistical data prepared by OPM’s actuaries and considered trends that may affect future experience. The following table presents the significant economic assumptions used to compute the Pension Liability in fiscal years 2003 and 2002:

	2003	2002
Interest rate	6.25%	6.75%
Rate of inflation	3.25%	3.75%
Rate of increases in salary	4.00%	4.25%

Pension Expense. The following table presents Pension Expense by cost component for fiscal years 2003 and 2002:

NOTES TO FINANCIAL STATEMENTS

2003	CSRS	FERS	TOTAL
Service cost	\$12,150	\$11,572	\$23,722
Interest cost	57,541	9,323	66,864
Actuarial loss	3,438	8,629	12,067
Pension Expense	\$73,129	\$29,524	\$102,653

2002	CSRS	FERS	TOTAL
Service cost	\$12,105	\$10,063	\$22,168
Interest cost	62,117	9,176	71,293
Actuarial gain	(26,619)	(5,052)	(31,671)
Pension Expense	\$47,603	\$14,187	\$61,790

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

September 30, 2003	CSRS	FERS	TOTAL
Pension Liability at October 1, 2002	\$938,200	\$144,300	\$1,082,500
Plus: Pension Expense	73,129	29,524	102,653
Less: Costs applied to Pension Liability	47,229	1,824	49,053
Pension Liability at September 30, 2003	\$964,100	\$172,000	\$1,136,100

September 30, 2002	CSRS	FERS	TOTAL
Pension Liability at October 1, 2001	\$ 937,800	\$ 131,700	\$1,069,500
Plus: Pension Expense	47,603	14,187	61,790
Less: Costs applied to Pension Liability	47,203	1,587	48,790
Pension Liability at September 30, 2002	\$938,200	\$144,300	\$1,082,500

Costs Applied to the Pension Liability. In accordance with Federal accounting standards, the Pension Liability is reduced by the total operating costs of the Retirement Program. The following table presents the costs applied to the Pension Liability in fiscal years 2003 and 2002:

	2003	2002
Annuities	\$49,751	\$48,351
Refunds of contributions	287	287
Administrative and other expenses	149	152
Gain on Sale of Investments	(1,134)	-
Costs applied to the Pension Liability	\$49,053	\$48,790

Imputed Costs. Each fiscal year, OPM's actuaries compute the Government's actual cost to provide a future CSRS and FERS benefit to participating employees. This "service cost" is an estimate of the amount that would need to be contributed by and for participating employees over their working careers in order to pay fully for these benefits. Federal accounting standards require that employing agencies incur an imputed cost for the difference between the amount contributed by and for their participating employees and the service cost of the CSRS and FERS.

The following table presents the service costs for the CSRS and FERS for fiscal years 2003 and 2002, respectively, stated as a percentage of payroll:

NOTES TO FINANCIAL STATEMENTS

	2003	2002
CSRS	24.4	24.2
FERS	12.0	11.5

NOTE 6 — POSTRETIREMENT HEALTH BENEFITS LIABILITY

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.

Economic Assumptions. The following table presents the significant economic assumptions used to compute the PRHB Liability as of the September 30 measurement date:

	2003	2002
Interest rate	6.25%	6.75%
Increase in per capita cost of covered benefits	7.00%	7.00%

PRHB Expense. The following table presents the PRHB Expense by cost component for fiscal years 2003 and 2002:

	2003	2002
Service cost	\$9,170	\$7,896
Interest cost	14,069	13,116
Actuarial loss	17,769	2,811
PRHB Expense	\$41,008	\$23,823

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

	2003	2002
PRHB Liability at the beginning of the year	\$207,331	\$191,507
Plus: PRHB Expense	41,008	23,823
Less: Costs applied to the PRHB Liability	8,814	7,999
PRHB Liability at the end of the year	\$239,525	\$207,331

Costs Applied to PRHB Liability. 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 in fiscal years 2003 and 2002:

	2003	2002
Current benefits	\$6,416	\$5,846
Premiums	1,663	1,374
Administrative and other expenses	735	779
Total costs applied to the PRHB Liability	\$8,814	\$7,999

NOTES TO FINANCIAL STATEMENTS

Effect of Assumptions. The assumed health care cost trend rate has 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 rate would have the following effects in fiscal years 2003 and 2002:

	2003		2002	
	8.0% [One Percent Increase]	6.0% [One Percent Decrease]	8.0% [One Percent Increase]	6.0% [One Percent Decrease]
Interest cost component	\$16,081	\$12,386	\$14,949	\$11,581
Service cost component	11,455	7,378	9,823	6,381
PRHB Liability	\$275,955	\$209,190	\$238,177	\$181,587

Imputed Cost. Since neither active employees nor their employing agencies (other than the USPS) make contributions on a current basis for their post-retirement health benefits coverage, employing agencies must recognize the Government’s entire cost to provide post-retirement health benefits to their employees as an imputed cost. The cost, in whole dollars per participant, is \$3,766 and \$3,473 per participant in the FEHB Program in fiscal years 2003 and 2002, respectively.

NOTE 7 — ACTUARIAL LIFE INSURANCE LIABILITY

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

The Life Insurance Program is funded by means of the “level premium” method. That is, the contributions paid by and for participants remain fixed until age 65, but are set at a level that overcharges during early years of coverage to compensate for higher rates of expected outflows at later years.

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

	2003	2002
EPV of future benefits	\$60,283	\$55,319
EPV of future contributions by participants	(30,934)	(27,776)
ALIL	\$29,349	\$27,543

The Future Life Insurance Benefits Expense for fiscal years 2003 and 2002 is:

	2003	2002
ALIL at the end of the year	\$29,349	\$27,543
ALIL at the beginning of the year	(27,543)	(26,149)
Future Life Insurance Benefits Expense	\$1,806	\$1,394

Imputed Cost. Since neither active employees nor their employing agencies make contributions on a current basis for their post-retirement life insurance benefits coverage, employing agencies must recognize the Government’s cost to provide these benefits to their employees as an imputed cost. The cost is 0.02 percent of the payroll paid to participating employees for both fiscal years 2003 and 2002.

NOTES TO FINANCIAL STATEMENTS

NOTE 8 — OTHER LIABILITIES

The following liabilities, all current and “with the public,” are classified as “other” on the accompanying Consolidated Balance Sheets as of September 30, 2003 and 2002:

	2003	2002
Accrued carrier liabilities other than benefits	\$403	\$456
Withheld from Retirement Program benefits	442	402
Accrued administrative expenses	121	128
Total Other Liabilities	\$966	\$986

NOTE 9 — TRUST FUND BALANCE PRECLUDED FROM OBLIGATION

The following table presents the balance in the CSRDF that has been precluded from obligation as of September 30, 2003 and 2002:

	2003	2002
Precluded from obligation at the beginning of the year	\$569,479	\$538,518
Plus: trust fund receipts during the year	78,365	\$80,070
Less: obligations incurred	(50,512)	(49,109)
Excess of trust fund receipts over obligations incurred	27,853	30,961
Precluded from Obligation at the End of the Year	\$597,332	\$569,479

NOTE 10 — HEALTH BENEFITS/LIFE INSURANCE PROGRAM CONCENTRATIONS

During fiscal years 2003 and 2002, 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 11 — APPORTIONMENT CATEGORIES OF INCURRED OBLIGATIONS

All of OPM’s accounts are apportioned by OMB, either on a quarterly [“Category A”] or an annual [“Category B”] basis. For OPM, the Revolving Fund and Salaries and Expenses account are apportioned on a quarterly basis [Category A]. All other accounts under OPM’s control are apportioned annually [Category B]. The following chart details the direct and reimbursable obligations that have been incurred against each apportionment category during fiscal years 2003 and 2002:

Fiscal Year 2003	Direct	Reimbursable	Total
A	\$241	\$526	\$767
B	84,521	-	84,521
Total	\$84,762	\$526	\$85,288

Fiscal Year 2002	Direct	Reimbursable	Total
A	\$237	\$562	\$799
B	80,117	-	80,117
Total	\$80,354	\$562	\$80,916

NOTE 12 — GROSS COST AND EARNED REVENUES BY BUDGET FUNCTION

The President’s Budget classifies financial data according to major function. The gross cost and associated earned revenues of OPM’s programs are classified into three budget functions, as follows:

Program	Budget Function	Budget Function Code
Retirement Life Insurance	Federal Employee Retirement and Disability	602
Health Benefits	Health Care Services	551
Revolving Fund Salaries and Expenses	Central Personnel Management	805

Total Gross Cost. The following table presents OPM’s gross cost and associated earned revenue by budget function for fiscal years 2003 and 2002:

Budget Function Code	2003			2002		
	Gross Costs	Earned Revenue	Net Cost	Gross Costs	Earned Revenue	Net Cost
602	\$106,466	\$58,270	\$48,196	\$65,150	\$61,427	\$3,723
551	57,619	19,929	37,690	38,850	17,783	21,067
805	527	399	128	493	385	108
Total OPM	\$164,612	\$78,598	\$86,014	\$104,493	\$79,595	\$24,898

Intragovernmental Gross Cost. The following table presents OPM’s intragovernmental gross cost and associated earned revenue by budget function for fiscal years 2003 and 2002:

Budget Function Code	2003			2002		
	Gross Costs	Earned Revenue	Net Cost	Gross Costs	Earned Revenue	Net Cost
602	–	\$52,278	\$(52,278)	–	\$55,499	\$(55,499)
551	–	12,652	(12,652)	–	11,240	(11,240)
805	\$59	398	(339)	\$108	345	(237)
Total Intragovernmental	\$59	\$65,328	\$(65,269)	\$108	\$67,084	\$(66,976)

NOTE 13 — DEDICATED COLLECTIONS

OPM collects and credits monies to the CSRDF for the purpose of paying retirement benefits to employees and their survivors after they establish entitlement. As the CSRDF is a trust fund, the monies collected and credited to it are considered to be “dedicated collections.” For financial reporting purposes, the CSRDF and Retirement Program are interchangeable; the financial position and results of the Retirement Program are presented separately in the accompanying Consolidating Balance Sheet and Statement of Net Cost.

NOTE 14 — CONTINGENCIES

NTEU v. The United States [formerly, NTEU v. OPM]. A class of present and former Federal employees filed suit against OPM regarding the process by which annual pay increases were applied to certain “special rate” employees. In an order dated December 18, 2002, the U.S. Court of Federal Claims approved a settlement to resolve the remaining issues in the case. The Court’s order became final on February 28, 2003, with approximately \$178 paid on April 9, 2003 to the plaintiffs. Although the payment was from the TJF, OPM is not required to reimburse the TJF. Accordingly, OPM has recognized \$178 as an imputed financing source.

Health Benefits Program Carriers. OPM is a party to litigation in which certain Health Benefits Program carriers are seeking relief for alleged underpayments of premiums. Although OPM is contesting

these allegations, any underpayments that have occurred will have stemmed from inaccuracies in the amount of contributions by and for participants remitted to OPM by employing agencies and retirement systems. OPM has recorded a liability of \$49 at September 30, 2003 for the estimated amount of losses it will probably incur from this litigation. In addition, OPM has determined that it is reasonably possible that an additional \$20 will result in losses. All losses involving this litigation will be paid from the TJF; OPM, however, has not the budgetary resources to and is precluded by law from reimbursing the TJF. Although it is impossible to ascertain the ultimate legal liability with respect to contingent liabilities, OPM believes that the outcome of this litigation, both pending or known to be threatened, will not have a material adverse effect on OPM's financial position or results of operations.

Other Litigation. OPM is often involved in other legal and administrative proceedings that arise in the ordinary course of business. OPM management, based upon the opinion of its General Counsel, believes that the combined outcome of all such proceedings, both pending or known to be threatened, will have no material adverse effect on OPM's financial position or results of operations.

NOTE 15 — CHANGE IN ACCOUNTING PRINCIPLE

In FY 2002, OPM adopted Technical Bulletin 2002-1. To comply, OPM now accrues a liability at the time amounts are paid from the TJF as settlement to Health Benefits Program carriers that have sought relief for alleged underpayments of premiums [see Note 14]. Prior to the adoption of Technical Bulletin 2002-1, OPM did not accrue a liability in these circumstances. Accordingly, OPM has reduced the October 1, 2001 balance of its cumulative results of operations by \$178, reflecting the amount paid from the TJF as settlement to certain carriers through September 30, 2001. There were no changes in accounting principle for FY 2003.

NOTE 16 — COMPARISON OF COMBINED STATEMENTS OF BUDGETARY RESOURCES TO THE PRESIDENT'S BUDGET

OPM prepares the accompanying Combined Statements of Budgetary Resources so that the amounts reported thereon agree materially with the corresponding amounts reported in the President's Budget ("Budget of the United States Government"). The actual amounts for FY 2003 will be included in the President's Budget for FY 2005. The FY 2005 President's Budget has not been published at the time these financial statements were prepared. It is expected to be published in January 2004 and will be available from the United States Government Printing Office.

The President's Budget for FY 2004, containing the actual amounts for FY 2002, was released on February 3, 2003. There are no material differences between the actual amounts for FY 2002 published in it and those reported in the accompanying FY 2002 Combined Statement of Budgetary Resources.

NOTE 17 — SUBSEQUENT EVENT

On December 8, 2003, President Bush signed into law the "Medicare Prescription Drug Improvement and Modernization Act of 2003." The law provides discounts on prescription drugs for Medicare beneficiaries in 2004 and 2005 and, beginning in 2006, allows them to enroll in a stand-alone drug plan or private health plan. Since the increased Medicare prescription drug benefits will likely reduce costs to the Health Benefits Program in the long-term, it can have a potentially material affect on OPM's PRHB Liability. At the time of issuance of the accompanying financial statements, the potential affect on the PRHB Liability cannot be quantified.

**U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET**

As of September 30, 2003

(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	2003
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	\$28	\$687	\$7	\$109	\$91	-	\$922
Investments, Net [Note 3]	601,709	9,088	26,600	-	-	-	637,397
Interest Receivable on Investments	8,768	32	321	-	-	-	9,121
Accounts Receivable [Note 4]	695	445	14	114	12	(\$8)	1,272
Total Intragovernmental	611,200	10,252	26,942	223	103	(8)	648,712
Accounts Receivable from the Public, Net [Note 4]	280	499	91	91	1	-	962
Assets Held by Insurance Carriers	-	81	632	-	-	-	713
General Property and Equipment, Net	-	-	-	1	12	-	13
TOTAL ASSETS	611,480	10,832	27,665	315	116	(8)	650,400

Schedule 1 -continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET

As of September 30, 2003

(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	2003
LIABILITIES							
Intragovernmental	(8)	207	-	271	3	(8)	465
Federal Employee Benefits:							
Benefits Due and Payable	3,971	3,423	580	-	-	-	7,974
Pension Liability [Note 5]	1,136,100	-	-	-	-	-	1,136,100
Postretirement Health Benefits Liability [Note 6]	-	239,525	-	-	-	-	239,525
Actuarial Life Insurance Liability [Note 7]	-	-	29,349	-	-	-	29,349
Total Federal Employee Benefits	1,140,071	242,948	29,929	-	-	-	1,412,948
Contingencies [Note 14]	0	49	0	0	0	-	49
Other [Note 8]	442	403	-	52	69	-	966
Total Liabilities	1,140,505	243,607	29,929	323	72	(8)	1,414,428
NET POSITION							
Unexpended Appropriations	-	-	-	-	64	-	64
Cumulative Results of Operations	(529,025)	(232,775)	(2,264)	(8)	(20)	-	(764,092)
Total Net Position	(529,025)	(232,775)	(2,264)	(8)	44	-	(764,028)
TOTAL LIABILITIES AND NET POSITION	\$611,480	\$10,832	\$27,665	\$315	\$116	(\$8)	\$650,400

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
 As of September 30, 2002

(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	2002
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	\$26	\$617	\$8	\$136	\$66	-	\$853
Investments, Net [Note 3]	573,713	7,612	25,096	-	-	-	606,421
Interest Receivable on Investments	9,007	38	355	-	-	-	9,400
Accounts Receivable [Note 4]	667	393	14	86	4	(\$5)	1,159
Total Intragovernmental	583,413	8,660	25,473	222	70	(5)	617,833
Accounts Receivable from the Public, Net [Note 4]	285	544	92	94	1	-	1,016
Assets Held by Insurance Carriers	-	115	620	-	-	-	735
General Property and Equipment, Net	-	-	-	2	17	-	19
TOTAL ASSETS	583,698	9,319	26,185	318	88	(5)	619,603

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2002

(In Millions)

	1	188	1	273	4	(5)	462
	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	2002
LIABILITIES							
Intragovernmental	1	188	1	273	4	(5)	462
Federal Employee Benefits:							
Benefits Due and Payable	3,862	3,072	579	-	-	-	7,513
Pension Liability [Note 5]	1,082,500	-	-	-	-	-	1,082,500
Postretirement Health Benefits Liability [Note 6]	-	207,331	-	-	-	-	207,331
Actuarial Life Insurance Liability [Note 7]	-	-	27,543	-	-	-	27,543
Total Federal Employee Benefits	1,086,362	210,403	28,122	-	-	-	1,324,887
Contingencies [Note 14]	0	31	0	0	174	-	205
Other [Note 8]	402	456	-	59	69	-	986
Total Liabilities	1,086,765	211,078	28,123	332	247	(5)	1,326,540
NET POSITION							
Unexpended Appropriations	-	-	-	-	11	-	11
Cumulative Results of Operations	(503,067)	(201,759)	(1,938)	(14)	(170)	-	(706,948)
Total Net Position	(503,067)	(201,759)	(1,938)	(14)	(159)	-	(706,937)
TOTAL LIABILITIES AND NET POSITION	\$583,698	\$9,319	\$26,185	\$318	\$88	(\$5)	\$619,603

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
 For the Year Ended September 30, 2003
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	2003
	FERS	CSRS	Total				
INTRAGOVERNMENTAL							
Intragovernmental Gross Costs	-	-	-	\$50	\$182	(\$173)	\$59
Less Intragovernmental Earned Revenue:							
Employer Contributions	\$4,044	\$10,607	\$14,651	\$394	-	-	27,438
Earnings on Investments	25,294	10,593	35,887	1,346	-	-	37,492
Other	-	-	-	428	143	(173)	398
Total Intragovernmental Earned Revenue	29,338	21,200	50,538	428	143	(173)	65,328
Intragovernmental Net Costs	(29,338)	(21,200)	(50,538)	(378)	39	0	(65,269)
WITH THE PUBLIC							
Gross Costs with the Public:							
Pension Expense [Note 5]	73,129	29,524	102,653	-	-	-	102,653
Postretirement Health Benefits [Note 6]	-	-	-	-	-	-	41,008
Future Life Insurance Benefits [Note 7]	-	-	-	-	1,806	-	1,806
Current Benefits and Premiums	-	-	-	-	15,882	2,007	17,889
Future Funded Expense [Note 14]	-	-	-	-	25	-	25
Other	-	-	-	376	92	-	1,172
Total Gross Costs with the Public	73,129	29,524	102,653	376	92	-	164,553
Less Earned Revenue with the Public:							
Participant Contributions	3,467	812	4,279	-	-	-	13,268
Other	-	-	-	1	-	-	2
Total Earned Revenue with the Public	3,467	812	4,279	1	-	-	13,270
Net Costs with the Public	69,662	28,712	98,374	375	92	-	151,283
Net Cost of Operations (Excess of Earned Revenue over Cost)	\$40,324	\$7,512	\$47,836	(\$3)	\$131	0	\$86,014

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, 2002
(In Millions)

	Retirement Program	Health	Life	Revolving	Salaries	
	CSRS	Benefits	Insurance	Fund	and	2002
	FERS	Program	Program	Programs	Expenses	Elim.
	Total	Program	Program	Programs	Elim.	2002
INTRAGOVERNMENTAL						
Intragovernmental Gross Costs	-	-	-	\$106	\$165	\$108
Less intragovernmental Earned Revenue:						
Employer Contributions	\$8,041	\$17,604	\$388	-	-	28,966
Earnings on Investments	26,174	9,934	1,399	-	-	37,773
Other	-	-	-	368	140	345
Total intragovernmental Earned Revenue	34,215	19,497	11,240	368	140	67,084
Intragovernmental Net Costs	(34,215)	(19,497)	(11,240)	(262)	25	(66,976)
WITH THE PUBLIC						
Gross Costs with the Public:						
Pension Expense [Note 5]	47,603	14,187	-	-	-	61,790
Postretirement Health Benefits [Note 6]	-	-	23,823	-	-	23,823
Future Life Insurance Benefits [Note 7]	-	-	1,394	-	-	1,394
Current Benefits and Premiums	-	-	14,317	-	-	16,281
Future Funded Expenses [Note 14]	-	-	39	-	-	39
Other	-	-	671	2	89	1,058
Total Gross Costs with the Public	47,603	14,187	38,850	296	89	104,385
Less Earned Revenue with the Public:						
Participant Contributions	3,542	724	6,543	1,661	-	12,470
Other	-	-	-	1	40	41
Total Earned Revenue with the Public	3,542	724	6,543	1,662	40	12,511
Net Costs with the Public	44,061	13,463	32,307	1,698	89	91,874
Net Cost of Operations (Excess of Earned Revenue over Cost)	\$9,846	(\$6,034)	\$21,067	(\$6)	\$114	\$24,898

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2003
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2003
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	(\$503,067)	(\$201,759)	(\$1,938)	(\$14)	(\$170)	(\$706,948)
Budgetary Financing Sources:						
Appropriations Used	-	6,674	34	-	93	6,801
Transfers-in from General Fund	21,878	-	-	-	-	21,878
Other Financing Sources	0	0	0	3	188	191
Total Financing Sources	21,878	6,674	34	3	281	28,870
Net Cost of Operations (Excess of Earned Revenue over Cost)	47,836	37,690	360	(3)	131	86,014
Ending Balance	(529,025)	(232,775)	(2,264)	(8)	(20)	(764,092)
UNEXPENDED APPROPRIATIONS						
Beginning Balance	-	0	0	-	11	11
Budgetary Financing Sources:						
Appropriations Received	-	6,707	34	-	131	6,872
Appropriations Used	-	(6,674)	(34)	-	(93)	(6,801)
Appropriations Cancelled	-	(33)	-	-	-	(33)
Other	-	-	-	0	15	15
Total Financing Sources	-	0	0	0	53	53
Ending Balance	-	0	0	0	64	64
NET POSITION, END OF THE YEAR	(\$529,025)	(\$232,775)	(\$2,264)	(\$8)	\$44	(\$764,028)

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2002
(In Millions)

CONSOLIDATING FINANCIAL STATEMENTS

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2002
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance, as previously reported	(\$521,364)	(\$186,585)	(\$2,060)	(\$22)	(\$166)	(\$710,197)
Cumulative Effect of Accounting Change (Note 15)	-	(178)	-	-	-	(178)
Beginning Balance, as adjusted	(\$521,364)	(\$186,763)	(\$2,060)	(\$22)	(\$166)	(\$710,375)
Budgetary Financing Sources:						
Appropriations Used	-	6,071	33	-	101	6,205
Transfers-in from General Fund	22,109	-	-	-	-	22,109
Other Financing Sources	0	0	0	2	9	11
Total Financing Sources	22,109	6,071	33	2	110	28,325
Net Cost of Operations (Excess of Earned Revenue over Cost)	3,812	21,067	(89)	(6)	114	24,898
Ending Balance	(503,067)	(201,759)	(1,938)	(14)	(170)	(706,948)
UNEXPENDED APPROPRIATIONS						
Beginning Balance	-	0	0	-	11	11
Budgetary Financing Sources:						
Appropriations Received	-	6,083	34	-	101	6,218
Appropriations Used	-	(6,071)	(33)	-	(101)	(6,205)
Appropriations Cancelled	-	(12)	(1)	-	0	(13)
Total Financing Sources	-	0	0	-	0	0
Ending Balance	-	0	0	-	11	11
NET POSITION, END OF THE YEAR	(\$503,067)	(\$201,759)	(\$1,938)	(\$14)	(\$159)	(\$706,937)

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

CONSOLIDATING FINANCIAL STATEMENTS

Schedule 4

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the Year Ended September 30, 2003
 (In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2003
BUDGETARY RESOURCES						
Appropriations:						
Received	-	\$6,707	\$34	-	\$131	\$6,872
Cancelled	-	(33)	-	-	-	(33)
Trust Fund Receipts:						
Appropriated	\$78,365	-	-	-	-	78,365
Precluded from Obligation [Note 9]	(27,853)	-	-	-	-	(27,853)
Spending Authority from Offsetting Collections:						
Collected	-	26,446	3,499	\$428	139	30,512
Changes in Receivables from Federal Sources and Unfilled Customer Orders	-	120	(33)	182	3	272
Subtotal	-	26,566	3,466	610	142	30,784
Unobligated Balance - Beginning of Period	-	5,267	24,595	81	25	29,968
Total Budgetary Resources	50,512	38,507	28,095	691	298	118,103

STATUS OF BUDGETARY RESOURCES

Obligations Incurred: [Note 11]						
Direct	50,512	31,953	2,056	-	241	84,762
Reimbursable	-	-	-	526	-	526
Subtotal	50,512	31,953	2,056	526	241	85,288
Unobligated Balance:						
Available	-	-	-	114	57	171
Not Available	-	6,554	26,039	51	-	32,644
Subtotal	-	6,554	26,039	165	57	32,815
Total, Status of Budgetary Resources	50,512	38,507	28,095	691	298	118,103

RELATIONSHIP OF OBLIGATIONS TO OUTLAYS

Obligations Incurred	50,512	31,953	2,056	526	241	85,288
Plus: Obligated Balance, Net - Beginning of the Period	4,258	2,894	214	55	41	7,462
Less: Obligated Balance, Net - End of the Period:						
Accounts Payable and Undelivered Orders	4,402	4,308	584	244	83	9,621
Accounts Receivable and Unfilled Customer Orders	-	(1,150)	(337)	(300)	(49)	(1,836)
Subtotal	4,402	3,158	247	(56)	34	7,785
Less: Changes in Receivables from Federal Sources and Unfilled Customer Orders	-	120	(33)	182	3	272
Disbursements	50,368	31,569	2,056	455	245	84,693
Collections	-	(26,446)	(3,499)	(428)	(139)	(30,512)
Net Outlays	\$50,368	\$5,123	(\$1,443)	\$27	\$106	\$54,181

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

CONSOLIDATING FINANCIAL STATEMENTS

Schedule 4 - continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the Year Ended September 30, 2002
 (In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2002
BUDGETARY RESOURCES						
Appropriations:						
Received	-	\$6,083	\$34	-	\$101	\$6,218
Cancelled	-	(12)	(1)	-	-	(13)
Trust Fund Receipts:						
Appropriated	\$80,070	-	-	-	-	80,070
Precluded from Obligation [Note 9]	(30,961)	-	-	-	-	(30,961)
Spending Authority from Offsetting Collections:						
Collected	-	23,609	3,501	\$563	161	27,834
Changes in Receivables from Federal Sources and Unfilled Customer Orders	-	133	(29)	(45)	(8)	51
Subtotal	-	23,742	3,472	518	153	27,885
Unobligated Balance - Beginning of Period	-	4,418	23,134	125	8	27,685
Total Budgetary Resources	49,109	34,231	26,639	643	262	110,884

STATUS OF BUDGETARY RESOURCES

Obligations Incurred: [Note 11]						
Direct	49,109	28,964	2,044	-	237	80,354
Reimbursable	-	-	-	562	-	562
Subtotal	49,109	28,964	2,044	562	237	80,916
Unobligated Balance:						
Available	-	-	-	81	25	106
Not Available	-	5,267	24,595	0	-	29,862
Subtotal	-	5,267	24,595	81	25	29,968
Total, Status of Budgetary Resources	49,109	34,231	26,639	643	262	110,884

RELATIONSHIP OF OBLIGATIONS TO OUTLAYS

Obligations Incurred	49,109	28,964	2,044	562	237	80,916
Plus: Obligated Balance, Net - Beginning of the Period	4,119	2,785	134	(91)	13	6,960
Less: Obligated Balance, Net - End of the Period:						
Accounts Payable and Undelivered Orders	4,258	3,924	584	173	67	9,006
Accounts Receivable and Unfilled Customer Orders	-	(1,030)	(370)	(118)	(26)	(1,544)
Subtotal	4,258	2,894	214	55	41	7,462
Changes in Receivables from Federal Sources and Unfilled Customer Orders	-	133	(29)	(45)	(8)	51
Disbursements	48,970	28,721	1,994	461	217	80,363
Collections	-	(23,609)	(3,501)	(563)	(161)	(27,834)
Net Outlays	\$48,970	\$5,112	(\$1,507)	(\$102)	\$56	\$52,529

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF FINANCING
For the Year Ended September 30, 2003
(In Millions)

CONSOLIDATING FINANCIAL STATEMENTS

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2003
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	\$50,512	\$31,953	\$2,056	\$526	\$241	\$85,288
Spending Authority from Offsetting Collections	—	(26,566)	(3,466)	(610)	(142)	(30,784)
Appropriated Trust Fund Receipts	(78,365)	—	—	—	—	(78,365)
Net Budgetary Resources Obligated	(27,853)	5,387	(1,410)	(84)	99	(23,861)
Transfer-in from the General Fund	21,878	—	—	—	—	21,878
Other	0	0	0	3	203	206
Total Resources Used to Finance Activities	(5,975)	5,387	(1,410)	(81)	302	(1,777)
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
	0	38	(37)	75	(12)	64
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in Future Periods:						
Increase in Actuarial Liabilities	53,600	32,194	1,806	—	—	87,600
(Decrease) Increase in Contingent Liabilities	—	19	—	—	(175)	(156)
Exchange Revenue not in the Budget	217	(43)	1	0	0	175
Components not Requiring or Generating Resources	(6)	95	0	3	16	108
Total Components of Net Cost of Operations that Will Not Require or Generate Resource in the Current Period	53,811	32,265	1,807	3	(159)	87,727
NET COST OF OPERATIONS (EXCESS OF EARNED REVENUE OVER COST)						
	\$47,836	\$37,690	\$360	(\$3)	\$131	\$86,014

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

Schedule 5 - continued

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF FINANCING
 For the Year Ended September 30, 2002
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	2002
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	\$49,109	\$28,964	\$2,044	\$562	\$237	\$80,916
Spending Authority from Offsetting Collections	-	(23,742)	(3,472)	(518)	(153)	(27,885)
Appropriated Trust Fund Receipts	(80,070)	-	-	-	-	(80,070)
Net Budgetary Resources Obligated	(30,961)	5,222	(1,428)	44	84	(27,039)
Transfer-in from the General Fund	22,109	-	-	-	-	22,109
Other	0	0	0	2	9	11
Total Resources Used to Finance Activities	(8,852)	5,222	(1,428)	46	93	(4,919)
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
	(3)	(53)	131	(56)	16	35
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in Future Periods:						
Increase in Actuarial Liabilities	13,000	15,824	1,394	-	-	30,218
Increase in Contingent Liabilities	-	31	-	-	-	31
Exchange Revenue not in the Budget	(326)	(50)	(11)	3	-	(384)
Components not Requiring or Generating Resources	(7)	93	(175)	1	5	(83)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	12,667	15,898	1,208	4	5	29,782
NET COST OF OPERATIONS (EXCESS OF EARNED REVENUE OVER COST)						
	\$3,812	\$21,067	(\$89)	(\$6)	\$114	\$24,898

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

REQUIRED SUPPLEMENTAL INFORMATION

INTRAGOVERNMENTAL BALANCES

ASSETS AND LIABILITIES [Unaudited]
as of September 30, 2003 and 2002
(In millions)

INTRAGOVERNMENTAL ASSETS

Trading Partner	Fund Balance with Treasury	Investments	Interest Receivable on Investments	Accounts Receivable
2003:				
Agriculture	-	-	-	\$218
Commerce	-	-	-	10
Defense	-	-	-	303
General Services Administration	-	-	-	12
Health and Human Services	-	-	-	17
Interior	-	-	-	41
Justice	-	-	-	41
National Aeronautics and Space Agency	-	-	-	14
Social Security Administration	-	-	-	15
Transportation	-	-	-	37
Treasury	\$922	\$637,397	\$9,121	28
U. S. Courts	-	-	-	16
USPS	-	-	-	222
Veterans	-	-	-	52
Other	-	-	-	246
Total 2003	\$922	\$637,397	\$9,121	\$1,272
2002:				
Agriculture	-	-	-	\$203
Commerce	-	-	-	8
Defense	-	-	-	246
General Services Administration	-	-	-	9
Health and Human Services	-	-	-	36
Interior	-	-	-	38
Justice	-	-	-	56
National Aeronautics and Space Agency	-	-	-	14
Social Security Administration	-	-	-	34
Transportation	-	-	-	69
Treasury	\$853	\$606,421	\$9,400	33
U. S. Courts	-	-	-	9
USPS	-	-	-	165
Veterans	-	-	-	41
Other	-	-	-	198
Total 2002	\$853	\$606,421	\$9,400	\$1,159

INTRAGOVERNMENTAL LIABILITIES

Trading Partner	2003	2002
Treasury	\$193	\$186
Other	272	276
Total	\$465	\$462

Required Supplemental Information

REQUIRED SUPPLEMENTAL INFORMATION

EARNED REVENUE AND RELATED COST [Unaudited]
for the Years ended September 30, 2003 and 2002
(In millions)

INTRAGOVERNMENTAL EARNED REVENUE				
Trading Partner	Employer Contributions	Earnings on Investments	Other	Total
2003:				
Agriculture	\$1,145	-	-	\$1,145
Defense	6,125	-	-	6,125
Justice	1,613	-	-	1,613
Treasury	1,198	\$37,492	-	38,690
Transportation	1,354	-	-	1,354
USPS	8,723	-	-	8,723
Veterans Affairs	1,863	-	-	1,863
Other	5,417	-	398	5,815
Total 2003	\$27,438	\$37,492	\$398	\$65,328
2002:				
Agriculture	\$945	-	-	\$945
Defense	5,811	-	-	5,811
Justice	1,721	-	-	1,721
Treasury	1,424	\$37,773	-	39,197
Transportation	952	-	-	952
USPS	11,667	-	-	11,667
Veterans Affairs	1,746	-	-	1,746
Other	4,700	-	345	5,045
Total 2002	\$28,966	\$37,773	\$345	\$67,084

GROSS COST TO GENERATE INTRAGOVERNMENTAL EARNED REVENUE [Unaudited]

Budget Functional Classification	2003	2002
Federal Employee Retirement and Disability	\$52,278	\$55,499
Health Care Services	12,652	11,240
Central Personnel Management	398	345
Total	\$65,328	\$67,084

Note:

Although the vast majority of the OPM's earned revenue is intragovernmental, most of its costs are with the public.

BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
for the Year Ended September 30, 2003

(In millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2003
BUDGETARY RESOURCES							
Appropriations:							
Received	-	-	-	-	\$131	\$6,741	\$6,872
Cancelled	-	-	-	-	-	(33)	(33)
Trust Fund Receipts:							
Appropriated	\$78,365	-	-	-	-	-	78,365
Precluded from Obligation	(27,853)	-	-	-	-	-	(27,853)
Spending Authority from Offsetting Collections:							
Collected	-	\$26,446	\$3,499	\$428	139	-	30,512
Changes in Receivables from Federal Sources and Unfilled Customer Orders	-	120	(33)	182	3	-	272
Subtotal	-	26,566	3,466	610	142	-	30,784
Unobligated Balance - Beginning of the Period	-	5,267	24,595	81	25	-	29,968
Total Budgetary Resources	50,512	31,833	28,061	691	298	6,708	118,103
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	50,512	25,279	2,022	-	241	6,708	84,762
Reimbursable	-	-	-	526	-	-	526
Subtotal	50,512	25,279	2,022	526	241	6,708	85,288
Unobligated Balance:							
Available	-	-	-	114	57	-	171
Not available	-	6,554	26,039	51	-	-	32,644
Subtotal	-	6,554	26,039	165	57	-	32,815
Total, Status of Budgetary Resources	50,512	31,833	28,061	691	298	6,708	118,103
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS							
Obligations Incurred	50,512	25,279	2,022	526	241	6,708	85,288
Plus: Obligated Balance, Net -							
Beginning of the Period	4,258	2,289	211	55	41	608	7,462
Less: Obligated Balance, Net - End of the Period:							
Accounts Payable and Undelivered Orders	4,402	3,633	580	244	83	679	9,621
Accounts Receivable and Unfilled Customer Orders	-	(1,150)	(337)	(300)	(49)	-	(1,836)
Subtotal	4,402	2,483	243	(56)	34	679	7,785
Less: Changes in Receivables from Federal Sources and Unfilled Customer Orders							
	-	120	(33)	182	3	-	272
Disbursements	50,368	24,965	2,022	455	245	6,638	84,693
Collections	-	(26,446)	(3,499)	(428)	(139)	-	(30,512)
Net Outlays	\$50,368	(\$1,481)	(\$1,477)	\$27	\$106	\$6,638	\$54,181

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

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)

for the Year Ended September 30, 2002

(In millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	2002
BUDGETARY RESOURCES							
Appropriations:							
Received	-	-	-	-	\$101	\$6,117	\$6,218
Cancelled	-	-	-	-	-	(13)	(13)
Trust Fund Receipts:							
Appropriated	\$80,070	-	-	-	-	-	80,070
Precluded from Obligation	(30,961)	-	-	-	-	-	(30,961)
Spending Authority from Offsetting Collections:							
Collected	-	\$23,609	\$3,501	\$563	161	-	27,834
Changes in Receivables from Federal Sources and Unfilled Customer Orders	-	133	(29)	(45)	(8)	-	51
Subtotal	-	23,742	3,472	518	153	-	27,885
Unobligated Balance - Beginning of the Period	-	4,418	23,134	125	8	-	27,685
Total Budgetary Resources	49,109	28,160	26,606	643	262	6,104	110,884
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	49,109	22,893	2,011	-	237	6,104	80,354
Reimbursable	-	-	-	562	-	-	562
Subtotal	49,109	22,893	2,011	562	237	6,104	80,916
Unobligated Balance:							
Available	-	-	-	81	25	-	106
Not available	-	5,267	24,595	0	-	-	29,862
Subtotal	-	5,267	24,595	81	25	-	29,968
Total, Status of Budgetary Resources	49,109	28,160	26,606	643	262	6,104	110,884
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS							
Obligations Incurred	49,109	22,893	2,011	562	237	6,104	80,916
Plus: Obligated Balance, Net - Beginning of the Period	4,119	2,235	131	(91)	13	553	6,960
Less: Obligated Balance, Net - End of the Period:							
Accounts Payable and Undelivered Orders	4,258	3,319	581	173	67	608	9,006
Accounts Receivable and Unfilled Customer Orders	-	(1,030)	(370)	(118)	(26)	-	(1,544)
Subtotal	4,258	2,289	211	55	41	608	7,462
Less: Changes in Receivables from Federal Sources and Unfilled Customer Orders	-	133	(29)	(45)	(8)	-	51
Disbursements	48,970	22,706	1,961	461	217	6,048	80,363
Collections	-	(23,609)	(3,501)	(563)	(161)	-	(27,834)
Net Outlays	\$48,970	(\$903)	(\$1,540)	(\$102)	\$56	\$6,048	\$52,529

LEGEND:

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

Required Supplemental Information



INDEPENDENT AUDITORS' REPORT



OFFICE OF
THE INSPECTOR GENERAL

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, DC 20415-1100
December 29, 2003

Report No. 4A-CF-00-03-098

MEMORANDUM FOR KAY COLES JAMES
Director

FROM: PATRICK E. McFARLAND
Inspector General

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year
2003 Consolidated Financial Statements

As required by the Chief Financial Officer's Act of 1990, an audit of OPM's Consolidated Financial Statements has been completed for FY 2003. KPMG performed the audit and this office conducted oversight of their work. This memo accompanies KPMG's audit report. KPMG's opinion states that the financial statements are fairly presented in all material respects. In addition, while they did not identify any material internal control weaknesses, they did identify three reportable internal control weaknesses and one instance in which OPM's financial management systems did not substantially comply with the requirements of the Federal Financial Managers' Integrity Act of 1996 (FFMIA). The agency agrees with the reportable weaknesses and is taking action to address them.

In connection with the audit contract, we reviewed KPMG's report and related documentation and made inquiries of its representatives regarding the audit. Our review was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls and whether OPM's financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations. KPMG is responsible for the enclosed auditor's report dated December 19, 2003, and the conclusions expressed in the report.

If you have any questions about KPMG's audit or our oversight, please contact me or have a member of your staff contact Harvey D. Thorp, Assistant Inspector General for Audits at 606-1200.

OIG-01
May 1999

INDEPENDENT AUDITORS' REPORT



OFFICE OF
THE INSPECTOR GENERAL

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

December 29, 2003

Report No. 4A-CF-00-03-098

MEMORANDUM FOR PAUL T. CONWAY
Chief of Staff

FROM:

for *Dennis K. Black*
HARVEY D. THORP
Assistant Inspector General
For Audits

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year
2003 Consolidated Financial Statements

This memorandum transmits KPMG LLP's report on its financial statement audit of the Office of Personnel Management's (OPM) Fiscal Year 2003 Consolidated Financial Statements and the results of the Office of Inspector General's (OIG) oversight of the audit and review of the report. OPM's consolidated financial statements include the Retirement Program (RP), Health Benefits Program (HBP), Life Insurance Program (LP), Revolving Fund (RF), and Salaries & Expenses Accounts (S&E).

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

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires OPM's Inspector General or an independent external auditor, as determined by the Inspector General, to audit the agency's financial statements in accordance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States. We contracted with the independent certified public accounting firm KPMG LLP to audit the consolidated financial statements of OPM as of September 30, 2003 and for the fiscal year then ended. The contract requires that the audit be done in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) bulletin number 01-02, *Audit Requirements for Federal Financial Statements*.

KPMG LLP's audit report for Fiscal Year 2003 includes: (1) opinions on the consolidated financial statements and the individual statements for the three benefit programs, (2) a report on internal controls, and (3) a report on compliance with laws and regulations. In its audit of OPM, KPMG LLP found:

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

OIG-01
May 1999

Paul T. Conway

2

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

However, KPMG LLP's report identified three reportable conditions:

- Information systems general control environment;
- Financial management and reporting processes of the Division of Management and Chief Financial Officer (MCFO); and
- Segregation of duties over the Letter-of-Credit system for the Experience-Rated Carriers.

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

- KPMG LLP's report on compliance with certain provisions of laws and regulations disclosed no instances of noncompliance, except for the following instance in which OPM's financial management systems did not substantially comply with the requirements of the Federal Financial Managers' Integrity Act of 1996 (FFMIA):
 - Standard General Ledger at the transaction level (RF and S&E only).

OIG Evaluation of KPMG LLP's Audit Performance

In connection with the audit contract, we reviewed KPMG LLP's report and related documentation and made inquiries of its representatives regarding the audit. To fulfill our audit responsibilities under the CFO Act for ensuring the quality of the audit work performed, we conducted a review of KPMG LLP's audit of OPM's Fiscal Year 2003 Consolidated Financial Statements in accordance with GAS. Specifically, we:

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

Paul T. Conway

3

Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls or on whether OPM's financial management systems substantially complied with FFMA; or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report dated December 19, 2003, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted GAS.

In accordance with the OMB Circular A-50 and the Federal Acquisition Streamlining Act of 1994, section 6009, all audit findings must be resolved within six months of the date of this report. In order to ensure audit findings are resolved within the required six-month period, we are asking that the OCFO respond directly to the OIG within 90 days of the date of this report advising us whether they agree or disagree with the audit findings and recommendations. As stated in OMB Circular A-50, where agreement is indicated, the OCFO should describe planned corrective action. If the OCFO disagrees with any of the audit findings and recommendations, they need to explain the reason for the disagreement and provide any additional documentation that would support their opinion.

In closing, we applaud OPM's financial management staff for meeting the challenge of issuing consolidated financial statements by the accelerated due date of December 31, 2003. Their professionalism, courtesy, and cooperation allowed us to overcome the many challenges encountered during OPM's preparation, KPMG LLP's audit, and the OIG's oversight of the financial statement audit. If you have any questions about KPMG LLP's audit or our oversight, please contact me or have a member of your staff contact Dennis K. Black, Deputy Assistant Inspector General for Audits at 606-4711.

cc: Clarence C. Crawford
Associate Director for
Management and Chief Financial Officer



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 of 1996 (FFMIA)*, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The results of our tests of FFMIA disclosed instances where the OPM's financial management systems did not substantially comply with 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, our consideration of OPM's internal control over financial reporting, our tests of OPM's compliance with certain provisions of applicable laws and regulations, and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of U.S. Office of Personnel Management as of September 30, 2003 and 2002, and the related consolidated statements of net cost, changes in net position, financing, and combined statement of budgetary resources for the years then ended. We have also audited the individual balance sheets of the Programs as of September 30, 2003 and 2002, and the related individual statements of net cost, changes in the position, budgetary resources, and financing for the years then ended. The Programs' individual financial statements are included in the consolidating financial statements presented in the Consolidating Financial Statements section of OPM's *Fiscal Year 2003 Performance and Accountability Report*.

We did not audit the financial statements of the experience-rated health carriers, which statements comprise less than 1 percent of total assets reflected in the consolidated balance sheets as of September 30, 2003 and 2002, and less than 1 percent and 1.2 percent of total assets reflected in the Health Benefits Program (HBP) individual balance sheets as of September 30, 2003 and 2002, respectively. These statements also comprise 7.6 percent and 10.6 percent of total gross costs reflected in the consolidated statements of net cost for the years ended September 30, 2003 and 2002, respectively, and 21.5 percent and 28.4 percent of total gross costs reflected in the HBP individual statements of net costs for the years then ended, respectively. In addition, these statements also comprise 10.5 percent and 10 percent of total status of budgetary resources reflected in the combined statements of budgetary resources for the years ended September 30, 2003 and 2002, respectively, and 32.3 percent of total status of budgetary resources reflected in the HBP individual statements of budgetary resources 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 health 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 less than 1 percent of total assets reflected in the consolidated balance sheets as of September 30, 2003 and 2002, and 2.3 percent and 2.4 percent of total assets reflected in the Life Insurance Program (LP) individual balance sheets as of September 30, 2003 and 2002, respectively. These statements also comprise 1.2 percent and 1.9 percent of total gross costs reflected in the consolidated statements of net cost for the years ended September 30, 2003 and 2002, respectively, and 52.6 percent and 58.5 percent of total gross costs reflected in the LP individual statements of net costs for the years then ended, respectively. In addition, these statements also comprise 1.7 percent of total status of budgetary resources reflected in the statements of budgetary resources for the years ended September 30, 2003 and 2002, and 7.3 percent and 7.7 percent of total status of budgetary resources reflected in the LP individual statements of budgetary resources for the years then ended, respectively. Those 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 OFEGLI, is based solely on the reports of the other auditors.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OPM and the financial position of each of the Programs as of September 30, 2003 and 2002, and the consolidated and individual Programs' net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, in fiscal year 2002, OPM adopted the provisions of Statement of Federal Financial Accounting Standards Technical Bulletin No. 2002-1, *Assigning Costs and Liabilities to Agencies that Result From Legal Claims Against the Federal Government*, as of October 1, 2001.

The information in the Management Discussion and Analysis (MD&A) and Required Supplementary Information sections of OPM's *Fiscal Year 2003 Performance and Accountability Report* is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of OPM taken as a whole and on the Programs' individual financial statements. The individual financial statements of the Revolving Fund Programs and Salaries and Expenses funds (the Funds) included in the Consolidating Financial Statements section of OPM's *Fiscal Year 2003 Performance and Accountability Report* (Schedules 1 through 5) are presented for purposes of additional analysis of the consolidated financial statements of OPM rather than to present the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of the individual Funds. The presented financial statements of the Funds have been subjected to the auditing procedures applied in the audit of 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.



In addition, the consolidating information of Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) included in the Consolidating Financial Statements section of OPM's *Fiscal Year 2003 Performance and Accountability Report (Schedule 2)* is presented for purposes of additional analysis of the consolidated financial statements of OPM and the individual financial statements of the Retirement Program rather than to present the net costs of the CSRS and FERS funds. The presented consolidating information of the CSRS and FERS funds have been subjected to the auditing procedures applied in the audit of OPM's consolidated financial statements and the individual financial statements of the Retirement Program, in our opinion are fairly stated in all material respects in relation to OPM's consolidated financial statements and the individual financial statements of the Retirement Program taken as a whole.

The other accompanying information in the FY 2003 Highlights, Annual Performance Goals and Results, and Appendices sections are presented for purposes of additional analysis and is not a required part of the financial statements. We did not audit this information and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. In our fiscal year 2003 audit, we noted certain matters, described in Items 1 through 3 below, involving 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 as Exhibit I.

1. Information Systems General Control Environment

The Division of Management and Chief Financial Officer MCFO continues to make progress in enhancing its technology and information security infrastructure. This includes the certification and accreditation of 42 major applications and general support systems and training of staff and contractors in security awareness. However, the MCFO needs to strengthen certain access controls to meet requirements of the *Computer Security Act*. The MCFO needs to improve controls over password configuration and the use of log-in credentials at the administrated level. In addition, the MCFO needs to improve controls over the process of granting, terminating, and monitoring system access in specific applications.



The *Computer Security Act* requires Federal agencies to identify and provide security protection commensurate with risk resulting from the loss, misuse, unauthorized access, or modification of information collected or maintained.

Recommendation

We recommend that the MCFO continues the implementation of planned security enhancements to its internal information technology infrastructure. In addition, we recommend that the Chief Information Officer coordinates the enforcement of security policies and practices with OPM's program areas, including but not limited to, the Chief Financial Officer and the Director of the Center for Retirement and Insurance Services. This will ensure that effective technical security controls are placed in operation and are periodically reviewed, and critical IT resources are monitored agency-wide to prevent and detect unauthorized use.

2. Financial Management and Reporting Process of the Division of Management and Chief Financial Officer (MCFO)

In 2003, the MCFO continued with the implementation of a new financial information system. As in the prior year, certain conditions outside of the system continue to affect the accuracy of the Salaries and Expense (S&E) and Revolving Funds' fiscal year 2003 financial information. The MCFO needs to improve controls over the following areas within the S&E and Revolving Funds:

- a. **Timeliness of Transaction Entry and Reconciliation** – The MCFO does not consistently record financial transactions or analyze its financial records in a timely manner. In addition, the MCFO does not consistently reconcile the general ledger accounts to subsidiary ledgers and other supporting documentation on a routine basis. More specifically, the MCFO has not fully implemented procedures for reconciling Fund Balance with Treasury and reconciliation procedures between proprietary and budgetary accounts to ensure that all key account relationships exist.
- b. **Budgetary Accounting Structure** – The MCFO has not fully implemented budget controls to provide reasonable assurance that budgetary transactions, such as obligations and outlays, are properly recorded, processed, and summarized to permit the preparation of the S&E and Revolving Funds' financial statements, mainly the statements of budgetary resources, and financing, in accordance with accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*.

While the S&E and Revolving Funds are not material in relation to OPM's consolidated financial statements presented herein, the conditions identified above indicate significant deficiencies in the operation of the MCFO's internal control over financial management and reporting. In our judgment, these deficiencies adversely affect OPM's ability to record, process, summarize, and report financial data for the S&E and Revolving Funds. In addition the combination of weak budgetary controls and unreconciled Fund Balance with Treasury increase the risk of noncompliance with budgetary laws and regulations.

**Recommendation**

As we recommended in the prior year, the MCFO should emphasize the importance of proper and consistent performance of control procedures related to the S&E and Revolving Funds. The tasks of performing reconciliation procedures, account analysis, and review of financial statements should be assigned to individuals with appropriate training and skills. We also recommend that the MCFO develop and implement formal month-end financial reporting procedures that include the following:

- Reconciling all general ledger accounts to the subsidiary ledgers or other supporting documentation and resolve reconciling items;
- Reconciling applicable general ledger accounts to the information provided and received from the Department of the Treasury;
- Reconciling, where applicable, proprietary to budgetary accounts; and
- Researching, identifying and removing items from clearing, suspense, and other temporary general ledger accounts within the month they occur.

As we recommended in the prior year, the MCFO should ensure that staff that complete and review these month-end procedures and perform day-to-day financial processing possess the necessary skills, experience, and training to perform these tasks efficiently and effectively.

3. Segregation of Duties Over the Letter-of-Credit System for the Experience-Rated Carriers

In accordance with OMB Circular A-123, *Management Accountability and Control*, key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. OPM maintains a letter-of-credit (LOC) system whereby Experience-Rated Health Carriers (ERC) participating in the HBP draw down funds to pay for employees' claims and administrative expenses.

As reported in the prior years, during our review of OPM's internal controls over the HBP, we noted the Team Leader and certain other team members for the Health Benefit and Life Insurance Program team within the Business Units & Financial Services Group have the authorization to perform an emergency draw down on behalf of an ERC, and also have the ability to access, record, and change related accounting transactions in the financial management system. The team leader was also involved in reconciling the LOC fund balances with Treasury's fund balances.

OPM has instituted certain mitigating manual controls over this area, however, segregating the emergency draw down function from the supervisory functions is necessary to reduce the risk that unauthorized use or disposition of the entity's assets having a material effect on the financial statements will occur and not be detected in a timely manner.

**Recommendation**

We recommend that application security is documented, and user access listing to application functions, libraries and programs are created and periodically reviewed. We also recommend that duties over changes to payment information of ERC carriers and request for emergency draw downs are further segregated, and that authorizations are required for both functions. This may be enforced as follows:

- The system is modified to ensure that a person, other than the individual entering the change, approves the request for changes in payments information and emergency draw downs before such payment can be processed;
- The system produces a report for any updates that have been entered but not yet approved on a regular basis. Policies and procedures should be established for a supervisor to review these reports and take appropriate action if necessary; and
- The user changing critical ERC information would not be able to request emergency draw downs for carriers.

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 December 19, 2003.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of compliance with certain provisions of laws and regulations, as described in the Responsibilities section of this report, exclusive of those referred to in 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 disclosed instances, described below, where the OPM's financial management system did not substantially comply with the United States Government Standard General Ledger (SGL) at the transaction level.

4. United States Standard General Ledger at the transaction level

In accordance with OMB Circular A-127, *Financial Management Systems*, as amended, OPM is to record financial events consistent with the applicable definitions, attributes, and processing rules defined in the SGL at the transaction level. The MCFO does not consistently record Fund transactions at the time of an event or soon afterward, preventing the MCFO from preparing trial balances that support the Funds' individual financial statements. Additionally, the MCFO has not implemented an accounting structure to support budgetary controls and to ensure that budgetary transactions are recorded in accordance with posting attributes reflected in the SGL.

Recommendation

We understand that the MCFO finalized the implementation of a new accounting system to record Fund transactions during fiscal year 2003. We recommend OPM ensure the new system will enable the MCFO to account for the Funds' transactions in accordance with the SGL at the transaction level. The resolution of these findings should be a priority for fiscal year 2004.



The results of our tests of FFMIA disclosed no instances in which OPM's financial management systems did not substantially comply with the Federal financial management systems requirements or Federal accounting standards.

RESPONSIBILITIES

Management's Responsibilities

The *Government Management Reform Act of 1994* (GMRA) 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 the financial statements, including:

- Preparing the consolidated financial statements of OPM and the individual financial statements of the Programs in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting, and preparation of the Management Discussion and Analysis (including the performance measures) and required supplementary information, 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. Because of inherent limitations in internal control, misstatements, due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities

Our responsibility is to express an opinion on the fiscal year 2003 and 2002 consolidated financial statements of OPM and the individual financial statements of the Programs based on our audits and the reports of other auditors. 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 consolidated financial statements of OPM and the Programs' individual financial statements are free of material misstatement.

An audit includes:

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



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

In planning and performing our fiscal year 2003 audit, we considered OPM's internal control over financial reporting by obtaining an understanding of OPM's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on OPM's consolidated financial statements and the individual financial statements of the Programs. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on internal control over financial reporting, and accordingly, we do not provide an opinion thereon.

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 Management Discussion and Analysis, 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 internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether OPM's fiscal year 2003 consolidated and Programs' individual 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 financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws 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 for the information and use of OPM's management, OPM's Office of the Inspector General, OMB, General Accounting Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 19, 2003

Exhibit I

U.S. Office of Personnel Management
Status of Prior Year Findings
Fiscal Year 2003

No.	Title of Finding from FY02 Report	Program/Fund	Prior Year Status	Current Year Status	Factors Affecting Current Year Status
1	Information Systems General Control Environment	All ¹	Reportable Condition	Reportable Condition - See FY 2003 condition No. 1	The general control environment has improved from the prior year; however, there are certain areas which still require improvement.
2	Financial Management Reporting Processes of the Office of the Chief Financial Officer (OCFO)	S&E ² , RF ³	Reportable Condition	Reportable Condition - See FY 2003 condition No. 2	Control over account analysis and other significant reconciliation procedures, including fund balance with Treasury, as well as controls over budgetary transactions by the MCFO have not changed substantially from the prior year.
3	Quality Control Over Annual Financial Statement Preparation	All	Reportable Condition	Disposed	OPM implemented an additional layer of technical reviews over the Annual Financial Statement Preparation.
4	Segregation of Duties Over the Letter-of-Credit System for the Experience-Rated Carriers	HBP ⁴	Reportable Condition	Reportable Condition - See FY 2003 condition No. 3	OPM has implemented certain manual controls; however, there are certain areas which still require improvement.

- 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
- 4. HBP: Health Benefits Program



MANAGEMENT CHALLENGES

INSPECTOR GENERAL'S MEMORANDUM *on* TOP MANAGEMENT CHALLENGES



OFFICE OF
THE INSPECTOR GENERAL

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

NOV 25 2002

MEMORANDUM FOR KAY COLES JAMES
Director

FROM: PATRICK E. McFARLAND
Inspector General

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. 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, we believe that human resource management is especially critical given OPM's government-wide leadership role in this area. The challenges included on our list are:

- Human Resources Management;
- Department of Homeland Security;
- Retirement Systems Modernization;
- Expanding e-Government;
- Accelerated Deadline for the Performance and Accountability Report;
- Revolving Fund and Salaries and Expenses Accounts;
- Maintaining and Improving the Performance of the Federal Employees Health Benefits Program (FEHBP);
- Implementation of the Government Performance and Results Act;
- OPM's Restructuring.

OIG-01
May 1999

Kay Coles James

2

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 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; or
- 5) The issue involves an operation that is critical to OPM's core missions.

The attachment to this memorandum includes written summaries of each of the challenges that we have noted on our list. These write-ups include a description of the efforts of OPM management to resolve each challenge. This information was obtained through our analysis and follow-up discussions with senior agency managers so that the most current, complete and accurate characterization of the challenges could be presented. I would like to point out that one of the challenges included on this list last year, *OPM's Financial Management Oversight of the FEHBP*, has been removed as a result of the implementation of the Centralized Enrollment Clearinghouse System to facilitate the reconciliation of enrollment between health carriers and agencies.

I believe that your leadership and support of agency management is critical to meeting these challenges and will result in a better government for the American people. I want to assure you that my staff is committed to providing any 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.

Attachment

**TOP MANAGEMENT CHALLENGES
OFFICE OF PERSONNEL MANAGEMENT
NOVEMBER 24, 2003**

1. HUMAN RESOURCES MANAGEMENT

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 and challenges include 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 requires significant attention and resources. Following are some of the steps already being taken by OPM to improve human capital management throughout the government:

- OPM continues to work with the Office of Management and Budget (OMB) to assess the status of each agency's strategic human capital action plans, assessing them for weaknesses, and suggesting new strategies to make them successful. This is done quarterly in conjunction with OMB's review of each agency's President's Management Agenda scorecard assessment. OPM's impact on assisting agencies is demonstrated in the most recent scores for the human capital initiative, with 12 of 26 agencies receiving a status rating of Yellow, an improvement from 5 of 26 last year.
- OPM is developing methods of evaluating and measuring the results of the Human Capital Assessment and Accountability Framework government-wide and using the information to assess the status of human capital in the federal government. OPM will be repeating the Federal Human Capital Survey (FHCS) in 2004 in order to track progress in the transformation of Human Capital in the Federal government.
- The President's management 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 resource 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.
- The work relating to Department of Homeland Security (DHS) and the outcome will be invaluable as OPM continues to enhance, overall, the federal personnel systems that will best enable federal agencies to accomplish their mission while at the same time protecting Merit System principles. For example, DHS and the Department of Defense (DOD) will be implementing many new personnel system initiatives in the upcoming year and OPM is working with them to provide valuable assistance in the development and training related to these initiatives while ensuring they are

supported by a rigorous system of accountability and compliance program to ensure appropriate implementation.

- OPM heads the Chief Human Capital Officers Council, which formed subcommittees to assist in identifying effective solutions for five human capital topics needing immediate attention:
 - The hiring process;
 - Performance management;
 - Leadership development and succession planning;
 - Employee conduct and poor performers; and
 - Emergency preparedness.

The subcommittees are tasked with recommending policy changes, needed legislation, or other strategies for moving the issue forward and returning to the Council with concrete ideas for action.

The National Defense Authorization Act for Fiscal Year 2004 contains a number of provisions that have government-wide implication, such as amending the Senior Executive Service (SES) pay system; creating the Human Capital Performance Fund (HCPF); requiring OPM certification of performance management plans; and the requirement for agency surveys. Each of these initiatives create management challenges for OPM and will require a significant amount of guidance, support and assistance on the part of OPM to agencies in order to ensure that agencies' programs initiated in response to these requirements are properly implemented.

Human resource management continues to be a management challenge. It is essential to the success of any personnel system that it is merit-based, ensures fair and equitable treatment of its employees and applicants, and that policies and procedures for implementing civil service systems allow for open and equal opportunity for compensation, training and development and career advancement. OPM is confronted with improving the overall effectiveness of government and improving agency accountability for conducting human resource management in accordance with these merit system principles while assisting agencies in implementing their strategic human capital management plans.

2. DEPARTMENT OF HOMELAND SECURITY

The legislation which formed the Department of Homeland Security requires the Office of Personnel Management to partner with the new Department to recommend the human resource systems to be implemented as DHS becomes a single, unified agency. OPM is challenged with developing a system uniting 170,000 Federal employees from 22 agencies, 17 separate unions, and 7 different payroll systems in a single Department with a mission to protect America. In addition, OPM contends with reaffirming title 5 protections and providing ongoing services to other federal agencies.

This year, OPM and DHS released their report of 52 design options. The options identify a broad range of human resource options in the areas of pay, performance, labor-

management relations, discipline and appeals. After analyzing the 52 design options, OPM and DHS will propose new personnel rules for the Department for public comment. Final rules are expected to be issued early next year.

In addition, OPM published interim regulations that implemented human resource (HR) flexibilities in the Homeland Security Act. These flexibilities simplify the hiring process and reduce the time required to recruit and hire a diverse, high quality workforce.

OPM continues to put forth a considerable amount of resources toward the DHS human resource initiative, which will benefit OPM's overall strategic approach to human resource management for all federal agencies.

3. RETIREMENT SYSTEMS MODERNIZATION

Modernizing the Federal government's retirement systems continues to be one of OPM's most significant, high risk challenges. The agency administers the Federal Retirement Program which includes both 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 insufficient in their processing and programming techniques. In order for OPM to maintain current service levels to retiring employees, to keep up with customer expectations, and to manage the workload associated with significant increases in the FERS retirement annuitant population, the retirement systems must be modernized.

After careful consideration, OPM has recently determined that the most effective and efficient way to achieve system modernization is to license the required technology from an existing administrator of defined-benefits retirement systems. According to OPM's Director, the system will be hosted, maintained and enhanced by the private sector administrator. This approach should minimize the risk associated with a long-term initiative of reengineering OPM's business processes, as well as developing, implementing, and maintaining entirely new and complex computerized systems to support these business processes. Transition to the new technology is expected to be completed in the next three years.

4. EXPANDING E-GOVERNMENT

The President's electronic government (e-Gov) initiative seeks to enhance access to and delivery of government information and services through expanded use of technology. 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-Gov initiative will improve the efficiency and effectiveness of government operations.

OPM is responsible for leading the following five e-government initiatives, which will seek to transform human capital functions across the federal government:

- **Recruitment One-Stop:** Recruitment One-Stop is a collaborative effort between OPM and its federal agency partners to develop a comprehensive Web site (www.usajobs.opm.gov) to assist applicants in finding employment with the federal government. It provides a one-stop web site for federal job seekers through a single application point that provides a range of information and tools, including vacancy information, application submission, status tracking, and other tools. OPM launched the new USAJOBS and StudentJobs websites on August 4, 2003 with enhanced features for job searchers and recruiters. The websites contain a new streamlined resume builder function and enhanced on-line application capabilities. A resume mining tool was also implemented with the new website. Agency on-line resume building and job search engine capabilities will be shut down in favor of OPM's centralized system.
- **e-Clearance:** This project focuses on consolidating and increasing access, and leveraging technology to improve the efficiency and speed of granting or locating previous clearances or investigations. The e-Clearance Verification System (CVS) was deployed in FY 2003 and provides a single point of access to clearance information located within OPM and DoD systems. Also in FY 2003, a government-wide on-line version of the SF-86 paper-based security clearance application was created. This system is called e-QIP or Electronic Questionnaires for Investigations Processing. OPM also initiated the imaging of investigative reports in FY 2003. All agencies will be required to make archives of clearance investigations available electronically, which will necessitate purchasing imaging equipment.
- **Enterprise Human Resource Integration (EHRI):** The EHRI initiative reaches back to March 1999, when OPM conceived of a Government-wide network for exchanging federal Human Resources (HR) information. It was called the Human Resources Data Network (HRDN) and it focused on enabling the electronic transfer of HR data throughout the Government and eliminating the need for a paper employee record. In January 2002, the project was renamed EHRI and included among a group of e-Gov initiatives designed to improve the internal efficiency and effectiveness of Government operations. The purpose of the EHRI initiative is to facilitate human capital management activities by providing storage, access, and exchange of standard electronic information, through development of a data repository of standard core human capital data for all 1.8 million executive branch employees. The EHRI repository became operational in September 2003 with the release of the Initial Operating Capability. This release provides for workforce forecasting and improved analysis across the EHRI data repository. EHRI supports human resources management across the federal government at all levels from front-line employee to senior management. The result is comprehensive electronic personnel record-keeping and an analysis system covering the entire life cycle of federal employees from hire to retirement. EHRI will eventually replace the current

paper-based Official Personnel Folder with an Official Electronic Record and will support managers across the government in analyzing and planning human capital requirements. OPM faces the challenge of seeking agreement across federal agencies on standardizing the over 500 data elements of federal personnel forms.

- **e-Training:** The Gov Online Learning Center is a premier e-Training environment that supports development of the Federal Workforce through simplified and one-stop access to high-quality e-Training products and services, and advancement of agency missions. The Gov Online Learning Center is a product of the e-Training initiative. The purpose of the e-Training initiative is to create a government-wide e-Training environment which will support the development of the federal workforce and provide a single source for on-line training and strategic human capital development for all federal employees. OPM's goal is to have all federal agencies using golearn.gov instead of their unique systems.
- **e-Payroll:** The goal of the e-Payroll initiative is to substantially improve federal payroll operations by standardizing them across all agencies, integrating them with other human resource functions, and making them easy to use and cost effective. The 22 existing federal payroll system providers will be consolidated into four providers by September 2004. The four payroll providers have been selected and the schedule to migrate the 18 non-selected payroll system providers to one of the four selected providers by September of 2004 has been established. In addition, OPM faces the challenge of getting federal agencies to agree on a single payroll standard that all can use. It is necessary to agree on payroll standards so that OPM can fully address agencies unique payroll requirements.

These initiatives support President Bush's Management and Performance Plan for Expanding Electronic Government. The five e-Gov initiatives, along with OPM's Retirement Systems Modernization (RSM), encompass the Federal employee's entire work lifecycle and address human capital issues.

OPM has a clear vision of its five e-Gov initiatives as an interlocking enterprise system based on the employee life cycle beginning with recruitment, continuing through all aspects of employment, and culminating with retirement. OPM will use these five e-Gov initiatives to remove redundancies, reduce response times, eliminate paperwork, and improve coordination among Federal agencies.

Even though OPM has made great progress in moving forward with its five e-government initiatives, many challenges still lie ahead. None of the five OPM e-government initiatives is complete and all still have project milestones which have yet to be accomplished, most of which involve migrating agency-unique systems into consolidated systems. GAO recently completed a study of OPM's progress and challenges in implementing its five e-Government initiatives (GAO-03-1169T, September 23, 2003). GAO sites that OPM will be challenged with managing the migration from agency specific systems to consolidated systems since agencies will be required to shut down

existing systems and invest in additional or updated technology. Getting cooperation from affected agencies may be a challenge.

GAO also sites that OPM will be challenged with carrying out its e-government initiatives while meeting accelerated project schedules. Each quarter, OPM produces a scorecard which summarizes OPM's accomplishments on the President's Management Agenda, including the e-government accomplishments. OPM must strive to meet its goals for each quarter for the five e-government initiatives and get to a "green" rating.

One of the goals of OMB's e-government strategy includes achieving cost savings as an outcome of implementing the 25 e-government initiatives. OPM has estimated substantial cost savings attributable to the e-government initiatives. According to the GAO report, OPM's estimated cost savings associated with process improvements are loosely based on measures that are inherently abstract, such as the average cost of performing certain functions across government. OPM faces the challenge of establishing complete, meaningful, and quantitative measures of cost savings. Until such measures are developed and implemented, cost savings will be difficult to confirm.

5. ACCELERATED DEADLINE FOR THE PERFORMANCE AND ACCOUNTABILITY REPORT

The due date for agency Performance and Accountability Reports (PAR) beginning with FY 2004, as mandated by OMB, is November 15, just 45 days after the fiscal year-end. The effort required to achieve this will be substantial, and in fact, began over 18 months ago for OPM with planning meetings. Many parties must come together to make this happen, including financial management and staff, program managers with performance reporting responsibilities, the independent auditors, and, somewhat unique to OPM among CFO Act agencies, outside parties such as the health benefit and life insurance carriers who report financial information to OPM that is included in OPM's consolidated financial statements.

One of the key challenges for OPM in meeting this deadline was to determine what to do about the dependency on this financial information from outside sources. The process of obtaining and then incorporating this information into OPM's statements had to be rethought and reworked in order to be able to prepare the financial statements less than 30 days after year-end, a full 3 months earlier than just a few years ago. This had to be communicated to the carriers in order to obtain their buy-in to the process, and a few large carriers were recruited to pilot the new process in FY 2003.

OPM moved their target date for the FY 2003 PAR to December 31, one month prior to the mandated due date of January 31. OPM has established a financial management improvement team, which includes members from OPM's Center for Financial Services, OIG and KPMG, the independent auditors, to address the challenges that the accelerated deadline for the PAR poses. As this letter is being prepared, OPM is on target to meet

that goal, and the pilot test of the new reporting process for HB carriers is running smoothly.

OPM also has a GPRA team that will be reviewing OPM's FY 2004 and FY 2005 annual performance plans to identify the data collection mechanisms that must be developed and implemented to ensure performance data is collected in a way that supports the accelerated reporting timeframes.

6. REVOLVING FUND AND SALARIES AND EXPENSES ACCOUNTS

Developing and implementing strong internal control procedures in OPM'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. The agency has made progress in this area during the last few years, but issues remain which continue to pose a challenge. The following are the key challenges that the agency is faced with in financial management of the RF and S&E:

a. Reconciliation of OPM's Fund Balance with Treasury Accounts

Beginning with the FMFIA 2001 letter, the reconciliation of OPM's Fund Balance with Treasury for the RF and S&E accounts was downgraded to a reportable condition from a material weakness, based on the implementation of internal controls by the Office of the Chief Financial Officer (OCFO) over the cash reconciliation process. These controls included developing standard reconciliation procedures, maintaining documentation supporting all cash transactions, and implementing supervisory review procedures. In the 2002 FMFIA letter, it remained a reportable condition, as corrective actions were still in progress.

While the status of the cash reconciliations has improved from a few years ago, issues remain that must be resolved. The OIG completed a review of controls over the cash reconciliation process in August 2003. We made 17 recommendations in 6 areas related to the reconciliations. The areas were GFIS SF224 Problems, Manual Adjustments, Cancelled Checks, IPAC Errors, Credit Card Data Entry, and Management Oversight. The areas of most concern are the manual adjustments, management oversight and review of the cash reconciliation process, and the implementation of policies and procedures related to these areas.

While we noted that the OCFO had developed policies and detailed procedures for the cash reconciliation process, they had not been implemented in some areas. For example, we found that even though a policy was in place for manual adjustments, these adjustments were still being made erroneously. Such erroneous manual adjustments were one of the causes of large differences between Treasury and GFIS fund balances.

The OCFO is now performing weekly cash reconciliations, and is working towards performing the cash reconciliation on a daily basis. The OCFO has also

developed automated processes to compensate for the deficiencies they found in the GFIS SF224 reporting process. However, the OCFO must ensure that policies and procedures are followed consistently, and ensure management review and approval of the cash reconciliation each month. In addition, the OCFO must continue to internally communicate problems experienced with the cash reconciliation process and develop solutions as the problems arise.

b. Data Reconciliation and Control, and Reporting Processes

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 transactions and balances were inadequate; and transaction codes used to record general ledger entries were defined incorrectly in some cases. This resulted in erroneous entries to and balances in the general ledger.

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 the requirements of the Federal Financial Management Improvement Act of 1996, such as using the U.S. Standard General Ledger. In response to this, OPM purchased a new financial system for the RF and S&E, which was implemented during fiscal year 2002. As part of the implementation process, the OCFO has worked to verify the balances in many of the general ledger accounts. 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.

While the OCFO worked to make improvements in procedures and the accuracy of account balances, the independent auditors of OPM's financial statements included in their FY 2002 audit report the following areas as components of a reportable condition related to the accounting for the RF and S&E:

- **Timeliness of Transaction Entry and Reconciliation** – The auditor stated that the OCFO did not consistently record financial transactions or analyze its financial records in a timely manner, or consistently reconcile general ledger accounts to subsidiary ledgers.
- **Budgetary Accounting Structure** – The auditor stated that the OCFO had not fully implemented budget controls to provide reasonable assurance that budgetary transactions were properly recorded, processed, and summarized to permit the proper preparation of the Funds' financial statements.
- **Financial Reporting** – The auditor stated that the OCFO had not implemented adequate policies and procedures to prepare, review, and report financial statements and other financial reports submitted to oversight agencies.

In summary, the auditor concluded that the OCFO was unable to produce timely, accurate, and reliable financial information, as required by laws and regulations.

In response to this, the OCFO formed a financial management improvement team to address the areas identified by the auditor as needing improvement. While the results of this team's efforts will not be fully known until the end of this year's financial statement audit, procedures have been put in place to address some of the identified issues. For example, the team has developed and implemented a comprehensive financial statement preparation checklist; a detailed review checklist and relationship edits for the review of the budgetary account balances were created; policies and detailed desk procedures relating to cash reconciliation were developed and are being implemented; and the RF and S&E financial statements will go through an additional level of internal technical review before being forwarded to the auditors this year.

Maintaining accurate general ledger account balances in the new system through the use of strong internal controls, such as timely reconciliations, 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.

7. MAINTAINING AND IMPROVING THE PERFORMANCE OF THE FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

As administrator of the FEHBP, OPM has responsibility for negotiating contracts with insurance carriers covering the benefits provided and premium rates charged for approximately 8 million individuals. Optimizing the programs' performance 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 population; increases in the use of prescription drugs and medical services; advances in medical technology; and overall inflation related to general health care services.

These factors have also contributed to ever increasing premium rates for health plans nationwide. For FY 2004, estimates indicated that premium increases would be as high as 18%. OPM, through aggressive cost-containment actions, was able to hold the average FEHBP premium increase to 10.6%. While this is a noteworthy achievement, it nevertheless continues a trend of double-digit premium increases over the last several years. Controlling these costs is an area of great concern to the government (which is responsible for 72% of the total premium), FEHBP enrollees, and OPM management. However, OPM is often limited in how much it can control premium cost increases without also cutting desired benefits.

OPM is challenged with determining and implementing the program changes that allow for maximizing resources and obtaining the flexibilities that produce the most cost beneficial benefits package to a population of enrollees that is aging overall. OPM has implemented significant changes to improve the performance of the FEHBP, such as offering new Health Maintenance Organization/Consumer Driven products that give consumers additional choices that allow them to manage their own health care needs and

their health care dollars. In addition, Flexible Spending Accounts (FSA) have been available to employees since July 2003. Also, FY 2004 will be the first time in five years that the number of health plan choices has increased, rising by 17 to 205. However, controlling costs and improving the performance of the FEHBP will require a continuous effort to explore alternatives and ideas.

One area of 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 program's performance. In addition, OPM should consider what strategic alliances could 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 at the Department of Health and Human Services to provide cost efficient benefits to the aging FEHBP population.

8. IMPLEMENTATION OF THE GOVERNMENT PERFORMANCE AND RESULTS ACT

Congress and agency managers require relevant performance measures and credible performance data to effectively fulfill their oversight responsibilities with respect to federal programs. The Government Performance and Results Act of 1993 was designed to ensure the availability of such data by mandating that agencies set goals for program performance and report outcomes measured against those goals.

OPM is currently re-structuring its activities to better serve its customers (see Challenge number 9). OPM has aligned its FY 2004 annual performance plan with OPM's updated strategic plan to better show the relationship between goals, activities, resources, and outcomes. OPM continues to develop performance indicators and methods of collecting data for the new goals. As a result, there were no actual performance results for some of OPM's FY 2003 performance goals and indicators.

OPM is enhancing its performance measurement logic model to establish a clear and continuing relationship from the strategic goals to the program goals to the program indicators. This model will emphasize outcomes and outputs of programs as measures, making it easier to identify trends over time, at the same time creating a framework allowing OPM to expand the use of efficiency measures.

As OPM moves toward integrating budget and performance information and using performance data to make funding decisions, the credibility of reported performance results will be critical. OPM has initiated the development and testing of a cost accounting model, but additional work is needed for program managers to use data for decisions.

Since 1997 OIG has assessed OPM's efforts to implement GPRA. To ensure the collection and reporting of accurate, appropriate, reliable, and useful data to decision makers, this office has:

- provided implementation advice and assistance;
- given informal comments to OPM on various GPRA-related documents; and
- audited internal controls for selected data on program performance.

Although we believe OPM has made progress toward meeting the challenge of how best to plan and measure its performance, significant opportunities for improvement remain. For one, program managers should clearly articulate the level of reliability that can be placed on the performance data it provides in its *Annual Program Performance Report* to meet GPRA and other reporting requirements.

Also, our audits of several performance measures indicate a widespread need for stronger internal controls to ensure accurate reporting of performance data and improved explanations and disclosures of results. For example, procedures should be established to ensure that (1) reported information is reconciled against supporting data and (2) only data from the appropriate time period is included in performance results.

We will continue to evaluate performance measurement and reporting at OPM as warranted, making recommendations regarding the accuracy, appropriateness, reliability, and usefulness of its performance data.

9. OPM'S RESTRUCTURING

The Director of OPM began implementing OPM's restructuring during the first half of FY 2003. The restructuring aligns OPM with the goals articulated in the 2002 – 2007 Strategic Plan. This restructuring is designed to meet the President's goal of forging a citizen-centered, results-oriented, and market-based organization. The new structure focuses on customer needs, emphasizes outcomes over process, and fosters integration of human resources management and accountability across Government. While the new structure is in place, typically it takes a considerable length of time to see the desired results from a restructuring process.

OPM faces a diverse range of issues, such as staffing, transition management, finance, and logistics, all of which come with restructuring an organization. OPM has already assessed current staff skills and allocated current staff to new reporting areas. Many employees were reassigned new duties and responsibilities and many new employees and managers were hired. OPM expects to identify and implement solutions, e.g., recruitment/retention, e-learning strategies, use of contractor support, etc., to mitigate skill gaps in mission critical occupations this year.

OPM's challenge now is to implement these realignments and new approaches without causing disruptions that could prevent effective management of OPM operations. For example, unclear lines of authority, staff that are not fully trained in new duties, difficulty in providing supervision to remote staff, and unclear performance goals and indicators must be identified quickly and addressed.

OPM management continues to need people with the proper skill levels in the proper positions to best serve OPM customers and to accomplish its goals in the strategic plan. Several vacancies still exist in OPM management positions. However, OPM did hire 17 senior executive staff and managers this summer, expanding OPM's capacity to meet its human capital mission.

Restructuring does not end when leaders are promoted or hired into senior level positions. OPM needs to institutionalize these new approaches and make them part of the "OPM culture". OPM will need to show how the new alignment and approaches have helped improve performance. One new approach will be a more rigorous and systematic methodology for program evaluation and performance measurement. Program evaluations will enable OPM to determine the impact OPM programs are having on the management of human capital in the Federal Government.

We see these as positive steps in bringing operational activities and authority closer to the customers OPM serves. We continue to see OPM's restructuring as a management challenge as realignments become fully functional and performance results can be seen.



APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE

GOALS AND INDICATORS

(Unaudited—See accompanying Independent Auditor’s Report)

Annual Performance Goal	Disposition during FY 2003
SHRP FY 2003 Goal 1: Federal agencies have a full complement of staffing solutions (policies, authorities, flexibilities, planning and assessment tools, and technology) with which to address their human capital challenges, to simplify the process and reduce the time required to recruit and hire a diverse, high-quality workforce.	<i>Met</i>
SHRP 1.1) Results from the HR Directors’ Survey and informal feedback that OPM is collaborating with others and generating effective workforce planning strategies.	<i>Met. Alternative data source used.</i>
SHRP 1.2) Favorable perception of employees Governmentwide that staffing is conducted in accordance with Merit System Principle 1, “Recruit, select, and advance on the basis of merit.”	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
SHRP 1.3) The Federal Equal Opportunity Recruitment Program Report reflects the extent to which diversity in the Federal workforce is equivalent to the relevant labor market.	<i>Met</i>
SHRP 1.4) The Disabled Veterans Affairs Action Program reflects the extent to which veterans employment in the Federal workforce is equivalent to the relevant labor market.	<i>Met</i>
SHRP 1.5) Results from the evaluation studies of specific hiring improvement initiatives reflect that OPM provides assessment tools that enable the agencies to improve their workforce.	<i>Not met</i>
SHRP 1.6) According to HR Directors’ Survey, USAJOBS operations and improvement help agencies meet their mission.	<i>Indicator dropped; HR Directors’ Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.¹</i>
SHRP 1.7) HR Directors’ customer satisfaction is increased and/or maintained to reflect that OPM’s policies enable agencies to meet their mission.	<i>Indicator dropped; HR Directors’ Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.¹</i>
SHRP 1.8) Results from the HR Specialists’ Survey and informal feedback reflect that our Technical Assistance on Workforce Planning and Workforce Diversity enables agencies to meet their mission.	<i>No current data. The HR Specialists’ Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.²</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
<p>SHRP FY 2003 Goal 2: Modernizing the Federal compensation system by developing and, where possible, implementing a flexible, competitive, and performance-oriented strategic rewards environment that allows the Government to recruit, manage, and retain a high-quality and diverse Federal workforce by FY 2003.</p>	<p><i>Met</i></p>
<p>SHRP 2.1) The integrated set of policy alternatives addresses all aspects of white-collar compensation, helps agencies meet special needs for recruitment and retention, and incorporates commonly used tools in the private sector.</p>	<p><i>Met</i></p>
<p>SHRP 2.2) HR Directors and/or managers are satisfied with the policy leadership provided by OPM, as measured by informal customer feedback and/or a continuous increase over baseline levels in the percentage of favorable ratings (or maintenance at 80% or higher) in the OPM HR Directors' Survey.</p>	<p><i>Indicator dropped; HR Directors' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.¹</i></p>
<p>SHRP 2.3) Contingent upon Congressional enactment of legislation implementing the proposed policy alternatives, improvement in employees' perception of pay equity as measured by a 1% increase in the percentage of favorable ratings in the biannual Federal Human Capital Survey.</p>	<p><i>No current data. The Federal Human Capital Survey was not conducted during FY 2003.</i></p>
<p>SHRP FY 2003 Goal 3: Promote and support retention efforts and flexibilities, communicate effective workforce compensation and performance program policies, and develop proposed HR/payroll policies and procedures to support the establishment of an integrated Governmentwide HR/payroll delivery system(s).</p>	<p><i>Met</i></p>
<p>SHRP 3.1) New or revised policy guidance and regulations are issued in a timely manner, so that agency needs are met without delay, and informal feedback from agencies through direct contacts, Human Resources Management Council meetings, and comments on the Customer Satisfaction Surveys and at seminars and conferences indicate that these policies are beneficial to agencies.</p>	<p><i>Met</i></p>
<p>SHRP 3.2) Increase in the level of HR Directors' satisfaction with regard to OPM's policy leadership in the fields of special salary rates, performance management and incentive awards, position classification, Federal Wage System, and pay and leave administration.</p>	<p><i>Indicator dropped; HR Directors' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.¹</i></p>
<p>SHRP 3.3) Informal feedback from agencies through direct contacts, Human Resources Management Council meetings, and/or comments on the Customer Satisfaction Survey and at seminars, conferences, and/or workshops indicate that OPM's efforts' to encourage and facilitate the use of compensation flexibilities are beneficial to agencies.</p>	<p><i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i></p>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
SHRP 3.4) HR Managers are satisfied with the information sharing provided by OPM on special salary rates, as measured by informal customer feedback and/or a continuous increase over baseline levels in the percentage of favorable ratings (or maintenance at 80% or higher) in the OPM HR Directors' Survey.	<i>Indicator dropped; HR Directors' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.¹</i>
SHRP 3.5) Statutory and regulatory changes have been proposed for the HR policies and procedures governing personnel actions linked to the calculation of Federal pay and benefits.	<i>Met</i>
SHRP 3.6) Stakeholder groups are satisfied with the policy leadership provided by OPM on the development of proposed HR/payroll policies and procedures, as measured by written comments received by OPM on the revised policies and procedures and through surveys of the Deputy Secretaries for Administration and the Payroll Users Network.	<i>Met</i>
SHRP FY 2003 Goal 4: Administration of current workforce compensation and performance systems continues to provide cost-effective and improved Governmentwide service that meets or exceeds customer expectations.	<i>Met</i>
SHRP 4.1) All actions necessary to make new pay schedules effective are accomplished within statutory deadlines, and agencies are provided with sufficient information to implement new pay schedules on a timely basis.	<i>Met</i>
SHRP 4.2) The annual report by the President's Pay Agent is issued in a complete and timely manner.	<i>Met</i>
SHRP 4.3) Declining weighted average age of classification standards indicates that standards are more current.	<i>Not met</i>
SHRP 4.4) Improvement in employees' perception that their 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 Federal Human Capital Survey - "My performance appraisal is a fair reflection of my performance." Percentage of favorable responses.	<i>No current data. The Federal Human Capital Survey was not conducted during FY 2003.</i>
SHRP 4.5) Performance management products address features and explain the five fundamental processes of performance management (planning, monitoring, developing, rating, and rewarding performance).	<i>Met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
SHRP 4.6) Increase in the level of agency HR Directors' satisfaction with OPM's efforts to provide leadership for FWS administration. This is demonstrated by a continuing increase in the level of satisfaction reported in the DCSS (or maintenance at 80% or higher) in this area, and/or informal feedback.	<i>Indicator dropped; HR Directors' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.¹</i>
SHRP 4.7) Maintain the level of satisfaction of HR Specialists with regard to pay table guidance materials.	<i>No current data. The HR Specialists' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.²</i>
SHRP 4.8) An increase in the level of HR Specialists' satisfaction with OPM's technical assistance about pay issues as measured by informal customer feedback and/or a continuous increase in the favorable ratings (or maintenance at 80% or higher) in the CSS.	<i>No current data. The HR Specialists' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.²</i>
SHRP FY 2003 Goal 5: Continue the comprehensive, long-term study of the organization, structure, and composition of the Senior Executive Service and other senior personnel systems begun during FY 2001.	<i>Goal dropped</i>
SHRP 5.1) Reach consensus on the draft options developed and share with stakeholders.	<i>No current data because goal was dropped.</i>
SHRP 5.2) Extent of satisfaction expressed by HR Directors that OPM is collaborating effectively with others and generating effective executive resources policies, as measured by informal customer feedback and/or favorable ratings in the HR Directors Customer Satisfaction Survey.	<i>Indicator dropped; HR Directors' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.¹</i>
SHRP FY 2003 Goal 6: Through the biennial executive resources allocation program, maintain executive resource levels that are consistent with Administration policy and the overall size of the Federal Government.	<i>Not met</i>
SHRP 6.1) There are minimal ad hoc increases above resources that OPM initially allocated in the biennial FY 2002-2003 cycle, exclusive of any new agencies that are created or changes in Administration priorities.	<i>Not met</i>
SHRP 6.2) Provide agencies with sufficient information and technical assistance to enable them to manage their executive resources effectively and in accordance with the Administration's goals for streamlining and delayering management structures.	<i>Not met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
SHRP FY 2003 Goal 7: The Federal employee benefit programs are enhanced to offer a more flexible range of higher quality benefits as OPM explores new benefit offerings	<i>Met</i>
SHRP 7.1) Adherence to commitments and project timetables: Implementing regulations are published, and other milestones are met, within the timeframes described in authorizing legislation.	<i>Met</i>
SHRP 7.2) % HR Directors satisfied with OPM's policy guidance and programs for retirement benefits.	<i>Indicator dropped. Will be replaced with new indicators based on PART recommendations.</i>
SHRP 7.3) % HR Directors satisfied with OPM's policy guidance and programs for insurance benefits.	<i>Indicator dropped. Will be replaced with new indicators based on PART recommendations.</i>
SHRP 7.4) % of HR Directors who agree that OPM is collaborating effectively with others to develop Employee Benefit Proposals	<i>Indicator dropped. Will be replaced with new indicators based on PART recommendations.</i>
SHRP FY 2003 Goal 8: Increase Federal agency implementation of work/life, wellness, human resources development, employee relations and labor relations programs as tools managers can use to improve organizational performance.	<i>Met</i>
SHRP 8.1) Agencies and program managers are using work/life and wellness programs, policy and advice to successfully satisfy their human capital needs as measured by surveys, interviews, informal feedback, evaluation instruments, or other qualitative measures.	<i>Indicator dropped</i>
SHRP 8.1r) The number of Federal employees who telework and the number of employees who are eligible for this flexible workplace arrangement.	<i>Met. Replaces SHRP 8.1.</i>
SHRP 8.2) Agencies implement or enhance HRD strategies to develop the workforce as a result of OPM leadership activities, tools and expertise, as measured by surveys, informal feedback, evaluation instruments, and other qualitative measures.	<i>Indicator dropped</i>
SHRP 8.3) High levels of agency awareness and commitment to work/life and wellness initiatives as measured by the results of the HR Directors' survey and other relevant surveys.	<i>Indicator dropped; HR Directors' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.¹</i>
SHRP 8.4) Agencies report satisfaction with seminars, conferences, working groups, and other special interest meetings in that OPM initiatives and guidance help them address work/life and wellness needs. "High levels" of customer satisfaction are defined as scores of 3.5 or better on a 1-5 point Likert scale, and 75% or more of the individual ratings favorable. Participant evaluations confirm this anecdotal evidence.	<i>Met</i>
SHRP 8.5) Complete the first implementation phase of the e-Training Capital Asset Plan.	<i>Moved to MCFO Goal 2 (e-Gov).</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
SHRP 8.6) Labor organizations are regularly informed of proposed changes to Governmentwide human resources policies or regulations and union recommendations and comments are fully considered. All statutory consultation requirements are met.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
SHRP 8.7) % favorable response from employees regarding family responsibilities being understood and supported at their agency.	<i>No current data</i>
SHRP 8.8) % favorable response from managers regarding family responsibilities being understood and supported at their agency.	<i>No current data</i>
SHRP 8.9) % favorable response from employees regarding agency offers of assistance with personal or work-related problems.	<i>No current data</i>
SHRP 8.10) % favorable response from managers regarding agency offers of assistance with personal or work-related problems.	<i>No current data</i>
SHRP 8.11) Improved perception Governmentwide that employees are educated and retained when it will result in better organizational or individual performance, as measured by a 2% increase in the percentage of favorable ratings in the annual Merit System Principles Questionnaire (replaced by the Federal Human Capital Survey during FY 2002).	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
SHRP 8.12) Improvement in employees' perception that employees are treated fairly and equitably, as measured by an increase in the percentage of favorable ratings in the annual Merit System Principles Questionnaire (replaced by the Federal Human Capital Survey during FY 2002).	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
SHRP 8.13) % of HR Specialists satisfied with technical assistance regarding poor performance/employee relations.	<i>No current data. The HR Specialists' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.²</i>
SHRP 8.14) % of HR Specialists satisfied with technical assistance regarding labor-management relations.	<i>No current data. The HR Specialists' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.²</i>
SHRP 8.15) Agencies report satisfaction with seminars, conferences, working groups, and other special-interest meetings in that OPM initiatives and guidance help them address work/life and wellness and labor management relations needs. "High levels" of customer satisfaction are defined as scores of 3.5 or better on a 1-5 point Likert scale with 5 being highest and/or 75% or more of the individual ratings favorable.	<i>Met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
SHRP 8.16) OPM leadership of the Federal Human Resource Development (HRD) function is recognized as indicated by an increase in the extent to which OPM's advice and expertise is sought inside the Government and by external groups.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
SHRP 8.17) Agencies and program managers use training as a performance development tool and use innovative approaches to develop the workforce as measured by methods such as studies, focus groups, interviews, and other qualitative measures.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
SHRP 8.18) Consistency in the quality and numbers of nominations for the OPM Director's Award for Outstanding Alternative Dispute Resolution Programs in the Federal sector.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
SHRP 8.19) Continued positive agency feedback on the usefulness of the Agency Alternative Dispute Resolution Resource Guide.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
SHRP FY 2003 Goal 9: Agency requests for variations, exceptions, extensions, waivers, and adjudications, 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.	<i>Met</i>
SHRP 9.1) Results from the HR Specialists' Survey and informal feedback are improved and/or maintained to reflect that agencies are satisfied with OPM's staffing policy casework.	<i>No current data</i>
SHRP 9.2) Respond to staffing policy casework within the 10-day timeliness standard developed by OPM.	<i>Met</i>
SHRP FY 2003 Goal 10: Ensure that third-party decisions are consistent with civil service laws, rules and regulations, and OPM exercises formal intervention, reconsideration or judicial review of decisions when warranted.	<i>Met</i>
SHRP 10.1) All decisions of the Merit Systems Protection Board and appropriate Federal Labor Relations Authority, court and arbitration decisions are reviewed, and intervention or judicial review is recommended in appropriate cases.	<i>Met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
SHRP 10.2) OPM interventions help to maintain the integrity of the merit system and the principles of sound public management as measured by Labor Relations and Employee Relations Network Groups.	<i>Met</i>
SHRP 10.3) % of HR Specialists satisfied with OPM's technical assistance regarding intervention in Employee Disputes Before Arbitrators and MSPB	<i>No current data. The HR Specialists' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.²</i>
SHRP FY 2003 Goal 11: Meet the workforce information needs of the White House, OMB, Congress, Federal agencies, the public, and other customers through the Central Personnel Data File	<i>Met</i>
SHRP 11.1) Increased customer satisfaction with workforce information products and services	<i>Met</i>
SHRP 11.2) Increase in customers using self-service, web-based workforce information products — hits per week	<i>Met</i>
SHRP 11.3) Maintain high CPDF submission accuracy for CPDF status files.	<i>Met</i>
SHRP 11.4) Maintain high CPDF submission accuracy for CPDF dynamic files.	<i>Met</i>
SHRP 11.5) Maintain CPDF status file data timeliness.	<i>Indicator replaced</i>
SHRP 11.5r) Maintain CPDF status file processing time (days).	<i>Met. Replaces SHRP 11.5.</i>
SHRP 11.6) Maintain CPDF dynamic file data timeliness.	<i>Indicator replaced</i>
SHRP 11.6r) Maintain CPDF dynamics processing time (days).	<i>Met. Replaces SHRP 11.6.</i>
SHRP FY 2003 Goal 12: Reengineer Governmentwide human resources management (HRM) record keeping and reporting practices to facilitate the use of human resources data and to streamline and improve Governmentwide reporting	<i>Goal dropped. Combined with the MCFO Goal 2 (e-Gov).</i>
HCL&MSA FY 2003 Goal 1: Agency personnel security programs are made more effective as a result of OPM evaluations that identify deficiencies and make recommendations for improvement.	<i>Met</i>
HCL&MSA 1.1) Improvements made in agencies' security and suitability programs.	<i>Met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
HCL&MSA 1.2) Results of agency security appraisal self-assessments.	<i>Met</i>
HCL&MSA 1.3) Quality of agencies' personnel security operations.	<i>Met</i>
HCL&MSA 1.4) Agency feedback.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
HCL&MSA 1.5) Respond to agency examining office requests for investigations into alleged merit system abuse.	<i>Moved to HRPS Goal 1.</i>
HCL&MSA FY 2003 Goal 2: Improve the overall effectiveness of Government through broad, crosscutting initiatives aimed at innovative, merit-based HR policies and practices.	<i>Met</i>
HCL&MSA 2.1) Continued expansion of the use of demonstration projects, alternative personnel systems and existing flexibilities. For formally evaluated projects and systems, evidence that they are contributing to organizational effectiveness.	<i>Met</i>
HCL&MSA 2.2) Changes in policy, law, rule and regulation result from evaluation, lessons learned and best practices of demonstration projects and alternative personnel systems.	<i>Met</i>
HCL&MSA 2.3) Evidence that an increasing number of agencies are effectively integrating HRM into strategic planning.	<i>Met</i>
HCL&MSA 2.4) Increased customer satisfaction with guidance, public information, and opportunity for input to policy and extent of collaboration with regard to flexibilities, demonstration projects and alternative personnel systems - % HR Directors satisfied with OPM's Policy Leadership regarding Demonstration Projects and Alternative Personnel Systems.	<i>Indicator dropped; HR Directors' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.¹</i>
HCL&MSA FY 2003 Goal 3: 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. Develop and improve agency accountability for conducting HRM in accordance with the merit system principles and in alignment with mission.	<i>Met</i>
HCL&MSA 3.1) Agencies increasingly adhere to the merit system principles and comply with HR laws and regulations.	<i>Met</i>
HCL&MSA 3.2) 90% of problems found during the review process are resolved in accordance with regulations in a timely manner.	<i>Met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
HCL&MSA 3.3) Agency review schedule is met.	<i>Not met</i>
HCL&MSA 3.4) Maintain high customer satisfaction with the review process by obtaining a rating of 4.5 on OPM's customer survey responses in FY2003.	<i>Not met</i>
HCL&MSA 3.5) The workforce's perceptions of equity and merit in the workplace remain stable or improve.	<i>No current data</i>
HCL&MSA 3.6) Classification appeals, pay claims and Fair Labor Standards Act program decisions comply with regulations and are completed in a timely manner.	<i>Met</i>
HCL&MSA 3.7) Overall accountability for HRM, including strategic alignment and merit principle adherence, increases in agencies as measured by the results of oversight reviews and appropriate special studies.	<i>Met</i>
HCL&MSA 3.8) Increase Governmentwide awareness of the Merit Principles and Prohibited Personnel Practices, as evidenced by results from the Merit System Principles Questionnaire.	<i>No current data</i>
HCL&MSA 3.9) Increased customer satisfaction from the HRM community on our role in supporting HRM accountability and Merit System Principles awareness - % HR Directors satisfied with OPM's Policy Leadership regarding HRM Accountability.	<i>Indicator dropped; HR Directors' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.¹</i>
HCL&MSA FY 2003 Goal 4: Competitive examining is conducted correctly to ensure that Federal agencies comply with civil service laws, rules, regulations, and executive orders and support the merit system principles.	<i>Met</i>
HCL&MSA 4.1) The extent to which agency Delegated Examining Units adhere to law, regulation and Merit System Principles, and agency effectiveness in managing delegated examining units to support mission accomplishment as measured by the oversight study of delegated examining conducted by the Office of Merit Systems Oversight and Effectiveness (OMSOE).	<i>Met. Alternative data source used.</i>
HCL&MSA 4.2) The HR Specialist Survey and informal feedback reflects that our Delegated Examining Unit Assistance results in increased agency customer satisfaction - % HR Specialists satisfied with technical assistance regarding Delegated Examining Units.	<i>Met</i>
HCL&MSA FY 2003 Goal 5: Leadership and management skills, public service values, and a Governmentwide perspective are key factors in selections for all SES positions.	<i>Met</i>
HCL&MSA 5.1) Agency vacancy announcements, Qualification Review Board cases, merit staffing reviews, and/or contacts with HR Specialists with ER responsibility and/or with HR Directors show that agencies are emphasizing leadership qualifications and requirements in their selections for entry into the SES.	<i>Met. Based on alternative data source.</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
HCL&MSA 5.2) Alternative, quicker methodologies are identified and/or developed that agencies could use in assessing the qualifications of SES candidates.	<i>Met</i>
HCL&MSA 5.3) Favorable ratings and comments on evaluations and/or informal feedback collected at briefings on the Executive Core Qualifications and other forums show that attendees understand and value information provided about the importance of developing and demonstrating the leadership qualifications.	<i>Met</i>
HCL&MSA FY 2003 Goal 6: SES performance management systems help agencies to improve individual and organizational performance, hold executives accountable for results, and provide an adequate basis for personnel decisions.	<i>Met</i>
HCL&MSA 6.1) Analysis of the FY 2002 SES Survey results, informal feedback from stakeholders, attendees at SES briefings and symposia, and/or surveys by other organizations show that executives and agency management find that there is increased attention on managing SES performance, linking senior executive performance plans with agencies' strategic initiatives, and focusing on results.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
HCL&MSA 6.1r (New Indicator) Agencies implement performance appraisal plans for SES and managers that link to agency mission, goals and outcomes and hold executives accountable for results.	<i>Met. Replaces HCL&MSA 6.1.</i>
HCL&MSA 6.2) % of HR Directors satisfied with SES Compensation & Performance Management	<i>Indicator dropped; HR Directors' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.¹</i>
HCL&MSA 6.3) % of HR Directors satisfied with Presidential Rank Awards Program	<i>Indicator dropped; HR Directors' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.¹</i>
HCL&MSA FY 2003 Goal 7: More retiring Federal employees receive benefits counseling as agency benefit officers are provided with improved information and tools for these services.	<i>Not met</i>
HCL&MSA 7.1) An increasing range of benefits-related informational materials and self-servicing tools are available in the OPM Web site.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
HCL&MSA 7.2) % of retiring employees satisfied with retirement counseling.	<i>Met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
HCL&MSA 7.3) Overall satisfaction (HR Specialists) with benefits related products, tools, & support.	<i>No current data. The HR Specialists' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.²</i>
HCL&MSA 7.4) % of retiring employees who received retirement counseling.	<i>Met</i>
HCL&MSA 7.5) Technical Assistance for preparing employees for retirement.	<i>No current data. The HR Specialists' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.²</i>
HCL&MSA 7.6) Attendance at the Federal Benefits Conference remains steady or increases	<i>Met</i>
HCL&MSA 7.7) % of Federal Benefits Conference attendees who rate training very good or higher	<i>Met</i>
HCL&MSA 7.8) Attendance at the Fall Festival of Training remains steady or increases	<i>Met</i>
HCL&MSA 7.9) % of Fall Festival of Training attendees who rate training very good or higher	<i>Met</i>
HCL&MSA FY 2003 Goal 8: Provide analyses of current HRM topics to the HRM community in order to improve HRM policies, practices and programs.	<i>Met</i>
HCL&MSA 8.1) OMSOE special studies produce valuable information that contributes to policy or program proposals. (Source: changes in policy, regulation, law.)	<i>Met</i>
HCL&MSA 8.2) OPM program offices provide favorable comments on the usefulness of its special studies.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
HCL&MSA 8.3) Public sector customers provide positive feedback on the information in OPM's special studies, as indicated by press coverage and other forms of public communication.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
HCL&MSA FY 2003 Goal 9: All career SES selections, particularly those of noncareer employees for career SES appointments, comply with merit system principles; agencies comply with statute and regulation in their use of noncareer and limited appointment authorities.	<i>Not Met. Resources redirected to Strategic Management of Human Capital.</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
HCL&MSA 9.1) Agency practices conform to merit system principles, including all SES career appointments of individuals from noncareer-type appointments.	<i>Not met</i>
HCL&MSA 9.2) Agencies receive sufficient information and technical assistance to enable them to comply with statutory and regulatory requirements for noncareer and limited appointments.	<i>No current data. The HR Specialists' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.²</i>
<p>HCL&MSA FY 2003 Goal 10: Agencies receive clear, accurate, timely staffing advice and assistance –</p> <ul style="list-style-type: none"> — 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. — on performance, classification, and employee compensation that keep them better informed about appropriate system flexibilities and ways in which they can be used to support accomplishment of agency strategic goals. — to meet specific agency needs and objectives, improve the management and deployment of human resources, and advance the President's vision of a more responsive Government. 	<i>Met. Merged three original FY03 goals pertaining to providing advice and assistance to Federal agencies.</i>
HCL&MSA 10.1) Results from the HR Specialists' Survey are improved and/or maintained to reflect that agencies are satisfied with OPM's staffing assistance.	<i>No current data. The HR Specialists' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.²</i>
HCL&MSA 10.2) Increase in the level of HR Specialists' satisfaction with OPM's technical assistance concerning performance, classification, and employee compensation as measured by informal customer feedback and/or a continuous increase over FY 1999 levels in the percentage of favorable ratings (or maintenance at 80% or higher).	<i>No current data. The HR Specialists' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.²</i>
HCL&MSA 10.3) Favorable perception of employees Governmentwide that staffing is conducted in accordance with Merit System Principle #1 (Recruit, select, and advance on the basis of merit), as measured by a 50% or higher favorable rating on relevant questions in the MSPQ (replaced by Federal Human Capital Survey in FY 2002).	<i>No current data</i>
HCL&MSA 10.4) Agencies are satisfied with the advice OPM provides (in the area of performance management). OPM maintains an automated customer satisfaction survey on the Web site for the Performance Management Technical Assistance Center: information is useful; pages are easy to navigate; and the user plans to revisit web site.	<i>Not met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
<p>HCL&MSA 10.5) The Strategic Compensation Conference is shown by end-of-conference surveys to have satisfied participants' expectations for the level and type of information provided to help them understand developing issues in Federal compensation.</p>	<p><i>This indicator was dropped because it does not provide meaningful performance information for this goal. The Strategic Compensation Conference was not conducted in FY 2003.</i></p>
<p>HCL&MSA 10.6) Continuing requests for consultation demonstrate overall satisfaction with the quality of services provided.</p>	<p><i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i></p>
<p>HCL&MSA 10.7) OPM information, policy, guidance and reference is made available through a variety of methods to ensure agencies are well informed and have increased access to its services and programs as measured by surveys, interviews, informal feedback, evaluation instruments, or other qualitative measures.</p>	<p><i>Met</i></p>
<p>HCL&MSA 10.8) Presentations, OPM Web sites, training materials, etc., are effective in providing agencies with information that they can use to resolve workforce issues.</p>	<p><i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i></p>
<p>HCL&MSA 10.9) Agencies have continuous high demand for conferences, workshops, and seminars as measured by an increase in the number of participants, the establishment of waiting lists, and/or the extent to which such sessions are filled.</p>	<p><i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i></p>
<p>HCL&MSA 10.10) Other qualitative and empirical evidence demonstrates that OPM's workforce relations programs serve a valuable consultative role to agencies, employees, and other stakeholders.</p>	<p><i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i></p>
<p>HCL&MSA 10.11) Maintain a consistent rate of repeat Employee Assistance Program contracts by agencies.</p>	<p><i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i></p>
<p>HCL&MSA 10.12) Postworkshop and postseminar participant surveys indicate satisfaction with (performance management and leave) workshop presentations.</p>	<p><i>This indicator was dropped because no workshops on these issues were conducted.</i></p>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
<p>HRPS FY 2003 Goal 1:</p> <p>— Support the Merit System principles by issuing policy and taking action to ensure that only suitable applicants, appointees and employees are hired for, and remain in, the Federal competitive service.</p> <p>— Promote uniform application of investigative standards mandated by statute and executive order by developing and implementing Governmentwide investigative policy.</p> <p>— The quality of investigations is maintained and workload demands are met with timely, relevant products.</p>	<p><i>Met. Merged three original FY 2003 goals pertaining to investigative services.</i></p>
<p>HRPS 1.1) Agency referrals.</p>	<p><i>Met</i></p>
<p>HRPS 1.2) Determinations Completed.</p>	<p><i>Met</i></p>
<p>HRPS 1.3) Extensive Investigation Completed.</p>	<p><i>Not met</i></p>
<p>HRPS 1.4) Ineligible Rulings.</p>	<p><i>Not met</i></p>
<p>HRPS 1.5) Ineligible/Non Response Rulings.</p>	<p><i>Met</i></p>
<p>HRPS 1.6) Direct Removals.</p>	<p><i>Not met</i></p>
<p>HRPS 1.7) Minimize the number of suitability decisions overturned by Merit Systems Protection Board on appeal.</p>	<p><i>Met</i></p>
<p>HRPS 1.8) Timeliness of suitability case processing. OPM expects its contractor to complete these cases within certain time frames. For fieldwork scheduled as part of a suitability investigation, OPM expects cases to be delivered by the contracted delivery date.</p>	<p><i>Met</i></p>
<p>HRPS 1.9) Increase satisfaction levels of HR Specialists as measured by the OPM Customer Survey - % HR Specialists satisfied with technical assistance for suitability determinations.</p>	<p><i>No current data. The HR Specialists' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.²</i></p>
<p>HRPS 1.10) Respond to agency examining office requests for investigations into alleged merit system abuse.</p>	<p><i>Met</i></p>
<p>HRPS 1.11) Continue as an active member of the Personnel Security Working Group of the National Security Council and the Federal Working Group of the Criminal Justice Information System (CJIS) Advisory Policy Board.</p>	<p><i>Met</i></p>
<p>HRPS 1.12) Increased Governmentwide uniformity in the application of investigative standards.</p>	<p><i>Met</i></p>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
HRPS 1.13) % IS customers satisfied with content & quality of investigations	No Data
HRPS 1.14) % IS customers satisfied with investigative policy guidance.	No Data
HRPS 1.15) Extent to which agencies implemented new policies and standards.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
HRPS 1.16) Quality of the contractor's case products.	Met
HRPS 1.17) OPM recovers program operating costs through effective case pricing.	Not Met
HRPS 1.18) Ensure that agency security personnel are informed of investigative procedural changes.	Met
HRPS 1.19) Meet customer workload demands.	Met
HRPS 1.20) Provide new services to agencies.	Met
HRPS FY 2003 Goal 2: — Insurance Programs customers are provided with quality insurance products and services and continue to make informed decisions about their health care. — The new Long Term Care Insurance Program becomes operational and begins accepting enrollments.	<i>Met. Merged two original FY 2003 goals pertaining to insurance services.</i>
HRPS 2.1) Adherence to commitments and project timetables: Health Benefits Open Season information and plan brochures are available to customers on time.	Met
HRPS 2.2) Adherence to commitments and project timetables: Initiatives to reduce the incidence of medical errors are implemented within the Federal Employees Health Benefits Program.	Met
HRPS 2.3) Overall Customer Satisfaction with the service received from HB Plan.	Met
HRPS 2.4) % of participating plans that are highly rated or accredited.	Met
HRPS 2.5) % of program customers enrolled in a highly rated or accredited plan.	Met
HRPS 2.6) Timeliness of Life Insurance Claims Payments — paid within 10 days.	Met
HRPS 2.7) Accuracy of Life Insurance Claims Payments as a % of the number of claims paid.	Met

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
HRPS 2.8) Adherence to commitments and project timetables: The Long Term Care Insurance program is operational and accepting enrollments by October 2002.	<i>Met</i>
HRPS 2.9) Adherence to commitments and project timetables: Market penetration will be comparable to industry benchmarks.	<i>Met</i>
HRPS 2.10) Adherence to commitments and project timetables: Carrier contracts will include quantitative measures of profits and incentive awards based on performance.	<i>Met</i>
HRPS FY 2003 Goal 3: Demonstrate improvements in individual Government leaders' performance and/or organizational performance as a result of training, development experiences, sabbaticals, details, temporary assignments, and movement within and between agencies to broaden perspectives and gain fresh insights on leadership.	<i>Met. Merged two original FY 2003 goals pertaining to improving individual Government leaders' performance and/or organizational performance through training and development.</i>
HRPS 3.1) OPM continues to receive favorable ratings and comments on participant evaluations of SES leadership forums, briefings for new SES members, and other presentations. Participants report that the information received in these forums increases their job effectiveness.	<i>Met</i>
HRPS 3.2) OPM will promote mobility in the SES by implementing recommendations developed as a result of its survey of senior executives who transferred from one agency to another, and analysis of the results of the 2002 survey of all members of the SES.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
HRPS 3.3) An increase in the number of agencies and executives who are using SES SOARS as a means of finding/filling vacant positions and handling temporary spikes in workloads.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
HRPS 3.4) Number of FEI & MDC Training Sessions.	<i>Not met</i>
HRPS 3.5) Number of FEI & MDC Participants.	<i>Not met</i>
HRPS 3.6) Number of FEI & MDC Participant Training Days.	<i>Not met</i>
HRPS 3.7) Measure the impact of Federal Executive Institute programs on individual and agency performance in FY 2003 using a 4 Level Evaluation Model.	<i>Met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
HRPS 3.8) Measure the impact of Management Development Center programs on individual and agency performance in FY 2003 using a 4 Level Evaluation Model.	<i>Met</i>
HRPS 3.9) Establish or maintain a total of 18 Agency Partnerships in FY 2003.	<i>Met</i>
HRPS 3.10) Succession planning training and/or development programs will be developed or maintained with four Agency Partners in FY 2003.	<i>Met</i>
HRPS 3.11) Two virtual team programs will be maintained in FY 2003.	<i>Met</i>
HRPS 3.12) On-line payment capability will be available for OPM Government customers by FY 2003.	<i>Met</i>
HRPS 3.13) The cost of programs model will be implemented in FY 2003. Cumulative retained earnings reserves will be maintained at a positive balance.	<i>Met</i>
<p>HRPS FY 2003 Goal 4:</p> <p>— Provide expert human resource products and services that meet agency-specific needs to ensure that Federal agencies receive high quality, cost effective employment services needed to run high performing results oriented organizations.</p> <p>— Administer the Armed Services Vocational Aptitude Battery for the Department of Defense (DoD) and provide related services.</p>	<i>Met. Merged two original FY 2003 goals pertaining to reimbursable human resources services.</i>
HRPS 4.1) Customers continue to contract for services at or above prior year levels.	<i>Met</i>
HRPS 4.2) Income fully covers cost in FY 2003.	<i>Met</i>
HRPS 4.3) Continue favorable customer satisfaction with employment information as indicated by the “satisfied” ratings obtained from the USAJOBS on-line user surveys.	<i>Met</i>
HRPS 4.4) USAJOBS provides services, tools, and informational materials, and Web site usage is maintained or increased.	<i>Met</i>
HRPS 4.5) The number of PMIs hired is sustained at high levels approaching 400 hires.	<i>Met</i>
HRPS 4.6) Continuation of the contract by DoD.	<i>Met</i>

APPENDIX A
DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
HRPS 4.7) Meet requests for student test sessions by DoD.	<i>Met</i>
HRPS 4.8) Quarterly feedback sessions with DoD program managers show increased customer satisfaction.	<i>Met</i>
HRPS FY 2003 Goal 5: Through the Training and Management Assistance (TMA) program, provide assistance to Federal agencies in the development of training and other human resource management solutions that managers can use to meet specific short- and long-range agency objectives.	<i>Met</i>
HRPS 5.1) Income earned ensures the program maintains the appropriate level of retained earnings.	<i>Not met</i>
HRPS 5.2) End-of-project quality surveys and interviews are used to determine if specific agency objectives are met and to measure the level of customer satisfaction with service provided by the TMA program.	<i>Met</i>
HRPS FY 2003 Goal 6: To ensure voting rights are protected under the Voting Rights Act.	<i>Met</i>
HRPS 6.1) The Department of Justice's requirements for observers, reports and voter list maintenance are met.	<i>Met</i>
HRPS FY 2003 Goal 7: Customer satisfaction improves as processing times are reduced by 20% and the number of customer calls handled is increased by 7%.	<i>Not met</i>
HRPS 7.1) % of new customers who received first payment before or when expected.	<i>Not met</i>
HRPS 7.2) Overall satisfaction with benefits-related products, tools and support.	<i>No current data. The HR Specialists' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.²</i>
HRPS 7.3) % of customers very or generally satisfied with services since annuity began.	<i>Met</i>
HRPS 7.4) Technical assistance for preparing employees for retirement.	<i>No current data. The HR Specialists' Survey was not conducted in FY 2003 as OPM revamped its performance measurement system.²</i>

APPENDIX A
DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
HRPS 7.5) Interim Payment Processing Time.	<i>Not met</i>
HRPS 7.6) CSRS Annuity Processing Time.	<i>Not met</i>
HRPS 7.7) FERS Annuity Processing Time.	<i>Not met</i>
HRPS 7.8) CSRS Survivor Claims Processing Time.	<i>Not met</i>
HRPS 7.9) CSRS Annuity Claims Accuracy.	<i>Not met</i>
HRPS 7.10) FERS Annuity Claims Accuracy.	<i>Met</i>
HRPS 7.11) CSRS Survivor Claims Accuracy.	<i>Met</i>
HRPS 7.12) Customer Service Transactions Handled by Self-Servicing.	<i>Not met</i>
HRPS 7.13) Number of Calls Handled.	<i>Met</i>
HRPS 7.14) Call Handling Rate.	<i>Met</i>
HRPS 7.15) Overall Claims Productivity (<i>Claims Processed/FTE</i>).	<i>Not met</i>
HRPS 7.16) Annuity and Survivor Claims Productivity.	<i>Not met</i>
HRPS 7.17) Overall Customer Service Productivity (<i>Transactions/FTE</i>).	<i>Met</i>
HRPS 7.18) Initial Annuity and Survivor Claims Unit Cost.	<i>Not met</i>
HRPS 7.19) Customer Services Unit Cost.	<i>Not met</i>
HRPS FY 2003 Goal 8: Retirement Systems Modernization Project will convert historic hard-copy employee data to electronic format, establish electronic transfer of retirement data on a recurring basis, and expand Web-enabled self-servicing for Federal employees.	<i>Not met</i>
HRPS 8.1) Adherence to commitments and project timetables: Large-scale conversion of historic data for current employees is begun.	<i>Met</i>
HRPS 8.2) Adherence to commitments and project timetables: Begin receiving data from agencies not participating in the Human Resource Data Network.	<i>Not met</i>
HRPS 8.3) Adherence to commitments and project timetables: Web-enabled self-service tools for employees are launched.	<i>Not met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
HRPS 8.4) Adherence to commitments and project timetables: New automated correspondence tracking is implemented.	<i>Not met</i>
HRPS 8.5) Adherence to commitments and project timetables: The Coverage Determination Application is fully implemented.	<i>Not met</i>
MCFO FY 2003 Goal 1/Executive Services Goal: Shape the Administration's direction on Federal human resources management policy to effectively support the President's Management Agenda through leadership, communication, congressional relations, and legal services.	<i>Met</i>
MCFO 1.1) Specific program accomplishments that contribute to effective Strategic Management of Human Capital in the Federal Government and the implementation of specific Administration priorities.	<i>Met</i>
MCFO 1.2) Media coverage, outreach efforts, and marketing consultation are expanded.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 1.3) Enactment of the legislative proposals put forth by OPM and the Administration affecting Federal human resources management issues.	<i>Met</i>
MCFO 1.4) Positive feedback from congressional staff, employee organizations, OPM policy offices, interest groups, other executive agencies, and OMB as indicated in meetings, routine discussions, and written letters of commendations to ensure OCR meets the needs of those served.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 1.5) Provision of timely and high-quality representational and advisory legal advisory legal services to the Director, Deputy Director, and OPM program offices.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 1.6) High levels of satisfaction in executive branch agencies that OPM is generating effective actions and strategies to improve human capital management — % of HR Directors who agree that OPM provides useful human capital guidance, programs, and strategies.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO FY 2003 Goal 2/ E-Gov Goal: OPM's e-Gov projects (e-Clearance, e-Training, e-Payroll, Recruitment One-Stop and Enterprise Human Resources Integration) achieve the President's Management Agenda for expanded electronic Government and improved efficiency and effectiveness of Government operations.	<i>Met. The HR-DN Goal was absorbed into this goal.</i>
MCFO 1.1) e-Clearance: Successfully upload clearance information to OPM's investigations system (PIPS) and connect it to the DoD system (JPAS). Security clearance information is more accessible and more timely.	<i>Met</i>
MCFO 1.2) e-Training: Reduce redundancy of e-Training services Provide enhanced access to a wider array of e-Training services. Complete the first implementation phase of the e-Training Capital Asset Plan. [Originally under SHRP Goal 12, but moved to this goal because it relates to the e-Training Project.]	<i>Met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
MCFO 1.3) e-Payroll: An integrated enterprise HR/Payroll architecture is completed. Standardized Governmentwide interface requirements for HR/Payroll systems are defined.	<i>Met</i>
MCFO 1.4) Recruitment One-Stop: Process for applying for a Federal job is easier, faster and more understandable. Agencies have access to a broader range of applicants.	<i>Met</i>
MCFO 1.5) EHRI: Complete EHRI design, including logical data model, notional architecture and privacy impact assessment. Select and previewed new tools for analytics and work force planning. EHRI repository becomes operational.	<i>Met</i>
MCFO FY 2003 Goal 3: OPM manages its work force strategically and aligns its human resources in a manner that best supports accomplishment of its strategic goals and furthers the President's Management Agenda.	<i>Met</i>
MCFO 3.1) Approved restructuring and organizational changes are implemented according to schedule.	<i>Met</i>
MCFO 3.2) Key personnel authorities are appropriately redelegated to lower levels to keep pace with and complement restructuring efforts.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 3.3) The OPM Strategic Plan acknowledges the importance of the human resources function and OPM workforce in goal achievement.	<i>Indicator dropped. Completed in FY 2002.</i>
MCFO 3.4) A skills assessment of OHREEO staff shows that competency gaps have been reduced by at least 25 percent.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 3.5) OHREEO vacancies are filled promptly.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 3.6) New or enhanced human resources policies and guidance are in place.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO FY 2003 Goal 4: Recruitment and staffing strategies are based on work force planning information and facilitate the hiring of a diverse, capable, and flexible work force.	<i>Met</i>
MCFO 4.1) Reduced recruitment and hiring cycle times. Time to issue a certificate of eligibles.	<i>Met</i>
MCFO 4.2) OPM managers/supervisors make appropriate use of flexibilities to promote recruitment and retention of highly qualified employees.	<i>This indicator was dropped because "appropriate" use of flexibilities is not objectively quantifiable.</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
MCFO 4.3) Improved customer satisfaction with the staffing process and first-time success in identifying high-quality candidates for selection consideration, as evidenced by customer feedback.	<i>Indicator dropped. Customer survey did not receive a sufficient response rate to be valid.</i>
MCFO 4.4) Improved diversity of the OPM work force — Hispanic.	<i>Met</i>
MCFO 4.5) Improved diversity of the OPM work force — Asian/Pacific Islander.	<i>Not met</i>
MCFO 4.6) Improved diversity of the OPM work force — American Indian/Alaska Native.	<i>Not met</i>
MCFO 4.7) Diverse candidate pools are recruited from recruitment events and managers select candidates from these pools.	<i>Indicator dropped. No legitimate data collection mechanism.</i>
MCFO FY 2003 Goal 5: Innovative employee education and training programs and practices cultivate a workforce that is flexible, optimally trained, and capable of adapting to changing technology.	<i>Not met</i>
MCFO 5.1) Degree to which gaps exist in corporate competencies — Reasoning.	<i>Not met. New metric.</i>
MCFO 5.2) Degree to which gaps exist in corporate competencies — Problem Solving.	<i>Not met. New metric.</i>
MCFO 5.3) Degree to which gaps exist in corporate competencies — Creative Thinking.	<i>Not met. New metric.</i>
MCFO 5.4) Degree to which gaps exist in corporate competencies — Customer Service.	<i>Not met. New metric.</i>
MCFO 5.5) OPM accomplishes its strategic goals.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 5.6) Core competency training courses are offered to OPM employees.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
MCFO 5.7) An increased number of employees have access to individual learning accounts.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 5.8) Employees affected by outsourcing are successfully transitioned.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 5.9) Program participants indicate a high degree of satisfaction with our intern and career development programs.	<i>Indicator dropped</i>
MCFO 5.10) Improved rate of retention among employees who complete career development programs (e.g., PMIs, OPM Interns, etc.)	<i>Indicator dropped</i>
MCFO FY 2003 Goal 6: OPM's work environment attracts, retains, and satisfies employees and managers.	<i>Met</i>
MCFO 6.1) NEW INDICATOR: Considering everything, how satisfied are you with your job? OPM results exceed Governmentwide results.	<i>Met</i>
MCFO 6.2) NEW INDICATOR: Considering everything, how would you rate your overall satisfaction in your organization at the present time? OPM results exceed Governmentwide results.	<i>Met</i>
MCFO 6.3) NEW INDICATOR: This is a friendly place to work. OPM results exceed Governmentwide results.	<i>Met</i>
MCFO 6.4) NEW INDICATOR: I would recommend my organization as a good place to work. OPM results exceed Governmentwide results.	<i>Met</i>
MCFO 6.5) NEW INDICATOR: How would you rate your organization as an organization to work for compared to other organizations? OPM results exceed Governmentwide results.	<i>Met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
MCFO 6.6) Fewer employees who leave OPM cite family and work/life problems as their reason for leaving (as evidenced by exit interviews/surveys).	<i>This indicator was dropped and replaced with results from the Federal Human Capital Survey.</i>
MCFO 6.7) All leave and family-friendly policies are available on the Intranet.	<i>This indicator was dropped and replaced with results from the Federal Human Capital Survey.</i>
MCFO 6.8) Regular and recurring contacts are initiated and sustained with supervisors.	<i>This indicator was dropped and replaced with results from the Federal Human Capital Survey.</i>
MCFO 6.9) Employees indicate a high degree of satisfaction with retirement seminars, benefits counseling, etc.	<i>This indicator was dropped and replaced with results from the Federal Human Capital Survey.</i>
MCFO FY 2003 Goal 7: OPM uses the best available technology for personnel data processing and recordkeeping to provide fast, accurate, and efficient human resources services.	<i>Met</i>
MCFO 7.1) Streamlined services and automated systems are in place and are responsive to e-Gov projects.	<i>Met</i>
MCFO 7.2) “Canned” electronic reports and data are available to meet managers’/supervisors’ needs.	<i>Met</i>
MCFO 7.3) Quality and accuracy of data transmitted to CPDF is consistently at or above OPM standard — % of personnel actions that meet the timeliness and accuracy standard for submission of human resources transactional data to the CPDF	<i>Met</i>
MCFO 7.4) Timeliness of separation action processing is consistently at or above OPM standard — % of separations that meet the Governmentwide 80% standard.	<i>Met</i>
MCFO FY 2003 Goal 8: OPM’s work force environment promotes and values diversity, and is free from unlawful discrimination.	<i>Not met</i>
MCFO 8.1) Representation of Women in OPM Work force.	<i>Met</i>
MCFO 8.2) Overall Minority Representation in OPM Work force.	<i>Not met</i>
MCFO 8.3) Race/National Origin — Hispanic.	<i>Met</i>
MCFO 8.4) Race/National Origin — Asian/Pacific Islander.	<i>Met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
MCFO 8.5) Race/National Origin — American Indian/Alaska Native.	<i>Not met</i>
MCFO 8.6) Work force data is monitored and communicated to OPM managers and supervisors to inform and facilitate their diversity management efforts.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 8.7) Increased numbers of EEO complaints are resolved through alternative dispute resolution methods.	<i>Not met</i>
MCFO FY 2003 Goal 9: IT operational support and services are provided in an efficient and effective manner, meet customer requirements, and facilitate program offices achieving strategic goals.	<i>Met</i>
MCFO 9.1) The information technology infrastructure meets established performance standards.	<i>Met</i>
MCFO 9.2) Application systems meet customer requirements and are delivered on time and on budget.	<i>Met</i>
MCFO 9.3) Customer support to OPM staff is prompt and effective and meets service management agreements.	<i>Met</i>
MCFO FY 2003 Goal 10: OPM's IT systems and infrastructure are implemented in accordance with its IT Architecture and are protected by a robust IT security program.	<i>Met</i>
MCFO 10.1) OPM's IT infrastructure and systems comply with the IT Architecture.	<i>Met</i>
MCFO 10.2) Few security weaknesses are identified during tests and evaluations, and those that are identified are not material and are rectified promptly.	<i>Met</i>
MCFO 10.3) Staff members are trained in computer security as necessary.	<i>Met</i>
MCFO FY 2003 Goal 11: OPM's information resources management program meets the requirements of the Paperwork Reduction Act, Freedom of Information Act and Privacy Act, and ensures that OPM's records are safeguarded.	<i>Met</i>
MCFO 11.1) Reporting requirements meet imposed timeliness standards.	<i>Met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
MCFO 11.2) Few problems are identified during evaluations, and those that are identified are not material weaknesses and are rectified promptly.	<i>Met</i>
MCFO 11.3) Staff members are provided appropriate guidance and training in information resources management.	<i>Met</i>
MCFO 11.4) Policies and procedures are in place to safeguard OPM's records.	<i>Met</i>
MCFO FY 2003 Goal 12: Providing quality procurement services to OPM's program office reduces program office costs and the time needed for procurement actions necessary to implement critical human resources to meet OPM's Strategic Plan.	<i>Met</i>
MCFO 12.1) OMB Circular A-76 and FAIR Act planning materials are developed and coordinated with all program offices. The FAIR inventory of commercial activities is submitted to OMB by June 30. OPM will conduct public-private or direct conversion competitions on 15 percent of its commercial activities by the end of FY 2003 and complete public-private or direct conversion competitions on 50 percent of its commercial activities by the end of FY 2004.	<i>Met</i>
MCFO 12.2) Reduced procurement costs as a result of using the purchase card for OPM purchases — Purchase Card Transactions.	<i>Met</i>
MCFO12.3) Reduced procurement costs as a result of using the purchase card for OPM purchases — Administrative Savings.	<i>Met</i>
MCFO 12.4) Small business contracting targets are met.	<i>Not met</i>
MCFO 12.5) Formal procurement plans are prepared for all major OPM contract actions.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 12.6) All synopses for acquisitions valued at over \$25,000 are posted on the Governmentwide point-of entry Web site (www.FedBizOpps.gov).	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 12.7) Annual review is conducted of purchases made by OPM personnel with delegated procurement authority.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 12.8) Internal training programs are provided to OPM procurement personnel.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
MCFO 12.9) At least 20 percent of total eligible service contract dollars for contracts exceeding \$25,000 include performance-based service contracting principles.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO FY 2003 Goal 13: Provide quality administrative services to program offices.	<i>Met</i>
MCFO 13.1) OPM's continuity of operations and business continuity and contingency plans are developed and implemented.	<i>Met</i>
MCFO 13.2) TRB/Service Center space projects that are initiated and completed reflect effective infrastructure planning, space design and construction.	<i>Met</i>
MCFO 13.3) Monthly rent reviews are conducted, and rent charges are accurate and equitably distributed among programs.	<i>Met</i>
MCFO 13.4) Training conducted for local voice administrative contacts.	<i>Met</i>
MCFO 13.5) Make automated local voice services available to employees.	<i>Met</i>
MCFO 13.6) Minimize costs and number of lines by conducting annual phone line inventories and correcting billing errors — Lines Eliminated.	<i>Met</i>
MCFO 13.7) Minimize costs and number of lines by conducting annual phone line inventories and correcting billing errors — Savings.	<i>Met</i>
MCFO 13.8) Building services, security systems and mechanical systems or components are replaced, upgraded or improved.	<i>Met</i>
MCFO 13.9) Funding sought from GSA and alternative sources for major TRB renovations.	<i>Met</i>
MCFO FY 2003 Goal 14: Maintain the integrity of OPM's financial data by receiving an unqualified audit opinion, provide financial management support to all OPM offices, and improve OPM's implementation of the Government Performance and Results Act.	<i>Met</i>
MCFO 13.10) Consider the possible use of additional energy saving systems.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 13.11) Customers are surveyed on facility services and service improvements are initiated.	<i>No current data</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
MCFO FY 2003 Goal 14: Maintain the integrity of OPM’s financial data by receiving an unqualified audit opinion, provide financial management support to all OPM offices, and improve OPM’s implementation of the Government Performance and Results Act.	<i>Met</i>
MCFO 14.1) Material weaknesses are eliminated and OPM receives a clean audit opinion on its consolidated financial statements.	<i>Met</i>
MCFO 14.2) Implement and document the new financial management system policies, processes and procedures.	<i>This indicator was dropped because it does not provide meaningful performance information for this goal.</i>
MCFO 14.3) Improved accounting — Timeliness of payments.	<i>Not Met</i>
MCFO 14.4) Improved accounting — Accounts Receivable Delinquency (% of debt over 181 days, versus total debt).	<i>Not Met</i>
MCFO 14.5) Improved accounting — Identify and Research Cash Accounts Differences with Treasury.	<i>Met</i>
MCFO 14.6) Timely completion of all required documents and reports each year, as required by the Government Performance and Results Act and applicable OMB guidance.	<i>Met</i>
MCFO 14.7) Improved evaluations of OPM’s Strategic Plans, Annual Performance Plans, and Performance Reports by OPM’s OIG, the General Accounting Office (GAO) and other stakeholders.	<i>Met</i>
MCFO FY 2003 Goal 15: Fraud and abuse in the Federal Employees Health Benefits Program is prevented and monitored, and erroneous payments in all the trust fund programs are maintained at FY 2000 levels.	<i>Not met</i>
MCFO 15.1) The FY 2003 annual financial statements for all three of the benefit programs receive unqualified opinions from the independent auditors.	<i>Met</i>
MCFO 15.2) The audit reports of the FY 2003 annual financial statements describe no new material weaknesses in the benefit programs’ internal controls.	<i>Met</i>
MCFO 15.3) By the end of FY 2002, OPM will have implemented a Central Enrollment Clearinghouse.	<i>Indicator dropped. This action was completed in FY 2002.</i>
MCFO 15.4) Percent of all annuitants who agree they receive their regular monthly benefit payments on time.	<i>Met</i>

APPENDIX A

DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

Annual Performance Goal	Disposition during FY 2003
MCFO 15.5) Retirement Programs — Erroneous Payment Rate (%).	<i>Not met</i>
MCFO 15.6) Health Benefits Program — Erroneous Payment Rate (%).	<i>Not met</i>
MCFO 15.7) Life Insurance Program — Erroneous Payment Rate (%).	<i>Met</i>
MCFO 15.8) % of Total Receivables that are Delinquent.	<i>Not met</i>
MCFO 15.9) Retirement Program Overpayments Collected (In Millions).	<i>Met</i>
MCFO 15.10) Number referred to Treasury’s Referral & Offset Program.	<i>Met</i>
MCFO 15.11) Amount referred to Treasury’s Referral & Offset Program (In Millions)	<i>Met</i>
MCFO 15.12) Administrative Cost per Annuitant.	<i>Not met</i>
MCFO FY 2003 Goal 16: A broad range of qualified applicants are attracted to and selected for the fellowship 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.	<i>Met</i>
MCFO 16.1) Statistical profiles of applicants and fellows.	<i>Met</i>
MCFO 16.2) Response of agencies in the placement of fellows in work assignments.	<i>Met</i>
OIG FY 2003 Goal 1: Provide independent oversight of OPM programs, operations, functions and activities.	<i>Met</i>
MCFO 16.3) Quality of applicant pool.	<i>Met</i>
MCFO 16.4) Program runs smoothly and meets deadlines.	<i>Met</i>
MCFO 16.5) Fellows are selected and placed efficiently and effectively. Their work is useful to the Government, and the fellowship experience enhances their ability to be future leaders of the Nation.	<i>Met</i>

APPENDIX A
DISPOSITION OF FY 2003 ANNUAL PERFORMANCE GOALS AND INDICATORS

OIG FY 2003 Goal 1: Provide independent oversight of OPM programs, operations, functions and activities.	<i>Met</i>
OIG 1.1) Total \$ Value of Findings.	<i>Not met</i>
OIG 1.2) Return on Investment.	<i>Not met</i>
OIG 1.3) FEHBP Audit Recovery Rate.	<i>Met</i>
OIG 1.4) FEHB Audit Cycle.	<i>Met</i>
OIG 1.5) Average FEHB Unaudited Years	<i>Met</i>
OIG 1.6) Number of Carriers not Audited Within 5-year Retention Period.	<i>Met</i>
OIG FY 2003 Goal 2: Detect and prevent fraud, waste, and abuse against OPM programs.	<i>Not met</i>
OIG 2.1) Number of Arrests.	<i>Not met</i>
OIG 2.2) Indictments.	<i>Not met</i>
OIG 2.3) Number of Convictions.	<i>Not met</i>
OIG 2.4) Number of Debarments and Suspensions.	<i>Not met</i>
OIG 2.5) Number of Debarment Inquiries Responded To.	<i>Not met</i>

1. There is no FY 2003 data for this indicator because the HR Directors' Survey was not conducted as OPM revamped its performance measurement system. New data collections pertaining to agency feedback on OPM HR policy leadership and guidance, and the effectiveness of HR policy in general, are being reviewed with regard to their applicability to the outcomes of the Strategic Management of Human Capital.

2. There is no FY 2003 data for this indicator because the HR Specialists' Survey was not conducted as OPM revamped its performance measurement system. OPM expects to conduct the survey in FY 2004 to support its new performance indicators that are based on redefined program outcomes.

APPENDIX B

PROGRAM DESCRIPTIONS AND STATISTICS

OPM accomplishes its mission through the administration of programs that address the full range of 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 work force relations.

Human Capital – Talent Program

Work force Planning Program. The Work Force Planning Program establishes policy, provides guidance, and administers programs for reductions in force, separation incentives, and early retirement, as well as providing 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 work force. Many of these work force planning services are provided on a reimbursable basis.

Administrative Law Judges Program. The Governmentwide Administrative Law Judges (ALJ) Program allows employing agencies to fill ALJ positions in a way that protects public confidence. Through this program, OPM reviews and approves competitive employment actions, classifies positions, and administers the ALJ loan and senior ALJ employment programs.

Employment Information Program. The Employment Information Program administers a Governmentwide 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, 7 days a week, through USAJOBS. USAJOBS uses the Internet and telephone to provide the public with more information than ever before about job vacancies throughout the Federal Government.

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 Governmentwide investigations policy for the Federal Personnel Security Program and carries 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.

Work force Relations Programs. OPM provides Governmentwide policy, advice and consultation to employing agency officials through a broad range of work force relations programs to support the development of effective labor-management relations, employee relations practices, training, employee development, and work/life and wellness programs. These programs help agencies accomplish their missions, develop effective human capital policies in these areas, and build and retain a productive Federal work force. The programs act as a clearinghouse for Governmentwide information on best practices, innovations, data trends and other information on Federal labor-management and employee relations. To further support Federal agencies in the Strategic Management of Human Capital, work force relations programs make available resource tools such as the *Gov Online Learning Center* (GOLC) which support Governmentwide development of the Federal work force through simplified, one-stop access to high-quality e-Training products and services. Through the Training and Management Assistance (TMA) Program, we provide assistance to Federal agencies in managing the development of training and other human resources management solutions that advance the President's Management Agenda and increase the agencies' abilities to meet strategic performance targets.

Human Capital – Leadership Capacity Program

OPM's executive resources programs foster the development, selection and management of Federal executives. This is accomplished by allocating senior executive position and appointment authorities; establishing critical competencies used to select and develop new executives; administering qualification review boards and the Presidential Rank Award program; and overseeing the Senior Executive Service (SES) Candidate Development Program and the SES Performance Management System.

Human Capital – Performance Culture Program

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 programs promote effective performance management and ensure that individual accountability is established and maintained throughout the Federal work force. 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.

The Retirement Program

The Retirement Program covers essentially all Federal civilian employees and comprises 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). The 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 FY 2003 represented 71 percent 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:

APPENDIX B
PROGRAM DESCRIPTIONS and STATISTICS

NUMBER OF RETIREMENT PROGRAM PARTICIPANTS (ACTIVE EMPLOYEES)

	1999*	2000*	2001*	2002**	2003**
CSRS	1,042,000	978,000	906,000	854,000	777,000
FERS	1,640,000	1,668,200	1,717,000	1,808,000	1,885,000
Total	2,682,000	2,646,000	2,623,000	2,662,000	2,662,000

*Figures updated based on current information **Projected

As the FERS employee population has grown, so too has the FERS annuitant population. As the table below shows, the number of FERS annuitants is still quite small, representing only 7.9 percent of the total annuitant population at the end of FY 2003.

NUMBER OF RETIREMENT PROGRAM PARTICIPANTS (ANNUITANTS)

	1999	2000	2001	2002	2003
CSRS	2,258,757	2,247,691	2,231,499	2,213,164	2,200,814
FERS	109,360	128,813	151,502	169,886	188,863
Total	2,368,117	2,376,504	2,383,001	2,383,050	2,389,677

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 plans: 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 FY 2003, there are 188 health plan choices available in the Program, and 17 more will be added for FY 2004 for a total of 205. These plans generally are of two types: Fee-for-Service (composed 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 approximately 4.1 million, or about 86% of the eligible population — 2.2 million enrollees are active employees and more than 1.8 million are annuitants. Including dependents, the Program covers approximately 8.3 million individuals. Enrollment in the Health Benefits Program, by type of plan, is presented in the table below. As the table shows, enrollment in the Program as a whole and by type of plan has remained relatively constant since 1999.

APPENDIX B
PROGRAM DESCRIPTIONS and STATISTICS

HEALTH BENEFITS PROGRAM ENROLLMENT BY HEALTH PLAN TYPE

	1999	2000	2001	2002	2003
Fee-for-Service	2,892,681	2,898,144	2,918,406	2,958,982	2,998,151
HMO	1,229,969	1,185,642	1,162,722	1,087,164	1,052,843
Total	4,122,650	4,083,786	4,081,128	4,046,146	4,050,994

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. This form of life insurance does not build up any cash value or paid-up value. It consists of Basic life insurance coverage and three optional coverages:

Basic life insurance is determined by the amount of an employee’s annual rate of basic pay, rounded to the next highest thousand, plus \$2,000. All eligible employees — most Federal employees — are automatically covered by Basic life insurance unless they decline this coverage. *Standard* optional insurance is \$10,000 of coverage that an employee can elect in addition to Basic insurance. Additional optional insurance is coverage that an employee can elect based on multiples of his or her basic pay. *Family* optional insurance is coverage that 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 the table shows, enrollment in the Program as a whole has increased steadily since 2001. “Additional” and “Family” coverage has experienced an increase in popularity in the last four years, while enrollment in “Standard” coverage has generally remained steady.

LIFE INSURANCE PROGRAM ENROLLMENT

In thousands	1999	2000	2001	2002	2003 (est.)
Basic	3,953	3,941	3,949	3,975	4,026
Standard	1,352	1,330	1,379	1,356	1,350
Additional	1,294	1,375	1,379	1,366	1,371
Family	1,299	1,347	1,348	1,317	1,305

The Federal Long Term Care Insurance Program

Another key benefits development that will aid the Federal Government in recruiting and retaining employees lies in the Long Term Care Security Act, which was passed in FY 2000. This act authorized OPM to establish a long term care insurance program by October 2002, under which approximately 20 million people can apply for insurance. During FY 2002, OPM successfully implemented this program on schedule. A partnership of two large insurance companies is now administering this program of long term care insurance for Federal and Postal employees and retirees, active and retired members of the uniformed

APPENDIX B
PROGRAM DESCRIPTIONS and STATISTICS

services, and qualified family members. This program offers a choice of benefits that can provide a variety of services, including but not limited to: nursing home care, assisted living facility care, home care (both formal and informal), adult day care, hospice care, and caregiver training. Enrollees can choose from four prepackaged plans and can choose an inflation protection method, or they can customize their long term care insurance in the areas of coverage, benefit and waiting periods, and through inflation protection. OPM held an Early Enrollment Period in the spring of 2002, with the first enrollees covered effective May 1, 2002. The full open season began on July 1, 2002, continuing through the end of 2002, with an effective date of coverage as early as October 1, 2002. By the end of FY 2003, this program ranked as the largest group long term care insurance program in the country.

LONG TERM CARE INSURANCE PROGRAM ENROLLMENT

	FY 2002*	FY 2003
Total FLTCIP Enrollment	12,014	200,229

* Includes Early Enrollment Period beginning March 2002 and the first 3 months of the Open Season

The Flexible Spending Account FEDS Program

The Flexible Spending Accounts FEDS Program (FSAFEDS) was created during FY 2002 to provide Federal employees with a benefit widely available in the private sector. Flexible spending accounts allow Federal employees save money on health and dependent care by setting aside funds before taxes to pay for a wide range of common expenses. Based on existing Internal Revenue Service regulations, the FSAFEDS did not require new authorizing legislation. SHPS, Inc. was selected as a third party administrator for the program, and it became operational in FY 2003. There are two kinds of flexible spending accounts in FSAFEDS. Health Care Flexible Spending Accounts (HCFSA) can be used to pay for health care expenses not covered by FEHB or any other insurance. Federal employees of participating agencies who are eligible for FEHB may enroll, and coverage extends to the employee, the spouse, and dependents. Dependent Care Flexible Spending Accounts (DCFSA) can be used to pay for dependent care expenses for children under age 13 and/or dependents of any age who are mentally/physically incapable of caring for themselves. Employees who are not eligible for FEHB can participate in HCFSA. During the FY 2003 FSAFEDS inaugural open season, 31,747 Federal employees enrolled in the program.

Accountability and Audits Program

Merit Systems and Veterans' Rights Oversight. OPM assesses agency adherence to the merit principles and veterans' rights by reviewing human resources management practices Governmentwide. The information gathered from such assessments is used to ensure accountability in large and small agencies and to develop policy that improves the management of human capital in accordance with the President's Management Agenda. Demonstration projects explore potential improvements in personnel systems and better and simpler ways to manage the Federal workforce.

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 employing individuals 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.

APPENDIX B
PROGRAM DESCRIPTIONS *and* STATISTICS

Delegated Examining Unit Certification Program. The authority for most employment examining was delegated to employing agencies in 1994, while OPM retained the responsibility to ensure that employing agencies adhere to corporate policies for staffing. 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.

Corporate Management

OPM's Corporate Management Programs provide integrated financial, human capital, contracting, administrative, information technology, e-Government, equal employment opportunity, security, and emergency services to the Director of OPM and the agency's offices and programs. Operating primarily from the Division for Management and CFO, support is provided to the Director on controversial and complex matters affecting the agency's integrated strategic and management support activities. It supports the agency's strategic decision-making and internal support system and provides analyses and recommendations concerning administrative issues of significant sensitivity and Governmentwide impact. It supports relationships with internal and external stakeholders, strategies for achieving OPM objectives, and systematic measurement and evaluation of program performance. It implements the President's Management Agenda for strategic Human Capital Management, competitive sourcing programs, e-Government projects, integration of budget and performance goals, and improved integrated financial performance within specific areas of responsibility.

Office of the Inspector General

The Office of the Inspector General was established as a statutory entity on April 16, 1989. It operates under the authority of the Inspector General Act of 1978 (P.L. 95-452) and the 1988 amendments (P.L. 100-504). This office conducts and supervises independent and objective audits and investigations relating to agency programs and operations. The office also operates a program of administrative sanctions with respect to health care providers whose actions indicate that they present a threat to the integrity of the Federal Employee Health Benefits Program.

APPENDIX C

ACRONYMS

Abbreviation/Acronym Key:			
		ES	Employment Service (a former component of OPM)
AAAHC	Accreditation Association for Ambulatory Health Care	e-Gov	Electronic Government
AAP	Affirmative Action Program	FAIR	Federal Activities Inventory Report
AEP	Affirmative Employment Program	FBI	Federal Bureau of Investigation
ALJ	Administrative Law Judge	FEGLI	Federal Employees' Group Life Insurance Program
APP	Annual Performance Plan	FEHB	Federal Employees Health Benefits
ACSI	American Customer Satisfaction Index	FEHBP	Federal Employees Health Benefits Program
CAHPS	Customer Assessment of Health Plans Survey	FEI	Federal Executive Institute
CalPERS	California Public Employees Retirement System	FEORP	Federal Equal Opportunity Recruitment Program
CBJ	Congressional Budget Justification	FERCCA	Federal Erroneous Retirement Coverage Corrections Act
CFO	Chief Financial Officer	FERS	Federal Employees Retirement System
CHCO	Chief Human Capital Officer	FFMIA	Federal Financial Management Improvement Act
COOP	Continuity of Operations Plan	FFS	Fee-for-Service
CPDF	Central Personnel Data File	FHCS	Federal Human Capital Survey
CRIS	Center for Retirement & Insurance Services	FISMA	Federal Information Security Management Act
CSRDF	Civil Service Retirement and Disability Fund	FLTCIP	Federal Long Term Care Insurance Program
CSRS	Civil Service Retirement System	FLSA	Fair Labor Standards Act
DCFSA	Dependent Care Flexible Spending Account	FMFIA	Federal Managers' Financial Integrity Act
DCIA	Debt Collection Improvement Act	FMIT	Financial Management Improvement Team
DHS	Department of Homeland Security	FMS	Federal Management Service
DEU	Delegated Examining Unit	FOIA	Freedom of Information Act
DoD	U.S. Department of Defense	FPRAC	Federal Prevailing Rate Advisory Committee
DoJ	U.S. Department of Justice	FSA	Flexible Spending Account
EEO	Equal Employment Opportunity	FTE	Full-time Equivalent
EHRI	Enterprise Human Resources Integration	FY	Fiscal Year
EO	Executive Order	GAO	General Accounting Office
ER	Executive Resources (a former component of OPM)		

APPENDIX C
ACRONYMS

GOLC	Government Online Learning Center (GOLEARN)	MSPQ	Merit System Principles Questionnaire
GPRA	Government Performance and Results Act	n/a	Not Available
GSA	General Services Administration	NAC	National Agency Check
HC	Human Capital	NACI	National Agency Check Inquiries
HCFSA	Health Care Flexible Spending Account	NCQA	National Committee for Quality Assurance
HCLMSA	Human Capital Leadership & Merit System Accountability	OCAS	Office of Contracting and Administrative Services (a former component of OPM)
HCPF	Human Capital Performance Fund	OCFO	Office of the Chief Financial Officer (a former component of OPM)
HEDIS	Health Plan Employer Data & Information Set	OCIO	Office of the Chief Information Officer (a former component of OPM)
HMO	Health Maintenance Organization	OCPL	Office of Communications & Public Liaison
HR	Human Resources	OCR	Office of Congressional Relations
HR-DN	Human Resources Data Network (formerly VHRDR)	OHREEO	Office of Human Resources and EEO (a former component of OPM)
HRM	Human Resources Management	OIG	Office of the Inspector General, OPM
HRPS	Human Resources Products and Services	OMB	Office of Management and Budget
HSA	Homeland Security Act	OMSOE	Office of Merit Systems Oversight and Effectiveness (a former component of OPM)
HUD	U.S. Department of Housing Urban Development	OPM	U.S. Office of Personnel Management
IS	Investigations Services (a former component of OPM)	OWR	Office of Workforce Relations (a former component of OPM)
IT	Information Technology	PART	Program Assessment and Rating Tool
JCAHO	Joint Committee on Accreditation of Healthcare Organizations	PL	Public Law
LTC	Long Term Care	PMA	President's Management Agenda
LTCP	Long Term Care Partners	PMI	Presidential Management Intern
M	Million	PMC	President's Management Council
MCFO	Management & Chief Financial Officer	PRHB	Post-Retirement Health Benefits
MDC	Management Development Center	QTR	Quarter
MSPB	Merit Systems Protection Board	RF	Revolving Fund

APPENDIX C
ACRONYMS

RIS	Retirement and Insurance Service (a former component of OPM)	SHRP	Strategic Human Resources Policy
RSM	Retirement Systems Modernization	SL	Senior Level
S&E	Salaries & Expenses	ST	Scientific and Professional
SAC	Special Agency Check	TBD	To Be Determined
SACI	Special Agency Check with Inquiries	TMA	Training and Management Assistance Program
SAOC	Spending Authority from Offsetting Collections	TRB	Theodore Roosevelt Building
SCSS	HR Specialists' Customer Satisfaction Survey	URAC	Utilization Review Accreditation Commission
SES	Senior Executive Service	U.S.C.	United States Code
SF	Standard Form	USPS	U.S. Postal Service
SFFAS	Statement of Federal Financial Accounting Standards	WCPS	Workforce Compensation and Performance Service (a former component of OPM)
SGL	Standard General Ledger	WHF	White House Fellows



*“...Some of us will serve in
government for a season;
others will spend an entire
career here. But all of us should
dedicate ourselves to great goals:
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, October 15, 2001
Constitution Hall, Washington, DC*



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