UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Agency Financial Report

Fiscal Year 2012

a New Day for Federal Service

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
NOVEMBER 2012

United States of America

The United States Office *of* Personnel Management

Fiscal Year 2012
Agency Financial Report

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Message *from the* Director

I am pleased to present the United States Office of Personnel Management (OPM or the Agency) Fiscal Year (FY) 2012 Agency Financial Report (AFR). OPM has chosen to produce the AFR as an alternative to the consolidated Performance and Accountability Report pursuant to OMB Circular A-136. This AFR is one in a series of reports used to convey budget, performance and financial information to our constituents. Under separate cover, OPM will submit its Annual Performance Report (APR), concurrent with the submission of the President's FY 2014 Budget to Congress and a Summary of Performance and Financial Information. We believe this approach provides a more succinct and easily understood reporting of OPM's accountability over its resources and improves reporting by making information more meaningful and transparent to the public.

Healthcare

During FY 2012, OPM's Healthcare and Insurance (HI) organization continued to provide world-class insurance benefits to its core Federal employee and retiree population. The average annual increase for Federal Employee Health Benefits (FEHB) program premiums has steadily declined since 2009 when the average premium increase was 7.0 percent; for FY 2012 the average premium increased only 3.4 percent.

The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act or ACA) expanded the scope of OPM's mission by assigning OPM the task of contracting with at least two multi-state health insurance plans in each of the state health insurance marketplaces. OPM also continued to manage the successful Pre-existing Condition Insurance Program (PCIP) for 23 states and the District of Columbia, applying its health insurance expertise to assure coverage for individuals who have been refused coverage due to a medical condition. Under the ACA, OPM has extended insurance benefits for the first time to Native American and Alaska Native tribal employees.

At the President's direction, and also for the first time, OPM has also extended eligibility for health insurance coverage under the FEHB program to temporary firefighters and fire protection personnel working on wildland fires. More recently, this coverage has also been extended to intermittent FEMA employees responding to Superstorm Sandy.

Veterans Outreach

The President's Veteran Employment Initiative achieved an unprecedented degree of success: 28.3 percent of new hires in the Federal Government for FY 2011 were Veterans. Additionally, through those same efforts we increased hiring of Veterans with disabilities from 7 percent to 9 percent. OPM, through its role as Vice Chair and Executive Director to the Council on Veterans Employment, in partnership with the White House, the Departments of Defense, Labor, Veterans Affairs, Homeland Security, and other Federal agencies, continues to push to increase the number of Veterans and disabled Veterans employed in the executive branch.

In FY 2012, OPM continued to provide Government-wide leadership and direction and accomplished the following: 1) Developed a pilot program to employ formerly homeless veterans, 2) Launched the second iteration of the "Vets 2 Feds Career Development Program (Information Technology Student Trainee)" 3) Conducted a collaborative Strategic Planning Session to develop the next Government-wide Veterans Recruitment and Employment Strategic Plan for FY 2013 – 2015. For additional information on these programs and more, please go to: http://www.fedshirevets.gov/.

Hiring Reform

In FY 2012, OPM streamlined Federal outreach to students by launching the new Student Pathways into Government, making it easier for students and recent graduates to find and apply for Federal opportunities that match their experience level. OPM relaunched USAJOBS.gov, enabling better protection of applicants' personal information, greater efficiencies in posting job announcements and collecting applications, and greater flexibility for continuous improvement. Additional information can be found at: http://www.opm.gov/hiringreform/.

Retirement Services

In FY 2012, OPM developed and initiated a plan to eliminate the backlog of retirement applications by June of 2013, through improvements in process, additional personnel, coordination with agency partners, and improvements in IT. With new authority granted by Congress, OPM is preparing to implement a phased retirement program, enabling prospective retirees to transition from full time work to mentoring and part time work before entering full retirement.

Performance Management (GEAR)

Based on its work with the Federal Labor-Management Forums and in consultation with the Chief Human Capital Officers (CHCO) Council, OPM developed the Goals, Engagement, Accountability and Results framework (GEAR), aimed at improving performance management within the Federal workforce. OPM and four other agencies or subcomponents are piloting the GEAR framework.

Diversity and Inclusion

As required by Executive Order 13583, OPM is responsible for coordinating government-wide efforts to create a more diverse and inclusive Federal workforce. In FY 2012, OPM developed the government-wide Diversity and Inclusion Strategic Plan and took the lead in assisting agencies as they develop and implement their agency-specific plans. OPM has encouraged agencies to coordinate efforts within HR, EEO and Diversity and Inclusion offices and to focus on diversity and inclusion councils, mentorship, diversified leadership, and accountability.

To specifically address the underrepresentation of Hispanics in the Federal workforce, OPM assembled the Hispanic Council on Federal Employment, a Federal Advisory Council Act (FACA) Council. FY 2011 statistics indicate nearly 4,000 more Hispanics are working in the Federal government than in FY 2010. We also saw more Hispanics joining the Senior Executive Service, moving from 2.7 percent in 2010 to 5.4 percent in 2011. Hispanics now make up 4.1 percent of the SES.

Disability Employment

Last year Federal employees with disabilities represented 7.41 percent of the overall workforce and 11 percent when the figures include veterans who are 30 percent or more disabled. Additionally, people with disabilities represent 7.96 percent of all new hires and 14.7 percent of all new hires when Veterans who are 30 percent or more disabled are also included – the highest percentage in 20 years. In total, more than 200,000 people with disabilities now work for the Federal government, also the most in 20 years.

Finance

I am pleased to report OPM earned an unqualified audit opinion on its FY 2012 consolidated financial statements from the independent public accounting (IPA) firm of KPMG LLP. OPM can also provide unqualified assurance for its internal control over financial reporting

Message *from the* Director

Continued

for FY 2012. OPM demonstrated further progress on resolving its information systems general control environment issues, enabling the previously reported material weakness to be reduced to a significant deficiency in FY 2012. Lastly, OPM received an unqualified audit opinion on the FY 2012 individual financial statements of the Retirement, Health Benefits and Life Insurance Programs.

Conclusion

I am extremely pleased with the progress OPM has driven throughout the Federal government this year. We have our dedicated, talented, mission-driven employees to thank for that. Every day, civil servants go above and beyond the call to serve, to solve problems, and deliver savings for the American people. I am confident that OPM will continue that great work in the weeks and months ahead.

Sincerely,

John Berry
Director
November 15, 2012

Section 1 — Management's Discussion and Analysis

(Unaudited—See accompanying Independent Auditors' Report)

Agency Financial Report Overview

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

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

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

About This Report

The Fiscal Year (FY) 2012 Agency Financial Report (AFR) is the first document in a series of reports prepared to convey OPM's budget, performance and financial information in a manner we believe is more useful to our stakeholders and constituents.

The AFR provides an overview of OPM's financial performance and results to help Congress, the President, and the public assess our stewardship over the financial resources entrusted to us. In addition to the AFR, OPM will submit an Annual Performance Report (APR) and a Summary of Performance and Financial Information. The APR and Summary of Performance and Financial Information will be published in February 2013.

The AFR meets a variety of reporting requirements stemming from numerous laws focusing on improved accountability among Federal agencies and guidance described in Office of Management and Budget (OMB) Circulars Number (No.) A-11, A-123, and A-136. OMB is a cabinet-level office within the Executive Office of the President (EOP) of the United States providing policy and guidance to executive agencies on numerous budgetary and other matters. Moreover, this AFR provides accurate and thorough accounting of OPM's operational accomplishments during FY 2012 in fulfilling its mission.

This report is available on OPM's website at *www.opm.gov/gpra/opmgpra*. Suggestions for improving this document should be sent to the following address:

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

OPM's Mission and Strategic Goals

The OPM Strategic Plan 2010-2015 is the starting point for performance and accountability. The strategic plan includes the Agency's mission statement and also describes OPM's five strategic goals. The strategic goals are supported by a series of implementation strategies and performance indicators to gauge progress. OPM also reviews its performance measures as part of the annual budget planning, which ensures that both internal and external stakeholders understand the level of program performance expected for the resources received.

The OPM mission is to "Recruit, Retain and Honor a World-Class Workforce to Serve the American People." The mission will be accomplished by achieving the following five strategic goals shown in Table 1:

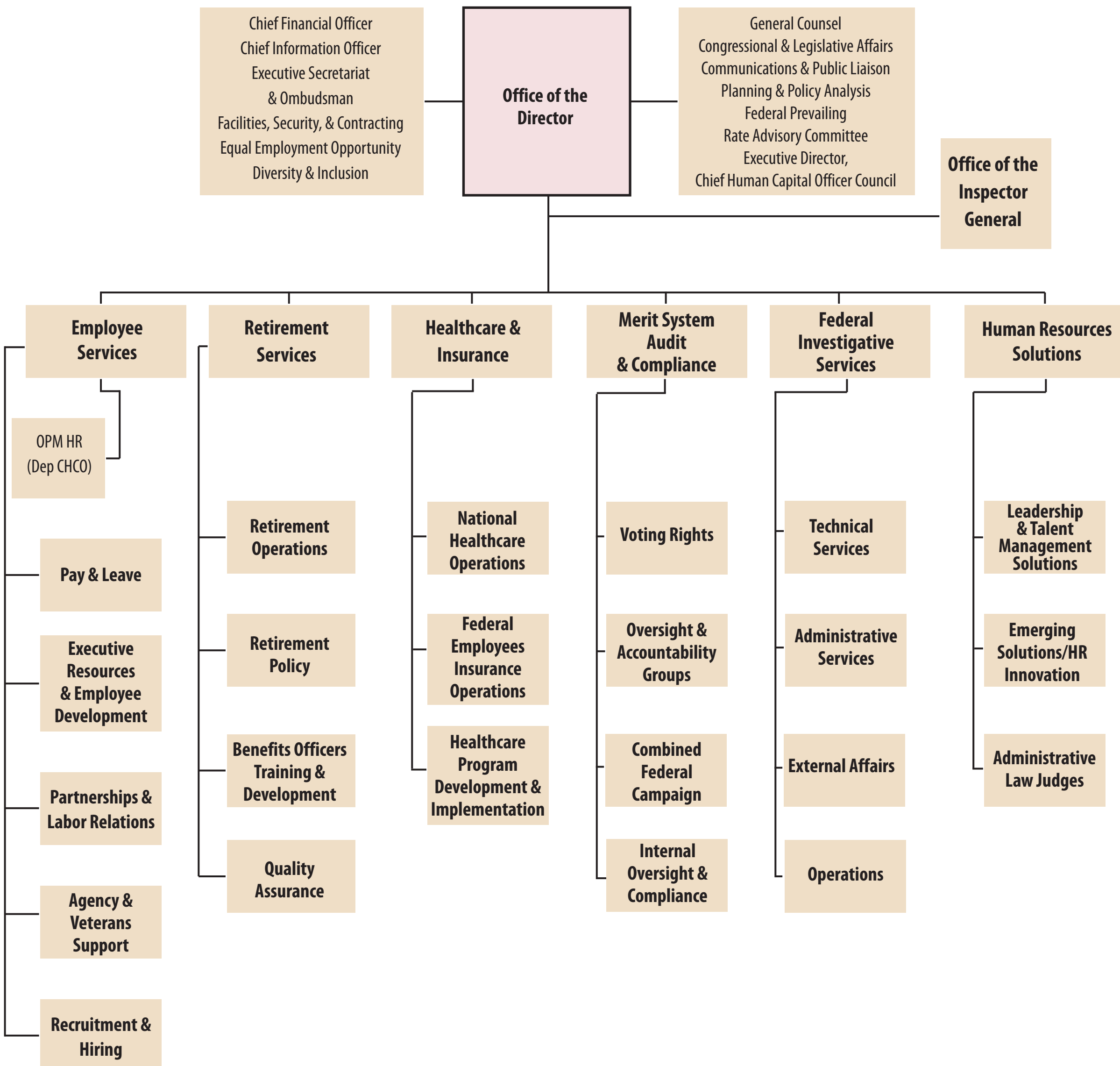
TABLE 1: OPM's Mission Statement:

OPM's Mission Statement: *Recruit, Retain, and Honor a World-Class Workforce to Serve the American People*	
Strategic Goal	Goal Statement
Hire the Best	Recruit and hire the most talented and diverse Federal workforce possible to serve the American people
Respect the Workforce	Provide the training, benefits, and work-life balance necessary for Federal employees to succeed, prosper, and advance in their careers
Expect the Best	Ensure the Federal workforce and its leaders are fully accountable and are fairly appraised while having the tools, systems, and resources to perform at the highest levels to achieve superior results
Honor Service	Ensure comparable recognition and reward for exemplary performance of current employees and honor the careers of Federal retirees
Improve Access to Health Insurance	Develop and administer programs that provide high quality and affordable health insurance to uninsured Americans who are seeking health insurance through Affordable Care Act exchanges, uninsured Americans with pre-existing medical conditions who cannot otherwise purchase coverage, and employees of tribes or tribal organizations

To be successful, OPM's strategic planning must be a continuous process that maintains close alignment with our evolving mission in support of the Federal government. In February 2012, OPM published an update to its strategic plan to reflect its new responsibilities associated with the implementation of the Patient Protection and Affordable Care Act.

The driving force behind the OPM Strategic Plan is the implementation strategies. The strategies are the performance drivers, and include the specific actions OPM undertakes and the deliverables produced to enhance program performance, achieve program outcomes, and enable the Agency to meet its strategic goals and fulfill the mission. OPM's Strategic Plan can be found at: *http://www.opm.gov/strategicplan/*.

Figure 1 — Organizational Chart



Organizational Structure

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

Executive Offices

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

- *Human Capital:* The Chief Human Capital Officers Act of 2002, enacted as part of the Homeland Security Act of 2002 (Pub. L. No. 107-296) on November 25, 2002, required the heads of 24 Executive Departments and agencies to appoint or designate Chief Human Capital Officers (CHCOs). Each CHCO serves as his or her agency's chief policy advisor on all human resources management issues and is charged with selecting, developing, training, and managing a high-quality, productive workforce.
- *Communications and Public Liaison (CPL)* is responsible for coordinating a comprehensive effort to inform the public of the President's and the Director's goals, plans and activities through various media outlets. CPL is also responsible for planning and coordinating the publication and production of all printed materials that are generated from OPM offices and develops briefing materials for Congress, the Director and other OPM officials for various briefings and events.
- *Congressional and Legislative Affairs (CLA)* advocates for the legislative and policy priorities of the Director and the Administration. CLA is the focal point for all congressional and legislative activities for the OPM. CLA educates, responds to, interacts with, and advises Congress on Federal human resources management policy. CLA also counsels and advises the Director and other OPM officials on policy, and congressional and legislative matters.
- *Office of the General Counsel (OGC)* provides expert legal advice to the Director and senior OPM officials to ensure that policies, programs and procedures are consistent with applicable rules, regulations, and statutes affecting civil service personnel law and human resources management. OGC also provides expert legal representation to OPM managers and leaders in an attempt to mitigate the agency's risk of litigation and ensure agency actions are in compliance with applicable statutes, rules, and regulations, and to ensure that agency actions are not unlawful.
- *Executive Secretariat and Ombudsman (ESO)* is responsible for the administrative management and support for the Office of the Director, including coordination and review of Agency correspondence, policy and program proposals, regulations and legislation. ESO is responsible for the Agency's Ombudsman function, which is necessary to provide a neutral, independent and confidential resource for customers and employees of OPM to raise issues of concern or complaints that their requests are not being addressed in a timely manner.
- *Equal Employment Opportunity (EEO)* provides a fair, legally-correct and expedient EEO complaints process (i.e., EEO counseling, Alternative Dispute Resolution, and EEO Complaints Intake, Investigation, Adjudication, and Record-Keeping). EEO designs and implements all required Special Observance and Special Emphasis initiatives, to promote diversity management.
- *Diversity and Inclusion (D&I)* examines policy options, government-wide data trends, and employee survey findings that affect OPM's management of HR policy, specifically including diversity and inclusion throughout the Federal government. D&I develops comprehensive strategies to drive and integrate diversity and inclusion practices throughout the Federal government and to help build a diverse and inclusive workforce, respecting individual and organizational cultures, while complying with merit principles and applicable Federal laws.

Program Divisions

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

- *Retirement Services (RS)* is responsible for administering the Civil Service Retirement System (CSRS) and the Federal Employee Retirement System (FERS), serving 2.5 million Federal retirees and survivors who receive monthly annuity payments. Processing retirements of Federal employees is a mission critical OPM program. The processing of retirement claims includes managing the preparation and submission of retirement applications and assisting employees in understanding their retirement options. The process begins with retirement estimates and continues through ensuring the application package is accurate, complete and timely.
- *Healthcare & Insurance (HI)* is responsible for Government-wide administration of developing and providing Federal employees, retirees and their families with benefits programs and services that offer choice, value and quality to help maintain the Government's position as a competitive employer. HI is responsible for negotiating and administering health benefits contracts for the Federal Government, and administering the Federal Employees' Group Life Insurance Program (FEGLI) covering employees, retirees and their families. In addition, HI is responsible for administering three voluntary, enrollee-pay-all programs: long term care insurance program; flexible spending accounts for medical and dependent care expenses; and a group dental and vision insurance program. HI is also responsible for implementing portions of the Patient Protection and Affordable Care Act of 2010 including: 1) contracting with Multi-State health plans being offered on health insurance exchanges; 2) expanding access of the Federal Employees' Health Benefit Program (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGLI) to employees of tribes and tribal organizations; and 3) managing a contract with a health insurer to provide health insurance coverage to people with pre-existing conditions.
- *Merit System Audit & Compliance (MSAC)* ensures through rigorous oversight that Federal agency human resources programs are effective and meet merit system principles and related civil service requirements. The Division carries out this responsibility with a staff of employees in five field offices across the nation and here in Washington. The three key components of the oversight and compliance programs are (1) Delegated Examining Unit Evaluations, (2) Large Agency Human Resources (HR) Evaluation, and (3) Small Agency HR Evaluations. MSAC has Government-wide oversight of the Combined Federal Campaign (CFC) and the Voting Rights (VR) programs. The mission of the CFC is to promote and support philanthropy through a program that is employee focused, cost-efficient, and effective in providing all federal employees the opportunity to improve the quality of life for all. The Voting Rights Program provides observers to cover political subdivisions (counties, cities, etc. as determined by the Attorney General) to monitor and report on those elections designated by the Attorney General.
- *Federal Investigative Services (FIS)* mission is to ensure the Federal Government has a suitable workforce that protects National Security and is worthy of their Public Trust. FIS is responsible for providing investigative products and services for over 100 Federal agencies to use as the basis for security clearance or suitability decisions as required by Executive Orders and other rules and regulations. Over 90 percent of the Government's background investigations are provided by OPM.
- *Human Resources Solutions (HRS)* provides services that assist agencies within the Federal Government in achieving their missions by partnering with agencies to provide effective human resource solutions that develop leaders, attract and build a high quality public sector workforce, and transform agencies into high performing organizations. HRS also offers services that enhance agencies' ability to attract and acquire specific talent.

Common Services

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

Other Offices

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

Office of the Inspector General

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

Program Performance Summary

The results for all 24 performance measures will be discussed in detail in OPM's FY 2012 *Annual Performance Report* scheduled for publication in February 2013. Here is a summary of our OPM priority goal key indicator targets and results for FY 2012.

Table 2 — Priority Goals and Key Indicators

Priority Goals and Key Indicators	Target	Result
Ensure high quality Federal employees		
Manager Satisfaction of Applicant Quality	7.70	7.59
Reduce Federal retirement processing time		
Ratio of complete retirement submissions received from agencies	81.0	81.8
Maintain speed of national security background Investigations		
Average number of days to complete the fastest 90% of initial national security investigations	40	36
Improve performance culture in the GEAR pilot agencies to inform the development of government-wide policies		
Results-Oriented Performance Culture Index OPM	63.00	59.40
Results-Oriented Performance Culture Index HUD	51.45	49.60
Results-Oriented Performance Culture Index DOE	55.65	53.30
Employee Engagement Index OPM	75.60	70.70
Employee Engagement Index HUD	64.05	62.00
Employee Engagement Index DOE	69.15	64.90
Increase health insurance choices for Americans*		

* Note: This priority goal is in formative stages of design and has not yet developed key indicators; performance for this goal is being measured against program management milestones.

Performance Highlights by Strategic Goal

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

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

During FY 2012, OPM made significant strides to improve the hiring process and to promote policies and practices to ensure that all segments of society have an opportunity to contribute as a Federal employee. Over two years ago, the President directed to transition to a resume-based system that allows managers to choose from among all of the best qualified candidates. Since then, hiring reform and the President's Veteran Employment Initiative have helped the Nation's returning veterans. Last year, 28 percent of the people hired into Federal jobs were veterans, the highest percentage in over 20 years. Federal agencies are also making strides in implementing the President's executive orders on diversity and hiring people with disabilities. Each agency has a diversity strategic plan in place now, and OPM has issued model practices for agencies to use in recruiting people with disabilities. OPM also issued final regulations for the Pathways Program which will make it easier for students, grads, veterans and those re-entering the workforce to find and apply for Federal jobs.

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

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

During FY 2012, OPM is working with Federal Employees Health Benefits Program (FEHBP) insurance providers to increase the use of Health Information Technology (HIT) tools to help employees and annuitants organize health information, access information targeted to their health needs and determine the quality and cost of doctors, hospitals and other providers. HIT also allows patients, healthcare providers and health plans to share information securely, driving down costs by avoiding duplicate procedures and manual transactions. In a Carrier Letter issued on December 19, 2011, OPM asked all health insurance carriers in the FEHBP to add Blue Button functions to personal health record systems on their websites. Blue Button allows patients to see, download and keep their personal health data by clicking the "Blue Button" on a secure Internet site. Patients can then choose to share their data with their physicians or family members or make it available if emergency treatment is needed. OPM continues to emphasize health and wellness programs across the Federal government and leads by example through the continued support of our own Wellness Works program.

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

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

OPM released the 2012 Status of Telework in the Federal Government Report for Congress, marking the first comprehensive view of telework practices across the entire Federal government since the enactment of the Telework Enhancement Act (P.L. 111-92). Agency implementation of the law overall is encouraging. All participant agencies in the data call had established telework policies and notified agency employees of their eligibility to participate in telework. All agencies covered by the Act had designated a permanent or acting Telework Management Officer. Approximately 21 percent of telework eligible employees participated in routine telework as of September 2011. Additionally, agencies that collectively employ more than 99 percent of the Federal workforce have adopted telework as a critical component of their agency Continuity of Operations Plans.

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

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

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

In January 2012, the backlog of employee retirement claims stood at 61,108. To address this unacceptable situation and prevent further delays to retirees receiving their full annuity payments, OPM released a plan to eliminate the claims backlog within 18 months and to reduce processing times so that 90 percent of claims are administered within two months of receipt. As of July 2012, the backlog has been reduced to 44,679, a reduction of 27 percent. Although currently on track to meet our goal, we remain concerned that fiscal constraints across the Federal government and the unresolved issues surrounding the restructuring of the Postal Service will drive a wave of retirements that exceed our ability to process in a timely manner.

Strategic Goal 5 - Improve Access to Health Insurance: Develop and administer programs that provide high quality and affordable health insurance to uninsured Americans who are seeking health insurance through Affordable Care Act exchanges, uninsured Americans with pre-existing medical conditions who cannot otherwise purchase coverage, and employees of tribes or tribal organizations

OPM will accomplish two tasks under the Patient Protection and Affordable Care Act (ACA). The first is the implementation and oversight of at least two multi-state health plan options to be offered on each affordable health insurance exchange beginning in 2014. Multi-state plans (MSPs) will be one of several health insurance options that small employers and uninsured individuals will be able to choose from, and will ensure that exchanges fulfill their mission of providing a vibrant health care marketplace. In addition, the ACA includes a provision for OPM to enable tribes and tribal organizations to purchase insurance coverage through the Federal Employee Health Benefits Program (FEHBP) and the Federal Employee Group Life Insurance Program (FEGLI) for their employees.

Since the ACA was passed in 2010, OPM has worked with the Department of Health and Human Services (HHS) to implement affordable health insurance exchanges beginning in FY 2014. Under the ACA, the Pre-Existing Condition Insurance Program (PCIP) is scheduled to end on December 31, 2013, and the staff working for the program will be transitioned into working on the MSPs. HHS is currently establishing rules for the state exchanges and developing requirements for its IT and automation systems. OPM will exchange MSP data with HHS and states but may require additional funding to meet these IT requirements. OPM also plans to incorporate data from MSPs into its Health Claims Data Warehouse (HCDW). This will allow OPM to evaluate the impact of tribal enrollment on FEHBP to ensure an equal distribution of costs in claims.

Quality of Performance Data

In accordance with the requirements of the Government Performance and Results Act, OPM ensures the information in its AFR, as well as APR, accurately reflects its FY 2012 performance and is based on reasonably complete, accurate and reliable data.

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

Additional information on OPM's performance data quality will be available with the publication of OPM's FY 2012 APR and the Summary of Performance and Financial Information scheduled for publication in February 2013.

Analysis of OPM's Financial Statements

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

- Balance Sheet (consolidated)
- Statement of Net Cost (consolidated)
- Statement of Changes in Net Position (consolidated)
- Statement of Budgetary Resources (combined)

Balance Sheet

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

Assets

At the end of FY 2012, OPM held $961 billion in assets, an increase of 4.1 percent from $923 billion at the end of FY 2011. The majority of OPM's assets are intragovernmental, representing claims against other Federal entities. The Balance Sheet separately identifies intragovernmental assets from all other assets.

The largest category of assets is investments at $944 billion, which represents 98.2 percent of all OPM assets. OPM invests all Retirement, Health Benefits, and Life Insurance Program collections not needed immediately for payment in special securities issued by the U.S. Treasury. As OPM routinely collects more money than it pays out, its investment portfolio and consequently, its total assets, continues to grow. In FY 2012, the investment portfolio grew by 3.0 percent, with the largest increase for investments occurring in the Retirement Program.

In FY 2012, the Total Earned Revenue was less than the applicable cost applied to the Pension Liability by $12.3 billion. When the net effect is favorable, the Retirement Program has the ability to reinvest interest earnings and apply the excess funds to the U.S. Treasury Transferred-In to subsidize the under funding of the Civil Service Retirement System (CSRS). The CSRS under funding was a total of more than $33.0 billion for FY 2012, which resulted in an increase in the investment portfolio of more than $27.6 billion for FY 2012 over FY 2011.

Liabilities

At the end of FY 2012, OPM's total liabilities were $2,054 billion, an increase of 7.1 percent from $1,918 billion at the end of FY 2011. Three line items — the Pension, Post-Retirement Health Benefits, and the Actuarial Life Insurance Liabilities — account for 99.4 percent of OPM's liabilities. These liabilities reflect estimates by professional actuaries of the future cost, expressed in today's dollars, of providing benefits to participants in the future. The Retirement Program's economic assumptions for the Rate of Inflation were 2.5% for both CSRS and FERS and the Rate of Increases in Salary were 2.6% for both CSRS and FERS. This compares to FY 2011's assumptions for the Rate of Inflation of 2.4% for both CSRS and FERS and the Rate of Increases in Salary of 3.1% for both CSRS and FERS. The assumed retiree cost of living adjustment was 2.5% for CSRS and 2.0% for FERS for FY2012. The assumed retiree cost of living adjustment was 2.4% for CSRS and 1.9% for FERS for FY2011. In addition, the FY 2012 Interest Rate economic assumption is 4.3% for CSRS and 4.7% for FERS compared to FY 2011's assumptions of 4.6% for CSRS and 4.9% for FERS.

The Health Benefits Interest Rate economic assumption is 4.7% for FY 2012 compared to 4.9% in FY 2011. Also, the Health Benefits Increase in per capita cost of covered benefits economic assumption is 3.7% compared to 5.5% in FY 2011. The medical trend assumption changed from a variable trend beginning at 5.5% in FY2011 reporting to a variable trend beginning at 3.7% for FY2012. In FY 2012, the Retirement and Health Benefits Program assumptions reflect an increase in actuarial liabilities of $133 billion from FY 2011. To compute these liabilities, the actuaries make many assumptions about the future economy and about the demographics of the future Federal employee and annuitant (retirees and their survivors) populations.

The *Pension Liability*, which represents an estimate of the future cost to provide CSRS and FERS benefits to current employees and annuitants, is $1,678 billion at the end of FY 2012, an increase of $145 billion, or 9.5 percent from the end of the previous year. [See discussion of the Net Cost to Provide CSRS and FERS Benefits below].

The *Post-Retirement Health Benefits Liability*, which represents the future cost to provide health benefits to active employees after they retire, is $316 billion at the end of FY 2012. This reflects a decrease of approximately $13 billion from the amount at the end of FY 2011, or 4.0 percent. [See discussion of the Net Cost to Provide Health Benefits below].

The *Actuarial Life Insurance Liability* is different from the Pension and Post-Retirement Health Benefits Liabilities. Whereas the other two are liabilities for "post-retirement" benefits only, the Actuarial Life Insurance Liability is an estimate of the future cost of life insurance benefits for both deceased annuitants and for employees who die in service. The Actuarial Life Insurance Liability increased by approximately $2 billion in FY 2012 to $46 billion, or 6.1 percent from the end of the previous year. [See discussion of the Net Cost to Provide Life Insurance Benefits below].

Actuarial Gains and Losses

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

In computing the Pension, Post-Retirement Health Benefits, and Actuarial Life Insurance Liabilities, OPM's actuaries must make assumptions about the future. When the actual experience of the Retirement, Health Benefits, and Life Insurance Programs differs from these assumptions, as it generally will, actuarial gains and/or losses will occur. For example, should the cost of living adjustment (COLA) increase be less than the actuary assumed, there will be an actuarial experience gain. A decrease in the assumed future rate of inflation would produce a gain due to a revised actuarial assumption.

Net Position

The funds related to the operation of the Retirement Program, the Health Benefits Program, and Life Insurance Program are "earmarked funds," as defined by the Statement of Federal Financial Accounting Standards (SFFAS) Number (No.) 27 – Identified and Reporting Earmarked Funds. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. OPM's Net Position is classified into two separate balances. The Cumulative Results of Operations comprises OPM's net results of operations since its inception. Unexpended Appropriations is the balance of appropriated authority granted to OPM against which no outlays have been made.

OPM's total liabilities exceeded its total assets at the end of FY 2012 by $1,093 billion, primarily due to the large actuarial liabilities. It is important to note that the Retirement, Health Benefits, and Life Insurance Programs are funded in a manner that ensures there will be sufficient assets available to pay benefits well into the future. Table 3 – Net Assets Available for Benefits – shows that OPM's net assets available to pay benefits have increased by $37 billion in FY 2012 to $948 billion.

Table 3 — Net Assets Available for Benefits

($ in Billions)	FY 2012	FY 2011	Change
Total Assets	$ 961.0	$ 923.0	$ 38.0
Less "Non-Actuarial" Liabilities	13.1	12.4	0.7
Net Assets Available to Pay Benefits	$ 947.9	$ 910.6	$ 37.3

Statement of Net Cost

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

OPM's SNC presents its cost of providing four major categories of benefits and services: Civil Service Retirement and Disability Benefits (CSRS and FERS), Health Benefits, and Life Insurance Benefits, as well as Human Resources Services. OPM derives its Net Cost by subtracting the revenues it earned from the gross costs it incurred in providing each of these benefits and services.

OPM's total FY 2012 Net Cost of Operations was $142.0 billion, as compared with a ($17.4) billion net income in FY 2011. The primary reason for the increase in net cost is due to changes in the actuarial assumptions, which offset the actual COLA and salary increase being lower than anticipated, as further discussed below.

Net Cost to Provide CSRS Benefits

As presented in Table 4, OPM incurred a Pension Expense for the CSRS Benefits of $153.3 billion compared with $31.6 billion, an increase of $121.7 billion from FY 2011. The actuarial loss of $95.4 billion for CSRS was primarily due to losses due to changes in economic and demographic assumptions.

There are three prime determinants of OPM's cost to provide net CSRS benefits: one cost category (the actuarially computed Pension Expense) and two categories of earned revenue (contributions by and for CSRS participants, and earnings on CSRS investments). The Pension Expense for the CSRS is the amount of future benefits earned by participants during the current fiscal year.

Contributions by and for CSRS participants decreased in FY 2012 by $525 million from FY 2011 and OPM's earnings on CSRS investments declined by approximately $658 million from FY 2011.

Table 4 — Net Cost to Provide CSRS Benefits

($ in Billions)	FY 2012	FY 2011	Change
Gross Cost	$ 153.3	$ 31.6	$ 121.7
Associated Revenues	20.3	21.5	(1.2)
Net Cost	$ 133.0	$ 10.1	$ 122.9

Current pension benefits paid are applied to the Pension Liability and, therefore, do not appear on the Statement of Net Cost. OPM paid CSRS benefits of $66.8 billion, as compared to the $64.2 billion in FY 2011. The increase in benefits paid is due to the effect of the cost-of-living allowance paid to an increasing number of CSRS annuitants.

Net Cost to Provide FERS Benefits

As shown in Table 5, the Net Cost to Provide FERS Benefits in FY 2012 increased by $45.2 billion from FY 2011. As with the CSRS, there are three prime determinants of OPM's net cost to provide FERS benefits: one cost category: the actuarially computed Pension Expense; and two categories of earned revenue: contributions by and for participants, and earnings on FERS investments.

The Pension Expense for FERS is the amount of future benefits earned by participants during the current fiscal year. For FY 2012, OPM incurred a Pension Expense for FERS of $66.4 billion, as compared with $21.1 billion in FY 2011. The primary reason for the increase in FERS pension expense from FY 2011 to FY 2012 was due to changes in actuarial assumptions. There was a total actuarial gain of $26.1 billion in FY 2011, which was followed by a total actuarial loss of $20.1 billion in 2012 that contributed to the increase in pension expense of $45.3 billion from FY 2011 to FY 2012. In FY 2011 there was an experience gain because the actual general salary increase and COLA were different than what had been assumed. The actual general salary increase was 0.0 percent in FY 2011 and FY 2012, and the FY 2011 FERS COLA was 0.0 percent; the assumed general salary increase was 3.1 percent, and the assumed FERS COLA was 1.9 percent. In FY 2012, a FERS experience gain results from a lower than projected population and is only partly offset by a loss from the higher than expected 2012 actual COLA of 2.6 percent; the assumed FERS COLA was 2.0 percent.

The liabilities for current FERS annuitants are much smaller than the liabilities for current CSRS annuitants, so the lower than assumed first-year COLA is much less significant for FERS than for CSRS. However, the lower than assumed salary increase is relatively more significant for FERS than for CSRS. The FY2012 experience gain was offset, however, by the loss due to changes to economic and demographic assumptions.

Contributions by and for FERS participants increased by $912 million, or 3.8 percent from FY 2011, also due to the increasing number of FERS participants.

Table 5 — Net Cost to Provide FERS Benefits

($ in Billions)	FY 2012	FY 2011	Change
Gross Cost	$66.4	$21.1	$45.3
Associated Revenues	41.4	41.3	.1
Net Cost	$25.0	($20.2)	$45.2

Due to accounting standards, current pension benefits paid are applied to the Pension Liability and therefore, do not appear on the Statement of Net Cost. In FY 2012, OPM paid FERS benefits of $7.3 billion, compared with $6.1 billion in FY 2011. The increase is due to the increasing number of FERS retirees.

Net Cost to Provide Health Benefits

The Net Cost to Provide Health Benefits in FY 2012 decreased by $10.9 billion from that in FY 2011 (Table 6). There are three prime determinants of OPM's net cost to provide Health Benefits: two cost categories: the actuarially computed Post-Retirement Health Benefits Expense, and Current Benefits and Premiums, and one earned revenue category: contributions by and for participants.

Table 6 — Net Cost to Provide Health Benefits

($ in Billions)	FY 2012	FY 2011	Change
Gross Cost	$ 29.9	$ 28.7	$ 1.2
Associated Revenues	46.9	34.8	12.1
Net Cost (Net Income)	($17.0)	($6.1)	($10.9)

The Postal Service Retiree Health Benefits (PSRHB) Fund is included in the Health Benefits Program. On October 1, 2009, President Obama signed into law, P.L. 111-68, Division B – Continuing Appropriations Resolution 2011 which contained significant changes to the funding requirements and scheduled payments of P.L. 109-435, December 20, 2006, known as the Postal Act. In addition, due to the Continuing Resolutions enacted by Congress, P.L. 112-33 and P.L. 112-36, United States Postal Service's (USPS) payment schedule was amended. The subsequent funding law, P.L. 112-74, included a provision to extend the deadline to August 1, 2012 for the $5.5 billion payment that was originally due September 30, 2011. As such, there were two payments due from USPS in FY 2012, one for $5.5 billion by August 1, 2012, and a second payment of $5.6 billion due by September 30, 2012, a total of $11.1 billion. As of September 30, 2012, USPS has defaulted on both payments and OPM has recorded receivables for the total amount of $11.1 billion. At this time, Congress has not taken further action on these payments due from USPS.

The Post-Retirement Health Benefits (PRHB) Expense is the amount of future benefits earned by participants during the current fiscal year. For FY 2012, OPM incurred a PRHB expense of $339 million, as compared with $1.1 billion in FY 2011, due primarily to the recognition of a large actuarial gain in FY 2012. There was an actuarial gain which was a result of population change, lower than expected medical cost increase, and a change in the assumed choice of health coverage in retirement and their associated costs, offset by a loss due to a modification in the trend and interest assumptions as a result of SFFAS No. 33 and change in demographic rates (the trend is assumed to be variable, decreasing from 6.2% to 4.4% ultimately).

Current Benefits and Premiums stayed level with FY 2011. The contributions (for and by participants) increased by $12.1 billion from FY 2011 to FY 2012.

Due to accounting standards, a portion of the costs to provide health benefits is netted against the PRHB Liability and not fully disclosed on the Statement of Net Cost. The actual costs to provide health benefits are presented in Table 7.

Table 7 — Disclosed and Applied Costs to Provide Health Benefits

($ in Billions)	Disclosed	Applied to PRHB	Total FY 2012	Total FY 2011
Claims	$23.7	$10.3	$34.0	$32.3
Premiums	4.5	2.1	6.6	6.6
Administrative and other	1.2	1.0	2.2	2.0

Net Cost to Provide Life Insurance Benefits

As seen in Table 8, the Net Cost (Excess of Revenue) to Provide Life Insurance Benefits increased from ($1.2) billion in FY 2011 to $1.1 billion in FY 2012. Gross cost increased $2.2 billion due to the actuarial loss between 2011 and 2012. In applying SFFAS No. 33 for calculating the Actuarial Life Insurance Liability (ALIL), OPM's actuary uses salary increase and interest rate yield curve assumptions consistent with those used for computing the CSRS and FERS Pension Liability in FY 2012 and 2011. This entails determination of a single equivalent interest rate that is specific to the ALIL. Both the interest rate and rate of increases in salary were lower for FY 2012 as compared to FY 2011. Associated revenues generally remained at the same level.

Table 8 – Net Cost to Provide Life Insurance Benefits

($ in Billions)	FY 2012	FY 2011	Change
Gross Cost	$5.4	$3.2	$2.2
Associated Revenues	4.3	4.4	(.1)
Net Cost (Net Income)	$1.1	($1.2)	$2.3

Statement of Budgetary Resources

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

In FY2012, changes to the presentation of the Combined and Combining Statements of Budgetary Resources (SBR) were made, in accordance with guidance provided in OMB Circular No. A-136. As such, activity and balances reported on the FY 2011 Combined and Combining Statement of Budgetary Resources have been reclassified to conform to the presentation in the current year. Certain other prior year amounts have also been reclassified to conform with the current year presentation.

As presented in the SBR, a total of $225.7 billion in budgetary resources was available to OPM for FY 2012. OPM's budgetary resources in FY 2012 include $55.9 billion (24.8 percent) carried over from FY 2011, plus three major additional sources:

- Appropriations Received = $44.0 billion (19.5 percent)
- Trust Fund receipts of $98.4 billion, less $24.0 billion* not available = $74.4 billion (33.0 percent)
- Spending authority from offsetting collections (SAOC) = $51.3 billion (22.7 percent).

* Total budgetary resources do not include $22.3 billion of Trust Fund receipts for the Retirement obligations pursuant to public law. In addition, in accordance with Public Law 109-435, contributions totaling $45.3 billion for the PSRHB Fund of the Health Benefits Program are precluded from obligations and therefore temporarily not available.

Appropriations are funding sources resulting from specified Acts of Congress that authorize Federal agencies to incur obligations and to make payments for specified purposes. OPM's appropriations partially offset the increase in the Pension Liability in the Retirement Program, and fund contributions for retirees and survivors who participate in the Health Benefits and Life Insurance Programs.

Sources of Budgetary Resources

	FY 2012	FY 2011
Trust Fund Receipts	33.0%	33.0%
Balance Brought Forward from Prior Year	24.8%	24.1%
Spending Authority from Offsetting Collections	22.7%	23.4%
Appropriations	19.5%	19.5%

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

Obligations Incurred by Program

	FY 2012	FY 2011
Retirement Benefits	64.7%	64.4%
Health Benefits	32.2%	32.3%
Life Insurance Benefits	1.7%	1.7%
Other	1.4%	1.6%

From the $225.7 billion in budgetary resources OPM had available during FY 2012, it incurred obligations of $166.3 billion less the $33.0 billion transferred from the Treasury's General Fund (see Note 1.G) for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs. The $45.3 billion in the PSRHB Fund of the Health Benefits Program is precluded from obligations. Most of the excess of budgetary resources OPM had available in FY 2012 over the obligations it incurred against those resources is classified as being "unavailable" for obligation at year-end.

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

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

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

Management Assurances

FMFIA and FFMIA Assurance Statement

The Office of Personnel Management (OPM) is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). OPM conducted its assessment of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with Office of Management and Budget OMB Circular Number (No.) A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, OPM can provide qualified assurance that its internal controls under FMFIA Section 2, as of September 30, 2012, were operating effectively. The qualified assurance is based on OIG continuing to report operational material weaknesses concerning the adequacy of its funding for audit(s) of OPM's Revolving Fund, and OPM's Information Technology (IT) security program.

In addition, OPM has conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular No. A-123. OPM can provide unqualified assurance that its internal control over financial reporting, as of June 30, 2012, was operating effectively.

The *Federal Financial Management Improvement Act* (FFMIA) requires agencies to implement and maintain financial management systems that are in substantial compliance with Federal financial system requirements, Federal accounting standards, and use the *United States Standard General Ledger* at the transaction level. Based on my review of the auditor's report and other relevant information, I have determined that for FY 2012, OPM can provide reasonable assurance that its financial systems substantially comply with FFMIA and FMFIA Section 4 requirements.

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

John Berry
Director
November 15, 2012

Compliance with Federal Financial Management Improvement Act (FFMIA)

Financial Management Systems

The FFMIA requires Federal agencies to implement and maintain financial management systems that are in substantial compliance with Federal financial system requirements, Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. Based on a review of the auditors' report and other relevant information, OPM has determined that for FY 2012, OPM substantially complies with all FFMIA requirements regarding financial management systems, Federal accounting standards, and application of the USSGL.

As part of the audit of OPM's FY 2011 financial statements, it was reported that deficiencies continued to exist in the operation of the internal controls over Financial Management and Reporting Processes of OPM Operational Activities and Related Data.

These deficiencies were, in part, attributable to OPM's Revolving Fund (RF) and Salaries and Expenses Accounts (S&E) business operations and reporting. OPM completed an assessment of its core financial system in FY2012 against the FFMIA guidelines and policy. The objectives of our assessment were to ensure that the financial management systems and practices achieve their intended results and were consistent with FFMIA and OPM's mission to provide reliable and timely information for Agency decision making.

In accordance with FFMIA, OPM implemented the Consolidated Business Information System (CBIS) beginning FY2010 which was expected to resolve the deficiencies that resulted in the substantial noncompliance with regard to the RF and S&E accounts. OPM has had a long-standing issue with reconciling its RF account with Treasury. Revisions to the work instructions for reconciling the cash balances to the Fund Balance with Treasury (FBWT) for the RF were made in FY 2010 to include strict deadlines for the completion of monthly reconciliations. With the implementation of CBIS, management continues to have internal control weaknesses with FBWT reconciliations for the S&E and RF. However, functions and capabilities for the S&E and RF business operations have steadily improved; various upgrades and deployment of new functionality continued throughout FY 2012 and will continue into subsequent years and thereby improve the accuracy and timeliness of S&E and RF reporting, in FY 2013.

FFMIA Remediation Activities

OPM's ability to achieve its mission to "Recruit and Retain a World-Class Workforce to Serve the American People" depends heavily on the ability of its decision makers and managers to make fact-based and timely decisions using FFMIA compliant systems and processes.

Through the implementation of the initial releases of CBIS Phase I, the project remained within the OMB's reporting thresholds for cost and schedule performance. OPM CBIS users, under the guidance of the CBIS Project team, have addressed many of the key issues that emerged during the initial deployment. The CBIS project was presented for an OMB Tech Stat review in May 2010 and an IT review by OMB's Financial Systems Advisory Board in August 2010. As a result, the investment was added to OMB's list of investments requiring attention in December 2010. OPM's CBIS Executive Steering Committee (ESC), comprising OPM senior executives, in concert with OMB, placed an indefinite hold on Phase 2 resulting in savings of approximately $41 million, to focus Agency resources on the resolution of challenges related to Phase 1 of the implementation. OPM has since resolved many of the challenges with a recently upgraded solution.

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

The revised vision will keep pace with challenges that have shifted the requirements and expectations of internal and external stakeholders regarding CBIS. The process used to develop and revise the plan draws from senior leadership feedback across the Agency, working in partnership with financial, administrative, and program office staff to identify existing problems and possible future concerns. The vision also includes a Roadmap that provides a discussion of the phases and implementation components to achieve 90-95% functionality of the CBIS Phase 1 solution, a 24-month effort with the majority being completed by September 2013.

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

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

OPM evaluated its systems of internal control to ensure compliance with OMB Circular No. A-123, *Management's Responsibility for Internal Control.* OPM conducted an assessment of its internal control over Agency operations and compliance with applicable laws and regulations. As part of the assessment, the CFO required office heads to submit an assurance statement detailing if their internal control systems met the requirements of the FMFIA. Office heads also submitted supporting documentation of internal control objectives and control activities in individual units under their purview and how they ensured that those controls were working effectively.

OPM's Policy and Internal Control (PIC) organization reviewed those submissions and also reviewed applicable audit reports to determine if they contained material weaknesses that needed to be reported. Based on the results of these assessments, OPM can provide qualified assurance that its internal control over the effectiveness and efficiency of operations and compliance with laws and regulations as of September 30, 2012, was operating effectively. This qualification is based on an ongoing issue reported by the OIG regarding the adequacy of its resources for audits of the OPM Revolving Fund. Additionally, OIG continues to report an operational material weakness for OPM's IT security governance program although OPM has made significant progress in resolving it.

Material Weakness on OPM's Information Security Governance

In its FY 2012 overall Federal Information Security Management Act (FISMA) report, the OPM OIG will cite weaknesses related to the information technology security environment as a FMFIA material weakness. OPM has taken several actions to address this material weakness in FY 2012 and prior years. The major action taken by the Office of the Chief Information Officer in FY 2012 was centralization of OPM's IT security structure as recommended by OIG. The OPM Director provided OCIO the resources to initiate this new structure and actions have begun to be taken for this transition including hiring of staff. The Office of the Chief Financial Officer supports this action and is confident that the new structure will be fully implemented. Therefore OCFO and OCIO are confident that this material weakness will be reduced in FY 2013 and they look forward to working with OIG to make continued improvements. Further details on these issues are provided in the discussion on FISMA which follows later in this section.

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

In FY 2010, OPM's OIG reported a material weakness related to a lack of sufficient resources to adequately conduct that part of its core mission involving oversight of OPM's Revolving Fund (RF).

OPM reported that material weakness in its FY 2010 AFR and assurance statement. In FY 2011, the OIG reported that it continued to have a material weakness for its Office of Audits and Office of Investigations involving oversight of the RF. OIG reported that the RF has seen exponential growth reaching almost $2 billion in annual revenues. Further, OIG reported that, although it received some funding in its FY 2011 budget for RF audits and investigations, the funding is still not sufficient to enable OIG to oversee OPM RF programs. As such, OIG is continuing to report a material weakness. OIG reported that, in FY 2012, it will continue to request the needed resources for effective oversight of the RF programs, including pursuing legislative avenues to provide the needed resources.

Prior-Year Significant Deficiency on Human Resources Solutions (HRS) Vendor Management Branch

In FY 2011, OPM reported control weaknesses were present in the Vendor Management Branch (VMB) RF program. We noted that the issues did not warrant reporting of an operational material weakness under FMFIA but needed additional scrutiny. Based on reviews completed in FY 2012, OPM can report progress in addressing control issues in the VMB program. Additionally these reviews found no legal violations; small amounts of prior-year funding were returned to the Treasury or other agencies. Therefore, OPM believes these deficiencies do not rise to the level of a material weakness and are no longer a significant deficiency for the Agency.

Internal Control over Financial Reporting

In addition to its overall FMFIA assessment, OPM conducted an assessment of the effectiveness of internal control over financial reporting (ICFR) to ensure compliance with OMB Circular No. A-123, Appendix A. Appendix A requires Federal agencies to provide additional assurance of financial controls through testing and evaluation of entity, process and transaction-level controls under the oversight of a senior assessment team.

As in prior years' assessments, FY 2012 Appendix A planning, testing, evaluation, and reporting for internal control over financial reporting were done under the direction of OPM's Senior Assessment Board for Internal Control over Financial Reporting (Board). The Board is co-chaired by the CFO and the Director, Internal Oversight and Compliance. The Board includes senior representatives from all major OPM organizations. Testing and evaluation activities were conducted, under the Board's oversight, by the Policy and Internal Control (PIC) team in OPM's CFO organization. The Board approved unqualified assurance for internal control over financial reporting as of June 30, 2012. This assessment was based on the results of PIC's testing and evaluation of financial reporting controls. Additionally, the Board decided that OCIO had made sufficient progress in addressing IT security deficiencies related to OPM financial systems to reduce a prior-year financial reporting material weakness. That decision was consistent with the assessment by the independent public accountant auditing OPM's consolidated financial statements.

Compliance with the Inspector General Act

The Inspector General Act, as amended, requires agencies to report on the final action taken with regard to audits by its OIG. OPM is reporting on audit follow-up activities for the period October 1, 2011, through September 30, 2012. Table 9 — Inspector General Audit Findings provides a summary of OIG's audit findings and actions taken in response by OPM management during this period.

Table 9 — Inspector General Audit Findings

FY 2012	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1, 2011	5	$ 9.7
New reports requiring management decisions	27[1]	38.9
Management decisions made during the year	30	48.1
Costs disallowed	–	38.4
Costs not disallowed	–	9.6[2]
Reports with no management decision on September 30, 2012	2	.6
FY 2011	**Number of Reports**	**Questioned Costs ($ in Millions)**
Reports with no management decision on October 1, 2010	7	$ 54.8
New reports requiring management decisions	20[1]	60.8
Management decisions made during the year	22	105.8
Costs disallowed	–	102.7
Costs not disallowed	–	3.1[2]
Reports with no management decision on September 30, 2011	5	$ 9.7

1 The number of new reports requiring a management decision represents reports with monetary recommendations. The total number of new reports issued during the fiscal year is 74, of which 47 included only procedural recommendations, or were without any recommendations.
2 Represents the net of allowed cost, which includes overpayments and underpayments to insurance carriers.
Source: Audit Reports and Receivables Tracking System reports: Audit Reports Issued with Questioned Costs for reporting periods October 1, 2011 through September 30, 2012.

Federal Information Security Management Act (FISMA)

FISMA requires the Chief Information Officer (CIO) to conduct an annual Agency security program review in coordination with Agency program officials. OPM is pleased to provide the detailed results of this review conducted for FY 2012.

In FY 2011 OPM CIO updated its IT security and privacy policies. In August 2012, the OPM Director notified Associate Directors and Office Heads that IT security responsibilities would be centralized under the CIO effective October 1, 2012. CIO has increased staffing levels in its IT Security and Privacy Group, and begun hiring IT security professionals to manage the security of OPM's major information systems. Once this transition is fully complete, it is expected the material weakness related to IT security governance will be closed.

Furthermore, CIO has had a permanent Chief Information Security Officer for the past two and a half years; all Windows and Linux operating systems and MS SQL now have baseline images, as part of CIO's work to standardize all operating systems and applications; a centralized monitoring center is being established; the completion rate for employees with major information security responsibility who have taken specialized security training increased to 85 percent; plan of actions and milestones (POA&Ms) are being updated and almost all POA&Ms over 120 days have been closed; 100% PIV usage has been achieved for all remote connections; a comprehensive continuous monitoring plan has been developed; a project is in progress for an agency-wide approach to contingency plan testing; an addendum to IT Security and Privacy policies was published.

In addition, continued improvements in the Certification and Accreditation (C&A) process (now referred to as Security Assessment and Authorization) warrant the deletion of this as a significant deficiency, as OIG noted in its FY 2012 report.

Compliance with Other Key Legal and Regulatory Requirements

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

The Middle Class Tax Relief and Job Creation Job Act of 2012, Public Law (PL) 112-96, Section 5001 - Federal Employees Retirement, increases by 2.3 percent the employee pension contribution for Federal employees entering service after December 31, 2012, who have less than 5 years of creditable civilian service. OPM is taking action to implement this for the FY2013.

Statement of Federal Financial Accounting Standards (SFFAS) 43, Dedicated Collections: Amending SFFAS 27, "Identifying and Reporting Earmarked Funds." is effective for periods beginning after September 30, 2012. This Statement amends SFFAS 27, Identifying and Reporting Earmarked Funds, by, among other provisions, "adding an explicit exclusion for any fund established to account for pensions, other retirement benefits, other postemployment, or other benefits provided for federal employees (civilian and military)". OPM will implement this in FY2013.

Phased retirement under CSRS and FERS has been made possible by Public Law 112-141, the Moving Ahead for Progress in the 21st Century Act, otherwise known as the Transportation Funding bill. OPM has started work on crafting the regulations.

Goals and Strategies

OPM is firmly committed to improving financial performance and received an unqualified audit opinion for OPM's financial statements. OPM has developed a plan to implement cost-accounting standards across the Agency; routinely provides status of funds and other financial statements and reports to financial and program managers; and has also integrated financial and performance information and uses such information to formulate its annual budget requests and for day-to-day management. OPM has instilled management discipline to help ensure accurate, timely, and effective formulation and execution of budgets.

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

- Ensure that critical financial performance indicators are objective, understandable, meaningful, fair and fully measurable
- Improve internal controls over financial reporting through improved systems and processes
- Re-affirm processes, controls and procedures to ensure that continuing Independent Public Accountant (IPA) unqualified audit opinions will be earned on the annual financial statements
- Continue to implement a new integrated financial management system fully compliant with Federal standards, providing sound, effective support to all customers
- Strengthen stewardship, accountability and internal controls over financial reporting, as stipulated by revised OMB Circular No. A-123.
- Reduce improper payments to target levels

Limitations of the Consolidated Financial Statements

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

Section 2 – FY 2012 Financial Information

A Message from the Chief Financial Officer

This is the fifth year the United States (U.S.) Office of Personnel Management (OPM) has chosen to produce an Agency Financial Report (AFR), which provides details on relevant financial data within 45 days of the fiscal year end in accordance with Office of Management and Budget (OMB) guidelines. Under a separate cover, OPM will submit the Annual Performance Report in conjunction with its Congressional Budget Justification for submission of the President's Fiscal Year (FY) 2014 Budget to Congress and a Summary of Performance and Financial Information which provides a concise summary of the past year's outcomes. This approach offers more transparent conveyance to the public with improved quality and utility for management.

For the thirteenth consecutive year, OPM has earned an unqualified audit opinion on its consolidated financial statements from our independent public accountants, KPMG LLP. This opinion assures the financial statements are reported fairly in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and free of material misstatements.

OPM continues to improve its financial management and to work with our stakeholders to modernize the current financial processes and systems. Considerable progress was made in FY 2012 to enhance Phase I of the replacement of OPM's accounting systems with the Consolidated Business Information System (CBIS). We have been working with our vendor in support of the improvements and successfully completed an upgrade during this fiscal year.

OPM also issued an unqualified assurance statement on internal control over financial reporting in accordance with the requirements of the revised OMB Circular No. A-123, *Management's Responsibility for Internal Control*. OPM's CIO has made significant progress on resolving the information systems general control environment issues, which enabled this prior year material weakness to be reduced in FY 2012 for the consolidated financial statements audit.

Our reviews under the Improper Payments Information Act, as modified by the Improper Payments Elimination and Recovery Act of 2010, include payments made under four major programs: Retirement, Health Benefits, Life Insurance, and Background Investigations. OPM's annual improper payment rates for these programs are less than 1 percent and small when compared to major programs at other Federal agencies. OPM also exceeds OMB's target recovery rate of 85 percent for these programs. OPM will continue to strive to reduce improper payments further and recover a greater percentage of improper payments made.

As OPM's Revolving Fund (RF) Programs business continues to play a major part of OPM's mission, our accountability over these key resources continues to be our focus. Previously, a full budget function was implemented including 5-year business plans for each of our lines of business. With the implementation of and improvements to CBIS, OPM has expanded the audit activities over the RF Programs and is integrating these fundamental programs into the budgeting, accounting and accountability functions applied to all OPM activities. Users of the products and services are gaining a new understanding into the overall accounting for each line of business and the fees charged for those services.

We carry out our responsibilities over the $960 billion in assets in the Federal employees earned-benefit trust and other funds with pride. On behalf of Federal employees, retirees, their families, and survivors, we are honored to safeguard these assets against waste, fraud and abuse. It is with great pleasure that I, on behalf of our staff, provide you with the FY 2012 Agency Financial Report documenting OPM's careful stewardship over Federal employees' retirement, health, life insurance, and other funds as supported by an unqualified audit opinion.

Sincerely,

Dennis Coleman
Chief Financial Officer

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

November 15, 2012

Report No. 4A-CF-00-12-039

MEMORANDUM FOR JOHN BERRY
Director

FROM: PATRICK E. McFARLAND
Inspector General

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year 2012 Consolidated Financial Statements

This memorandum transmits KPMG LLP's (KPMG) report on its financial statement audit of the Office of Personnel Management's (OPM) Fiscal Year 2012 Consolidated Financial Statements and the results of the Office of the Inspector General's (OIG) oversight of the audit and review of that report. OPM's consolidated financial statements include the Retirement Program, Health Benefits Program, Life Insurance Program, Revolving Fund Programs (RF) and Salaries & Expenses funds (S&E).

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

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires OPM's Inspector General or an independent external auditor, as determined by the Inspector General, to audit the agency's financial statements in accordance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States. We contracted with the independent certified public accounting firm KPMG LLP to audit OPM's consolidated financial statements as of September 30, 2012 and for the fiscal year then ended. The contract requires that the audit be performed in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

KPMG's audit report for Fiscal Year 2012 includes: (1) opinions on the consolidated financial statements and the individual statements for the three benefit programs, (2) a

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

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

- KPMG's report identified no material weaknesses in the internal controls.

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

- KPMG's report identified two significant deficiencies:

  - Information Systems Control Environment (OPM and the Programs)

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

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

OIG Evaluation of KPMG's Audit Performance

In connection with the audit contract, we reviewed KPMG's report and related documentation and made inquiries of its representatives regarding the audit. To fulfill our audit responsibilities under the CFO Act for ensuring the quality of the audit work performed, we conducted a review of KPMG's audit of OPM's Fiscal Year 2012 Consolidated Financial Statements in accordance with GAS. Specifically, we:

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

Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls or on whether OPM's

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financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996, or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated November 7, 2012, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with the generally accepted GAS.

In accordance with the OMB Circular A-50 and Public Law 103-355, all audit findings must be resolved within six months of the date of this report. The OMB Circular also requires that agency management officials provide a timely response to the final audit report indicating whether they agree or disagree with the audit findings and recommendations. When management is in agreement, the response should include planned corrective actions and target dates for achieving them. If management disagrees, the response must include the basis in fact, law or regulation for the disagreement.

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

In closing, we would like to congratulate OPM's financial management staff for once again issuing the consolidated financial statements by the November 15 due date. Their professionalism, courtesy, and cooperation allowed us to overcome the many challenges encountered during OPM's preparation, KPMG's audit, and the OIG's oversight of the financial statement audit this year. If you have any questions about KPMG's audit or our oversight, please contact me or have a member of your staff contact Michael R. Esser, Assistant Inspector General for Audits, at 606-2143.

cc: Dennis Coleman
Chief Financial Officer

Daniel Marella
Deputy Chief Financial Officer

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the United States (U.S.) Office of Personnel Management (OPM) as of September 30, 2012 and 2011, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended (hereinafter referred to as "consolidated financial statements" or "basic financial statements"). We have also audited the individual balance sheets of the Retirement, Health Benefits, and Life Insurance Programs (hereinafter referred to as the "Programs") as of September 30, 2012 and 2011, and the related individual statements of net cost, changes in net position, and budgetary resources for the years then ended (hereinafter referred to as the Programs' "individual financial statements" or "basic financial statements"). The objective of our audits was to express an opinion on the fair presentation of these consolidated and individual financial statements. In connection with our fiscal year 2012 audit, we also considered OPM's and the Programs' internal controls over financial reporting and tested OPM's and the Programs' compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated and individual financial statements.

SUMMARY

As stated in our opinion on the financial statements, we concluded that OPM's consolidated financial statements and the Programs' individual financial statements as of and for the years ended September 30, 2012 and 2011, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our Opinion on the Financial Statements, OPM and the Programs changed the presentation for reporting the Statement of Budgetary Resources in fiscal year 2012.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be significant deficiencies, as defined in the Internal Control Over Financial Reporting section of this report, as follows:

1. Information Systems Control Environment (OPM and the Programs)

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

KPMG

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

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

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

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Office of Personnel Management as of September 30, 2012 and 2011, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended. We have also audited the individual balance sheets of the Programs as of September 30, 2012 and 2011, and the related individual statements of net cost, changes in net position, and budgetary resources for the years then ended. The Programs' individual financial statements are included in the consolidating financial statements presented in the Consolidating Financial Statements section of OPM's *Fiscal Year 2012 Agency Financial Report*.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OPM and the financial position of each of the Programs as of September 30, 2012 and 2011, and the consolidated and individual Programs' net costs, changes in net position, and budgetary resources for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1S to the consolidated and individual financial statements, OPM and the Programs changed the presentation for reporting the Combined and Combining Statement of Budgetary Resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, OPM and the Program's Combined and Combining Statements of Budgetary Resources for fiscal year 2011 has been adjusted to conform to the current presentation.

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting

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for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of OPM taken as a whole and on the Programs' individual financial statements. The individual financial statements of the Revolving Fund (RF) Program and Salaries and Expense (S&E) Fund included in the Consolidating Financial Statements section of OPM's *Fiscal Year 2012 Agency Financial Report* (Schedules 1 through 4) are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, and budgetary resources of the individual RF Program and S&E Fund. The financial statements of the RF Program and S&E Fund have been subjected to the auditing procedures applied in the audit of the consolidated financial statements of OPM and, in our opinion, are fairly stated in all material aspects in relation to OPM's consolidated financial statements taken as a whole.

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

The information in the Message from the Director, Message from the CFO, Transmittal from OPM's Inspector General, Other Accompanying Information Section and Appendix A, included in OPM's *Fiscal Year 2012 Agency Financial Report*, are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. Such information has not been subjected to auditing procedures and, accordingly, we do not express an opinion or provide assurance on them.

INTERNAL CONTROL OVER FINANCIAL REPORTING

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. In our fiscal year 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in Exhibit I that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Exhibit II presents the status of the prior year material weakness and significant deficiency.

We noted certain additional matters that we have reported to management of OPM in a separate letter dated November 7, 2012.

COMPLIANCE AND OTHER MATTERS

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

The results of our tests of FFMIA disclosed no instances in which OPM's or the Programs' financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

We noted certain additional matters that we have reported to management of OPM in a separate letter dated November 7, 2012.

* * * * *

RESPONSIBILITIES

Management's Responsibilities. Management is responsible for the consolidated financial statements of OPM and the individual financial statements of the Programs;

establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to OPM.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2012 and 2011 consolidated financial statements of OPM and the individual financial statements of the Programs based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OPM's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

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

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

In planning and performing our fiscal year 2012 audit, we considered OPM's and the Programs' internal control over financial reporting by obtaining an understanding of OPM's and the Programs' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements of OPM and the individual financial statements of the Programs, but not for the purpose of expressing an opinion on the effectiveness of OPM's or the Programs' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OPM's or the Programs' internal control over financial reporting. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether OPM's fiscal year 2012 consolidated and the Programs' fiscal year 2012 individual financial statements are free of material misstatement, we performed tests of OPM's and the Programs' compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04,

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including certain provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to OPM and the Programs. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

OPM's written responses to the findings identified in our audit and presented in Exhibit I were not subjected to the auditing procedures applied in the audit of the consolidated financial statements of OPM and the individual financial statements of the Programs and, accordingly, we express no opinion on it.

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

KPMG LLP

November 7, 2012

Exhibit I. Significant Deficiencies

Information Systems Control Environment

Condition

In fiscal year (FY) 2011, a material weakness was reported related to the Office of Personnel Management's (OPM) internal control environment due to the persistence of a number of long standing significant deficiencies in OPM's information security control environment. These significant deficiencies included the lack of effective security program governance, deficiencies in certification & accreditation packages, and inaccurate Plans of Action and Milestones (POA&Ms).

During FY 2012, OPM management demonstrated progress in addressing these long standing issues by reviewing and updating the Certification & Accreditation package for the Benefits Financial Management System and continuing to improve security program guidance. In addition, on August 14, 2012, the Director of OPM directed the OPM Chief Information Officer (CIO) to establish a centralized system of Information System Security Officers (ISSOs) to manage information security across OPM's program offices.

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

1 Security authorization packages for financial systems did not identify and document relevant controls.

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

3 A continuous monitoring program has not been fully implemented.

4 Information security control weaknesses that are identified, are not completely recorded and the status of their resolution is not accurately tracked in Plan of Action and Milestones.

5 Security policies and procedures were occasionally inconsistent.

6 The current authoritative guidance on information security has not been fully applied across OPM's information systems.

Federal Information Process Standards 200 *Minimum Security Requirements for Federal Information and Information Systems*, and National Institute Standards and Technology Special Publication 800-53 Revision 3, *Security Controls for Federal Information Systems and Organizations*, in combination, provide a framework to help ensure that appropriate security requirements and security controls are applied by agencies to all federal information and information systems. This framework includes an organizational assessment of risk by agencies that validates the initial security control selection and determines if any additional controls are needed to protect organizational operations. The resulting set of security controls establishes a level of security due diligence for the organization.

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

OPM has operated a decentralized security program where system owners in program offices assign Designated Security Officers (DSOs) to carry out the CIO's information security responsibilities. The system owners are responsible for allocating sufficient and competent resources to fulfill these responsibilities. Without complete and consistent security control documentation and complete and thorough procedures and testing, the agency may not be informed of security control weaknesses that threaten the confidentiality, integrity, and availability of the data contained in its information systems.

Recommendation

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

Management Response

OPM management made significant progress and has taken major steps to improve IT security and accountability at OPM. A CIO initiated memo directing the centralization of the security responsibilities of DSO in the Office of Chief Information Security Officer was issued by the OPM Director on August 14, 2012 with an effective date of October 1, 2012. The CIO has already hired initial staff with professional IT security experience and certifications. The initial set of systems have been transition to ISSOs for security management and we expect to have all OPM systems under centralized management once the full complement of professional security staff is on board.

Management has implemented a gate review process to address the recommendations for security authorization packages to ensure compliance early in the process. Significant progress was made with continuous monitoring through development of a comprehensive 4 phase implementation plan with the first phase to be implemented in the FY 2013. Comprehensive security policies were developed and implemented and plans are in place to update current policies to reflect audit recommendations and the direction of the IT security program. In FY 2013, an automated POA&M management system will be implemented. The automated POA&M system is expected to enhance accuracy and efficiency in tracking and managing POA&Ms. We will continue to review all audit recommendations and take the appropriate steps to further enhance our processes and security programs.

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

Condition

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

- Deficiencies in the design and operation of controls over financial management and reporting processes of the Revolving Fund (RF) and Salary and Expense (S&E) Fund noted in the prior year continue to exist with modifications. Specifically:
    - OPM has not completed Fund Balance with Treasury (FBwT) reconciliations for RF and S&E Fund for months prior to August 2011, as required by Treasury guidance.
    - OPM has not reconciled differences between the RF and S&E Fund recorded FBwT amounts and amounts reported on U.S. Treasury's (Treasury) Government Wide Statements (GWA), as required by Treasury guidance.
    - OPM is not in compliance with requirements of the Treasury Financial Manual (TFM) 2-5100, Supplement, *Fund Balance with Treasury Reconciliation Procedures, Exhibit 2A*, which does not allow prior month differences to remain outstanding for more than three months and requires disclosure of any differences more than three months old.
- The Office of the Chief Financial Officer (OCFO) was not aware of changes being made to the actuarial assumptions during FY 2012 that significantly impacted the actuarial liabilities.

According to Office of Management and Budget Circular Number A-123, transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for documentation. In addition, the *(TFM 2-5100)* requires that Federal agencies must reconcile their SGL 1010 account and any related sub-accounts with Treasury on a monthly basis (at minimum). They must review those accounts each month to maintain the accuracy and reliability of their fund balance records for both prior year and current year appropriations. Agencies must reconcile no-year, revolving, deposit and trust fund accounts. They also must reconcile clearing and receipt accounts. This detailed reconciliation assures that agency data accumulated in the fund balance account is accurate. It also allows the agency to resolve differences in a timely manner. When resolving differences, agencies should maintain detailed reconciliation worksheets that, if needed can be reviewed by the agency's auditors or Treasury. *TFM 2-5100 Fund Balance with Treasury Reconciliation Procedures* requires that Federal agencies must resolve all differences between the balances reported on their G/L FBwT accounts and balances reported on the GWA Account Statement and does not permit prior-month differences to remain outstanding for more than 3 months. Agencies must disclose any differences more than 3 months old separately and explain them on the GWA Account Statement worksheet.

Federal Managers Financial Integrity Act of 1982 (FMFIA) requires that internal accounting and administrative controls of each executive agency should be established in accordance with standards prescribed by the Comptroller General, and should provide reasonable assurances that revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Deficiencies in the operation controls over financial management and reporting processes of OPM programs could result in misstatements to OPM's financial statements. Resources have not been allocated or made available to fully address this control deficiency.

Recommendation

We recommend that:

OPM OCFO design and implement procedures to perform and monitor timely reconciliations of FBwT for the RF and S&E Fund in accordance with guidelines in the Treasury Financial Manual 2-5100.

OPM, specifically the OCFO and the Office of the Actuaries (OA), develop milestones and timelines to communicate regularly and that the OCFO design, document and implement procedures to include monitor and evaluate changes to the methodology and use of data to ensure that data input to the actuarial valuations are complete, accurate, appropriate, and supported. If data used by the OA is from an external third party, OPM should monitor the level of assurance over the data and implement additional procedures over the data, as appropriate.

Management Response

OPM concurs with the findings and recommendations. OPM made significant progress addressing these deficiencies in FY 2012 and will continue with corrective actions in FY 2013. Specifically, OCFO made significant progress reconciling its RF and S&E Fund FBwT account balances in FY 2012. OCFO Financial Services (FS) implemented detailed monthly reconciliations of its SGL 1010 (Cash) account and related sub-accounts with Treasury on a monthly basis. Those accounts are reviewed each month to maintain the accuracy and reliability of the fund balance records for both prior-year and current-year appropriations. OCFO believes this detailed reconciliation assures that agency data accumulated in the fund balance account is accurate. In addition, FS implemented new internal control procedures in its cash management of the RF and S&E accounts, and it has drafted new FBwT reconciliation procedures. OCFO acknowledges a small irreconcilable difference between OPM and Treasury balances that will be resolved in the coming FY in accordance with Treasury Financial Management manual guidelines. Also, OCFO and the

OPM OA have agreed to increase oversight of actuarial valuations but note that most of the prior-year control weaknesses reported by the auditors for actuarial valuations have been addressed in FY 2012. Additionally, OA did have sufficient controls in place to ensure that changes to actuarial assumptions in FY 2012 were reasonable and in accordance with actuarial standards. OA controls 'included reviews by OA managers and staff and a separate review by the OPM Board of Actuaries. Nevertheless, OA has agreed to formally notify OCFO when it plans to change actuarial assumptions and OCFO will provide increased oversight to monitor changes to the actuarial methodology, assumptions, and use of data beginning in FY 2013.

Exhibit II Status of Prior Year Material Weakness and Significant Deficiency

Exhibit	Title of Deficiency from FY11 Report	Program/ Fund	Prior Year Status	Current Year Status
I	Information Systems General Control Environment	All (A)	Material Weakness	Significant Deficiency – See FY 2012, Exhibit I
II	Controls over Financial Management and Reporting Processes of Office of Personnel Management (OPM) Operational Activities and Related Data	All (A)	Significant Deficiency	Significant Deficiency - See FY 2012, Exhibit I

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

Consolidated Financial Statements

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED BALANCE SHEETS
As of September 30, 2012 and 2011
(In Millions)

	FY 2012	FY 2011
ASSETS		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	$2,050	$2,023
Investments [Note 3]	943,810	916,205
Accounts Receivable [Note 4]	13,003	2,686
Total Intragovernmental	958,863	920,914
Accounts Receivable from the Public, Net [Note 4]	1,340	1,341
General Property and Equipment, Net	33	27
Other [Note 1L]	721	739
TOTAL ASSETS	$960,957	$923,021
LIABILITIES		
Intragovernmental [Note 6]	$710	$594
Federal Employee Benefits:		
Benefits Due and Payable	11,079	10,526
Pension Liability [Note 5A]	1,678,200	1,532,600
Postretirement Health Benefits Liability [Note 5B]	316,197	329,204
Actuarial Life Insurance Liability [Note 5C]	46,446	43,786
Total Federal Employee Benefits	2,051,922	1,916,116
Other [Notes 6 and 7]	1,357	1,239
Total Liabilities	2,053,989	1,917,949
NET POSITION		
Unexpended Appropriations - Other Funds	137	154
Cumulative Results of Operations - Earmarked Funds [Note 8]	(1,093,596)	(995,474)
Cumulative Results of Operations - Other Funds	427	392
Total Net Position	(1,093,032)	(994,928)
TOTAL LIABILITIES AND NET POSITION	$960,957	$923,021

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, 2012 and 2011
(In Millions)

		FY 2012	FY 2011
Provide CSRS Benefits	Gross Costs	$70,405	$20,307
	Less: Earned Revenue	20,325	21,508
	Net Cost	50,080	(1,201)
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A]	82,866	11,272
	Net Cost of Operations [Notes 9 and 10]	$132,946	$10,071
Provide FERS Benefits	Gross Costs	$43,199	$18,567
	Less: Earned Revenue	41,439	41,288
	Net Cost	1,760	(22,721)
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A]	23,201	2,525
	Net Cost of Operations [Notes 9 and 10]	$24,961	($20,196)
Provide Health Benefits	Gross Costs	$37,735	$41,328
	Less: Earned Revenue	46,932	34,849
	Net Cost	(9,197)	6,479
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5B]	(7,880)	(12,664)
	Net Cost of Operations [Notes 9 and 10]	($17,077)	($6,185)
Provide Life Insurance Benefits	Gross Costs	$4,636	$4,078
	Less: Earned Revenue	4,343	4,442
	Net Cost	293	(364)
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5C]	745	(874)
	Net Cost of Operations [Notes 9 and 10]	$1,038	($1,238)
Provide Human Resource Services	Gross Costs	$2,012	$1,998
	Less: Earned Revenue	1,896	1,891
	Net Cost of Operations [Notes 9 and 10]	$116	$107
Total Net Cost of Operations	Gross Costs	$157,987	$86,278
	Less: Earned Revenue	114,935	103,978
	Net Cost	43,052	(17,700)
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Notes 5A, 5B, and 5C]	98,932	259
	Net Cost of Operations [Notes 9 and 10]	$141,984	($17,441)

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, 2012 and 2011
(In Millions)

	FY 2012			FY 2011		
	Earmarked Funds	All Other Funds	Consolidated Total	Earmarked Funds	All Other Funds	Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balances	($995,474)	$392	($995,082)	($1,054,603)	$411	($1,054,192)
Budgetary Financing Sources:						
Appropriations Used	43,753	110	43,863	41,586	43	41,629
Other Financing Sources	(7)	41	34	(5)	45	40
Total Financing Sources	43,746	151	43,897	41,581	88	41,669
Net Cost of Operations	141,868	116	141,984	(17,548)	107	(17,441)
Net Change	(98,122)	35	(98,087)	59,129	(19)	59,110
Cumulative Results of Operations - Ending Balance	($1,093,596)	$427	($1,093,169)	($995,474)	$392	($995,082)
UNEXPENDED APPROPRIATIONS						
Beginning Balance	–	$154	$154	–	$97	$97
Budgetary Financing Sources:						
Appropriations Received	$43,938	101	44,039	$41,618	101	41,719
Appropriations Used	(43,753)	(110)	(43,863)	(41,586)	(43)	(41,629)
Other Budgetary Financing Sources	(185)	(8)	(193)	(32)	(1)	(33)
Total Budgetary Financing Sources	–	(17)	(17)	–	57	57
Total Unexpended Appropriations - Ending Balance	–	137	137	–	154	154
Net Position	($1,093,596)	$564	($1,093,032)	($995,474)	$546	($994,928)

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, 2012 and 2011
(In Millions)

	FY 2012	FY 2011
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1	$55,944	$51,651
Recoveries of Prior Year Unpaid Obligations	149	70
Other Changes in Unobligated Balance	(8)	(1)
Unobligated Balance, from Prior Year Budget Authority, Net	56,085	51,720
Appropriations	118,360	112,363
Spending Authority from Offsetting Collections	51,279	50,212
Total Budgetary Resources	$225,724	$214,295
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred: [Note 12]		
Direct	$164,103	$156,160
Reimbursable	2,205	2,191
Total Obligations Incurred	166,308	158,351
Unobligated Balance, End of Year:		
Apportioned	282	429
Unapportioned	59,134	55,515
Total Unobligated Balance, End of Year	59,416	55,944
Total Budgetary Resources	$225,724	$214,295
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$14,098	$13,393
Obligations Incurred	166,308	158,351
Less: Outlays, Gross	165,578	157,576
Less: Recoveries of Prior Year Unpaid Obligations	149	70
Unpaid Obligations, End of Year	$14,679	$14,098
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	$3,352	$3,698
Change in Uncollected Payments, Federal Sources	(113)	(346)
Uncollected Payments, Federal Sources, End of Year	$3,239	$3,352
Memorandum (Non-add) Entries:		
Obligated Balance, Start of Year	$10,746	$9,695
Obligated Balance, End of Year	$11,440	$10,746
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, Gross	$169,639	$162,575
Less: Actual Offsetting Collections	51,393	50,558
Less: Change in Uncollected Customer Payments from Federal Sources	(113)	(346)
Budget Authority, Net	$118,359	$112,363
Outlays, Gross	$165,578	$157,576
Less: Actual Offsetting Collections	51,393	50,558
Outlays, Net	114,185	107,018
Less: Distributed Offsetting Receipts	34,730	32,928
Agency Outlays, Net	$79,455	$74,090

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

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

September 30, 2012 and 2011
[$ in millions]

Note 1 Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

Retirement Program. The Program consists of two defined-benefit pension plans: the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). Together, the two plans cover substantially all full-time, permanent civilian Federal employees. The CSRS, implemented in 1921, is a stand-alone plan, providing benefits to most Federal employees hired before 1984. The FERS uses Social Security as its base and provides an additional defined benefit and a voluntary thrift savings plan to most employees entering the Federal service after 1983. The FERS was established in 1986 and when it became effective on January 1, 1987, CSRS Interim employees with less than 5 years of creditable civilian service on December 31, 1986, were automatically converted to FERS. Both plans are operated via the Civil Service Retirement and Disability Fund (CSRDF), a trust fund. Title 5, United States Code, Chapters 83 and 84, provide a complete description of the CSRDF's provisions. OPM does not administer the voluntary Thrift Savings Plan.

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

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

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

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

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

B. Basis of Accounting and Presentation

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

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

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

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

C. Use of Management's Estimates

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

D. Financial Statement Classifications

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

Intragovernmental and Other Balances. Throughout these financial statements, intragovernmental assets, liabilities, revenues and costs have been classified according to the type of entity with which the transactions are associated. OPM classifies as intragovernmental those transactions with other Federal entities. In accordance with Federal accounting standards, OPM classifies employee contributions to the Retirement, Health Benefits and Life Insurance Programs as exchange revenues "from the public." OPM's entire gross cost to provide Retirement, Health and Life Insurance benefits are classified as costs "with the public" because the recipients of these benefits are Federal employees, retirees, and their survivors and families. As a consequence, on the accompanying consolidated Statements of Net Cost and in other notes to OPM's financial statements, OPM reports there are no intragovernmental gross costs to provide retirement, health and life insurance benefits.

Exchange vs. Non-exchange Revenue. Exchange or earned revenue is an inflow of resources to a Government entity that the entity has earned; it arises when each party to a transaction sacrifices value and receives value in return. All of OPM's revenues are classified as exchange revenues. Federal reporting standards require that earnings on investments be classified in the same manner as the "predominant source of revenue that funds the investments;" OPM, therefore, classifies earnings on investments as earned revenue. Employing agency and participant contributions to the Retirement, Health Benefits and Life Insurance Programs and the scheduled payment contributions to the PSRHB Fund are classified as exchange revenues, since they represent exchanges of money and services in return for current and future benefits. The consolidated Statements of Net Cost provides users with the ability to ascertain whether OPM's exchange revenues are sufficient to cover the total cost it has incurred to provide Retirement, Health, and Life Insurance benefits.

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

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

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

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

E. Net Cost of Operations

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

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

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

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

F. Program Funding

Retirement Program. Service-cost represents an estimate of the amount of contributions which, if accumulated and invested over the careers of participants, will be sufficient to fully fund their future CSRS or FERS benefits. OPM's Office of Actuaries has determined that the service-cost for most or "regular" CSRS participants is 32.3 percent and 29.8 percent of basic pay for FY 2012 and FY 2011, respectively. For FERS, the service cost for most or "regular" FERS participants is 14.2 percent and 13.7 percent of basic pay for FY 2012 and FY 2011, respectively.

CSRS. Both CSRS participants and their employing agencies,with the exception of USPS, are required by statute to make contributions to CSRS coverage. Regular CSRS participants and their employers each contributed 7.0 percent of pay in both fiscal years 2012 and 2011. The combined 14.0 percent of pay does not cover the service cost of a CSRS benefit. To lessen the shortfall, the U.S. Department of Treasury (Treasury) was required by statute to transfer an amount annually from the General Fund of the United States to the CSRDF [See Note 1G.]; for FY 2012 and 2011, this amount was $33.0 billion and $31.3 billion, respectively.

FERS. Both FERS participants and their employing agencies are required by statute to make contributions for FERS coverage. The FERS participant contribution rate is equal to the CSRS participant contribution rate less the prevailing Old Age Survivor and Disability Insurance deduction rate (0.8 percent for most participants for FY 2012 and 2011). The employer contribution rate is equal to the FERS service–cost, less the participant contribution rate (11.9 and 11.7 percent of pay in FY 2012 and 2011, respectively, for most participants). In FY 2010, the FERS normal costs for funding increased due to a change in demographic assumptions by the Board of Actuaries; however, due to budgeting considerations, an increase in contributions for FERS participants had been deferred until FY 2012.

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

P.L. 109-435 requires the USPS to make scheduled payment contributions to the PSRHB Fund ranging from approximately $5.4 to $5.8 billion per year from FY 2007 through FY 2016 according to the legislation. However, due to two Continuing Resolutions enacted by Congress, P.L. 112-33 and P.L. 112-36, the USPS had no payment due on September 30, 2011. The FY2012 funding law P.L. 112-74 that passed December 23, 2011 included a provision to extend the deadline to August 1, 2012 for the $5.5 billion payment to the PSRHB Fund that was originally due September 30, 2011. Current statute also required an additional USPS $5.6 billion payment to the PSRHBF due September 30, 2012, for a total of $11.1 billion due to the PSRHBF in FY 2012. The USPS has defaulted on both the August 1st 2012 and September 30th 2012 payments. At this time, Congress has not taken further action on these payments due from USPS.

Life Insurance Program. The Program is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis; OPM contributes the "employer" share for Retirement Program annuitants via an appropriation. The Program is funded using the "level premium" method, where contributions paid by and for participants remain fixed until age 65, but overcharge during early years of coverage to compensate for higher rates of expected outflows at later years. A portion of post-retirement life insurance coverage is not funded; 0.02 percent of the pay of participating employees in FY 2012 and 2011.

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

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

G. Financing Sources Other Than Earned Revenue

OPM receives inflows of assets from financing sources other than earned revenue. These financing sources are not deducted from OPM's gross cost of providing benefits and services on the Consolidated Statements of Net Cost, but added to its net position on the Consolidated Statements of Changes in Net Position. OPM's major financing sources other than earned revenue are:

Transfer-in from the General Fund. The U.S. Treasury is required by law to transfer an amount annually to the Retirement Program from the General Fund of the U.S. to subsidize in part the under-funding of the CSRS. The transfer-in is presented as a transfer-in from the Treasury General Fund, obligation, and disbursement of the funds to the CSRDF on the Statement of Budgetary Resources.

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

H. Budgetary Resources

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

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

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

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

I. Fund Balance with Treasury

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

J. Investments

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

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

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

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

K. Accounts Receivable, Net

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

L. Other Assets

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

M. General Property and Equipment

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

N. Benefits Due and Payable

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

O. Actuarial Liabilities and Associated Expenses

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

P. Cumulative Results of Operations

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

Q. Tax Status

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

R. Parent-Child Reporting Allocation Transfer

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

S. Reclassification

In FY2012, changes to the presentation of the Combined and Combining Statements of Budgetary Resources (SBR) were made, in accordance with guidance provided in OMB Circular No. A-136. As such, activity and balances reported on the FY 2011 Combined and Combining Statement of Budgetary Resources have been reclassified to conform to the presentation in the current year. Certain other prior year amounts have also been reclassified to conform with the current year presentation.

Note 2 Fund Balance with Treasury

Fund Balances. OPM's FBWT balances by account type for September 30, 2012 and 2011 are:

September 30, 2012 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Trust Fund	$13	–	–	–	$13
Revolving Fund	–	–	–	$728	728
General Funds	–	$1,100	$6	97	1,203
Trust Revolving Funds	–	101	5	–	106
Total	**$13**	**$1,201**	**$11**	**$825**	**$2,050**
September 30, 2011 ($ in millions)	**Retirement Program**	**Health Benefits Program**	**Life Insurance Program**	**Other**	**Total**
Trust Fund	$33	–	–	–	$33
Revolving Fund	–	–	-	$582	582
General Funds	–	$1,177	$5	127	1,309
Trust Revolving Funds	–	93	6	–	99
Total	**$33**	**$1,270**	**$11**	**$709**	**$2,023**

Status of Fund Balance with Treasury. OPM's unexpended balances are comprised of its FBWT and its investments (at par, net of original discount). The following table presents the portions of OPM's unexpended balances that are obligated, unobligated and precluded from obligation at September 30, 2012 and 2011:

September 30, 2012 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$13	$1,201	$11	$825	$2,050
Investments	826,555	66,549	40,800	–	933,904
Total, Unexpended Balance	**$826,568**	**$67,750**	**$40,811**	**$825**	**$935,954**
STATUS OF FUND BALANCES					
Unobligated:					
Available	–	–	–	$282	$282
Unavailable	–	$18,606	$40,326	202	59,134
Obligated not yet Disbursed	$6,817	3,797	485	341	11,440
Precluded (See Note 11)	819,751	45,347	–	–	865,098
Total, Status of Fund Balances	**$826,568**	**$67,750**	**$40,811**	**$825**	**$935,954**

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

Note 3 – Investments

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

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

Treasury securities provide OPM with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When OPM requires redemption of these Treasury securities to make expenditures, the Government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. This is the same way the Government finances all other expenditures. When a security is redeemed and not carried to maturity, there is a risk that the fund could receive less value in return for the security it gave up. The Health Benefit and Life Insurance funds had approximately $109 billion invested as of September 30, 2012. Approximately $65 billion are market-based and have some market value risk.

The following tables summarize OPM's investments by Program, all earmarked funds, at the end of September 2012 and 2011.

As of September 30, 2012 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program:						
Marketable:						
FFB Securities	$7,111	–	$83	$7,194	–	$7,111
Non-Marketable: (PAR)						
Par-value GAS securities	784,428	–	7,971	792,399	–	784,428
Certificates of Indebtedness	35,016	–	3	35,019	–	35,016
Total Retirement Program	**$826,555**	**–**	**$8,057**	**$834,612**	**–**	**$826,555**
Health Benefits Program:						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$21,468	($44)	$85	$21,509	$162	$21,657
Non-Marketable: (PAR)						
Par-value GAS securities	45,347	–	396	45,743	–	45,347
Certificates of Indebtedness		–	–		–	
Total Health Benefits Program	**$66,815**	**($44)**	**$481**	**$67,252**	**$162**	**$67,004**
Life Insurance Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$41,522	$59	$365	$41,946	$332	$42,838
Total Life Insurance Program	**$41,522**	**$59**	**$365**	**$41,946**	**$332**	**$42,838**
Total Investments	***$934,892***	***$15***	***$8,903***	***$943,810***	***$494***	***$936,397***

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

Note 4 – Accounts Receivable, Net

Intragovernmental. The balances comprising OPM's intragovernmental accounts receivable as of September 30, 2012 and 2011 are:

September 30, 2012 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	$1,001	$11,860	$16	–	$12,877
Other	–	–	–	$126	126
Total	**$1,001**	**$11,860**	**$16**	**$126**	**$13,003**
September 30, 2011 ($ in millions)	**Retirement Program**	**Health Benefits Program**	**Life Insurance Program**	**Other**	**Total**
Employer contributions receivable	$1,883	$632	$16	–	$2,531
Other	–	–	–	$155	155
Total	**$1,883**	**$632**	**$16**	**$155**	**$2,686**

From the Public. The balances comprising the accounts receivable OPM classifies as "from the public" at September 30, 2012 and 2011 are presented, in the following table. See Note 1K for the methodology used to determine the allowance.

September 30, 2012 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	$117	$813	$146	–	$1,076
Overpayment of benefits [net of allowance of $98]	230	–	–	–	230
Due from carriers [net of allowance of $0]	–	30	–	–	30
Other	–	–	–	$4	4
Total	**$347**	**$843**	**$146**	**$4**	**$1,340**
September 30, 2011 ($ in millions)	**Retirement Program**	**Health Benefits Program**	**Life Insurance Program**	**Other**	**Total**
Participant contributions receivable	$196	$808	$149	–	$1,153
Overpayment of benefits [net of allowance of $93]	128	–	–	–	128
Due from carriers [net of allowance of $3]	–	59	–	–	59
Other	–	–	–	$1	1
Total	**$324**	**$867**	**$149**	**$1**	**$1,341**

Note 5 – Federal Employee Benefits

A. Pensions

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

Economic Assumptions. The economic assumptions used to calculate the Pension Liability and related Pension Expense under SFFAS No. 33 are based on 10-year historical averages. These economic assumptions differ from those established by OPM under guidance from the CSRS Board of Actuaries for the determination of certain statutory funding payments for CSRS and FERS. The following presents the significant economic assumptions used under SFFAS No. 33 to compute the Pension Liability in fiscal years 2012 and 2011:

	FY 2012		FY 2011	
	CSRS	FERS	CSRS	FERS
Interest rate	4.3%	4.7%	4.6%	4.9%
Cost of Living Adjustment*	2.5%	2.0%	2.4%	1.9%
Rate of increases in salary	2.6%	2.6%	3.1%	3.1%

*Note - The actuarial liability for CSRS and FERS is determined based on an assumed rate of retiree cost of living adjustment factor-COLAs, an assumption that is related to the general rate of inflation.

Pension Expense. The following tables present Pension Expense by cost component for fiscal years 2012 and 2011:

FY 2012 ($ in millions)	CSRS	FERS	TOTAL
Service cost	$8,255	$25,034	$33,289
Interest cost	49,605	21,269	70,874
Actuarial (gain)/ loss - Experience	12,545	(3,104)	9,441
Actuarial loss/(gain) - Assumptions	82,866	23,201	106,067
Pension Expense	**$153,271**	**$66,400**	**$219,671**
FY 2011 ($ in millions)			
Service cost	$8,553	$25,801	$34,354
Interest cost	53,396	21,422	74,818
Actuarial (gain)/ loss - Experience	(41,642)	(28,656)	(70,298)
Actuarial loss/(gain) - Assumptions	11,272	2,525	13,797
Pension Expense	**$31,579**	**$21,092**	**$52,671**

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

FY 2012 ($ in millions)	CSRS	FERS	TOTAL
Pension Liability at October 1, 2011	$1,107,300	$425,300	$1,532,600
Plus: Pension Expense			
Normal Cost	$8,255	$25,034	$33,289
Interest on the Liability Balance	49,605	21,269	70,874
Actuarial (gain)/loss:			
From experience:	12,545	(3,104)	9,441
From changes in actuarial assumptions:	82,866	23,201	106,067
Net (Gain)/Loss	$95,411	$20,097	$115,508
Total Expense:	$153,271	$66,400	$219,671
Less: Costs applied to Pension Liability	66,771	7,300	74,071
Pension Liability at September 30, 2012	**$1,193,800**	**$484,400**	**$1,678,200**
FY 2011 ($ in millions)			
Pension Liability at October 1, 2010	$1,139,900	$410,300	$1,550,200
Plus: Pension Expense			
Normal Cost	$8,553	$25,801	$34,354
Interest on the Liability Balance	53,396	21,422	74,818
Actuarial (gain)/loss:			
From experience:	(41,642)	(28,656)	(70,298)
From changes in actuarial assumptions:	11,272	2,525	13,797
Net Loss	($30,370)	($26,131)	($56,501)
Total Expense:	$31,579	$21,092	$52,671
Less: Costs applied to Pension Liability	64,179	6,092	70,271
Pension Liability at September 30, 2011	**$1,107,300**	**$425,300**	**$1,532,600**

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 2012 and 2011:

FY 2012 ($ in millions)	CSRS	FERS	TOTAL
Annuities	$66,385	$7,133	$73,518
Refunds of contributions	271	109	380
Administrative and other expenses	115	58	173
Costs applied to the Pension Liability	**$66,771**	**$7,300**	**$74,071**
FY 2011 ($ in millions)			
Annuities	$63,841	$5,951	$69,792
Refunds of contributions	215	103	318
Administrative and other expenses	123	38	161
Costs applied to the Pension Liability	**$64,179**	**$6,092**	**$70,271**

B. Post-Retirement Health Benefits

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

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

	FY 2012	FY 2011
Interest rate(1)	4.7%	4.9%
Increase in per capita cost of covered benefits(2)	3.7%	5.5%
Ultimate medical trend rate	4.4%	4.3%

(1) The single equivalent annual interest rate for FY 2012 is 4.7%; this is derived from a yield curve based on the average of the last 40 quarters through March 2012. The single equivalent annual interest rate for FY 2011 was 4.9%; this was derived from a yield curve based on the average of the last 40 quarters through March 2011.

(2) The increase in per capita cost of covered benefits for FY 2012 represents a variable trend which begins at 3.7%, rising to 6.2% in FY 2026 and then declining to 4.4% by FY 2084. Last year, the increase in per capita cost of covered benefits represented a variable trend that began at 5.5%, declining to 4.3%.

PRHB Expense. The following presents the PRHB Expense by cost component for fiscal years 2012 and 2011:

($ in millions)	FY 2012	FY 2011
Service cost	$13,220	$13,717
Interest cost	16,131	17,415
Actuarial (gain)/loss - Experience	(21,132)	(17,386)
Actuarial (gain)/loss - Assumptions	(7,880)	(12,664)
PRHB Expense	**$339**	**$1,082**

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

($ in millions)	FY 2012	FY 2011
PRHB Liability at the beginning of the year	$329,204	$341,465
Plus: PRHB Expense		
Normal Cost	13,220	13,717
Interest on the Liability Balance	16,131	17,415
Actuarial (gain)/loss:		
From experience:	(21,132)	(17,386)
From assumption changes:	(7,880)	(12,664)
Total Expense:	339	1,082
Less: Costs applied to PRHB Liability	(13,346)	(13,343)
PRHB Liability at the end of the year	**$316,197**	**$329,204**

Costs Applied to PRHB Liability. In accordance with Federal accounting standards, OPM reduces the PRHB Liability by applying certain Program costs. The following table presents the costs applied to the PRHB Liability in fiscal years 2012 and 2011:

($ in millions)	FY 2012	FY 2011
Current benefits	$10,303	$10,393
Premiums	2,079	2,039
Administrative and other expenses	964	911
Total costs applied to the PRHB Liability	**$13,346**	**$13,343**

Effect of Assumptions. The increase in the per capita cost of covered benefits assumed by OPM's actuaries has a significant effect on the amounts reported as the PRHB Liability and associated expense. A one percentage point change in the per capita cost of covered benefits assumption would have the following effects in fiscal years 2012 and 2011:

($ in millions)	FY 2012		FY 2011	
	One Percent Increase	One Percent Decrease	One Percent Increase	One Percent Decrease
PRHB Liability	$357,784	$280,491	$371,075	$293,041

(In Whole $)	FY 2012			FY 2011		
	Per Capita Normal Cost at Valuation Date	One Percent Increase	One Percent Decrease	Per Capita Normal Cost at Valuation Date	One Percent Increase	One Percent Decrease
	$4,888	$6,188	$3,847	$5,365	$6,781	$4,230

C. Life Insurance

Actuarial Life Insurance Liability. The Actuarial Life Insurance Liability (ALIL) is the expected present value (EPV) of future benefits to be paid to, or on behalf of, existing Life Insurance Program participants, less the EPV of future contributions to be collected from those participants. In applying SFFAS No. 33 for calculating the ALIL, OPM's actuary uses salary increase and interest rate yield curve assumptions that are consistent with those used for computing the CSRS and FERS Pension Liability in FY 2012 and 2011. This entails the determination of a single equivalent interest rate that is specific to the ALIL.

	FY 2012	FY 2011
Interest rate	4.5%	4.8%
Rate of increases in salary	2.6%	3.1%

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

Life Insurance Expense. The following presents the Life Insurance Expense by cost component for fiscal years 2012 and 2011:

($ in millions)	FY 2012	FY 2011
New Entrant Expense	$310	$370
Interest cost	2,097	2,113
Actuarial (gain)/ loss - Experience	37	(510)
Actuarial (gain)/ loss - Assumptions	745	(874)
Life Insurance Expense	**$3,189**	**$1,099**

Future Life Insurance Benefits Expense. The Future Life Insurance Benefits Expense for fiscal years 2012 and 2011 is:

($ in millions)	FY 2012	FY 2011
Life Insurance Expense	$3,189	$1,099
Less: Net Costs applied to Life liability	529	518
Future Life Insurance Benefits Expense	**$2,660**	**$581**

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

($ in millions)	FY 2012	FY 2011
Actuarial LI Liability at the beginning of the year	$43,786	$43,205
Plus: Expense		
New Entrant Expense	310	370
Interest on the Liability Balance	2,097	2,113
Actuarial (gain)/loss:		
From experience:	37	(510)
From assumption changes:	745	(874)
Total LI Expense:	3,189	1,099
Less: Costs applied to Life Insurance Liability	(529)	(518)
Actuarial LI Liability at the end of the year	**$46,446**	**$43,786**

Note 6 Intragovernmental and Other Liabilities

The following liabilities are classified as "Intragovernmental" on the Balance Sheet as of September 30, 2012 and 2011:

September 30, 2012 ($ in millions)	Accounts Payable	Other	Total
Retirement	$91	–	$91
Health Benefits	283	–	283
Life Insurance	4	–	4
Revolving Fund	4	$444	448
Salaries and Expenses	1	2	3
Eliminations	(118)	(1)	(119)
Total Intragovernmental Liabilities	**$265**	**$445**	**$710**
September 30, 2011 ($ in millions)	**Accounts Payable**	**Other**	**Total**
Retirement	$87	–	$87
Health Benefits	277	–	277
Life Insurance	2	–	2
Revolving Fund	4	$327	331
Salaries and Expenses	3	2	5
Eliminations	(107)	(1)	(108)
Total Intragovernmental Liabilities	**$266**	**$328**	**$594**

The following liabilities, all current and "with the public," are classified as "other" on the Balance Sheet as of September 30, 2012 and 2011:

September 30, 2012 ($ in millions)	Withheld from benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued Administrative expenses	Contingencies	Total
Retirement Program	$835	–	–	$10	$845
Health Benefits Program	–	$328	–	–	328
Life Insurance Program	–	80	–	12	92
Revolving Fund Program	–	–	$59	–	59
Salaries and Expenses	–	–	31	2	33
Total Other Liabilities	**$835**	**$408**	**$90**	**$24**	**$1,357**
September 30, 2011 ($ in millions)	**Withheld from benefits**	**Accrued Carrier Liabilities Other Than Benefits**	**Accrued Administrative expenses**	**Contingencies**	**Total**
Retirement Program	$783	–	–	–	$783
Health Benefits Program	–	$287	–	–	287
Life Insurance Program	–	51	–	–	51
Revolving Fund Program	–	–	$74	–	74
Salaries and Expenses	–	–	42	$2	44
Total Other Liabilities	**$783**	**$338**	**$116**	**$2**	**$1,239**

Note 7 – Contingencies

Health Benefits Program. In prior years, OPM was a party to litigation in which certain Health Benefits Program carriers were seeking relief for alleged underpayment of premiums. As a result of one adverse court decision, the Department of Justice, which represented OPM in the litigation, settled most of the remaining cases (one other case was tried and lost). Judgments/settlements in those cases were paid from the Treasury Judgment Fund (TJF). However, because any underpayments that may have occurred resulted from inaccuracies in the amount of contributions by or on behalf of employee-participants that were remitted to OPM by the employing agencies (which remittances came from the respective agencies' appropriations), OPM has neither the legal responsibility nor the legal authority to reimburse the TJF. Nonetheless, the Department of the Treasury continues to assert that OPM is liable to reimburse the TJF for the amount of the judgments/settlements. As such, OPM has accrued $260 million as of September 30, 2012 and September 30, 2011 in Intragovernmental Liabilities due to Treasury.

Other Litigation. OPM is often involved in other legal and administrative proceedings that arise in the ordinary course of business. For FY2012, OPM has recorded a total liability of $24.3 million for the estimated amount of losses it will probably incur from litigation. For Salaries and Expenses the estimated amount of probable losses is $2.2 million, for the Revolving Fund the estimated amount of probable losses is $0.4 million, for the Retirement Fund the estimated amount of probable losses is $10 million, and for the Life Insurance Fund the estimated amount of probable losses is $11.7 million. For FY 2011, OPM recorded a liability only for Salaries and Expenses; the estimated amount of probable losses was $2 million.

In addition, OPM has determined, at September 30, 2012, it is reasonably possible that losses ranging from an additional $624.5 million to $627.5 million will result, compared with $957.9 million to $958.6 million in FY 2011. For the Salaries and Expenses Program, the total of reasonably possible losses ranges from $5.6 million to $7.7 million, compared with $56.5 million to $57 million in FY 2011; for the Revolving Fund Program, the total of reasonably possible losses ranges from $1.9 million to $2.8 million, compared with $1.4 million to $1.6 million in FY 2011; for the Retirement Fund Program, the total of reasonably possible losses is $590 million, compared with $600 million in FY 2011; and for the Life Insurance Fund the total of reasonably possible losses is $27 million, compared with $300 million in FY 2011. Based upon the opinion of its General Counsel, OPM management believes the combined outcome of all such proceedings, either pending or known to be threatened, will have no material adverse effect on OPM's financial position or results of operations.

Note 8 – Earmarked Funds

Funds Purpose. The funds related to the operation of the Retirement Program, the Health Benefits Program (which includes the PSRHB Fund), and the Life Insurance Program, are "earmarked funds," as defined by SFFAS No. 27 – "Identifying and Reporting Earmarked Funds." The standard defines earmarked funds as being financed by statutorily dedicated revenues, often supplemented by other financing sources, which remain available over time. The statutory authority for OPM's earmarked funds associated with Federal employees' benefit programs can be found in Title 5, United States Code; Chapters 83 and 84 provide a complete description of the Civil Service Retirement and Disability Fund's provisions; Chapter 89 provides a complete description of the Employees Health Benefits Fund and the Retired Employees Health Benefits Fund provisions; and Chapter 87 provides a complete description of the Employees Group Life Insurance Fund provisions. In addition, Sections 802 and 803 of P.L. 109- 435, the Postal Act, amended certain provisions of Chapters 83 and 89 of Title 5 dealing with the Retirement Program and the Health Benefits Program, respectively.

A condensed version of the Earmarked Funds Balance Sheet as of September 30, 2012 and September 30, 2011 follows:

September 30, 2012 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
ASSETS				
Fund Balance with Treasury	$13	$1,201	$11	**$1,225**
Investments	834,612	67,252	41,946	**943,810**
Accounts Receivable	1,348	12,703	162	**14,213**
Other Assets	–	71	650	**721**
Total Assets	**$835,973**	**$81,227**	**$42,769**	**$959,969**
LIABILITIES and NET POSITION				
Intragovernmental	$91	$283	$4	**$378**
Benefits Due and Payable	5,895	4,410	774	**11,079**
Pension Liability	1,678,200	–	–	**1,678,200**
Post-Retirement Health Benefits Liability	–	316,197	–	**316,197**
Actuarial Life Insurance Liability	–	–	46,446	**46,446**
Other Liabilities	845	328	92	**1,265**
Total Liabilities	**$1,685,031**	**$321,218**	**$47,316**	**$2,053,565**
Cumulative Results of Operations	(849,058)	(239,991)	(4,547)	**(1,093,596)**
Total Liabilities and Net Position	**$835,973**	**$81,227**	**$42,769**	**$959,969**

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

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

The Health Benefits Program (with the exception of the PSRHB Fund) is funded on a "pay-as-you-go" basis, with both participants and their employing agencies making contributions on approximately a one-quarter to three-quarters basis (OPM contributes the "employer" share for Retirement Program annuitants via an appropriation). P.L. 109-435 requires the USPS to make scheduled payment contributions to the new PSRHB Fund ranging from approximately $5.4 to $5.8 billion per year from fiscal year 2007 through fiscal year 2016 in accordance with the legislation. Thereafter, the USPS will make annual payments of the sum of the normal cost payment. However, due to two Continuing Resolutions enacted by Congress, P.L. 112-33 and P.L. 112-36, the USPS had no payment due on September 30, 2011. The subsequent FY2012 funding law P.L. 112-74 included a provision to extend the deadline to August 1, 2012 for the $5.5 billion payment to the PSRHB Fund that was originally due September 30, 2011. Current statute also required a payment of $5.6 billion that was due by September 30, 2012, for a total of $11.1 billion, which were both defaulted upon by USPS. At this time, Congress has not taken further action on these payments due from USPS.

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

A condensed version of the Earmarked Funds' Statement of Net Cost for September 30, 2012 and 2011 follows:

FY 2012 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Gross Program Costs	$113,604	$37,735	$4,636	$155,975
Less Earned Revenues	61,764	46,932	4,343	113,039
Actuarial (gain)/ loss on Pension, ORB or OPEB Assumptions Changes	106,067	(7,880)	745	98,932
Net Cost of Operations	**$157,907**	**($17,077)**	**$1,038**	**$141,868**
FY 2011 ($ in millions)	**Retirement Program**	**Health Benefits Program**	**Life Insurance Program**	**Total**
Gross Program Costs	$38,874	$41,328	$4,078	$84,280
Less Earned Revenues	62,796	34,849	4,442	102,087
Actuarial (gain)/ loss on Pension, ORB or OPEB Assumptions Changes	13,797	(12,664)	(874)	259
Net Cost of Operations	**($10,125)**	**($6,185)**	**($1,238)**	**($17,548)**

A condensed version of the Earmarked Funds' Statement of Changes in Net Position for September 30, 2012 and 2011 follows:

FY 2012 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Total
Net Position Beginning of Period	($724,167)	($267,751)	($3,556)	($995,474)
Budgetary Financing Sources	33,016	10,683	47	43,746
Net Cost of Operations	157,907	(17,077)	1,038	141,868
Change in Net Position	(124,891)	27,760	(991)	(98,122)
Net Position End of Period	**($849,058)**	**($239,991)**	**($4,547)**	**($1,093,596)**
FY 2011 ($ in millions)	**Retirement Program**	**Health Benefits Program**	**Life Insurance Program**	**Total**
Net Position Beginning of Period	($765,568)	($284,196)	($4,839)	($1,054,603)
Budgetary Financing Sources	31,276	10,260	45	41,581
Net Cost of Operations	(10,125)	(6,185)	(1,238)	(17,548)
Change in Net Position	41,401	16,445	1,283	59,129
Net Position End of Period	**($724,167)**	**($267,751)**	**($3,556)**	**($995,474)**

Note 9 – Intragovernmental Gross Costs and Earned Revenue

The following table presents the portion of OPM's gross costs and earned revenue that was classified as intragovernmental and "with the public" for September 30, 2012 and 2011:

FY 2012 ($ in millions)	GROSS COSTS			EARNED REVENUE		
	Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total
Provide CSRS Benefits	–	$70,405	$70,405	$18,560	$1,765	$20,325
Provide FERS Benefits	–	43,199	43,199	39,874	1,565	41,439
Provide Health Benefits	–	37,735	37,735	33,853	13,079	46,932
Provide Life Insurance Benefits	–	4,636	4,636	1,664	2,679	4,343
Provide Human Resources Services	$143	1,869	2,012	1,892	4	1,896
Total	**$143**	**$157,844**	**$157,987**	**$95,843**	**$19,092**	**$114,935**
FY 2011 ($ in millions)	**Intra-governmental**	**With the Public**	**Total**	**Intra-governmental**	**With the Public**	**Total**
Provide CSRS Benefits	–	$20,307	$20,307	$19,465	$2,043	$21,508
Provide FERS Benefits	–	18,567	18,567	39,753	1,535	41,288
Provide Health Benefits	–	41,328	41,328	22,064	12,785	34,849
Provide Life Insurance Benefits	–	4,078	4,078	1,686	2,756	4,442
Provide Human Resources Services	$146	1,852	1,998	1,888	3	1,891
Total	**$146**	**$86,132**	**$86,278**	**$84,856**	**$19,122**	**$103,978**

Note 10 – Net Cost by Strategic Goals

OPM's Strategic Plan for 2010 – 2015, updated in February 2012, features five broad Strategic Goals that define OPM's direction, and are summarized in the following chart:

Strategic Goal 1	Hire the Best - Recruit and hire the most talented and diverse Federal workforce possible to serve the American people
Strategic Goal 2	Respect the Workforce - Provide the training, benefits, and work-life balance necessary for Federal employees to succeed, prosper, and advance in their careers
Strategic Goal 3	Expect the Best - Ensure the Federal workforce and its leaders are fully accountable and are fairly appraised while having the tools, systems, and resources to perform at the highest levels to achieve superior results
Strategic Goal 4	Honor Service - Ensure comparable recognition and reward for exemplary performance of current employees and honor the careers of Federal retirees
Strategic Goal 5	Improve Access to Health Insurance - Develop and administer programs that provide high quality and affordable health insurance to uninsured Americans who are seeking health insurance through Affordable Care Act exchanges, uninsured Americans with pre-existing medical conditions who cannot otherwise purchase coverage, and employees of tribes or tribal organizations.

Strategic Goals 2012 ($ in millions)		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
Goal 1	Total program cost	–	–	–	–	$975	**$975**
	Less earned revenue	–	–	–	–	948	**948**
	Net program cost	–	–	–	–	$27	**$27**
Goal 2	Total program cost	$33,314	$14,432	$6,489	$1,170	$36	**$55,441**
	Less earned revenue	4,418	9,007	10,201	944	25	**24,595**
	Net program cost	$28,896	$5,425	($3,712)	$226	$11	**$30,846**
Goal 3	Total program cost	–	–	–	–	$972	**$972**
	Less earned revenue	–	–	–	–	903	**903**
	Net program cost	–	–	–	–	$69	**$69**
Goal 4	Total program cost	$119,957	$51,968	$23,366	$4,211	$29	**$199,531**
	Less earned revenue	15,907	32,432	36,731	3,399	20	**88,489**
	Net program cost	$104,050	$19,536	($13,365)	$812	$9	**$111,042**
Goal 5	Total program cost	–	–	–	–	–	**–**
	Less earned revenue	–	–	–	–	–	**–**
	Net program cost	–	–	–	–	–	**–**
Total	Total program cost	$153,271	$66,400	$29,855	$5,381	$2,012	**$256,919**
	Less earned revenue	20,325	41,439	46,932	4,343	1,896	**114,935**
	Net program cost	$132,946	$24,961	($17,077)	$1,038	$116	**$141,984**

NOTE: The Total program cost includes any loss/gain on Pension, ORB, or OPEB assumption changes (see Notes 5A, 5B, and 5C).

NOTE: OPM's Strategic Plan for 2010 – 2015 was updated in February 2012 to include 5 strategic goals.

Strategic Goals 2011 ($ in millions)		Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Total
Goal 1	Total program cost	–	–	–	–	$967	**$967**
	Less earned revenue	–	–	–	–	939	**939**
	Net program cost	–	–	–	–	$28	**$28**
Goal 2	Total program cost	$6,960	$4,649	$9,109	$899	$41	**$21,658**
	Less earned revenue	4,740	9,100	10,473	1,172	31	**25,516**
	Net program cost	$2,220	($4,451)	($1,364)	($273)	$10	**($3,858)**
Goal 3	Total program cost	$3,465	$2,314	$4,534	$447	$968	**$11,728**
	Less earned revenue	2,360	4,530	5,212	583	904	**13,589**
	Net program cost	$1,105	($2,216)	($678)	($136)	$64	**($1,861)**
Goal 4	Total program cost	$21,154	$14,129	$27,685	$2,732	$22	**$65,722**
	Less earned revenue	14,408	27,658	31,828	3,561	17	**77,472**
	Net program cost	$6,746	($13,529)	($4,143)	($829)	$5	**($11,750)**
Total	**Total program cost**	**$31,579**	**$21,092**	**$41,328**	**$4,078**	**$1,998**	**$100,075**
	Less earned revenue	**21,508**	**41,288**	**47,513**	**5,316**	**1,891**	**117,516**
	Net program cost	**$10,071**	**($20,196)**	**($6,185)**	**($1,238)**	**$107**	**($17,441)**

Note 11 – Availability of Unobligated Balances

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

The following table presents the unobligated balance of the CSRDF that is included in the Retirement Program that is temporarily precluded from obligation as of September 30, 2012 and 2011 (rounding may appear):

September 30 ($ in millions)	2012	2011
Temporarily precluded from obligation at the beginning of the year	$797,477	$774,159
Plus: Trust fund receipts during the year	96,780	93,994
Plus: Appropriations Received	33,023	31,281
Less: Obligations incurred during the year	107,529	101,957
Excess of trust fund receipts over obligations incurred during the year	22,274	23,318
Temporarily Precluded from Obligation at the End of the Year	**$819,751**	**$797,477**

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

For the PSRHBF, there were two payments due from the USPS in FY 2012, one for $5.5 billion due by August 1, 2012, and a second payment of $5.6 billion due by September 30, 2012, a total of $11.1 billion, which were both defaulted upon by USPS. At this time, Congress has not taken further action on these payments due from USPS.

Also, FY 2012 and FY 2011 receipts included interest income. The following table presents the unobligated balance of the PSRHB Fund included in the Health Benefits Program that is temporarily precluded from obligation as of September 30, 2012 and 2011:

September 30 ($ in millions)	2012	2011
Temporarily precluded from obligation at the beginning of the year	$43,707	$42,115
Plus: Special Fund receipts during the year	1,640	1,592
Excess of Special Fund receipts over obligations incurred during the year	1,640	1,592
Temporarily Precluded from Obligation at the End of the Year	**$45,347**	**$43,707**

Revolving Fund Programs. OPM's Revolving Fund Programs are administered through an intragovernmental revolving fund. An intragovernmental revolving fund is designed to carry-out a cycle of business-type operations with other Federal agencies or separately funded components of the same agency. The unobligated balance in OPM's intragovernmental revolving fund is available for obligation and expenditure, upon apportionment by OMB, without further action by Congress.

Salaries and Expenses. OPM funds its administrative costs through annual, multiple-year, and "no-year" appropriations. For its annual appropriations, the unobligated balance expires at the end of the applicable fiscal year. For OPM's multiple-year appropriations, the unobligated balance remains available for obligation and expenditure for a specified period in excess of a fiscal year. For its no-year appropriations, the unobligated balance is carried forward and is available for obligation and expenditure indefinitely until the objectives for which it was intended have been accomplished.

Note 12 – Apportionment Categories of Incurred Obligations

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

The following chart details the direct and reimbursable obligations that have been incurred against each apportionment category during fiscal years 2012 and 2011:

FY 2012 Program/Fund ($ in millions)	Category	Direct	Reimbursable	Total
Retirement Program	B	$74,506	–	**$74,506**
Retirement Program	E	33,023	–	**33,023**
Subtotal		$107,529		**$107,529**
Health Benefits Program	B	53,489	–	**53,489**
Life Insurance Program	B	2,764	–	**2,764**
Revolving Fund Program	B	–	$2,145	**2,145**
Salaries and Expenses	A&B	321	60	**381**
Total		**$164,103**	**$2,205**	**$166,308**
FY 2011 Program/Fund ($ in millions)	**Category**	**Direct**	**Reimbursable**	**Total**
Retirement Program	B	$70,676	–	**$70,676**
Retirement Program	E	31,281	–	**31,281**
Subtotal		$101,957		**$101,957**
Health Benefits Program	B	51,206	–	**51,206**
Life Insurance Program	B	2,660	–	**2,660**
Revolving Fund Program	A	–	$2,144	**2,144**
Salaries and Expenses	A	337	47	**384**
Total		**$156,160**	**$2,191**	**$158,351**

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

OPM reports information about budgetary resources in the Combined Statements of Budgetary Resources (SBR) and for presentation in the "President's Budget." The President's Budget for FY 2014, which will contain the actual budgetary resources information for FY 2012, will be published in February 2013 and will be available on the OMB website at http://www.whitehouse.gov/omb/. The President's Budget for FY 2013, which contains actual budgetary resource information for FY 2011, was released on February 13, 2012.

There are no material differences between the Statement of Budgetary Resources and the SF-133s - Reports on Budget Execution for FY 2012 and FY 2011. Additionally, there are no material differences between the actual amounts for FY 2011 published in the President's Budget and those reported in the accompanying FY 2011 Combined Statement of Budgetary Resources. See Note 1S Reclassification, as early adoption of the FY2013 SBR presentation was made in FY2012.

Note 14 – Undelivered Orders at the End of the Period

The amounts of budgetary resources obligated for undelivered orders at the end of September 2012 and 2011 are as follows:

Undelivered Orders ($ in millions)	Revolving Fund Programs	Salaries & Expenses	Total
FY 2012	$1,228	$135	**$1,363**
FY 2011	$1,089	$123	**$1,212**

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

SFFAS No. 7 requires a reconciliation of proprietary and budgetary information in a way that helps users relate the two. The FY 2012 reconciliation and comparative FY 2011 reconciliation are as follows:

FY 2012 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2012
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$107,529	$53,489	$2,764	$2,145	$381	$166,308
Less: Spending Authority from Offsetting Collections and Recoveries	–	44,736	4,260	2,137	295	51,428
Less: Appropriated Trust Fund Receipts	96,780	1,640	–	–	–	98,420
Obligations Net of Offsetting Collections and Recoveries	10,749	7,113	(1,496)	8	86	16,460
Less: Offsetting Receipts	33,080	1,640	–	10	–	34,730
Net Obligations	**($22,331)**	**$5,473**	**($1,496)**	**($2)**	**$86**	**($18,270)**
Other Resources	–	–	–	25	16	41
Total Resources Used to Finance/Generated from Activities	***($22,331)***	***$5,473***	***($1,496)***	***$23***	***$102***	***($18,229)***
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$33,023	–	–	–	–	$33,023
Other	57	$1,533	($140)	($9)	($8)	1,433
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**33,080**	**1,533**	**(140)**	**(9)**	**(8)**	**34,456**
Total Resources Used to Finance/Generated From the Net Cost of Operations	**$10,749**	**$7,006**	**($1,636)**	**$14**	**$94**	**$16,227**
COMPONENTS OF NET COST OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in Future Periods:						
Increase in Actuarial Liabilities	$145,600	($13,007)	$2,660	–	–	$135,253
Exchange Revenue Not in the Budget	1,582	(11,104)	14	1	–	(9,507)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	147,182	(24,111)	2,674	1	–	125,746
Components Not Requiring or Generating Resources						
Other	(24)	28	–	(13)	20	11
Total Components of Net Cost of Operations that Do Not Require or Generate Resources	(24)	28	–	(13)	20	11
Total Components of Net Cost of Operations that Do Not Require or Generate Resources in the Current Period	**$147,158**	**($24,083)**	**$2,674**	**($12)**	**$20**	**$125,757**
NET COST OF OPERATIONS	***$157,907***	***($17,077)***	***$1,038***	***$2***	***$114***	***$141,984***

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

Note 16 – Health Benefits and Life Insurance Program Concentrations

During fiscal years 2012 and 2011, over half of the Health Benefits Program's benefits were administered by the Blue Cross and Blue Shield Association, a fee-for-service carrier that provides experience-rated benefits. For the Life Insurance Program, virtually all of the benefits were administered by the Metropolitan Life Insurance Company.

Consolidating Financial Statements

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2012
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Programs	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2012
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$13	$1,201	$11	$728	$97	–	$2,050
Investments [Note 3]	834,612	67,252	41,946	–	–	–	943,810
Accounts Receivable [Note 4]	1,001	11,860	16	127	118	($119)	13,003
Total Intragovernmental	835,626	80,313	41,973	855	215	(119)	958,863
Accounts Receivable from the Public, Net [Note 4]	347	843	146	–	4	–	1,340
General Property and Equipment, Net	–	–	–	31	2	–	33
Other [Note 1L]	–	71	650	–	–	–	721
TOTAL ASSETS	$835,973	$81,227	$42,769	$886	$221	($119)	$960,957
LIABILITIES							
Intragovernmental [Note 6]	$91	$283	$4	$448	$3	($119)	$710
Federal Employee Benefits:							
Benefits Due and Payable	5,895	4,410	774	–	–	–	11,079
Pension Liability [Note 5A]	1,678,200	–	–	–	–	–	1,678,200
Postretirement Health Benefits Liability [Note 5B]	–	316,197	–	–	–	–	316,197
Actuarial Life Insurance Liability [Note 5C]	–	–	46,446	–	–	–	46,446
Total Federal Employee Benefits	1,684,095	320,607	47,220	–	–	–	2,051,922
Other [Notes 6 and 7]	845	328	92	59	33	–	1,357
Total Liabilities	1,685,031	321,218	47,316	507	36	(119)	2,053,989
NET POSITION							
Unexpended Appropriations - Other Funds	–	–	–	3	134	–	137
Cumulative Results of Operations							
Earmarked Funds	(849,058)	(239,991)	(4,547)	–	–	–	(1,093,596)
Cumulative Results of Operations - Other Funds	–	–	–	376	51	–	427
Total Net Position	(849,058)	(239,991)	(4,547)	379	185	–	(1,093,032)
TOTAL LIABILITIES AND NET POSITION	$835,973	$81,227	$42,769	$886	$221	($119)	$960,957

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2011
(In Millions)

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

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2012
(In Millions)

	Retirement Programs								
	CSRS	FERS	Total	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY2012
GROSS COSTS									
Intragovernmental	–	–	–	–	–	$231	$263	($351)	$143
With the Public:									
Pension Expense [Note 5A]	$70,405	$43,199	$113,604	–	–	–	–	–	113,604
Postretirement Health Benefits [Note 5B]	–	–	–	$8,219	–	–	–	–	8,219
Future Life Insurance Benefits [Note 5C]	–	–	–	–	$1,915	–	–	–	1,915
Current Benefits and Premiums	–	–	–	28,266	2,688	–	–	–	30,954
Other	–	–	–	1,250	33	1,741	128	–	3,152
Total Gross Costs with the Public	70,405	43,199	113,604	37,735	4,636	1,741	128	–	157,844
Total Gross Costs [Notes 9 and 10]	70,405	43,199	113,604	37,735	4,636	1,972	391	(351)	157,987
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	1,395	23,086	24,481	31,934	502	–	–	–	56,917
Earnings on Investments	17,165	16,788	33,953	1,919	1,162	–	–	–	37,034
Other	–	–	–	–	–	1,969	274	(351)	1,892
Total Intragovernmental Earned Revenue	18,560	39,874	58,434	33,853	1,664	1,969	274	(351)	95,843
With the Public:									
Participant Contributions	1,765	1,565	3,330	13,073	2,676	–	–	–	19,079
Other	–	–	–	6	3	1	3	–	13
Total Earned Revenue with the Public	1,765	1,565	3,330	13,079	2,679	1	3	–	19,092
Total Earned Revenue [Notes 9 and 10]	20,325	41,439	61,764	46,932	4,343	1,970	277	(351)	114,935
Net Cost	$50,080	$1,760	$51,840	($9,197)	$293	$2	$114	–	$43,052
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A, 5B, and 5C]	82,866	23,201	106,067	(7,880)	745	–	–	–	98,932
Net Cost of Operations [Notes 9 and 10]	$132,946	$24,961	$157,907	($17,077)	$1,038	$2	$114	–	$141,984

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF NET COST
For the Year Ended September 30, 2011
(In Millions)

	Retirement Programs								
	CSRS	FERS	Total	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY2011
GROSS COSTS									
Intragovernmental	–	–	–	–	–	$245	$238	($337)	$146
With the Public:									
Pension Expense [Note 5A]	$20,307	$18,567	$38,874	–	–	–	–	–	38,874
Postretirement Health Benefits [Note 5B]	–	–	–	$13,746	–	–	–	–	13,746
Future Life Insurance Benefits [Note 5C]	–	–	–	–	$1,455	–	–	–	1,455
Current Benefits and Premiums	–	–	–	26,469	2,614	–	–	–	29,083
Other	–	–	–	1,113	9	1,741	111	–	2,974
Total Gross Costs with the Public	20,307	18,567	38,874	41,328	4,078	1,741	111	–	86,132
Total Gross Costs [Notes 9 and 10]	20,307	18,567	38,874	41,328	4,078	1,986	349	(337)	86,278
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	1,642	22,204	23,846	20,125	509	–	–	–	44,480
Earnings on Investments	17,823	17,549	35,372	1,939	1,177	–	–	–	38,488
Other	–	–	–	–	–	1,960	265	(337)	1,888
Total Intragovernmental Earned Revenue	19,465	39,753	59,218	22,064	1,686	1,960	265	(337)	84,856
With the Public:									
Participant Contributions	2,043	1,535	3,578	12,774	2,753	–	–	–	19,105
Other	–	–	–	11	3	1	2	–	17
Total Earned Revenue with the Public	2,043	1,535	3,578	12,785	2,756	1	2	–	19,122
Total Earned Revenue [Notes 9 and 10]	21,508	41,288	62,796	34,849	4,442	1,961	267	(337)	103,978
Net Cost	($1,201)	($22,721)	($23,922)	$6,479	($364)	$25	$82	–	($17,700)
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A, 5B, and 5C]	11,272	2,525	13,797	(12,664)	(874)	–	–	–	259
Net Cost of Operations [Notes 9 and 10]	$10,071	($20,196)	($10,125)	($6,185)	($1,238)	$25	$82	–	($17,441)

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2012
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Total Earmarked Funds	Revolving Fund Programs	Salaries and Expenses	Total All Other Funds	FY 2012
CUMULATIVE RESULTS OF OPERATIONS								
Beginning Balance	($724,167)	($267,751)	($3,556)	($995,474)	$353	$39	$392	($995,082)
Budgetary Financing Sources:								
Appropriations Used	33,023	10,683	47	43,753	–	110	110	43,863
Transfer-In (Out) Without Reimbursement	–	–	–	–	–	–	–	–
Other Financing Sources	(7)	–	–	(7)	25	16	41	34
Total Financing Sources	33,016	10,683	47	43,746	25	126	151	43,897
Net Cost of Operations	157,907	(17,077)	1,038	141,868	2	114	116	141,984
Net Change	(124,891)	27,760	(991)	(98,122)	23	12	35	(98,087)
Cumulative Results of Operations - Ending Balance	($849,058)	($239,991)	($4,547)	($1,093,596)	$376	$51	$427	($1,093,169)
UNEXPENDED APPROPRIATIONS								
Beginning Balance	–	–	–	–	$3	$151	$154	$154
Budgetary Financing Sources:								
Appropriations Received	$33,023	$10,867	$48	$43,938	–	101	101	44,039
Appropriations Used	(33,023)	(10,683)	(47)	(43,753)	–	(110)	(110)	(43,863)
Other Budgetary Financing Sources	–	(184)	(1)	(185)	–	(8)	(8)	(193)
Total Budgetary Financing Sources	–	–	–	–	–	(17)	(17)	(17)
Total Unexpended Appropriations - Ending Balance	–	–	–	–	$3	$134	$137	$137
NET POSITION	($849,058)	($239,991)	($4,547)	($1,093,596)	$379	$185	$564	($1,093,032)

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2011
(In Millions)

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

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2012
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY2012
BUDGETARY RESOURCES						
Unobligated Balance, Brought Forward, October 1	–	$16,676	$38,783	$413	$72	$55,944
Recoveries of Prior Year Unpaid Obligations	–	–	–	135	14	149
Other Changes in Unobligated Balance					(8)	(8)
Unobligated Balance, from Prior Year Budget Authority, Net	–	16,676	38,783	548	78	56,085
Appropriations	$107,529	10,683	47	–	101	118,360
Spending Authority from Offsetting Collections	–	44,736	4,260	2,002	281	51,279
Total Budgetary Resources	$107,529	$72,095	$43,090	$2,550	$460	$225,724
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred: [Note 12]						
Direct	$107,529	$53,489	$2,764	–	$321	$164,103
Reimbursable	–	–	–	$2,145	60	2,205
Total Obligations Incurred	107,529	53,489	2,764	2,145	381	166,308
Unobligated Balance, End of Year:						
Apportioned	–	–	–	269	13	282
Unapportioned	–	18,606	40,326	136	66	59,134
Total Unobligated Balance, End of Year	–	18,606	40,326	405	79	59,416
Total Budgetary Resources	$107,529	$72,095	$43,090	$2,550	$460	$225,724

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2012 (Continued)
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY2012
CHANGE IN OBLIGATED BALANCE						
Unpaid Obligations:						
Unpaid Obligations, Brought Forward, October 1	$6,368	$5,595	$821	$1,141	$173	$14,098
Obligations Incurred	107,529	53,489	2,764	2,145	381	166,308
Less: Outlays, Gross	107,080	53,360	2,720	2,021	397	165,578
Less: Recoveries of Prior Year Unpaid Obligations	–	–	–	135	14	149
Unpaid Obligations, End of Year	$6,817	$5,724	$865	$1,130	$143	$14,679
Uncollected Payments:						
Uncollected Payments, Federal Sources,						
Brought Forward, October 1	–	$1,886	$376	$971	$119	$3,352
Change in Uncollected Payments, Federal Sources	–	41	4	(164)	6	(113)
Uncollected Payments, Federal Sources, End of Year	–	$1,927	$380	$807	$125	$3,239
Memorandum (Non-add) Entries:						
Obligated Balance, Start of Year	$6,368	$3,709	$445	$170	$54	$10,746
Obligated Balance, End of Year	$6,817	$3,797	$485	$323	$18	$11,440
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, Gross	$107,529	$55,419	$4,307	$2,002	$382	$169,639
Less: Actual Offsetting Collections	–	44,695	4,257	2,166	275	51,393
Less: Change in Uncollected Customer Payments						
from Federal Sources	–	41	4	(164)	6	(113)
Budget Authority, Net	$107,529	$10,683	$46	–	$101	$118,359
Outlays, Gross	$107,080	$53,360	$2,720	$2,021	$397	$165,578
Less: Actual Offsetting Collections	–	44,695	4,257	2,166	275	51,393
Outlays, Net	107,080	8,665	(1,537)	(145)	122	114,185
Less: Distributed Offsetting Receipts	33,080	1,640	–	10	–	34,730
Agency Outlays, Net	$74,000	$7,025	($1,537)	($155)	$122	$79,455

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

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

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY2011
BUDGETARY RESOURCES						
Unobligated Balance, Brought Forward, October 1	–	$14,134	$36,747	$694	$76	$51,651
Recoveries of Prior Year Unpaid Obligations	–	–	–	63	7	70
Other Changes in Unobligated Balance	–	–	–	–	(1)	(1)
Unobligated Balance, from Prior Year Budget Authority, Net	–	14,134	36,747	757	82	51,720
Appropriations	$101,957	10,260	45	–	101	112,363
Spending Authority from Offsetting Collections	–	43,488	4,651	1,800	273	50,212
Total Budgetary Resources	$101,957	$67,882	$41,443	$2,557	$456	$214,295
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred: [Note 12]						
Direct	$101,957	$51,206	$2,660	–	$337	$156,160
Reimbursable	–	–	–	$2,144	47	2,191
Total Obligations Incurred	101,957	51,206	2,660	2,144	384	158,351
Unobligated Balance, End of Year:						
Apportioned	–	–	–	402	27	429
Unapportioned	–	16,676	38,783	11	45	55,515
Total Unobligated Balance, End of Year	–	16,676	38,783	413	72	55,944
Total Budgetary Resources	$101,957	$67,882	$41,443	$2,557	$456	$214,295

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

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY2011
CHANGE IN OBLIGATED BALANCE						
Unpaid Obligations:						
Unpaid Obligations, Brought Forward, October 1	$6,222	$5,203	$791	$1,047	$130	$13,393
Obligations Incurred	101,957	51,206	2,660	2,144	384	158,351
Less: Outlays, Gross	101,811	50,814	2,630	1,987	334	157,576
Less: Recoveries of Prior Year Unpaid Obligations	–	–	–	63	7	70
Unpaid Obligations, End of Year	$6,368	$5,595	$821	$1,141	$173	$14,098
Uncollected Payments:						
Uncollected Payments, Federal Sources,						
Brought Forward, October 1	–	$2,032	$383	$1,172	$111	$3,698
Change in Uncollected Payments, Federal Sources	–	(146)	(7)	(201)	8	(346)
Uncollected Payments, Federal Sources, End of Year	–	$1,886	$376	$971	$119	$3,352
Memorandum (Non-add) Entries:						
Obligated Balance, Start of Year	$6,222	$3,171	$408	($125)	$19	$9,695
Obligated Balance, End of Year	$6,368	$3,709	$445	$170	$54	$10,746
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, Gross	$101,957	$53,748	$4,696	$1,800	$374	$162,575
Less: Actual Offsetting Collections	–	43,634	4,658	2,001	265	50,558
Less: Change in Uncollected Customer Payments						
from Federal Sources	–	(146)	(7)	(201)	8	(346)
Budget Authority, Net	$101,957	$10,260	$45	–	$101	$112,363
Outlays, Gross	$101,811	$50,814	$2,630	$1,987	$334	$157,576
Less: Actual Offsetting Collections	–	43,634	4,658	2,001	265	50,558
Outlays, Net	101,811	7,180	(2,028)	(14)	69	107,018
Less: Distributed Offsetting Receipts	31,336	1,592	–	–	–	32,928
Agency Outlays, Net	$70,475	$5,588	($2,028)	($14)	$69	$74,090

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

Required Supplementary Information

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2012
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY2012
BUDGETARY RESOURCES							
Unobligated Balance, Brought Forward, October 1	–	$16,676	$38,783	$413	$72	–	$55,944
Recoveries of Prior Year Unpaid Obligations	–	–	–	135	14	–	149
Other Changes in Unobligated Balance	–	–	–	–	(8)	–	(8)
Unobligated Balance, from Prior Year Budget Authority, Net	–	16,676	38,783	548	78	–	56,085
Appropriations	$74,506	–	–	–	101	$43,753	118,360
Spending Authority from Offsetting Collections	–	44,736	4,260	2,002	281	–	51,279
Total Budgetary Resources	$74,506	$61,412	$43,043	$2,550	$460	$43,753	$225,724
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred: [Note 12]							
Direct	$74,506	$42,806	$2,717	–	$321	$43,753	$164,103
Reimbursable	–	–	–	$2,145	60	–	2,205
Total Obligations Incurred	74,506	42,806	2,717	2,145	381	43,753	166,308
Unobligated Balance, End of Year:							
Apportioned	–	–	–	269	13	–	282
Unapportioned	–	18,606	40,326	136	66	–	59,134
Total Unobligated Balance, End of Year	–	18,606	40,326	405	79	–	59,416
Total Budgetary Resources	$74,506	$61,412	$43,043	$2,550	$460	$43,753	$225,724

LEGEND:

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2012 (Continued)
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY2012
CHANGE IN OBLIGATED BALANCE							
Unpaid Obligations:							
Unpaid Obligations, Brought Forward, October 1	$6,368	$4,418	$815	$1,141	$173	$1,183	$14,098
Obligations Incurred	74,506	42,806	2,717	2,145	381	43,753	166,308
Less: Outlays, Gross	74,057	42,601	2,673	2,021	397	43,829	165,578
Less: Recoveries of Prior Year Unpaid Obligations	–	–	–	135	14	–	149
Unpaid Obligations, End of Year	$6,817	$4,623	$859	$1,130	$143	$1,107	$14,679
Uncollected Payments:							
Uncollected Payments, Federal Sources,							
Brought Forward, October 1	–	$1,886	$376	$971	$119	–	3,352
Change in Uncollected Payments, Federal Sources	–	41	4	(164)	6	–	(113)
Uncollected Payments, Federal Sources, End of Year	–	$1,927	$380	$807	$125	–	$3,239
Memorandum (Non-add) Entries:							
Obligated Balance, Start of Year	$6,368	$2,532	$439	$170	$54	$1,183	$10,746
Obligated Balance, End of Year	$6,817	$2,696	$479	$323	$18	$1,107	$11,440
BUDGET AUTHORITY AND OUTLAYS, NET							
Budget Authority, Gross	$74,506	$44,736	$4,260	$2,002	$382	$43,753	$169,639
Less: Actual Offsetting Collections	–	44,695	4,257	2,166	275	–	51,393
Less: Change in Uncollected Customer Payments							
from Federal Sources	–	41	4	(164)	6	–	(113)
Budget Authority, Net	$74,506	–	(1)	–	$101	$43,753	$118,359
Outlays, Gross	$74,057	$42,601	$2,673	$2,021	$397	$43,829	$165,578
Less: Actual Offsetting Collections	–	44,695	4,257	2,166	275	–	51,393
Outlays, Net	74,057	(2,094)	(1,584)	(145)	122	43,829	114,185
Less: Distributed Offsetting Receipts	33,080	1,640	–	10	–	–	34,730
Agency Outlays, Net	$40,977	($3,734)	($1,584)	($155)	$122	$43,829	$79,455

LEGEND:

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

Required Supplementary Information

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

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY2011
BUDGETARY RESOURCES							
Unobligated Balance, Brought Forward, October 1	–	$14,134	$36,747	$694	$76	–	$51,651
Recoveries of Prior Year Unpaid Obligations	–	–	–	63	7	–	70
Other Changes in Unobligated Balance	–	–	–	–	(1)	–	(1)
Unobligated Balance, from Prior Year Budget Authority, Net	–	14,134	36,747	757	82	–	51,720
Appropriations	$70,676	–	–	–	101	$41,586	112,363
Spending Authority from Offsetting Collections	–	43,488	4,651	1,800	273	–	50,212
Total Budgetary Resources	$70,676	$57,622	$41,398	$2,557	$456	$41,586	$214,295
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred: [Note 12]							
Direct	$70,676	$40,946	$2,615	–	$337	$41,586	$156,160
Reimbursable	–	–	–	$2,144	47	–	2,191
Total Obligations Incurred	70,676	40,946	2,615	2,144	384	41,586	158,351
Unobligated Balance, End of Year:							
Apportioned	–	–	–	402	27	–	429
Unapportioned	–	16,676	38,783	11	45	–	55,515
Total Unobligated Balance, End of Year	–	16,676	38,783	413	72	–	55,944
Total Budgetary Resources	$70,676	$57,622	$41,398	$2,557	$456	$41,586	$214,295

LEGEND:

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

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

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY2011
CHANGE IN OBLIGATED BALANCE							
Unpaid Obligations:							
Unpaid Obligations, Brought Forward, October 1	$6,222	$4,131	$785	$1,047	$130	$1,078	$13,393
Obligations Incurred	70,676	40,946	2,615	2,144	384	41,586	158,351
Less: Outlays, Gross	70,530	40,659	2,585	1,987	334	41,481	157,576
Less: Recoveries of Prior Year Unpaid Obligations	–	–	–	63	7	–	70
Unpaid Obligations, End of Year	$6,368	$4,418	$815	$1,141	$173	$1,183	$14,098
Uncollected Payments:							
Uncollected Payments, Federal Sources, Brought Forward, October 1	–	$2,032	$383	$1,172	$111	–	3,698
Change in Uncollected Payments, Federal Sources	–	(146)	(7)	(201)	8	–	(346)
Uncollected Payments, Federal Sources, End of Year	–	$1,886	$376	$971	$119	–	$3,352
Memorandum (Non-add) Entries:							
Obligated Balance, Start of Year	$6,222	$2,099	$402	($125)	$19	$1,078	$9,695
Obligated Balance, End of Year	$6,368	$2,532	$439	$170	$54	$1,183	$10,746
BUDGET AUTHORITY AND OUTLAYS, NET							
Budget Authority, Gross	$70,676	$43,488	$4,651	$1,800	$374	$41,586	$162,575
Less: Actual Offsetting Collections	–	43,634	4,658	2,001	265	–	50,558
Less: Change in Uncollected Customer Payments from Federal Sources	–	(146)	(7)	(201)	8	–	(346)
Budget Authority, Net	$70,676	–	–	–	$101	$41,586	$112,363
Outlays, Gross	$70,530	$40,659	$2,585	$1,987	$334	$41,481	$157,576
Less: Actual Offsetting Collections	–	43,634	4,658	2,001	265	–	50,558
Outlays, Net	70,530	(2,975)	(2,073)	(14)	69	41,481	107,018
Less: Distributed Offsetting Receipts	31,336	1,592	–	–	–	–	32,928
Agency Outlays, Net	$39,194	($4,567)	($2,073)	($14)	$69	$41,481	$74,090

LEGEND:

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


FOR WHOM HE SAVED THE UNION
THE MEMORY OF ABRAHAM LINCOLN
IS ENSHRINED FOREVER

SECTION 3 – OTHER ACCOMPANYING INFORMATION

(Unaudited)

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF SPENDING
For the Year Ended September 30, 2012
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2012
What Money is Available to Spend?						
Total Resources	$107,529	$72,095	$43,090	$2,550	$460	$225,724
Less: Amount Available but Not Agreed to be Spent	–	–	–	269	13	282
Less: Amount Not Available to be Spent	–	18,606	40,326	136	66	59,134
Total Amount Agreed to be Spent	**$107,529**	**$53,489**	**$2,764**	**$2,145**	**$381**	**$166,308**
How was the Money Spent?						
Personnel Compensation and Benefits	$33,023	$10,759	47	333	$257	$44,419
Contractual Services and Supplies	–	42,601	2,673	1,671	134	47,079
Acquisition of Capital Assets	–	–	–	17	6	23
Grant and Fixed Charges(Insur. Claims, Indemnities)	74,057	–	–	–	–	74,057
Total Spending	**107,080**	**53,360**	**2,720**	**2,021**	**397**	**165,578**
Amount Remaining to be Spent	449	129	44	124	(16)	730
Total Amount Agreed to be Spent	**107,529**	**53,489**	**2,764**	**2,145**	**381**	**166,308**
Who did the Money go to?						
Federal	$33,166	$10,726	$51	$107	53	$44,103
Non-Federal	74,363	42,763	2,713	2,038	328	122,205
Total Amount Agreed to be Spent	**$107,529**	**$53,489**	**$2,764**	**$2,145**	**$381**	**$166,308**
How was the Money Issued?						
Non-Financial Assistance Direct Payments	$107,529	$8,005	$35	$333	$381	$116,283
Contracts	–	–	–	1,812	–	1,812
Insurance	–	45,484	2,729	–	–	48,213
Other Payment Types	–	–	–	–	–	–
Total Amount Agreed to be Spent	**$107,529**	**$53,489**	**$2,764**	**$2,145**	**$381**	**$166,308**

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

October 31, 2012

MEMORANDUM FOR JOHN BERRY
Director

FROM: PATRICK E. McFARLAND
Inspector General

SUBJECT: Fiscal Year 2012 Top Management Challenges

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

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

The five internal challenges included in this letter represent OPM's development of new information systems, the need to strengthen controls over its information security governance, internal controls over the financial management reporting for the Revolving Fund and Salaries and Expenses Accounts, stopping the flow of improper payments, and the retirement claims process.

Inclusion as a top challenge does not mean we consider these items to be material weaknesses. In fact, the areas of Background Investigations (as part of the Revolving Fund material weakness reported in the Office of the Inspector General's Federal Managers' Financial Integrity Act Management Assurance letter) and Information Security Governance are the only challenges related to the reported material weaknesses.

The remaining challenges, while not currently considered material weaknesses, are issues which demand significant attention, effort, and skill from OPM in order to be successfully addressed. There is always the possibility that they could become material weaknesses and have a negative impact on OPM's performance if they are not handled

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appropriately by OPM management. We have categorized the items included on our list this year as follows:

Environmental Challenges

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

Internal Challenges

- Information System Development;
- Information Security Governance;
- Financial Management System and Internal Controls: Revolving Fund and Salaries and Expenses Accounts;
- Stopping the Flow of Improper Payments; and,
- Retirement Claims Processing.

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

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

The attachment to this memorandum includes written summaries of each of the challenges that we have noted on our list. These summaries recognize OPM management's efforts to resolve each challenge. This information was obtained through our analysis and updates from senior agency managers so that the most current, complete and accurate characterization of the challenges is presented. I would also like to point out that we have removed the challenges shown below that were on this list last year:

- Tribal Healthcare – In May 2012, OPM began accepting Federal Employees Health Benefits Program (FEHBP) enrollment applications from eligible Tribes, Tribal organizations, and urban Indian organizations. As of August 2012, enrollment reached 3,000 individuals representing 33 tribes. While OPM's commitment to expanding Tribal healthcare enrollment continues, we believe OPM has successfully implemented this important feature of the Affordable Care Act. This was accomplished by building a strong (and continuing) partnership between the Tribes, Tribal organizations, urban Indian organizations, the Department of Health and Human Services, the Indian Health Service, and the Bureau of Indian Affairs. OPM has also entered into a successful agreement with the U.S. Department of Agriculture's National Finance Center to process applications and premium payments from Tribes and Tribal Organizations. Therefore, we no longer believe that the Tribal healthcare initiative meets the management challenge criteria.

- Pre-Existing Condition Insurance Plan – Since its inception in August 2010, OPM has demonstrated that it has and continues to successfully administer this program. Due to this and the fact that the program will be replaced by provisions of the Affordable Care Act on January 1, 2014, we no longer believe that the Pre-Existing Condition Insurance Plan represents a management challenge for OPM.

- Improving Internal Controls over OPM's Human Resources Solutions (HRS) Vendor Management Branch Operations – This has been removed based on HRS's efforts that have significantly improved the internal controls over the interagency agreement process.

This year, we have added two additional discussions under the Federal Health Insurance Initiatives challenge. These address OPM's challenges in the implementation and oversight of the Medical Loss Ratio (MLR) premium rate setting methodology and the FEHBP Carrier's Fraud and Abuse Programs.

I believe that the support of the agency's management is critical to meeting these challenges and will result in a better Government for the American people. I want to assure you that my staff is committed to providing any audit or investigative support needed and that they strive to maintain an excellent working relationship with your managers.

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

Attachment

Attachment

FISCAL YEAR 2012 TOP MANAGEMENT CHALLENGES
U.S. OFFICE OF PERSONNEL MANAGEMENT

ENVIRONMENTAL CHALLENGES

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

1. STRATEGIC HUMAN CAPITAL

In May 2010, President Obama issued a Memorandum, *Improving the Federal Recruitment and Hiring Process*, resulting in the launch of the largest reform of the Federal hiring process in over 30 years. OPM continues to make strides in addressing its human capital challenges in the following areas: hiring reform, the Veterans Employment Initiative, and closing skill gaps.

Hiring Reform

OPM continues to work collaboratively with Federal agencies represented on the Chief Human Capital Officers (CHCO) Council to ensure Job Opportunity Announcements (JOAs) are written in plain language, no longer require Knowledge, Skills & Abilities (KSA) narratives, and have been reduced to 2-3 pages in length. Ninety-four percent of JOAs now allow candidates to apply using a resumé.

OPM and the CHCO Council working group also further refined the performance metric to calculate the time to hire by establishing standardized guidelines to use a weighted average for the calculation. OPM believes that a weighted average is a superior calculation as it takes into account the volume of each agency's hiring. Using the new weighted average, the time to hire has been reduced to 93 days in 2011 from an un-weighted average of 105 days in 2010. OPM continues to monitor on a quarterly basis the time to hire Government-wide and for agency specific mission critical occupations as they work to reach the goal of hiring a Federal employee within 80 days.

Veterans Employment Initiative

During fiscal year (FY) 2011 the highest percentage of veteran new hires was achieved by the Federal Government in the last 20 years. The success of the initiative can be attributed to OPM's leadership through its Veterans Services Group, which spearheaded the development of an Executive Order-directed Federal infrastructure that was created to improve the opportunities for veterans and transitioning military Service members seeking Federal employment. In addition, a first-ever Government-wide Veterans Recruitment and Employment Strategic Plan was crafted to better guide agency efforts in eliminating barriers affecting veterans employment in the Federal Government. In conjunction with the strategic plan, the Feds Hire Vets (www.fedshirevets.gov) website was created as the "one

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stop location" to provide easy access to Federal employment-related information for veterans and transitioning military Service members. The veterans employment initiative also required the establishment of Veteran Employment Program Offices in the 24 CHCO agencies as well as a Government-wide marketing program on the value of America's veteran. The challenge for OPM is to ensure that Federal agencies respect and apply veterans' preference laws, rules, and regulations while using the tools that have been made available.

Closing Skill Gaps

OPM co-chairs the CHCO Council Integrated Product Team (IPT) of action officers working group. The group has worked to define Government-wide competencies including the establishment of a clear, transparent, and replicable process for institutionalization in the future. OPM has actively engaged the Chief Management Officer Councils and the Office of Management & Budget to collaborate on the IPT findings and the proposed strategies to close skill gaps either by closing staffing gaps, or by closing competency gaps.

Additionally, OPM is conducting a survey in the fall of 2012 to determine existing competency gaps for the six mission critical competencies. This survey will be the first of its type in assessing competencies since the population is not limited to particular positions, but will assess employees that are at the GS 12-15 level. OPM has developed a comprehensive short-term and long-term strategy to close staffing gaps as well as to address priority competencies. OPM has worked closely with the Government Accountability Office in strategy development and implementation activities to increase agency performance through recruiting, hiring, developing and retaining a workforce with the needed competencies to meet mission objectives.

OPM continues its progress in meeting the challenges of helping agencies to recruit and retain the right people with the skills needed to achieve their goals. With the aging Federal workforce, OPM is charged with helping agencies to identify and close skills gaps, being responsive to changing applicant and workforce needs, and continuing to monitor organizational performance measures in efficiency, effectiveness, and progress.

2. FEDERAL HEALTH INSURANCE INITIATIVES

OPM continues to face challenges it must address in order to ensure the Federal Employees Health Benefits Program (FEHBP) contracts with insurance carriers that offer comprehensive health care benefits at a fair price. In addition, with the passing of the Affordable Care Act (ACA), OPM's roles and responsibilities related to Federal health insurance have been expanded significantly. Under the ACA, OPM has been designated as the agency responsible for implementing and overseeing the multi-state program plan options which start in 2014. The following highlights these challenges and current initiatives in place to address them.

A. Federal Employees Health Benefits Program

The ever-increasing cost of healthcare is a national challenge. For the upcoming year, 2013, the average FEHBP premium increase is 3.4 percent, which is slightly lower than

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last year's increase of 3.8 percent. However, it is a continuing challenge for OPM to keep premium rate increases in check. As the administrator of the FEHBP, OPM has responsibility for negotiating contracts with insurance carriers covering the benefits provided and premium rates charged to approximately eight million Federal employees, retirees, and their families. The FEHBP must utilize industry best practices and ensure quality healthcare for enrollees while controlling costs. This includes exploring creative ways to control costs and utilization of benefits, such as increased use of wellness initiatives and global purchasing of pharmacy benefits. They must also adjust to changes in the healthcare industry's premium rating practices. These challenges may require legislative, regulatory, procurement and contracting, and administrative changes. OPM believes that the following initiatives will help ensure that the FEHBP continues to offer enrollees quality healthcare services at fair and reasonable premium rates.

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

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

During FY 2012, OPM has continued its collaboration with the Office of the Inspector General (OIG) to implement and operate a HCDW. In October 2011, OPM entered into an agreement with a vendor to obtain a contractor capable of configuring and building a comprehensive health care claims analytical package to run within the HCDW. Development efforts of both the HCDW and claims analytics package have continued throughout FY 2012. The HCDW is expected to be operational in FY 2013, at which time OPM can begin analyzing FEHBP claims data.

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

2) Prescription Drug Benefits and Costs

Increases in drug costs have been a major contributor to the rapid growth in healthcare costs over the last few years. Of continuing concern to our office are the pharmacy benefit managers (PBMs), who administer drug benefits for the FEHBP carriers. The FEHBP carriers, not OPM, negotiate the pricing of these pharmacy benefits. Consequently, prior to contract year 2011, these contracts lacked transparency, which limited our ability to audit and provide adequate oversight of this high cost benefit. This lack of transparency also made it impossible to ensure that FEHBP enrollees were receiving quality benefits at a fair price. However, effective January 1, 2011, any renewing PBM contract must meet the transparency standards outlined in FEHBP Carrier Letter #2010-04. Specifically, these standards require:

- Pass-through transparent pricing in carrier contracts with PBMs;
- PBM's profit under the contract must be tied to clearly identifiable sources;
- PBM's administrative fees must be clearly identified to retail claims, mail claims, and clinical programs, if applicable; and,
- Contracts and other documentation supporting charges to the carrier must be fully disclosed to and auditable by the carrier or its agent and the OPM OIG.

To encourage cost savings, OPM's FEHBP benefit and rate call letters, over the last two years, outlined expectations for all carriers to expand their programs to provide benefits for appropriate substitutions for higher-cost drugs, such as lower or no copayments for generic drugs and clinically appropriate therapeutic alternatives. As part of this initiative, OPM expressed its objective of having a generic dispensing rate of at least 75 percent for the FEHBP program as a whole in CY 2013. To accomplish this, carriers were asked to include in their 2013 benefit and rate proposals their current (historic) generic dispensing rate and their projected dispensing rate. Carriers were also encouraged to develop programs aimed at managing the cost and use of specialty drugs, which account for approximately 10 percent of total prescription costs. To assess carriers' progress in this area, OPM is requesting that carriers provide information on their current growth of specialty drugs, cost trends, and proposals for managing this benefit. The objective is to keep the growth of specialty drugs and their cost below industry averages. Overall, OPM has a continued interest in benefit and rate proposals that demonstrate effective prescription drug management without cost shifting or burdening patients.

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

While these short-term measures should have a positive impact on the program, OPM, through its PBM working group, continues to assess potential long-term initiatives to further reduce prescription drug costs, as well as strengthen the controls and oversight of the FEHBP pharmacy benefits. The importance of this effort was highlighted in "The President's Plan for Economic Growth and Deficit Reduction," dated September 2011. The President's plan calls for the streamlining of the FEHBP pharmacy benefit contracting and would allow OPM to contract directly for pharmacy benefit management services on behalf of all FEHBP enrollees and their dependents, versus the current process where each carrier negotiates its own PBM contract. This change will allow the FEHBP to more efficiently leverage its purchasing power to obtain a better deal for enrollees and taxpayers. According to the President's plan, this proposal would save $1.6 billion over 10 years. A continued stumbling block to achieving this objective is the current legislation, which prohibits OPM from contracting directly with PBMs. OPM has proposed statutory authority language changes, which seek to amend the current FEHBP law to permit OPM to contract directly with PBMs. However, this language has yet to receive the approvals required to allow for a change to the law. That being said, OPM should still consider ways to position itself and gain the needed expertise to implement this contractual change should the proposed statutory language become law.

Ultimately, any changes implemented to the FEHBP's pharmacy benefits will need to meet the challenge of ensuring that the changes do not adversely impact FEHBP enrollees' health and safety while realizing true program savings.

3) Medical Loss Ratio Implementation and Oversight

Beginning in 2013, OPM will implement a new requirement for all Community-Rated carriers participating in the FEHBP, except those using a traditional rating methodology. Each Community-Rated carrier will be held to a specific medical loss ratio (MLR), as determined by OPM. Simply put, Community-Rated carriers participating in the FEHBP must spend at least 85 percent of their FEHBP premiums on medical claims and approved quality health initiatives. If a carrier does not meet or exceed the MLR, it risks returning the excess premiums in the form of a rebate to the FEHBP. As with any change, this new premium rate-setting methodology will have its share of challenges.

As the implementation of this new requirement continues, OPM must be prepared to:

- Provide guidance on complex rate-setting issues and set consistent limits;
- Address new issues and provide clear, consistent guidance to all carriers;
- Update data tracking systems to account for all of the intricacies within the MLR process;
- Process additional rate submissions as this new requirement is expected to attract new carriers to the FEHBP;
- Ensure that carriers do not sacrifice quality for quantity; and,
- Administer the new policy consistently with the highest quality while preventing fraud, waste, and abuse.

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Fundamentally, MLR will be an added responsibility that OPM will need to focus resources on so that the change is properly implemented with minimal disruption to the community rating process and the program, as a whole.

4) Carriers' Fraud & Abuse Programs

Under the FEHBP, participating health benefit carriers are required to operate a program designed to detect and eliminate fraud and abuse by employees, subcontractors, healthcare providers, and individual FEHB members. This fraud and abuse (F&A) program must have the following components:

- an anti-fraud policy statement;
- written action plan and procedures;
- formal training;
- fraud hotlines;
- educational programs;
- technology;
- security; and,
- patient safety.

By failing to have a comprehensive and effective F&A program, fraud and abuse may go undetected, resulting in increased healthcare costs, as well as potentially impacting the safety of FEHBP members.

Recent OIG audits have identified systemic weaknesses in health benefit carrier F&A programs. The carriers were not in compliance with the applicable FEHBP contract clauses and FEHBP Carrier Letters relating to the F&A programs. Specifically, these carriers have not referred and/or reported all potential fraud and abuse cases and patient safety issues to OPM and the OPM OIG. Also, these carriers have not implemented procedures to refer and/or report fraud and abuse issues within their contracted pharmacy benefits managers. Furthermore, the audited carriers could not accurately report the actual recoveries, savings, and cost avoidance achieved as a result of their F&A programs. As a result, the OIG could not determine whether the F&A programs administered by these carriers are a benefit to the FEHBP with respect to the costs and overall savings. The pervasiveness of these weaknesses is significant enough to believe that this could be a program-wide concern.

OPM's challenge is to continue to evaluate this issue and implement controls which will hold all FEHBP carriers accountable for operating an effective fraud and abuse program. This may require contract changes, as well as an updated FEHBP Carrier Letter covering the specific requirements for a comprehensive F&A program. Effective F&A programs will result in significant FEHBP savings and, more importantly, protect FEHBP members.

B. Affordable Care Act (ACA)

Under the ACA, OPM is designated as the agency responsible for implementing and overseeing the multi-state plan options. In accordance with the ACA, at least two multi-state plans will be offered on each state health insurance exchange beginning in 2014. Multi-state plans (MSP) will be one of several health insurance options for small employers and uninsured individuals to choose. In total, state exchanges are expected to provide health insurance coverage for as many as 31 million Americans.

While implementing any new program represents a host of complex challenges, one of the greatest challenges will be securing sufficient resources for OPM's new MSP function, as well as the expanded FEHBP-eligible population. Currently, the ACA does not specifically fund OPM for its new healthcare responsibilities. In addition, ACA mandates that resources essential to the management of the FEHBP cannot be used to start up the new program.

OPM received limited FY 2011 and FY 2012 funding through an arrangement with HHS, which received ACA funding from Congress. With these funds, OPM established policy and operational teams to review program and policy issues related to implementing the MSP Program, as well as provided analytical support for the MSP Program. However, full funding beyond FY 2012 is a significant challenge for the agency, as well as for the OIG, which is charged with program oversight responsibilities. Without appropriate resources, OPM will not be able to support these new activities.

Even with adequate resources, implementation of the ACA presents a unique set of challenges for OPM. Since this is a totally new and complex program, OPM must:

- Develop a thorough understanding of complex laws and regulations governing the ACA, as well as State healthcare.
- Develop and implement regulations, policies, and contracts supporting the Multi-State Plan Program (MSPP).
- Work cooperatively with Administration Officials, Congress, and other Federal agencies/departments responsible for implementing the ACA.
- Initiate an outreach program with all stakeholders.
- Develop a short-term and long-term organizational structure to support the MSPP.
- Design and implement an internal control structure and management information system to ensure that MSPP goals and objectives are met, as well as to ensure compliance with all laws, regulations, and guidance.
- Create a comprehensive oversight program.

FY 2012 accomplishments included:

- Participated fully in inter-agency efforts to implement the Affordable Care Act.

- Reviewed and commented on several HHS, Treasury, and Labor regulations to determine their impact on MSPs. Negotiated provisions in these regulations to facilitate successful implementation of the MSPP.
- Completed complex analyses of State and Federal laws in a wide range of issue areas, in order to make policy decisions for inclusion in the proposed regulation.
- Published MSPP Notice of Proposed Rulemaking for public comment.
- Developed and obtained approval of MSPP acquisition strategy.
- Published draft issuer application for public comment.
- Began development of standard MSPP contract.
- Began development of systems needed to accept issuer applications.
- Conducted extensive outreach to States, potential issuer applicants, and other stakeholders.
- Conducted briefings for Congress, Administration officials, and internal OPM components.
- Coordinated MSPP implementation efforts with HHS.

Implementing and administering this new program represents an ongoing management challenge for OPM.

3. BACKGROUND INVESTIGATIONS

OPM's Federal Investigative Services (FIS), headquartered in Boyers, Pennsylvania, conducts background investigations on Federal applicants, employees, military members, and contractor personnel for suitability and security purposes. FIS conducts approximately 90 percent of all personnel background investigations for the Federal Government and processes approximately 2 million investigations per year. Agencies use the reports of investigations conducted by OPM to determine individuals' suitability for Federal civilian, military, and Federal contract employment, as well as their eligibility for access to national security classified information.

FIS has an effective system of integrity assurance and internal controls and works cooperatively with the OIG to bring offenders to justice. However, any fraud in background investigation reports is unacceptable from a national security perspective, so this issue requires continued close attention and monitoring by OPM management.

The OIG is concerned that the lack of an agency-wide debarment program puts OPM at risk. Using administrative sanctions and debarment proceedings on background investigators who have engaged in substantiated acts of serious misconduct, to include falsification, is highly recommended. This is important because there have been background investigators who falsified but were not prosecuted (due to age of the case or low dollar threshold) and were able to obtain employment with other background investigation firms. At the time of this memorandum, an OPM (employee) background investigator who pled guilty and is currently awaiting sentencing, applied for employment with a FIS contractor. If a suspension/debarment program was in effect, the individual may have been automatically excluded from such employment.

Additionally, FIS needs to maintain a dialog with the various contracting firms. Several contractors have suggested reducing the number of quality assurance re-contact letters as a cost-cutting measure. In light of the current high volume of open FIS falsification cases, any cut in quality assurance would be ill-advised.

As mentioned above, FIS is responsible for all background investigations in the federal government and conducts approximately 90 percent. FIS has delegated the remaining 10 percent to certain federal agencies (FBI, CIA, DHS and the U.S. Agency for International Development to name a few). FIS also needs to continue to ensure these delegated agencies maintain a high level of quality assurance. Several of the agencies who have recently been audited by FIS were found to be lacking a true quality assurance program; therefore, the quality of the background investigations are at risk.

In addition to audits of the delegated agencies, in 2012, FIS and the OIG started a working group. Representatives from the delegated agencies meet several times a year with FIS and the OIG to network and conduct information sharing. At our most recent meeting, held on October 16, 2012, an Assistant United States Attorney was the featured speaker. The Federal prosecutor shared what she is looking for when indicting background investigators guilty of falsification. Many of these delegated agencies have never made a criminal case referral, however they are learning from the recent success by FIS and the OIG.

INTERNAL CHALLENGES

The following challenges relate to current program activities that are critical to OPM's core mission, and that while impacted to some extent by outside stakeholders, guidance, or requirements, they for the most part are OPM challenges that have minimal external influence. They are areas that once fully addressed and functioning will in all likelihood be removed as management challenges. While OPM's management has already expended a great deal of resources to meet these challenges, they will need to continue their current efforts until full success is achieved.

1. INFORMATION SYSTEM DEVELOPMENT

OPM has a history of troubled system development projects. Past examples include the retirement modernization project, the Consolidated Business Information System financial management system, the Service Credit system, and the USAJOBS 3.0 website. While the problems that occurred during the implementation of these systems have been corrected, the fundamental control weaknesses remain. In our opinion, the control weaknesses relate to the lack of central oversight, policy, and institutional knowledge of proper system development and project management.

Our primary concern is that all of these systems were developed independent of agency-wide requirements or guidance – because no current guidance exists at OPM. Existing systems development lifecycle (SDLC) policy has not been updated in over 10 years, and it is not routinely used to manage current development projects. Most system development projects at OPM are initiated and managed by OPM program offices with little oversight or interaction with the Office of the Chief Information Officer (OCIO). These program office managers do not always have the appropriate background in project management or information technology systems development.

The OCIO is currently updating OPM's SDLC policy, which is a significant first step in implementing a centralized SDLC methodology at OPM; however, the policy will need additional updating in order to address the specific deficiencies we identified from audits conducted in FY 2012. In addition, policy alone will not improve the historically weak SDLC management capabilities of OPM – further action will be needed.

In a recently issued audit report, we recommended that the OCIO establish an SDLC review process in which the OCIO must review and formally approve SDLC work at various milestones for all OPM system implementation projects. While the OCIO does review major IT investments through the Tech-Stat process, smaller system development projects will probably not be subject to this level of review. The Service Credit system was an example of a system development project that did not meet the criteria of a major investment, but when it failed there were serious consequences for the agency – not financial, but impactful to stakeholders and embarrassing in terms of media exposure and political scrutiny.

We therefore also recommended that the OCIO develop a team with the proper project management and system development expertise fundamental to successful new system development projects. Through this avenue, the OCIO should provide oversight and strict guidance to ensure that program office management is following OPM's SDLC policy and is employing proper project management techniques to ensure a successful outcome for all new system development projects.

2. INFORMATION SECURITY GOVERNANCE

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

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

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

The lack of policies and procedures was reported as a material weakness in the FY 2007 and FY 2008 Federal Information Security Management Act (FISMA) audit reports. In FY 2009, we expanded the material weakness to include the agency's overall information security governance program and incorporated our concerns about the agency's information security management structure. In the last two years, the OCIO has updated policy and created a viable information security group headed by a permanent SAISO.

However, the decentralized nature of OPM's IT security program continues to be a root cause of many of the recurring instances of non-compliance with FISMA requirements. An IT security program can be designed with a centralized or decentralized model, although most agencies adopt a hybrid structure with characteristics of both approaches. OPM, however, has chosen to implement a highly decentralized structure with most of the responsibility for IT security in the program offices, while the OCIO is responsible for policy development and oversight.

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

In our FY 2010 FISMA report, we recommended that OPM adopt a more centralized approach to IT security. We suggested that the agency recruit a staff of information security professionals to act as designated security officers (DSO) that report to the SAISO. Throughout FY 2012, the OCIO continued to operate with a decentralized IT security structure that did not have the authority or resources available to adequately implement the new policies. However, in August 2012, the OPM Director issued a memorandum to Associate Directors and Office Heads notifying them that IT security responsibilities would be centralized under the OCIO effective October 1, 2012. Once this transition is completed, we expect to see an improvement in compliance with FISMA requirements. Nevertheless, the issue will continue to be a significant internal management challenge pending successful implementation of the centralized DSO plan.

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

During FY 2012, the Office of the Chief Financial Officer (OCFO) has made progress in resolving the long-standing issue related to the Fund Balance with Treasury (FBWT) reconciliation. The following steps were taken:

- Monthly reconciliations have been performed every month since July 2011 to reconcile the Government-Wide Accounting (GWA) activities with those in the General Ledger (GL). The reconciliations identified discrepancies between the GL and the GWA at the transactional level.
- Efforts have been made to record all cash receipt and disbursement activities by month-end, including identification of potential improvements in work processes. For example, a naming convention change for cash receipts from both incoming and outgoing Intra-Governmental Payment and Collection (IPAC) activity has been proposed that will facilitate reconciliation between the GL and the GWA.

The plan includes new reconciliation reports and procedures that have been put into place. Daily reconciliations for payment schedules have been performed since August 2011. A cutoff schedule has been implemented for September 2012 as well as all subsequent accounting closes. Additionally, new and additional staff resources have been dedicated to the process.

While these steps have been taken to address this challenge, during the audit of OPM's FY 2012 financial statements the auditors noted that deficiencies continue to exist in the operation of the OCFO's internal controls over financial management and reporting, affecting the accuracy of the Revolving Fund and Salaries and Expenses Accounts.

4. STOPPING THE FLOW OF IMPROPER PAYMENTS

Improper payments by Federal agencies continue to receive attention from elected officials. During FY 2011, OPM paid out $236 million in improper payments from the *Civil Service Retirement and Disability Fund* (CSRDF), including $103 million in payments to deceased annuitants. The CSRDF is defined by the Office of Management and Budget (OMB) as being susceptible to significant improper payments.

We issued a report on improper payments to deceased annuitants from the CSRDF on September 14, 2011. Two Congressional hearings were held this year regarding the matter. Director John Berry directed a team of four senior OPM executives, consisting of the head of Retirement Services (RS), the Chief Operating Officer, the Chief Financial Officer, and the head of Internal Oversight and Compliance, to help oversee the resolution of the four remaining OPM recommendations from this report, and implement the changes needed to correct the improper payment issue. The group developed a draft strategic plan that addresses actions OPM will take in the next 18-24 months to close the open recommendations. Our review of the strategic plan identified concerns, particularly the lack of specific dates and milestones to reach closure of the open recommendations in the next 18-24 months. We received a revised draft of the Strategic Plan for Stopping

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Improper Payments to Deceased Annuitants in October 2012, and are currently in the process of reviewing and providing comments to OPM staff. OPM must establish a strong commitment to taking the corrective actions necessary to close the four open recommendations and eliminating all preventable improper payments within the 18-24 month timeframe cited.

OPM reported its progress in reducing improper payments under the *Improper Payments Elimination and Recovery Act* (IPERA) in its FY 2011 Agency Financial Report. We performed an audit of OPM's compliance with the IPERA reporting requirements this year and found that OPM was not compliant in reporting on agency accountability for reducing improper payments and did not report on its specific efforts to recover improper payments. In addition, we found various internal control deficiencies in its reporting on improper payments, including proper identification of the causes of improper payments and identification of specific actions to address the causes, as well as the lack of a current agency improper payments plan. OPM established an Improper Payments Working Group early this year comprised of representatives across all OPM programs, including Retirement Services, the Chief Financial Officer, and Policy and Internal Control (PIC). The group meets regularly to discuss improper payments legislation and OPM policy and initiatives for complying with applicable OMB guidance for reducing improper payments. The group is currently working on a revised version of OPM's improper payments plan and has produced a framework or template to ensure compliance with the reporting requirements under IPERA.

Lastly, the Administration issued a memorandum in June 2010 concerning an initiative for reducing improper payments through a "Do Not Pay (DNP)" list. In April of this year, OMB issued a directive to agencies to establish a plan for using the DNP solution for pre-payment eligibility reviews. OPM concluded that some provisions of the DNP may not be applicable or relevant for all of OPM's pre-payment and pre-award processes, but believes such a list would improve its ability to serve Federal annuitants and the public by preventing errors, waste, fraud, and abuse after individuals are added to the annuity roll. OPM expressed concern that using the DNP in the pre-award process would delay its ability to provide interim payments, on which many retirees rely to make ends meet. Further, being on the DNP list does not necessarily disqualify someone from receiving their annuity. The only conditions under which an annuitant would surrender his or her payment are enumerated in Title 5 U.S. Code Section 8312.

5. RETIREMENT CLAIMS PROCESSING

The timely issuance of full annuity payments to annuitants has been a long-standing challenge for OPM. Processing the retirement claims of Federal employees is a mission-critical OPM program. OPM is challenged with reducing a backlog of retirement applications that was over 48,000 at the end of December 2011. OPM has taken important steps to meet this challenge by making improvements in both technology and program application processing over the last year. OPM has made the following technology and program improvements to help reduce the backlog in claims processing:

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- Worked with the National Business Center to achieve technical compliance and become the first payroll provider to send electronic retirement data to the repository;
- Continued working with other data providers to begin the technical compliance process;
- Provided access to agencies of imaged records/data stored electronically within OPM to help improve the submission of their applications;
- They are close to completing the IT Strategy which will provide partial IT improvements throughout the program, within fiscal constraints; and,
- RS underwent an initial Six Sigma review to create a more streamlined process for adjudicating cases. From this Six Sigma review, RS established a Case Development Team to help develop incomplete retirement applications upon arrival at OPM. This process frees up Legal Administrative Specialists (LAS) to focus their time on adjudication, and uses less experienced, front-line employees in the time-intensive task of gathering missing information.

In January 2012, OPM developed a strategic plan to eliminate the claims backlog and improve the programs application process so that 90 percent of all claims will be adjudicated within 60 days. The plan consists of four pillars:

1. People

   - Bring "all hands on deck" to add claims production capacity immediately;
   - Hire new LAS; and,
   - Hire new Customer Service Specialists (CSS).

2. Productivity and Process Improvement

   - Review process enhancements with goal of increasing production;
   - Expand work hours and effective use of overtime;
   - Complete Lean/Six-Sigma review of the claims process; and,
   - Improve LAS production capabilities by providing complete cases and removing superfluous duties.

3. Partnering with Agencies

   - Improve accuracy and completeness of incoming claims;
   - Involve Chief Human Capital Officers; and,
   - Provide more frequent feedback to agencies on claims deficiencies.

4. Partial, Progressive Information Technology (IT) Improvements

   - Pursue long-term data flow strategy;
   - Explore short-term strategy to leverage work agencies do now; and,
   - Review and upgrade systems used by LAS.

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To date, OPM has hired 66 additional LAS and 22 additional CSS. They have moved all Non-Disability pending cases to Boyers, PA. Non-disability cases involving court orders or special cases are still processed at the OPM headquarters in Washington, DC. To date, a number of changes have been made to the front end of the retirement adjudication process which has resulted in improved processing.

OPM has demonstrated that this four pillar strategy has increased monthly claims adjudication capacity to nearly 10,000 claims per month since January 2012. From January – September 2012, the inventory was decreased from 61,108 to 41,176, roughly 33 percent.

However, incoming retirement applications are running at a higher pace than projected, and if history repeats, OPM can expect to receive as many as 21,000 new claims in January 2013. On top of those cases, OPM could potentially receive an additional 20,000 early-retirement cases from USPS. Therefore it is critical that OPM meets the challenge of eliminating the backlog of claims, as well as implementing continued improvements in the claims adjudication process.

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Chief Financial Officer

NOV 0 5 2012

Agency Response

MEMORANDUM FOR PATRICK E. McFARLAND
Inspector General

FROM: DENNIS COLEMAN
Chief Financial Officer

SUBJECT: Agency Comments to the OIG Report – Top Management Challenges, dated October 31, 2012

The Management Challenges identified in your annual report are, by definition, issues that are not easily resolved. In many cases, they will require investments or upgrades to technology or substantial changes in long-standing procedures or program activities both within and outside of OPM. Completely addressing these Management Challenges will take years, but as you know, we have plans to address each challenge every year.

We concur with the findings of your Top Management Challenges report. However, I would like to provide you additional details regarding the Agency's efforts to address the Retirement Claims Processing management challenge. Specifically, Retirement Services (RS) identified a series of improvements affecting our people, processes and technology, centralizing the tracking and reporting functions under a senior manager to increase both effectiveness and efficiency. As such, RS has identified 15 overarching information technology initiatives designed to improve the quality of adjudication output, increase efficiencies of timeliness and accuracy, and provide a better tool for agency and employee retirement planning. The key deliverables, which cover such areas as developing electronic data feeds and a data viewer for internal and external use, as well as rebuilding a Service Credit calculator, will aid RS in detecting and preventing improper payments. RS plans to develop an integrated Case Management and Management Information system for centralized storage of retirement and retirement-related claims during the employment and retirement lifecycle for all annuitants and beneficiaries that will centralize and connect data reporting for all RS systems. RS is still working to fund these high priority initiatives.

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

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Summary of Financial Statement and Audit Management Assurances

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

Table 10. Summary of Financial Statement Audit

Financial Statement Audit Opinion and Material Weaknesses					
Audit Opinion	**Unqualified**				
Restatement	No				
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
IT Security Governance	1	0	1	0	0
Total Material Weaknesses	1	0	1	0	0

Table 11. Summary of Management Assurances

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

Improper Payments Information Act Reporting Details

An improper payment is any payment that should not have been made or was made in an incorrect amount under statutory, contractual, administrative or other legally applicable requirements. Additionally, the Office of Management and Budget (OMB) has specified that improper payments include payments where the agency's review cannot discern whether a payment was proper as a result of insufficient or lack of documentation. In 2002, Congress enacted the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300). The Act requires agencies to review annually all programs and activities to identify those susceptible to significant improper payments; estimate the annual improper payments in the susceptible programs and activities; and report the results of their improper payment reduction plans and activities.

In 2010, Congress enacted the Improper Payments Elimination and Recovery Act of 2010 (IPERA) (Public Law 111-204). The Act requires agencies to perform risk assessments on all programs and activities in 2012, and at least once every 3 years afterwards. Additionally, agencies must perform Payment Recapture Audits (PRAs) on all agency programs and activities that expend $1 million or more annually so long as the PRA is cost effective. The agency must report improper payments in its annual Performance & Accountability Report (PAR) or the Agency Financial Report (AFR), which the agency's Inspector General will use to determine if the agency is in compliance with IPERA.

In IPERA and Appendix C to OMB Circular A-123, a program is defined as being susceptible to significant improper payments if the program or activity has improper payments that exceed both 2.5 percent and $10 million of program spending, or $100 million. The Office of Personnel Management's (OPM) improper payments for FY 2012 are $265.8 million in retirement benefits, $213.0 million in health benefits, $2.3 million in life insurance benefits, and $3.1 million in background investigations for a total of $484.2 million. This represents an increase from the FY 2011 reported total improper payments of $398.9 million for these four programs. This increase can be attributed to a large ($155 million) settlement of OIG investigation cases under the Federal Employees Health Benefits Program (FEHBP) that covered offenses as far back as 1999. OPM is reporting this in FY 2012 improper payments as the amounts were unknown until the recoveries were made this year.

Program Descriptions

OPM has reported annual improper payments for its three earned benefit programs – Retirement, Health Benefits and Life Insurance – since the inception of IPIA. Beginning in FY 2009, OPM has also designated payments to contractors under the Background Investigations program as susceptible to improper payments.

Retirement Program

OPM paid $73.5 billion in defined-benefits to retirees, survivors, representative payees, and families during FY 2012 under the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS) which pay monthly annuities to eligible retired employees and survivors. Eligible retirees and survivors generally receive monthly benefits, but in some cases an applicant receives a lump sum payment. Eligible employees who leave Federal service before qualifying for retirement may request that their contributions be returned to them in a lump sum refund payment.

Health Benefits Program

The Federal Employees Health Benefits Program (FEHBP) is administered through contracts with participating carriers that provide hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. Two types of carriers participate in the Program: experience-rated carriers (ERCs) and community-rated carriers (CRCs). ERCs maintain separate accounting for the FEHBP contract and, hence, must disclose their expenses. CRCs, on the other hand, do not maintain separate accounting and receive a premium based on the average revenue needed to provide benefits to their members. In 2012, ERCs incurred benefit and administrative expenses of over $35.8 billion on behalf of the FEHBP, and the FEHBP paid nearly $6.7 billion in premiums to CRCs.

Life Insurance Program

The Federal Employees' Group Life Insurance (FEGLI) program paid $2.7 billion in claims for life insurance benefits to the survivors of more than 4.1 million Federal employees and annuitants during FY 2012. Metropolitan Life Insurance Company (MetLife) administers FEGLI through a contract with OPM and oversees the processing and payment of benefit claims. FEGLI provides Basic Life insurance coverage, as well as three types of optional life insurance coverage. FEGLI also offers accidental death and dismemberment benefits (AD&D) coverage and living benefits.

Background Investigations Program

OPM conducts approximately 90 percent of the background investigations for the Federal Government. The primary purpose of the investigations program is to conduct high-quality, timely background investigations which will be used by Federal agencies to determine individuals' suitability for Federal civilian, military, or contractor employment. The completed background investigations also are used by agencies to determine individuals' eligibility for access to classified national security information. OPM closed approximately 1.5 million investigation cases through the first three quarters of FY 2012. OPM uses Government employees to perform some background investigations; however, it also uses contractor resources to conduct some investigations, as well as to provide associated support activities such as scheduling investigations and reviewing files for completeness. Total estimated contractor payments for FY 2012 were $635.4 million.

OPM's program office in charge of background investigations is Federal Investigative Services (FIS). FIS starts the process for conducting an investigation once requests are received from customer agencies either by mail, or electronically through Electronic Questionnaires for Investigative Processing (e-QIP) or the Fingerprint Transfer System (FTS). Cases are scheduled for work in the Personnel Investigative Processing System (PIPS); FIS's current practice is to pay its major investigative contractors on a daily basis under terms of those contracts. Daily payments are processed through CBIS.

I. Risk Assessment

OPM has been reporting annual improper payments for the earned benefit trust funds (Retirement, Health Benefits and Life Insurance) since the inception of IPIA. Additionally, OPM has been reporting annually for improper payments on the Revolving Fund Background Investigations Program since FY 2009 based on a risk assessment for the Revolving Fund (RF) and Salaries and Expenses (S&E) funds conducted in 2008. Therefore, no risk assessment is required under IPERA or the guidance for these programs (which cover 99 percent of OPM's funding) since they are already being reported under other provisions of IPERA and M-11-16.

Based on the IPIA, IPERA and OMB guidance, OPM is currently updating its risk assessment for other RF and S&E programs. Vendor payments for RF and S&E programs follow a procure to pay process in CBIS . The results of prior assessments, using the qualitative criteria set forth in IPERA and M-11-16, indicated some risk of improper payments, but did not provide estimates indicating improper payments met the thresholds for annual reporting (2.5 percent improper payment rate and $10 million in annual estimated improper payments, or $100 million regardless of the rate). Therefore, OCFO is currently supplementing that qualitative assessment with the results of OMB Circular A-123 Appendix A testing including a statistical sample of 50 payments selected for that review (based on 95 percent confidence level). Results are expected in FY 2013 and OPM will report at that time. Additionally, other ongoing process changes for vendor payments may impact OPM's risk assessment for the S&E and RF programs.

In addition to the OCFO review of the vendor payment (procure to pay) process, the Healthcare and Insurance (HI) program office reviewed other programs under their auspices; HI concluded that those programs should not be reported under IPIA and IPERA as the programs are employee-pay-all with no government contributions or appropriated funds used. The programs assessed by HI were the Federal Long Term Care Insurance Program (FLTCIP), the Flexible Spending Account program (FSAFEDS) and the Federal Employee Dental and Vision Program (FEDVIP).

II. Statistical Sampling and Other Methodology

Retirement Program

Improper retirement payments are calculated by dividing the underpayments (determined by statistical sampling) and the overpayments (the actual number) by total outlays. OPM Retirement Services (RS) consolidates its retirement adjudication and extended benefits test approaches to leverage monthly sampling across retirement and survivors under each of the two distinct retirement systems (CSRS and FERS). A contract statistician stratifies the sample to adequately assess each type for Improper Payments and Civil Service Retirement and Disability Fund (CSRSDF) impact. RS reviews retirement and survivor cases using statistically valid samples across each month of the fiscal year leading up to the audit.

Each FY, a year's worth of audited claims calculations are used to determine the RS underpayments. By using a year's worth of data, RS increases the reliability of the results and tightens the improper payment estimate range which is inherent in sampling large disbursements. This methodology helps to minimize variability and potential errors correlated to anomalies within the year selected since the entire year is represented. Overpayments for the fiscal year are reported by the OCFO using the actual overpayments determined by RS throughout the year.

Health Benefits Program

OPM uses the results of historical audits of the premiums paid by OPM to CRCs and the expenses paid on behalf of the Program by ERCs to estimate FEHBP improper payments. One hundred percent of FEHBP premium payments are subject to audit which exceeds the sample size required by OMB in Appendix C to OMB Circular A-123. This sample is judgmental, not random, targeting areas most likely to contain improper payments. The sample also includes plans which have not been auditied recently as well as those plans and processes requested by agency management and contracting officers.

OPM's HI organization assesses OIG audit reports, comments and clarifications from the FEHB plans, the OIG, OPM's Actuaries and Office of the General Counsel (OGC). Furthermore, HI makes an official determination on each recommendation concerning whether, and to what extent, it constitutes an improper payment. HI determinations reached are the basis for improper payment amounts routinely reported to OMB although provisional improper payments are known as "questioned amounts", in the respective OIG audit report. Determined amounts and improper payments can fluctuate based on several factors including the number of final audits received by HI for review, audit type and scope, the number of recommendations resolved, the size of the health plans under examination, the nature of the overpayments, and the disparities between OIG findings and HI determinations.

An FEHB plan's response to an adverse monetary audit finding may indicate their agreement or disagreement with the finding. A plan's agreement with a finding does not necessarily mean that monies must, or will, be fully recovered. Plans are contractually required to exercise due diligence in recovering overpayments, and to provide reports on their progress toward remediating audit findings. Factors contributing to timely, successful closure of an audit recommendation include the age of an overpayment when audited, whether due diligence was demonstrated, and ambiguity and interpretation of contract provisions and other subsidiary laws or agreements in place. For example, a plan may agree that an overpayment was made, but after exhausting its recovery efforts declare it to be uncollectible. Or, a plan may contest the audit's findings, by documenting its position with sound evidence or by asserting differences in the interpretation of contract language. Generally, most plan-acknowledged findings result in full or partial recoveries. FEHB improper payments also include recoveries from OIG Investigations of reported fraud and abuse.

Life Insurance Program

The incidence of improper payments made to the beneficiaries of deceased annuitants and deceased employees are extremely low. Over 91,600 claims representing $2.7 billion in FY 2012 were paid by the OFEGLI, the administrative unit of MetLife that pays FEGLI claims. OPM calculates the number and value of these improper payments using annuitant match and deceased employee match records. The paid claims match is not a sampling; it comprises nearly one hundred percent of the executive branch agencies, U.S. Postal Service, and the CSRS/FERS retirement systems.

When an annuitant dies, OPM's RS reviews all the relevant FEGLI personnel and payroll documentation and uses Automatic Certification (AutoCert) (a secure electronic transmission of the insured's life insurance coverage) to trigger certification to MetLife/OFEGLI. A small number of special cases are still done manually.

To be able to estimate the improper payments to the beneficiaries of "non-annuitants" and capture the entire FEGLI death population, OPM developed an automated match similar in scheme to the annuitant paid claims match. The match compares life insurance coverage/eligibility data in OPM's Central Personnel and Postal Data Files (CPDF) to the MetLife/OFEGLI benefit payment files. As with the paid claims match, this match is designed to identify nearly all executive branch and U.S. Postal Service overpayment and underpayment discrepancies for deceased employees.

Background Investigations Program

OPM used the universe of closed cases for the first 9 months of FY 2012 to select a sample for review; the first 9 months were used as the universe based on the timing of the detailed review needed to analyze closed cases and payments. This methodology was generally consistent with that used in FYs 2009 through 2011.

In accordance with OMB guidance, the overall size of the sample was a derivative of both the population size (1.5 million closed cases from October 1, 2011 through September 30, 2012) and a degree of confidence that the results of the analysis would be sufficient to represent the entire population (95 percent degree of confidence that the cost of errors measured in the sample set would be within plus or minus 2.5 percent of that result in the entire population). In its review, OPM eliminated investigation case types with a volume of cases less than 0.05 percent of the total case population of 1.5 million. As a result, OPM had a total of approximately 1.3 million cases from which to select its sample. Based on that universe and degree of confidence, the sample set was calculated at a total of 1,400 closed cases. That sample was comprised of 140 cases from each of 10 major investigation types (e.g., national agency check with law and credit). A varying number of payment transactions were reviewed for each sample case. In total, 4,402 payments were reviewed in three major categories: support, investigations, and review. Varying investigations types entail different amounts of investigation and other related work, and therefore, contractors are paid different amounts based on the investigation type.

As noted above, for each closed case in the sample of 1,400 cases, OPM reviewed up to three separate payment category types: (a) payments made to support contractors for scheduling cases in the PIPS and associated tasks (1,218 payments), (b) payments made to contractors for conducting investigative fieldwork (3,035 payments), and (c) payments to contractors to conduct reviews of completeness of field work for completed cases (149 payments). Results are presented in Table 12 for each category of payment.

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

- Reviewed the contract for each contractor and verified that payment transactions in PIPS were in accordance with the terms and conditions of the contract;
- Reviewed the daily detailed reports from PIPS for all cases taken from each of the case types;
- Verified that there was supporting documentation for any payment adjustments;
- Verified that the payments for all cases in PIPS were included in the total payments summarized in CBIS; and
- Verified that proper payment was disbursed by CBIS to the contractor by comparing the PIPS summary to Treasury confirmation reports.

III. Causes of Improper Payments and Corrective Actions to Reduce Them

Retirement Program

Improper payments remain a marginal percentage of both the number and value of total retirement benefit payments (both less than one tenth of one percent). OPM is committed to reducing improper payments by identifying the causes and implementing corrective actions where appropriate. The following are the principal causes for improper payments in the Retirement program and the corrective actions associated with each cause:

Causes of Improper Payments

1. Delayed Reporting (administrative and documentation error)

Issue

OPM is reliant on beneficiaries and other sources (such as funeral homes and other federal agencies) to learn of status changes. Delayed reporting (or no reporting) of change in status (death, marriage, restored to earning capacity, reemployment, etc.) furnished by beneficiaries or family members that result in a different (or no) benefit payment.

Corrective Actions

Surveys

To remedy improper payment OPM administers continuous surveys to determine recipient eligibility for benefits. OPM surveys certain benefit recipients directly on an annual or semi-annual basis to verify that the recipients continue to meet eligibility requirements. RS administers the following surveys on an annual basis.

- **Marital Survey**
  OPM conducts the marital survey to determine if the surviving spouse is still eligible for benefits. The retirement law specifies that the surviving spouse loses eligibility of benefits if he/she remarries prior to the age of 55, unless the survivor was married to the annuitant for at least 30 years.
- **Representative Payee Survey**
  OPM conducts the representative payee survey to ensure that the person receiving benefits on behalf of an annuitant is the payee on record, and that the payee is using and managing the annuity in the best interest of the annuitant. Representative payees receive benefits on behalf of annuitants, surviving spouses, and disabled dependents who are not able to manage their own financial affairs. To remain eligible for payments, representative payees must respond to representative payee survey.
- **Student Survey**
  OPM conducts the student survey to ensure that the surviving child who meets basic eligibility requirements, between the ages of 18 and 22 is a full time student at an accredited educational institution may be eligible for a monthly survivor annuity benefit. Marital and student educational status, military status, etc. may determine continued eligibility or non-eligibility.

- **Disability Survey**
  OPM conducts the disability survey because there is a limit on the amount a disabled retiree can earn in the calendar year. All annuitants who are under age 60 are surveyed. Annuitants are not required to respond unless they work or were self-employed and have an earned income that surpasses the earned income limitation for the year. The disability survey is mandated by law.
- **FERS Annuity Supplement Survey**
  OPM sends the FERS survey to all annuitants who receive the FERS annuity supplement. The FERS Annuity Supplement is paid in addition to gross monthly FERS annuity benefits. The supplement represents what an annuitant would receive for his/her FERS civilian service from the Social Security Administration (SSA), and the supplement is calculated as if the annuitant is eligible to receive SSA benefits upon retirement. Eligibility for the annuity supplement continues until the annuitant reaches age 62. This annuity supplement is subject to a reduction based on wages an annuitant may earn during employment performed after retirement.

Videos/Website

RS has made enhancements to its website to aid in preventing annuity overpayments. Below is a list of the online resources available for usage by retirees and their families.

- Death of A Retiree (video/website)
- Remarriage After Retirement (video/website)
- Divorce After Retirement (video/website)
- Change of Address (video/website)

These tools provide annuitants and other RS customers with important information. This information includes some of the most common life events/changes that, when not reported, prevent OPM from making the necessary post adjudication changes and adjustments to annuities in a timely manner.

Overseas Initiatives and Proof of Life Project

OPM has undertaken a series of initiatives to reduce improper payments overseas. OPM increased its enrollment rate for electronic funds transfer (EFT), and improved in customer service by coordinating with the Department of State, and the Social Security Administration's Office of International Operations (SSA/OIO).

In addition, OPM developed and implemented a "Proof of Life" plan overseas to ensure that payees are still living and that OPM is not making improper payments. Moreover, OPM works closely with the SSA/OIO using their best practices in each country, to identify improper payments due to death or fraud. For example, a verification fair is held in numerous countries to ensure that annuitants are still alive. U.S. embassies and consulates personnel assist OPM with these verifications. The annuitants are required to bring photo identification or fill out questionnaires. If annuitants do not attend the verification fairs or do not return the questionnaires, accounts are suspended until they contact OPM and confirm eligibility to continue to receive benefits.

Additionally, SSA/OIO delivers a 100 year certificate to centenarians. If it is determined that the annuitants are no longer living, SSA/OIO informs OPM and payments cease.

All OPM verifications now include International Treasury Services (ITS) or correspondent direct deposit sign up information and OPM annuitants are "highly encouraged" to enroll. The banking agreements for both of these types of payments make the banks responsible for reporting known deaths, which will enable OPM to further reduce overpayments to deceased annuitants.

2. Inaccurate and/or incomplete information (administrative and documentation error)

Issue

OPM is reliant on information provided by former employing agencies. If the information OPM receives is inaccurate and/or incomplete, it may result in an improper payment. For example, the retiree's annuity calculation may be incorrect if the former employing agency did not provide OPM with the employee's complete Federal service history.

Corrective Actions

To remedy inaccurate and incomplete information the Retirement Program provides agencies with benefit officers training that includes:

- ongoing audits and feedback to agencies on the accuracy and completeness of the documentation;
- defining standards for benefit officers, measuring their results, and recognizing exceptional service; and,
- using the benefits scorecard developed for agency benefit officers' service delivery model performance standards, and developing an award/recognition program for exceptional service.

Additionally, to improve the accuracy and completeness of retirement claims processing RS has implemented the following:

- ongoing audits of submissions by agencies;
- providing monthly feedback to agencies using a benefits scorecard measure and communicating results with each agency;
- identifying training needs for agencies and developing job aids, on-line training modules;
- conducting workshops on the retirement application process; and
- partnering with agencies to use the data used in agency's internal systems to automate the application process and interim pay.

3. Unauthorized dual benefit payments (verification error)

Issue

Unauthorized dual benefits payments are those benefits for which an employee may qualify for one or the other but not both at once or in full. An example of unauthorized dual benefits payments is workers compensation (OWCP). An injured Federal employee eligible for either OWCP or Disability Retirement may not collect full benefits from both programs at the same time.

Corrective Actions

OPM conducts matches following the surveys to identify any missed accounts that would allow continuation of improper payments based on specific Federal benefits. These matches provide further monitoring of non-reported or mis-reported information from annuitants and survivors. OPM conducts matches that reveal unreported deaths and unreported events that determine eligibility for benefits.

To combat unauthorized dual benefits OPM administers the following matches.

- **SSA Death Master File (DMF)**
  OPM conducts weekly computer matches which compare annuitant identifiers with current SSA death records. The RS Retirement Inspections office (RI) also conducts yearly computer matches to verify the information obtained from the surveys and run the annuitant roll against the yearly death master file.
- **Consolidated Death Match (CDM)**
  OPM compares the CDM and the DMF with OPM's annuity rolls with those of the SSA to identify persons who have been reported as deceased.
- **Disability Earnings Match (DEM)**
  OPM uses the DEM to audit all individuals under age 60 who are in receipt of a disability annuity and whose earnings have been identified as near or exceeding the allowable 80 percent limit. This match follows a survey of the entire disabled annuitant population under the age of 60. If a person meets or exceeds the 80 percent earnings limit, his/her earning capacity is considered "restored" and the disability annuity terminates thereby preventing improper payments.
- **FERS Annuity Supplement Match**
  OPM uses the FERS Annuity Supplement match to identify annuitants whose income, while receiving the FERS annuity supplement, has exceeded the minimum level of earnings (MLE) set by the SSA. Once earnings reach the MLE, the annuity supplement needs to be reduced $1 for every $2 in earnings exceeding the MLE.

- **Public Assistance Reporting Information (PARIS)** OPM also uses the PARIS system to help prevent dual benefit payments. PARIS allows individual states to obtain information from OPM if a person is applying for state-issued benefits and is also receiving a Federal retirement or survivor benefit. The persons identified as receiving both Federal benefits and specific public assistance benefits from their states are deemed ineligible for state compensation and are dropped from their rolls.

4. Disability FERS/SSA (authentication and medical necessity error)

Issue

FERS law requires that individuals applying for FERS disability must also apply for Social Security disability benefits. Most FERS disability overpayments occur because the law prohibits payment of full, unreduced FERS disability annuity benefits and SSA disability benefits for the same period of time. Since FERS disability annuity benefits are usually approved years before the SSA determines an award, FERS annuitants can receive several months or years worth of full, unreduced benefits before SSA approves disability benefits.

After SSA determines an award, it issues retroactive 'lump sum' payments to the disabled individual. SSA does not offset the value of the benefit by the amount of the FERS annuity repayments. SSA full retroactive awards to the FERS annuitants causes OPM to have retroactive overpayment for those payments made while waiting for the SSA disability award.

Due to the retroactive award by SSA, the annuitant owes OPM for the cumulative amount of the reductions that should have been made to their FERS annuity. Currently, OPM seeks recovery of these overpayments via its 'on-roll' and 'off-roll' collection processes. Although FERS annuitants are notified of their obligation to repay their debt to the government, many recipients do not have the financial means to repay the Federal government.

Corrective Actions

OPM is consulting with the SSA and OMB to develop strategies to reduce these overpayments. As of FY 2012, OPM determined a change in statute is needed to address this issue.

5. Adjudication errors by OPM employees (administrative and documentation Error)

Issues

OPM's case adjudication computation modules have both automated and manual elements. There are automated inputs from the mainframe database and manual entry elements from a physical case file. The manual entry process is problematic with human input-errors. These errors can be incorrect effective dates, salary rates, and tours of duty. This can affect service, average salary and part-time proration factor computations.

Corrective Actions

OPM consolidates its retirement adjudication and extended benefits test approaches to leverage monthly sampling across retirements and survivors under each of the two distinct retirement systems (CSRS and FERS). A contract statistician stratifies the sample to adequately assess each type for Improper Payments and Civil Service Retirement and Disability Fund (CSRSDF) impact. OPM reviews retirement and survivor cases using statistically valid samples across each month of the fiscal year leading up to the audit itself.

Each FY, a year's worth of audited claims calculations is used to determine the underpayment amount. By using a year's worth of data, RS increases the reliability of the results and tightens the improper payment estimate range, which is inherent in sampling large disbursements. This methodology helps to minimize variability, and potential errors correlated to anomalies within the year selected, since an entire year is represented.

RS continuously samples a similar number of cases from each of the four retirement categories each month (i.e., 30 cases from each of CSRS and FERS initial claims, and 30 cases from each of CSRS and

FERS survivor claims), for a total of 120 claims per month or 1,440 claims each year. Additionally, OPM's consolidated financial statements' auditor reviews samples from these results, and the OIG performs further sub-sampling. This sampling maximizes RS confidence in the methodology. Projections are based on a 95-percent confidence interval that the size of the improper payments estimated falls between the upper and lower limits identified.

Based upon the results of sampling, RS issues monthly and quarterly reports to its operational units that provide feedback in the form of metrics/analysis on any trends/observations found. These include the raw data, accuracy rates, error rates, and average processing times for a finite period of time. Formal recommendations for corrective actions and training needs are also made to strengthen the adjudication process and reduce improper payments. RS uses the information gained through these 'rolling' reviews to make informed decisions regarding staffing, training, and internal control decisions.

In addition, RS has recently implemented a Continuous Process Improvement (CPI) plan to redesign the workflow for retirement application processing. The plan is primarily a joint effort between various RS programs. While the primary goals of the CPI are to reduce processing time and increase productivity, the CPI may also reduce administrative and documentation errors by providing adjudicators with fully-developed "healthy" retirement claims. Those "healthy" claims may allow adjudicators to focus more closely on annuity computations by having all support development done in advance of the case reaching the adjudicator, and may also result in more standardization of the adjudication review process. The CPI has resulted in the following actions thus far:

- RS established a Retirement Preparation Section (RPS) in February 2012 to build quality into the front-end of retirement application processing. RPS is responsible for printing all electronic records needed for a retirement case and verifying that the retiree's service history record is complete.
- RS established a Retirement Development Section (RDS) in February 2012 to complete all support development needed to process a retirement package before it is sent to the adjudicator to compute the retirement benefit. RDS is completing a checklist for each case file. By completing the checklist, a RDS staff member certifies that required items are provided.
- RS launched a pilot program in April 2012 to standardize the internal review process.

Federal Annuity Claims Expert Systems (FACES)

FACES is the primary tool used by RS employees to calculate and pay FERS retirement and death benefits. RS is updating FACES to reduce the need for manual retirement payments, which should increase the accuracy rate as well as simplify future adjustments.

OPM is implementing several improvements to FACES to reflect legislative changes, such as phased retirement, and broadening its functionality to reduce reliance on multiple applications (e.g., those used to calculate the special rates for Congressional staff, air traffic controllers, etc.) or manual computations to process claims.

6. Delays (administrative and documentation error)

Issue

There are delays in the processing of post-adjudications or adjustments requested by annuitants or other eligible benefit recipients. Some causes of delays include changes in annuitants' marital status that result in health and life insurance changes, termination of survivor benefits due to the death or divorce of a spouse, and post-retirement marriage survivor benefit elections.

Corrective Actions

RS continues to hire additional staff to work on claims adjudications. Additionally, resources are being reallocated to rectify the issue of delays in processing post-adjudication and adjustments. Moreover, RS is providing ongoing training to current and new staff to ensure they have the knowledge and skills necessary to perform all adjudicative functions.

Likewise, enhancements to the system is occurring to increase the accuracy of payments.

7. Fraud (verification error)

Issue

RS investigates allegations and tips of misuse of CSRS/FERS annuity benefits. Some examples of retirement-related fraud are unreported deaths, forged documents, disability cases (when reports and tips indicate that the annuitant is found to have been recovered from his/her disability or whose behavior does not indicate the presence or continuation of the disability for which he/she was approved) or representative payees who do not appear to be using money in specified and appropriate manner when caring for the annuitant or survivor.

Corrective Actions

OPM investigates leads from outside individuals such as friends, family, and coworkers whom inform OPM of annuitants deaths or potential disability fraud. OPM then begins an investigation of these reports using online public databases such as LexisNexis. We also request medical records if the situation requires.

OPM also continues to explore alternate methods that would allow the agency to evaluate the case in a more timely manner when an annuitant's eligibility for benefits has changed. This may include the use of Treasury's new Do Not Pay portal and its databases.

8. Improper Payments to Deceased Annuitants (administrative and documentation error)

Issue

OPM has a strong program for identifying improper payments made to deceased annuitants and recovering those improper payments. However, as noted by OIG, internal controls for the RS processes require further strengthening.

Corrective Actions

To strengthen controls, OPM formed a task force to address issues concerning improper payments to deceased annuitants. The task force included the Associate Director of RS, the Chief Operating Officer, the CFO, and the Director of Internal Oversight and Compliance. The task force has developed a Strategic Plan for Stopping Improper Payments to Deceased Annuitants, which was submitted to the OIG on October 15, 2012. OPM looks forward to working with the OIG to review and implement this plan.

RS also established an RS Improper Payment Working Group (RSIPWG) comprised of representatives from key operations in RS. The group is updating the RS Improper Payment Plan to better measure, reduce, prevent and recapture improper payments. This will also be incorporated into an overall comprehensive improper payments plan, which was recommended by OIG in its March 2012 report on compliance with IPERA.

By better identifying the causes of improper payments and corrective actions, OPM believes it can further reduce their rate of improper payments.

Health Benefits Program

OPM recognizes several categories of improper payments across the FEHBP. FEHBP improper payments are generally administrative in nature. Addressing administrative improper payments requires a multi-pronged approach.

Causes of Improper Payments

1. Defective pricing by community-rated HMOs (administrative and documentation error)

Issue

Community-rated carriers develop a premium price that does not ensure that the FEHBP is receiving "market price".

Corrective Actions

Market price comparisons are performed when the premiums are negotiated and accepted. However, a FEHBP market price is not confirmed until a rate reconciliation review or audit is completed and/or when a full range audit is performed, including an analysis of the rates paid by other employer groups (e.g., Similarly Sized Subscriber Groups). In addition, FEHBP is currently incorporating a different rating approach, the Medical Loss Ratio (MLR), for most HMOs to calculate premiums. MLR requires plans to pay at least 85 percent of premium dollars for medical claims or activities that improve the quality of health care. FEHBP believes this approach will significantly reduce defective pricing issues.

2. Enrollment reconciliation between HMO carriers and participating agencies (administrative and documentation error).

Issue

Carriers are not timely notified of enrollment changes and therefore unnecessarily incur capitation charges yet are not receiving premium for terminated enrollments.

Corrective Actions

The Centralized Enrollment Clearinghouse System (CLER) was created to facilitate reconciliation between the carriers' and the agencies' enrollment records. CLER has significantly reduced erroneous payments associated with enrollment discrepancies from fifteen percent to two percent.

3. Experience-rated carriers' benefit coordination with Medicare (administrative and documentation error)

Issue

Premium rates are negatively impacted when a carrier does not properly coordinate enrollee benefits Medicare, resulting in the FEHBP paying claims which Medicare should have paid as the primary payor.

Corrective Actions

Enhanced carrier efforts along with robust contract oversight have reduced the negative impact on premium rates. The HI contracting officer and its audit resolution (AR) group have expanded resources and worked very closely with Blue Cross and Blue Shield and other ERCs to improve the timeliness, quality and responsiveness of submissions for review. Corrective action plans have been updated to address any trends in OIG findings and contract language is being reviewed and strengthened to ensure due diligence is taken in Plan's recovery processes.

Plans have incorporated a variety of efforts aimed at strengthening internal controls through the identification, prevention, reduction and recovery of improper payments in claims processing in general, and coordination of benefits (COB) in particular. These efforts include system edits to reject claims or defer them for manual review, 100-percent review at certain claim thresholds, quality assurance training and testing, overpayment prevention, identification and collection protocols, and causal analysis of overpayment trends.

4. Effectiveness of experience-rated carrier claims processing, financial and cost accounting systems (administrative and documentation error)

Issue

Duplicate claim payments and incorrect pricing of benefit claims for payment negatively impacts premium rates.

Corrective Actions

Carriers have initiated a variety of efforts to strengthen internal controls across the identification, prevention and recovery of improper payments. The OIG continuously conducts audits on both a plan-specific and "global" basis. Plan specific audits cover a broad scope of the plan's operations (e.g., administrative charges, cash management, fraud and abuse, claims, etc.) while global audits examine one type of finding across all plans in a related network. Plan efforts include activities such as the monitoring of routine and ad hoc reports, retroactive enrollment reports (includes Medicare COB) root cause analysis of all errors on a pre-and post payment basis, internal audit & random reviews, system scans, automatic offsets of future benefit payments where unrecouped overpayments exist and documentation maintenance to support plan actions.

5. Charges of administrative expenses by experience-rated carriers (administrative and documentation error)

Issue

The allocation of overhead expenses charged to the FEHB and executive compensation issues have the potential to be overstated.

Corrective Actions

Contract officers exercise significant oversight in this area including, but not limited to, review of administrative charges billed, requesting audits of administrative charges and monitoring usage, trends, and requests to minimize excessive or inappropriate spending in this area. Furthermore, OIG's Office of Investigations pursues leads and tips from Fraud Hotline, Whistle-blower complaints and other sources to uncover fraudulent activity by health care providers, carriers and pharmaceutical companies.

Life Insurance Program

Causes of Improper Payments

1. Incorrect Certification by OPM- Retirement Operations Center (ROC) (administration and documentation error)

Issue

Incorrect certification of annuitant's coverage can result in an inaccurate benefits payment.

Corrective Actions

To address OPM certification errors, HI's Federal Employee Insurance Operations (FEIO) and RS implemented an automated certification AutoCert process in April 2005. AutoCert electronically certifies life insurance coverage for deceased CSRS and FERS annuitants. The AutoCert process replaced hard-copy paper certification for most deceased CSRS/FERS annuitants. This effort has significantly reduced the overall percentage of improper payments since annuitant claims represent (on average-annually) 85 percent of all claims paid.

When OPM receives a report of death and enters it into the annuity roll, an on-line AutoCert screen is automatically created for the deceased annuitant. This information is bundled with certifications of coverage for other deceased annuitants received that day and electronically transmitted via secure network internet connectivity overnight to MetLife.

This revised business process significantly reduced the incidence of manual annuitant certification errors by OPM staff. To illustrate, the chart below shows the downward trend of annuitant IPs in two-year intervals since implementation:

	FY 2005	FY 2007	FY 2009	FY 2011
% of total accounts	0.30	0.014	0.10	0.08
% of total benefits paid	0.17	0.06	0.04	0.01

Approximately 95 percent of all annuitant life insurance certifications are done using AutoCert, with certain business exemptions when manual certifications are required, including:

- other retirement system (non-CSRS/FERS) claims;
- claims involving pending retirement case applications at the time of death;
- retirements for which FEGLI coverage was erroneously omitted; and
- delayed submissions of key FEGLI documentation by claimants.

For FY 2012, 99.9 percent of all life insurance payments were proper. This reportedly is one of the highest accuracy rates among Federal benefits-paying programs according to the OMB Improper Payments Initiative.

2. Incorrect Certification by Employing Agencies (administration and documentation error)

Issue

Incorrect certification of employee's coverage can result in an inaccurate benefits payment.

Corrective Actions

On a continous basis for many years, OPM and MetLife/OFEGLI have worked closely with the agencies to ensure accurate certifications are submitted. OPM has taken a number of steps, including:

- maintaining an up-to-date website with detailed guidance for HR professionals;
- issuing updated guidance as needed via a Benefits Administration Letter (BAL) listserv;
- developing and presenting training during the year to HR professionals government-wide;
- providing guidance via electronic mail and telephone; and
- continuing training/education for MetLife/ OFEGLI representatives to assist with "self-identifying" potential errors.

3. Delayed, Incorrect or Outdated Submissions (administration and documentation error)

Issue

Delayed, incorrect or outdated submissions by OPM RS and employing agencies of designations of beneficiary (DESBEN) may result in payment to an un-entitled claimant.

Corrective Actions

For designation issues, OPM and MetLife/ OFEGLI also continue to work with agencies and RS to ensure that designations are the most recent on file. For example, MetLife/OFEGLI contacts agencies as part of its claims verification "pre-payment" process for larger dollar payments, to verify both the dollar accuracy of the agency certification and to verify if any other designations which could affect payment are on file.

As part of the AutoCert process, MetLife/ OFEGLI verifies whether a current designation is on file when OPM autocerts the claim and enters in remarks "designation on file". This means RS will send all designations on file for the deceased at time of death. RS needs to work to refine the filing process for designations, as some errors still occur. With the volume of claims received in RS, challenges still remain.

Background Investigations Program

Causes of Improper Payments

1. Inadequate Case Closure Reviews by Contractor Staff (administration and documentation error)

Issue

OPM's FY 2012 improper payments review for the Background Investigations program found that most improper payments resulted from instances in which an OPM contractor reviewed the adequacy of work for another OPM contractor. As part of the improper payments review, CFO requested that FIS staff do a separate review of those cases. For some of those cases, the results of the FIS review found the results of the original case to be unacceptable. This resulted in classifying a number of support and review payments in the sample as improper.

Corrective Actions

FIS is aware of the issues regarding having one of its contractors review work conducted by other OPM contractors. Over the past few years, it has been reducing the number of cases reviewed by contractor staff and increasing the number of reviews by government staff. That step should further reduce the number of errors found in future reviews and risk assessments.

2. Changes in Payment Process During FY 2012 (administration and documentation error)

Issue

In previous years, payments to FIS contractors were generated based on cases and associated work being closed in the PIPS system and contractors generally did not submit formal invoices for payment. In FY 2012, FIS changed its process to require invoices from its contractors; the transition occurred at various times during the FY for different FIS contractors. The second major cause of improper payments for the Background Investigations program during FY 2012 was issues surrounding this transition period. A transition to a new process generally increases the risk of improper payments during the initial implementation and FIS will take appropriate steps in any future transitions. Most of the improper payments found during this year's review had actually already been discovered by the FIS business management team and corrected. The fixes were subsequent to the actual payments so OPM is reporting these as improper payments although necessary adjustments were made during the FY.

Corrective Actions

FIS believes that it has now adequately transitioned to the new process of basing payments on actual contractor invoices and notes most of the instances reported were already identified and fixed by FIS staff. FIS will stay alert to the impact of any future process changes on improper payments.

IV. Improper Payment

OPM improper payments for FYs 2011 and 2012 are reported in Table 12. As noted in the table, the total current improper payment rates for all four reported programs are well below the current OMB reporting threshold of 2.5 percent and its planned threshold of 1.5 percent for FY 2013 and beyond. Thus, it is clear that OPM has a strong improper payments program based on corrective actions it has taken over the years. Nevertheless OPM will continue to strive for additional cost-effective corrective actions. OPM's targets for FYs 2013, 2014 and 2015 are also provided in Table 12.

Retirement Program

As in prior years, the largest portion (78.5 percent) of OPM's reported improper payments for the Retirement program were overpayments. Overpayments increased from $183.6 million in FY 2011 to $208.7 million in FY 2012.

The outstanding balance of overpayments to deceased annuitants decreased from $102.9 million in FY 2011 to $86.1 million in FY 2012. Over the prior five years, the balance of improper payments to deceased annuitants averaged about $109 million. In coordination with the OIG, a major focus of OPM's improper payments program in FY 2012 was reducing the overpayments to deceased annuitants. OPM was successful in recovering and reducing these payments as noted by the significant decrease. Although OPM's overall improper payments rate for the Retirement program continues to be very low (0.36 percent in FY 2012) considering its size and complexity, RS will continue working towards reducing its improper payments in FY 2013 and beyond.

Health Benefits Program

The FEHBP improper payments reflect a marked increase in FY 2012, reflecting activities of the OIG criminal investigative branch, which is tasked with examining potential fraud and abuse that intersects with Health Benefits and other Federal Programs. This reporting period realizes a significant increase in pharmaceutical fraud at the manufacturer's level. In previous reporting periods, the Health Benefits improper payment amounts were predominately derived from health plan audit findings. However, for this reporting period, $155 million (73 percent) of the $213 million reported represents pharmaceutical fraud. The $155 million represents three settlements that covered offenses as far back as 1999, but are reported in FY 2012, when the recoveries were realized. Two specific civil cases account for $104 million of the $155 million in pharmaceutical fraud. Those two cases settled for a total of $3 billion. This represents a significant achievement for FEHBP, but skews our reported improper payments for FY 2012.

Of the remaining $58 million in FEHBP improper payments, nearly $10 million represent findings from two CRC rate reconciliation audits that are recorded as improper payments due to system limitations preventing a more appropriate categorization of this routine process. Although obscured by the large settlement recoveries and rate reconciliation audits, FEHB improper payments attributed to health plan audits were approximately $48 million, or a $103 million reduction from FY 2011.

Life Insurance Program

The FEGLI Program has had a vigorous improper payment in place for many years preceding the implementation of the IPIA and IPERA. Since

2001 improper payment numbers have been well under the IPIA/IPERA thresholds for reporting: $10 million and 2.5 percent of the total outlays. For FY 2012, the FEGLI Program began to report improper payment by a new method utilizing numbers calculated by MetLife, the FEGLI Program's contractor. This number, while ostensibly higher, is useful because it is derived from MetLife's annual program financial statements to report "beyond liability" claims; i.e., claims for which funds are known recoverable. Because of increasing outlays in out years due to higher salaries, future improper payment dollar amounts may increase even while improper payment percentages decreases. Nevertheless, the FEGLI Program continues to perform at an exceedingly high rate of accuracy—over 99.9 percent.

Background Investigations Program

FIS continues to reduce improper payments for the Background Investigations program as noted in Table 12. As noted in the table, annual estimated improper payments were reduced from $10.8 million in FY 2011 to $3.1 million in FY 2012, with the rate reduced from 1.6 percent to 0.5 percent for that same time period. OPM plans to request that this program be removed from annual reporting under OMB guidance. Nevertheless, OPM is providing outyear targets in Table 12 as required by OMB.

Table 12 — Improper Payment Reduction Outlook

	2011 Outlays	2011 IPs	2011 IPs	2012 Outlays	2012 IPs	2012 IPs	2012 Overpayment	2012 Underpayment	2013 Outlays	2013 IPs	2013 IPs	2014 Outlays	2014 IPs	2014 IPs	2015 Outlays	2015 IPs	2015IPs
	$ M	%	$ M	$ M	%	$ M	$ M	$ M	$ M	%	$ M	$ M	%	$ M	$ M	%	$ M
RETIREMENT																	
Total Program	69792.4	.34	235.9	73519.4	.36	265.8	208.7	57.1	74443.5	.35	260.6	78417.9	.34	266.6	82604.5	.33	272.6
HEALTH BENEFITS																	
All carriers	40493.0	.38	151.7	42558.5	.50	213.0	212.8	.2	44241.7	.29	127.2	46251.8	.27	127.2	46251.8	.27	127.2
CRCs total	6471.4	.85	54.8	6688.1	.28	18.6	18.6	0	6732.8	.74	49.7	6867.5	.43	49.7	6867.5	.43	49.7
ERCs total	34021.6	.28	96.9	35870.4	.54	194.4	194.2	.2	37508.8	.21	77.5	39384.3	.24	77.5	39384.3	.24	77.5
LIFE INSURANCE																	
Total Program	2582.3	.04	.5	2670.6	.08	2.3	1.3	.9	2761.9	.07	1.9	2856.3	.06	1.71	2954.0	.05	1.5
Non-Annuitant	895.5	.02	.2	1078.5	.08	.88	.52	.36	1077.0	.07	.75	1114.0	.06	.667	1152.1	.05	.58
Annuitant only	1686.3	.02	.3	1592.1	.09	1.4	.8	.6	1684.8	.07	1.2	1742.3	.06	1.0	1801.9	.06	.90
REVOLVING FUND – BACKGROUND INVESTIGATIONS																	
Total Program	695.4	1.6	10.8	635.4	0.5	3.1	3.0	0.1	650.0	0.4	2.8	670.0	0.3	2.3	700.0	0.3	2.0
Support Contractors	91.1	.9	0.8	69.0	1.8	1.2	1.2	0.0	69.5	0.4	0.3	69.5	0.3	0.2	79.5	0.1	0.1
Investigative Contractors	601.1	1.6	9.5	565.7	0.3	1.7	1.6	0.1	580.0	0.4	2.5	600.0	0.4	2.1	620.0	0.3	1.9
Review Contractors	3.2	14.9	0.5	0.7	16.2	0.1	0.1	0.0	0.5	0.0	0.0	0.5	0.0	0.0	0.5	0.0	0.0

NOTES: Numbers in this Table may not add due to rounding. Additionally, improper payment rates were calculated based on total numbers and therefore calculations based on the rounded numbers in this table may not match actual rates.

* Health Benefits $213 million includes three (3) one-time settlements totaling $153 million from civil recoveries

V. Recapture of Improper Payment Reporting

OPM has generally determined that it is not cost-effective to hire payment recovery auditors for any of its four reported programs. Nevertheless, OPM has extensive internal recapture efforts for these programs and has a high rate of recovery for improper payments as noted in Table 13.

Table 13 — Overpayments Recaptured Outside of Payment Recapture Audits

Source of Recovery: OPM Fund/ Program	FY 2012 IP Amount Identified for Recovery (in Millions)	FY 2012 IP Amounts Recovered (in Millions)	IP Amount Identified for Recovery in Prior Years (in Millions)	Amounts Recovered In Prior Years (in Millions)	Cumulative Amounts Identified in Prior Years + FY 2012 (in Millions)	Cumulative Amounts Recovered In Prior Years + FY 2012 (in Millions)
Retirement	$201.6	$147.1	$1092.2	$906.8	$1293.8	$1053.9
FEHB	$212.8	$240.8	$323.4	$276.8	$536.2	$517.6
Life Insurance	$2.3	$0.5	$17.3	$12.3	$19.6	$12.8
Background Investigations	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0

* This amount is reported in MetLife/OFEGLI's annual audited financial statements. It is an accounting statement line item derived from payments "beyond liability;" i.e., monies due a beneficiary for which recovery efforts from other claimants are underway. In 2011 the FEGLI Program previously reported only OPM improper payment activity via the "paid claims match," shown in Table 12 as $.5M. Since the OPM match is a subset of the total improper payment amount MetLife/ OFEGLI annually reports, the 2012 total program improper payment amount, shown as $2.3M in Tables 12 and 13, reflects the sum total improper payment amount identified and calculated both by OPM and MetLife/OFEGLI.

Retirement Program

As a benefits paying agency, OPM has the ability to recover overpayments from the recurring annuity payments it makes to its debtors if OPM determines that the debtor has the ability to pay the debt. OPM refers to these recoveries as "on-roll" collections. If a debtor is not on the annuity roll or the debtor's entitlement to annuity from OPM is insufficient to recover the debt on a reasonable recovery schedule, OPM sets up an off-roll recovery.

OPM collects from on-roll debtors by withholding a portion of their monthly benefits until their entire debt is collected. Consequently, OPM has a very high degree of success in collecting debts owed by on-roll individuals. When the person is not currently receiving benefits (or off-roll), collection is more difficult and costly. In such cases, OPM uses an in-house billing, collecting, and follow-up system to collect amounts owed.

OPM complies with the Debt Collection Improvement Act (DCIA) in collecting delinquent debts. In accordance with the DCIA, agencies are required to refer debts that are more than 180 days delinquent to the Treasury for collection by administrative offset and/or for cross-servicing. Since its implementation, OPM has collected over $8.8 million via Treasury.

Health Benefits Program

The OIG, under the amended Inspector General Act of 1978, administers audits in partnership with the FEHBP. An audit resolution function validates audit findings and determines whether questionable charges are allowable under FEHBP regulation (e.g., FAR, FEHBAR). To comply further with the policy, OPM's OIG continually reviews the agency's cost effective financial and programmatic controls to identify contractor overpayments. These effective internal controls prevent, detect, and recover overpayments to contractors. All contracts negotiated by OPM are subject to audit and are included in the audit universe with comprehensive audits of the

FEHBP carriers conducted to ensure compliance with contract provisions, provide program oversight, and minimize fraud, waste, and abuse. The costs for this program include salary, administrative, and other expenses spread across several organizations. As part of OPM's day-to-day program administration, corrective action plans are developed and implemented based upon the nature of the audit payment error identified. Corrective action plans are reviewed annually.

A payment recapture audit identifies contractor overpayments by examining agency information supporting payments. The FEHBP audits rely on judgmental, not random, sampling, which provides a reasonable estimate of improper payments because carriers selected tend to have more payments that are improper. Improper Payment recovery criteria are in the contracts with each of the carriers. In general, improper payments must be identifiable, quantified, with timely and diligent notification, recovery, offset and reporting steps completed, as appropriate. OPM staff reviews supporting documentation to ensure contract compliance. Since the terms and conditions of all OPM's contracts with HI carriers provide for adjustments based on the OIG's audits, OPM has excluded them from the requirement for recovery audits. Additionally, OPM does not pay a fee to OIG based on recoveries. This process overall has proven highly effective in detecting and recovering improper payments for FEHB.

Life Insurance Program

OPM has had an effective process in place for many years to determine the improper payments made by MetLife to the beneficiaries of deceased annuitants. This was the seventh full year since the Autocert system replaced the manual process for certifying FEGLI payments. Autocert has dramatically reduced annuitant Improper Payments due to human error in processing claims. FEGLI payments to annuitants continued to be extremely accurate during FY 2012, with over 99.9 percent of payments being made properly. Also, as noted previously, OPM expanded its analysis to include most executive branch non-annuitants (deceased employees) and concluded these disbursements are as accurate as the disbursements made on behalf of deceased annuitants. MetLife is required by regulation and contract to aggressively recover improper overpayments. Therefore, hiring a payment recapture auditor for this program would not likely be cost-effective.

Background Investigations Program

For Background Investigations, OPM believes that hiring a payment recovery auditor would not be cost effective. FIS maintains a strong quality assurance program and work done to improve processes and procedures in order to reduce improper payments has been effective as noted by the data reported above. Daily reconciliations are done by FIS and CFO staff to ensure that payments are made accurately and have necessary support. The improper payments reported for this program ($3.1 million) are based on statistical projections. A much smaller amount of improper payments was identified for the sample payment transactions. Additionally, the large number of cases (about 2 million per year) would not be appropriate for a payment recovery auditor to review.

VI. Accountability

Retirement Program

The Associate Director of Retirement Services is held responsible by the OPM Director for reducing improper payments through his performance standards. As noted above, RS is also a major participant in the task force to reduce improper payments to deceased annuitants.

Health Benefits Program

HI contracting officers (CO) and management are fully dedicated to the effective administration and oversight of the FEHBP, including accountability for improper payments. In FY 2011, FEHBP implemented new audit resolution timelines to expedite and facilitate the audit and resolution processes. Performance standards reflect these timelines, which focused on increased participation by contracting staff in their oversight responsibilities through continuous involvement in the entire OIG audit process. It also required Plans to work more closely with the OIG during the draft audit phase to identify and resolve potential findings before the report is final. An effective tool used by HI management is the use of incentive-based service charge agreements, penalty clauses and Quality Assurance Surveillance Plans. These tools tie plan profits to performance and enable COs to incentivize or penalize performance.

FEHBP takes accountability for improper payments earnestly. The CO's discretion is a key aspect of HI's oversight of the FEHBP and improper payments are one of several factors considered. Collaborating with all stakeholders, including OIG, COs must consider many technical, cost, and performance issues in resolving audit findings and making decisions on the allowability of monetary recommendations, including the closure of audit recommendations. The CO weighs not only the nature and severity of audit findings, but also costs to the program and reasonable timeframes for remediation. Furthermore, the size and reach of a benefit plan and the possible impacts on participants, some of whom reside in areas underrepresented by health care providers and options, must be weighed as well. In this context service availability and pragmatic considerations, may prove pivotal in improper payments determination and recovery.

FEHBP emphasis on more timely resolutions - with greater focus on resolving issues during an audit's draft phase - is having favorable results and may shorten and simplify the overall resolution process. Significantly, it will also better allow audit reports to be used as a tool to enhance management's oversight and carrier's compliance.

HI works closely with the OIG to ensure and strengthen Plans' internal controls, and holds our CO accountable to provide effective oversight and administration of the FEHBP.

Life Insurance Program

The FEGLI Program office staff, through its oversight of the contract between OPM and OFEGLI/MetLife, is held accountable through their individual performance standards. Part of this accountability involves holding OFEGLI/MetLife contractually accountable through the recapture methods described previously. It remains OPM's goal to request OMB remove the FEGLI Program from its list of reporting programs since it remains well below existing IPERA and OMB guidelines for vulnerable programs.

Background Investigations Program

Improper payments on this program have been trending downward over the past several years. OPM plans to request that OMB remove this program from the list of programs based on being below OMB threshold for reporting during FYs 2011 and 2012. The downward trend has been due to increased emphasis by FIS management which resulted in improvements in FIS processes and procedures. Once the the program is removed from annual reporting of improper payments, OPM will conduct risk assessments of the Background Investigations program in accordance with the guidelines established in OMB Circular A-123 Appendix C.

Chief Financial Officer

OPM has established the Chief Financial Officer as the Senior Accountable Official for Improper Payments. In previous years, responsibilities were split between the CFO and OPM program offices. CFO has also formed an Improper Payments Working Group (IPWG) that includes members from OPM program offices and meets regularly to address improper payments at OPM. CFO will consider establishing performance metrics for FY 2013 for its senior officials as an additional means to help reduce improper payments.

VII. Agency information systems and other infrastructure

OPM generally believes that it has resources in place and can work with current information systems and other infrastructure to reduce improper payments and increase recoveries. Specific instances where OPM has been increasing or shifting resources or enhancing current systems and processes are described in the corrective actions described earlier in this report.

OPM also believes it has strong internal controls in place for its improper payments program. OIG reported in March 2012 opportunities for OPM to strengthen its controls. The OPM CFO and program offices, through the IPWG formed in 2012, are taking steps to improve controls in accordance with OIG's recommendations.

VIII. Barriers to Reducing Improper Payments

Retirement Program

RS continues to experience systemic improper payments when a FERS disability annuitant is awarded Social Security Disability Insurance benefits.

FERS Disability Offset for Social Security Disability

Frequently, OPM begins payment of a FERS disability before SSA completes processing of the SSA disability claim. In the absence of a decision on the SSA disability claim, OPM commences payment of the FERS disability without any reduction for SSA disability. The SSA disability award is paid retroactively in a lump-sum. As a result, OPM must re-compute the FERS disability annuity retroactively to apply the reduction for the retroactive SSA disability lump-sum award. RS is required to notify the annuitant of the overpayment. These overpayments are sometimes uncollectible by OPM because some debtors are simply financially incapable of repaying OPM, and OPM must terminate collection in accordance with provisions of Title 5 and Title 31, United States Code.

SSA Retroactive Awards

SSA issues a retroactive lump sum payment directly to a newly eligible disabled individual, less any required attorney fees. Social Security does not offset its benefit award by the amount of disability benefits/annuity paid by OPM (and has no legal requirement to do so). SSA provides OPM with query access to its disability award database, but does not specifically notify OPM that a Federal annuitant has been awarded SSA disability (and has no legal requirement to do so). OPM instructs FERS disability annuitants to immediately notify OPM if SSA awards them a disability, and to set-aside the sum total of SSA's retroactive award in anticipation of recovery by OPM, but OPM only sporadically receives notification from annuitants about retroactive SSA awards. In many cases, the disability annuitants spend the retroactive sum before recovery by OPM.

Overpayment Recovery

Currently, after due process, OPM recovers overpayments through installment deductions directly from annuities (on-roll collections), or, in certain cases, such as very small recurring annuities, OPM must seek direct payments from debtors through its "off-roll" collection processes. Although the FERS disability annuitants are notified of their obligation to repay a FERS overpayment debt to the government, some debtors are simply financially incapable of repaying OPM.

In prior Improper Payment reports, OPM identified a regulatory challenge that prevented the agency from effectively collecting posthumously-issued payments from the deceased's bank account. This issue has since been resolved and OPM can now more effectively recapture these overpayments.

Health Benefits

While enhanced FEHB Plan oversight and implementation of the audit resolution timelines are some of the positive steps HI has taken to strengthen internal controls, there is not always a direct correlation between root causes and remedial actions resulting in lower improper payments. This is largely due to the nature of the audit process. Although the audit is vital, comprehensive and effective it presents challenges in meeting IPERA reporting requirements for projecting outyear improper payments, demonstrating mandatory reductions in improper payments as well as outyear improper payment recovery targets. The impediment is due to annual variances of tens of millions of dollars in improper payment reporting from year to year.

Because the audit encompasses a core of large plans, supplemented by rotational audits of different carriers from year to year, amounts questioned can be significantly influenced by different types of audits, audit scope, improper payments that are recorded and later successfully contested by Plans.

OIG investigative recoveries also vary widely from year to year based on the number of cases opened, successful prosecution, recovery and FEHB shares involved. As evidenced by this year's improper payment figures, these variables cause considerable reporting challenges and can result in obscuring or magnifying the effects of corrective actions.

Life Insurance Program

As noted previously, the rate of improper payments for the FEGLI program is very low. However, OPM is aware of barriers to further reducing improper payments or increasing recoveries. Technological and legal challenges exist which preclude preventing certain improper payments from occurring. Primary among these are:

- OPM's access to deceased employee information. Access is impeded by limitations in the agency feed of the Central Personnel Data File (CPDF), which houses and aggregates active Federal employee demographic information. The CPDF is updated quarterly, but reports out that information in the subsequent quarter. As a result, data is several months old when it is first identified. It is months later when a discrepancy is verified as an improper payment. This time delay impedes OFEGLI/MetLife's recovery efforts, reducing the ability to make full recovery of an overpayment.
- OPM has had for a period of time on its legislative agenda a request to amend the law requiring designations to be witnessed. Private sector life insurance and other financial instruments have no such requirement, a characteristic primarily of wills. Elimination of this requirement would allow the electronic capture of designations. OPM believes an electronic database would mitigate the inherent problems described previously with the filing of paper designations.

Background Investigations Program

OPM sees no major barriers for the Background Investigations program and in fact the rate of improper payments has been reduced from 1.8 percent in FY 2010 to 0.5 percent in FY 2012. Based on this progress, and in accordance with OMB's guidance, OPM will formally request that the Background Investigations program be removed from the list of susceptible programs for which OPM must annually report.

IX. Additional Comments

OPM has no additional comments on its strong compliance with improper payments requirements.

Compliance with Other Key Legal and Regulatory Requirements

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

Compliance with the Debt Collection Improvement Act (DCIA)

In response to a steady increase in the amount of delinquent debt owed to the United States, and concern that appropriate actions were not being taken to collect this delinquent debt, Congress passed the DCIA of 1996, Public Law 104- 134. The purpose of the DCIA was to strengthen overall controls over collections due to the Government from private parties, including Federal employees. The DCIA has had a major impact on the way OPM makes its payments and collects the monies owed to it. Table 14 summarizes OPM's debt management activity for September 2012 and 2011. OPM complies with the DCIA via the following:

Cross-Servicing

Under the DCIA, all Federal agencies must refer past due, legally enforceable, non-tax debts that are more than 180 days delinquent to Treasury's Financial Management Service (FMS) for collection through the Treasury Offset Program (TOP). OPM has established an agreement with FMS to cross-service its debts, which allows FMS to automatically include the debts in the TOP as part of its collection effort. A debt is legally enforceable if there has been a final agency decision that the debt, in the amount stated, is due and there are no legal bars to collection action. To date, OPM has collected more than $8.8 million via FMS cross servicing.

Table 14 — Debt Management Activity

Retirement Program ($ in Millions)		
	FY 2012	FY 2011
Total receivables at beginning of year	$288.3	$279.5
New receivables and accruals	208.7	183.6
Less collections, adjustments, and amounts written-off	168.8	174.8
Total receivables at end of year	$328.2	$288.3
Total delinquent	$71.8	$58.5
Percent delinquent of total receivables	21.9%	20.3%
Health Benefits Program ($ in Millions)		
	FY 2012	FY 2011
Total receivables at beginning of year	$61.2	$47.0
New receivables and accruals	209.8	165.0
Less collections, adjustments, and amounts written-off	240.8	150.8
Total receivables at end of year	$30.2	$61.2
Total delinquent	15.4	59.9
Percent delinquent of total receivables	51.0%	97.9%

Travel and Purchase Card Usage

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

Table 15 — Travel Card Usage

($ in Thousands)	FY 2012	FY 2011
Outstanding Balance	$487.0	$1,089.0
Outstanding more than 61 days	$3.5	$3.9
% outstanding more than 61 days (OPM)	0.14%	.01%
% outstanding more than 61 days (Government wide)	3.89%	4.95%

Table 16 — Purchase Cards

($ in Thousands)	FY 2012	FY 2011
Outstanding Balance	$2,574.0	$2,865.0
Outstanding more than 61 days	$0.00	$0.00
% outstanding more than 61 days (OPM)	0.00%	0.00%
% outstanding more than 61 days (Government wide)	.17%	.28%

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

Appendix A - Acronyms and Abbreviations

(Unaudited—See accompanying Independent Auditors' Report)

Acronym	Definition
ACA	Affordable Care Act of 2010 (Affordable Care Act or ACA)
AFGE	American Federation of Government Employees
AFR	Agency Financial Report
ALIL	Actuarial Life Insurance Liability
ARPS	Annuity Roll Processing System
BPD	Bureau of Public Debt
C&A	Certification and Accreditation
CFO	Chief Financial Officer
CFOC	Chief Financial Officer's Council
CFR	Code of Federal Regulations
CHCO	Chief Human Capital Officer
CIC	Capital Investment Committee
CLA	Congressional & Legislative Affairs
CLCS	Center for Leadership Capacity Services
CO	Contracting Officer
COOP	Continuity of Operations Plan
COTS	Commerical Off-The-Shelf
CPL	Communications and Public Liaison
CRC	Community-Rated Carrier
CBIS	Consolidated Business Information System
CSRS	Civil Service Retirement System
CY	Calendar Year
DAD	Deputy Associate Director
DBTS	Define Benefit Technology Solution
DCIA	Debt Collection Improvement Act
DCCS	Document Case Control System
DEU	Delegated Examining Unit
DHS	Department of Homeland Security
DoD	Department of Defense
DSS	Defense Security Service
EBS	Employee Benefits System
ECTS	Executive Correspondence Tracking System
EHRI	Enterprise Human Resources Integration
eOPF	Electronic Official Personnel Folder
EPV	Expected Present Value

Acronym	Definition
eQIP	Electronic Questionnaire Investigations Processing
ERC	Experience-Rated Carrier
ES	Employee Services
EVMS	Earned Value Management System
FAR	Federal Acquisition Regulations
FBWT	Fund Balance With Treasury
FEDVIP	Federal Employee Dental and Vision Insurance Program
FEGLI	Federal Employee Group Life Insurance
FEHB	Federal Employee Health Benefits
FEHBAR	Federal Employees Health Benefits Acquisition Regulation
FEHBP	Federal Employee Health Benefits Program
FEI	Federal Executive Institute
FERS	Federal Employee Retirement System
FFMIA	Federal Financial Management Improvement Act
FIS	Federal Investigative Services
FISMA	Federal Information Security Management Act
FLRA	Federal Labor Relations Authority
FLSA	Fair Labor Standards Act
FLTCIP	Federal Long Term Care Insurance Program
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
FPRAC	Federal Prevailing Rate Advisory Committee
FS	Financial Services
FSA	Flexible Spending Account
FSC	Facilities, Security, & Contracting
FSM	Financial Systems Modernization
FTE	Full-time Equivalent
FY	Fiscal Year
GAO	Government Accountability Office
GFIS	Government Financial Information System

Acronym	Definition
GMRA	Government Management Reform Act of 1994
GS	General Schedule
GSA	General Services Administration
HB	Health Benefits
HC	Human Capital
HCAAF	Human Capital Assessment and Accountability Framework
HCLMSA	Human Capital Leadership and Merit Systems Accountability Division
HDHP	High Deductible Health Plan
HI	Healthcare and Insurance
HIT	Health Information Technology
HMO	Health Maintenance Organizations
HR	Human Resources
HRD	Human Resources Development
HR LOB	Human Resources Line of Business
HRS	Human Resources Solutions
HRSPC	Human Resources Service Provider Consortium
HSA	Health Savings Account
ICFR	Internal Control over Financial Reporting
IO	International Operations
IP	Improper Payment
IPA	Independent Public Accounting (firm)
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPIA	Improper Payments Information Act of 2002
IPWG	Improper Payment Working Group
IRS	Internal Revenue Service
ISPP	Information Security and Privacy Policy
IT	Information Technology
LAIRS	Labor Agreement Information Retrieval System
LI	Life Insurance
MD&A	Management Discussion and Analysis
MDC	Management Development Center
MetLife	Metropolitan Life Insurance Company
MSPB	Merit Systems Protection Board

Acronym	Definition
N/A	Not applicable
NFR	Notice of Finding and Recommendation
NRC	Nuclear Regulatory Commission
NSPS	National Security Personnel System
OD	Office of the Director
OGC	Office of the General Counsel
OIG	Office of the Inspector General
OMB	U. S. Office of Management and Budget
O/P	Overpayment
OPM	U. S. Office of Personnel Management
PAAT	Performance Appraisal Assessment Tool
PAR	Performance and Accountability Report
PART	Program Assessment and Rating Tool
PBM	Pharmaceutical Benefits Manager
PMF	Presidential Management Fellows
POA&M	Plan of Action & Milestones
PRHB	Postretirement Health Benefits
PY	Prior Year
RF	Revolving Fund
RS	Retirement Services
RSM	Retirement Systems Modernization
SAOC	Spending Authority from Offset Collections
SES	Senior Executive Service
S&E	Salaries and Expenses
SFFAS	Statement of Federal Financial Accounting Standards
SSA	Social Security Administration
TBD	To Be Determined
TJF	Treasury Judgment Fund
TMA	Training and Management Assistance
TOP	Treasury Offset Program
U/P	Underpayment
USC	United States Code
USPS	United States Postal Service
USSGL	United States Standard General Ledger
VA	Department of Veterans Affairs

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