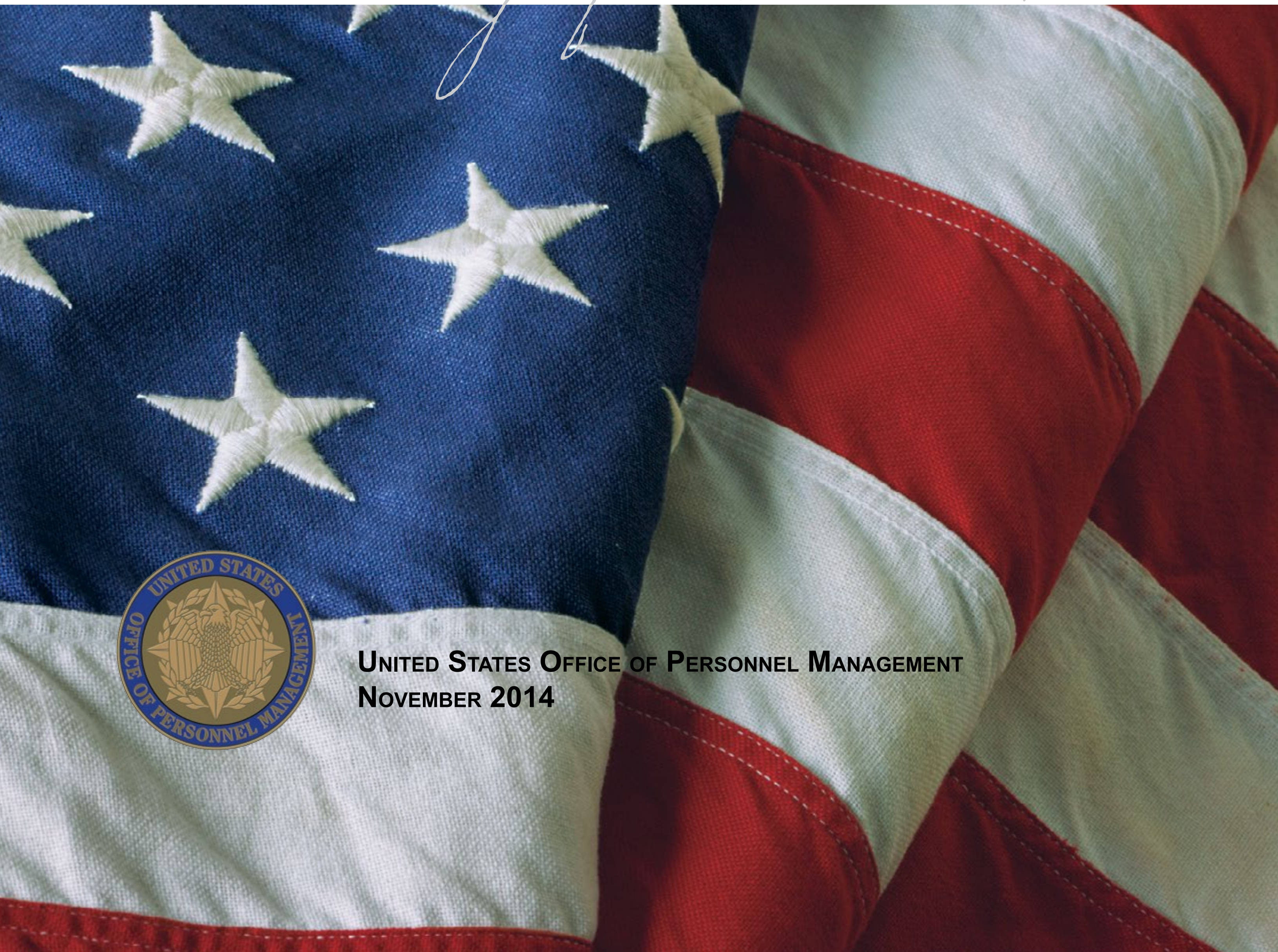
UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Agency Financial Report

Fiscal Year 2014

a New Day for Federal Service



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
NOVEMBER 2014

United States of America

The United States Office of Personnel Management

Fiscal Year 2014 Agency Financial Report

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Message *from the* Director

I am pleased to present the United States Office of Personnel Management's (OPM) Fiscal Year (FY) 2014 Agency Financial Report (AFR). This AFR is an alternative to the consolidated Performance and Accountability Report pursuant to Office of Management and Budget (OMB) Circular No. A-136. It 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 2016 Budget to Congress and a Summary of Performance and Financial Information. We believe this approach provides a succinct reporting of OPM's accountability for its resources and improves reporting through more meaningful and transparent information to the public.

Finance

It is my great pleasure to report that OPM earned an unmodified audit opinion on its FY 2014 consolidated financial statements from the independent public accounting (IPA) firm of KPMG LLP. OPM also can provide unqualified assurance for its internal control over financial reporting for FY 2014. Lastly, OPM received an unqualified audit opinion on the FY 2014 individual financial statements of the Retirement, Health Benefits, and Life Insurance Programs.

Reducing the Retirement Claims Inventory

OPM is responsible for the administration of the Federal Retirement Program covering more than 2.7 million active employees, including the United States Postal Service, and 2.5 million annuitants and survivors.

OPM is dedicated to the accurate and timely processing of Federal retirement claims and we continue to take steps to reduce the inventory of retirement claims. As of the end of FY 2014, the claims inventory was 12,767 cases- a 79% reduction since the peak of 61,108 cases in January 2012. During FY 2014, OPM processed 78.8% of the pending retirement cases within 60 days or less.

OPM's efforts have successfully improved our process and expanded our capacity. The process improvements resulted from a Lean Six-Sigma review, backfilling vacant positions, and the use of overtime to dramatically expand our capacity. OPM continues to process cases in accordance with the Retirement Services Strategic Plan.

While part of the retirement process remains paper-based, we remained focused on transitioning to a fully-digitized process. OPM's Strategic Plan for FY 2014-2018 and our Strategic IT Plan call for fully-automated processes. We are also developing high level functional requirements for a case management system and online retirement application.

Although OPM made progress, we will continue to strive to improve our retirement information system infrastructure and the services our customers deserve and expect.

Improving Access to Healthcare

In addition to handling the Federal Government's retirement process, OPM has been a key contributor to the implementation of the Patient Protection and Affordable Care Act of 2010 (Affordable Care Act or ACA). The ACA expanded the scope of OPM's mission to include contracting with health insurance issuers to offer health insurance plans to uninsured individuals and their families, and employees of small businesses. OPM's Multi-State Plan program, established pursuant to the Affordable Care Act, has made a difference in the lives of nearly 300,000 people who chose this option in the health law's Marketplace. In this first year of the program, consumers in 30 states and the District of Columbia had a Multi-State Plan option as part of their health coverage choices. OPM worked to ensure that program options offer comprehensive benefits with strong consumer protections. With the program in place, uninsured Americans now have even more choices for affordable coverage.

Also under the ACA, OPM for the first time extended insurance benefits to Native American and Alaska Native tribal employees.

Agency Priority Goals

The OPM Agency Priority Goals (APGs) are measurable commitments to deliver specific results for the American people. The original APGs were announced in February 2012 and have been updated to five goals. These goals represent near-term, implementation focused high priorities for both the Administration and OPM that can be accomplished without additional funding or new legislation and relate directly to OPM's major performance improvement initiatives. A brief look at OPM's progress in achieving each of our APGs can be found in Section 1.

Diversity and Inclusion

In August 2011, Executive Order 13583, *Establishing a Coordinated Government-Wide Initiative to Promote Diversity and Inclusion in the Federal Workforce*, was issued to create a comprehensive, coordinated, and integrated effort to foster diversity and inclusion in the Federal workforce and thereby enhance the Federal government's ability to serve the American people. The President directed the Office of Personnel Management (OPM) and the Office of Management and Budget, in partnership with the President's Management Council and the Equal Employment Opportunity Commission, to develop a Governmentwide Diversity and Inclusion (D&I) Strategic Plan. OPM issued that plan in November 2011, and fifty-seven (57) agencies submitted agency-specific D&I Strategic Plans to OPM in March of 2012. Data reflects that, while agencies have made some progress toward implementing Executive Order 13583, more work remains.

Message *from the* Director

Continued

I am committed to building, developing and retaining a workforce at all levels of Government that draws from all segments of society. OPM will continue to work with agency leaders, managers, employees, and other stakeholders to foster diversity and inclusion within our Federal workforce from resume to retirement.

Completeness and Reliability of Financial and Performance Information

The financial and performance information used by OPM in this AFR for FY 2014 is complete and reliable, as defined by OMB Circular No. A-136 Financial Reporting Requirements and the Government Performance and Results Act(s). If there are instances where full and complete data for a measure are not available, these instances are noted and final information will be updated in the Annual Performance Report in February 2015.

Conclusion

OPM employees are talented, creative, engaged and have the skills they need to produce positive and tangible results for the American people. OPM will continue to implement initiatives throughout the organization to improve the performance of its programs and to maximize taxpayer value. By focusing on results that can be measured, we will further our ability to meet the unique human resource challenges of the Federal Government, to ensure a world class civilian workforce, and to continue to be a model employer for the 21st century.

Katherine Archuleta
Director
November 17, 2014

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 environment, promoting recruitment practices that help agencies draw from the rich diversity of the American workforce, 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 Boyers, Pennsylvania; Ft. Meade, Maryland; and Macon, Georgia. The OPM website is www.opm.gov.

About This Report

The Fiscal Year (FY) 2014 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 2015.

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 2014 in fulfilling its mission.

This report is available on OPM's website at *http://www.opm.gov/about-us/budget-performance/performance*. Suggestions for improving this document should be sent to the following address:

Office of Personnel Management
Financial Services
1900 E Street, NW
Room 5478
Washington, D.C. 20415

OPM's Mission and Strategic Goals

The OPM Strategic Plan 2014-2018 is the starting point for performance and accountability. The strategic plan includes the Agency's mission statement and also describes OPM's nine 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 nine 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**
Diverse and Effective OPM workforce	Attract and engage a diverse and effective workforce
Timely, Accurate, and Responsive Customer Service	Provide timely, accurate, and responsive service that address the diverse needs of our customers
Evidence-Based Policy and Practices	Serve as the thought leader in research and data-driven human resource management and policy decision-making
Efficient and Effective Information Systems	Manage information technology systems efficiently and effectively in support of OPM's mission
Transparent and Responsive Budgets	Establish responsive, transparent budgeting and costing processes
Engaged Federal Workforce	Provide leadership in helping agencies create inclusive work environments where a diverse federal workforce is fully engaged and energized to put forth its best effort, achieve their agency's mission, and remain committed to public service
Improved Retirement Benefit Service	Ensure that Federal retirees receive timely, appropriate, transparent, seamless, and accurate retirement benefits
Enhanced Federal Workforce Integrity	Enhance the integrity of the Federal workforce
Healthier Americans	Provide high quality health benefits and improve the health status of Federal employees, Federal retirees, their families, and populations newly eligible for OPM-sponsored health insurance products

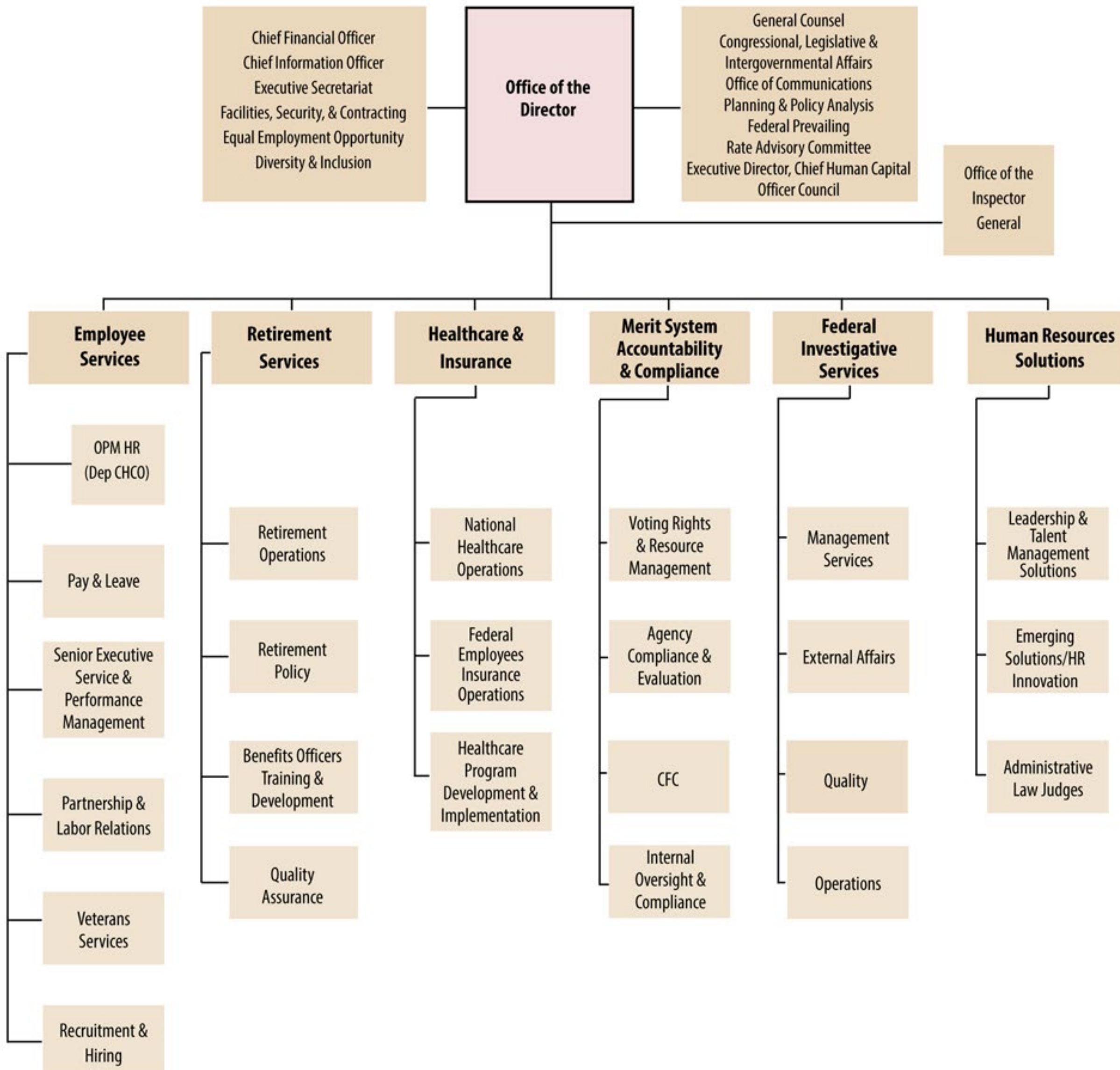
To be successful, OPM's strategic planning must be a continuous process that maintains close alignment with our evolving mission in support of the Federal Government. In February 2014, OPM published its new strategic plan. The goals of the strategic plan outline strategies for addressing management challenges.

The driving force behind the OPM Strategic Plan are 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/about-us/budget-performance/strategic-plans/2014-2018-strategic-plan.pdf*.

Organizational Structure

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

Figure 1 — Organizational Structure



OPM's organizations are categorized into five different types of offices which are detailed below:

Executive Offices

- *The Office of the Director* (OD) provides guidance, leadership and direction necessary to make the Federal Government the model employer in the United States, and OPM its model agency. OD looks to provide increased oversight concerning Civil Service Hiring Reform, Retirement Stabilization, Work/Life and Wellness, and moving to an "active purchaser" model for the Federal Employees Health Benefits Program.

- *The Office of Communications (OC)* 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. OC 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, Legislative and Intergovernmental Affairs* (CLIA) advocates for the legislative and policy priorities of the Director and the Administration. CLIA is the focal point for all Congressional and legislative activities for OPM. CLIA educates, responds to, interacts with, and advises Congress on Federal human resources management policy. CLIA also counsels and advises the Director and other OPM officials on policy, and Congressional and legislative matters.
- *Office of the Executive Secretariat* (OES) is responsible for the resource management and administrative support for the Office of the Director, and other executive offices including coordination and review of agency correspondence, policy and program proposals, regulations and legislation, and international affairs.
- *Equal Employment Opportunity* (EEO) provides a fair, legally-correct and expedient EEO complaints process (e.g., EEO counseling, Alternative Dispute Resolution, and EEO Complaints Intake, Investigation, Adjudication, and Record-Keeping).
- *Diversity & Inclusion* (DI) examines policy options, Government-wide data trends, and employee survey findings that affect OPM's management of HR policy, specifically including Diversity & Inclusion throughout the Federal Government. DI develops comprehensive strategies to drive and integrate Diversity & 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. DI designs and implements all required internal OPM Special Observance and Special Emphasis initiatives to promote diversity management.

Program Divisions

- *Employee Services* (ES) provides policy direction and leadership in designing, developing and promulgating Government-wide human resources systems and programs for recruitment, pay, leave, performance management and recognition, employee development, work/life/wellness programs and labor and employee relations. ES provides technical support to agencies regarding the full range of human resources management policies and practices, to include veterans' employment as well as the evaluation of their human resource programs. ES manages the operation of OPM's internal human resources program.
- *Retirement Services* (RS) is responsible for administering, 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. 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. Even after a case is adjudicated and added to the annuity roll, OPM continues to serve annuitants by making address or tax status changes to their accounts, sending out 1099-Rs, surveying certain annuitants to ensure their continued eligibility to receive benefits, and other post adjudication activities.
- *Healthcare & Insurance* (HI) consolidates OPM's healthcare and insurance responsibilities into a single organization. This includes functions such as the Affordable Care Act's Multi-State Plan Option, OPM's responsibilities to perform External Review of consumer complaints

plus existing responsibilities for the Federal Employees Health Benefits Program (FEHBP), Federal Employee Group Life Insurance (FEGLI), Federal Long Term Care Insurance Program (FLTCIP), the Federal Employee Dental Vision Insurance Plan (FEDVIP), and Flexible Spending Accounts for Federal Employees (FSAFEDS). HI comprises National Healthcare Operations and Federal Employee Insurance Operations.

- *Merit System Accountability & Compliance* (MSAC) ensures through rigorous oversight that Federal agency human resources programs are effective and meet merit system principles and related civil service requirements. MSAC carries out this responsibility with a staff of employees in five field offices across the nation and Washington, D.C. The three key components of the oversight and compliance programs are (1) Delegated Examining Unit Evaluations, (2) Large Agency Human Resources (HR) Evaluations, and (3) Small Agency HR Evaluations. MSAC also manages the classification appeals program, which provides Federal employees with an independent third-party review of the classification of their decisions and provides evidence as to whether agencies are technically accurate in the use of delegated classification and job grading authority. 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. Finally, MSAC manages OPM's Office of Internal Oversight and Compliance (IOC). IOC drives the resolution of audit recommendations, conducts program evaluations, and oversees the review of capital investments to strengthen OPM's risk management and operational performance.
- *Federal Investigative Services'* (FIS) mission is to ensure the Federal Government has a suitable workforce that protects National Security and is worthy of their Public Trust. FIS is responsible for providing investigative products and services for over 100 Federal agencies to use as the basis for security clearance or suitability decisions as required by Executive Orders and other rules and regulations. Over 90 percent of the Government's background investigations are provided by OPM.
- *Human Resource Solutions* (HRS) is a reimbursable organization offering a complete range of tailored and standardized human resources products and services designed to meet the unique and dynamic needs of the Federal Government. As such, HRS provides customer agencies with innovative, high quality Government-to-Government solutions to help them develop leaders, attract and build a high quality public sector workforce, and achieve long-lasting results. This includes the Administrative Law Judges Program, which is responsible for recruiting and examining Administrative Law Judges for employment with Federal agencies nationwide, and USA Staffing, which automates the full range of Federal rules and procedures for external hires.

Common Services

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

strategy to include information technology policy and security for OPM. CIO shapes the application of technology in support of the agency's strategic plan including the information technology that outlines the long term strategic architecture and systems plans for agency information technology capital planning. CIO supports and manages pre- and post-implementation reviews of major information technology programs and projects, as well as, project tracking at critical review points. CIO provides oversight of major information technology acquisitions to ensure they are consistent with the agency's architecture and the information technology budget, and is responsible for the development of the agency's information technology security policies. CIO directs the realization of the agency's information technology architecture to guarantee architecture integration, design consistency, compliance with Federal standards, works with other agencies on Government-wide projects such as E-Government, and develops long range planning for human resource information technology strategies.

- *Office of the General Counsel* (OGC) provides legal advice and representation to OPM managers and leaders so they can ensure the Federal Government has an effective civilian workforce. OGC does this by rendering opinions, reviewing proposed policies and other work products and commenting on their legal efficacy, serving as agency representatives in administrative litigation and support the Department of Justice in its representation of the Government on matters concerning the civilian workforce. OGC also carries out several programmatic, substantive functions that benefit other OPM offices.
- *Facilities Security & Contracting* (FSC) manages the agency's personal and real property, building operations, space design and layout, realty, safety and occupational health programs. FSC provides personnel security and suitability and national security clearance determinations for OPM personnel and directs the operations and oversight of OPM's preparedness and emergency response programs. FSC's contracting group provides centralized contract management that supports the operations and Government-wide mission of OPM. FSC also manages OPM's small business program in conjunction with public law, Federal regulations, and OPM contracting policies.

Other Offices

- *Planning and Policy Analysis* (PPA) provides planning and analytical support to the Director and the agency. PPA assesses issues that affect OPM across the full array of human resources programs and benefits. 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 conducts actuarial analyses, as well as statistical analyses using large databases such as the Enterprise Human Resources Integration – Statistical Data Mart (EHRI-SDM) (containing Federal employee data) and the Health Claims Data Warehouse (HCDW). PPA develops and standardizes data analysis policies related to evidence-based decisions and practices. The Director of PPA also serves as OPM's Performance Improvement Officer.
- *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 V, 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

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

Program Performance Summary

The complete results for all performance measures will be discussed in detail in OPM's FY 2014 *Annual Performance Report*, which is scheduled for publication on the agency's website at www.opm.gov in February 2015. Here is a summary of OPM priority goals and results for FY 2014.

Table 2 – Priority Goals

Priority Goals	Target	Result
Reduce Federal retirement processing time by making comprehensive improvements:		
Claims Inventory	13,142	12,767
Ratio of complete retirement submissions received from agencies	92	87
Improve the Oversight and Quality of Background Investigation Processing:		
Average number of days to complete the fastest 90 percent of initial Top Secret national security investigations	80	81
Average number of days to complete the fastest 90 percent of initial Secret national security investigations	40	30
Average number of days to complete the fastest 90 percent of all initial national security investigations	40	38
Percent of investigations determined to be quality complete	99%	99.93%
FEHB Accountability*		
Closing the Skills Gap for the HR Workforce:		
HR University Registration Percentage for HR Workforce (GS-201s/203s)	80%	76.43%
Promote Diversity and Inclusion*		

*Metric being finalized

Highlights by Strategic Goal

Strategic Goal 1 - Diverse and Effective OPM Workforce

OPM believes that in order to attract and engage a diverse and effective workforce, it must invest in its most valuable resource – its employees. In FY 2014, OPM released a new strategic plan with an explicit focus on attracting, engaging, and developing our workforce. We have devised an agile set of recruitment and outreach approaches to attract talented and diverse employees, deployed a comprehensive approach to employee engagement, and provided continued support through ongoing training and development. It is critical that the agency make these investments in its people in order to achieve OPM's mission.

We have provided training to hiring managers on recruiting and outreach and require them to establish a recruiting plan prior to requesting to fill a position. Further, OPM has begun to provide applicant flow data to OPM hiring managers. The applicant flow data is distributed by USA Staffing in a delimited text file on a password protected secure file transfer protocol (FTP) site. The data is downloaded by OPM's authorized official and analyzed using the agency's preferred statistical analysis or business intelligence tool. The data is then shared with managers who are responsible for recruiting for vacant positions. OPM's goal is to increase the percentage of agency hiring managers who review applicant flow data.

The plan also emphasizes the value of employee engagement. OPM is using an inclusive process to identify the core values that define OPM employees. By engaging employees in the creation of a "culture of excellence" statement, OPM is creating a sense of ownership among all employees for accomplishing the agency's mission together. To improve internal engagement, OPM also implemented the "New IQ," inclusion training for all OPM managers. The diversity and inclusion training provides participants with inclusive habits that reinforce long-term organizational health. As of October 1, 2014, 75% of OPM managers were trained in the New IQ.

To further clarify our vision for internal engagement, OPM will work with stakeholders to set ambitious goals that demonstrate that its employees are valued. OPM will also continue to fostering a culture where all employees feel invited and equipped to collaborate on the agency's highest priorities and where individual and collective successes are recognized and celebrated.

To ensure our employees have the skills needed to deliver our mission, OPM has implemented a new corporate learning strategy. We have also set consistent standards across the agency to support evidence-based decisions on training investments.

Strategic Goal 2 - Timely, Accurate, and Responsive Customer Service

OPM is committed to providing its customers with outstanding experiences. OPM's challenge is to provide service to a diverse set of customers that includes Federal employees, retirees, Federal human resource professionals, Federal agencies, uninsured Americans, and job applicants. OPM sees each interaction an employee has with a customer as an opportunity to demonstrate the agency's values and build OPM's reputation as a customer-oriented organization.

OPM is striving to provide customer service at a consistently high standard. Sweeping changes to OPM's customer service model will help streamline how all organizations respond to customer needs. OPM's plan focuses on improving the entirety of the customer's experience, all person-to-person interactions plus any other touch points a customer may have with the organization. These interactions include OPM's website, publications, social media, forms, physical space, systems, and job announcements, all of which have the potential to convey how the agency treats customers and employees.

Although it may not be possible to have a single approach to customer service to meet the diverse needs of such a wide range of customers, OPM has established a framework that allows each organization within the agency to tailor their efforts to the unique experiences of their customers. OPM will ensure accountability through the execution, measurement, and communication of customer service improvements throughout the organization.

For instance, in FY 2014 Retirement Services (RS) initiated its Compassionate, Accurate, Responsive and Empowered (CARE) campaign to improve customer service, exemplifying the ideals of OPM customer service. As a result, RS was able to improve the completeness of application submissions. During FY 2014, 83.8% of retirement applications submissions that OPM received were considered complete.

RS also completed a virtual testing and walk-through for the Benefits Officers Virtual Training Conference, which was held November 5, 2014. This provided the Benefits Officers an alternative method to receive training, and allowed OPM to provide training to more Benefits Officers. Also in FY 2014, RS achieved a call handling rate of 77%, exceeding the target of 73%.

Strategic Goal 3 - Evidence-Based Policy and Practices

As the Federal Government's human resource leader, OPM must be at the forefront of efforts to maximize the use of 'big data' and transform how HR policymakers use data to make decisions. OPM is focused on enabling employees involved in HR policy and program design to ask meaningful and significant questions about the policy's context, components and potential impacts; designing strong research methods and analytic tools to understand root causes, correlations and possible future scenarios; and communicating results of analyses to drive solid decisions and policy design. To promote these changes, OPM will create standard operating procedures for ensuring human resources management and policy decisions are informed by evidence generated through rigorous data analytics.

OPM's capacity-building framework to enhance evaluation and evidence is based on two pillars:

- Data Collection, Monitoring and Analysis – Collecting HR-related data using innovative research techniques, accessing publicly available sources, and leveraging second-hand research tools where appropriate.
- HR Policy and Practice Development – Designing policies and practices based on rigorous evidence.

OPM program offices will use HR Stat (a pilot-project based on the Government Performance and Results Modernization Act where agencies facilitate data-driven quarterly reviews) to measure the impact of internal human capital management on agency performance. OPM has been part of HR stat since its inception, working as a "1.0" pilot agency to build internal capacity for identifying, gathering, analyzing and applying rigorous HR metrics to continue improvement of the agency's talent management and programmatic performance. OPM conducts quarterly HR stat reviews in-line with the agency's broader strategic review process. This ensures that talent can be deployed and managed to meet evolving programmatic requirements.

OPM is implementing three data integration projects: USAJOBS, USA Staffing, and the Enterprise Human Resources Integration (EHRI) data warehouse.

1. USAJOBS Data Warehouse – USAJOBS (the online portal for applying to most U.S. Federal job announcements) is committed to providing agencies the necessary tools and data access to maintain and improve workforce planning and recruiting efforts. USAJOBS is creating a data warehouse to support the current and future reporting needs for operations, management, agencies, and job seekers. In addition, USAJOBS is conducting data analysis to determine how best to provide this information to its stakeholders. As a result of this data analysis, USAJOBS will design and build data visualization dashboards and reports that will provide users with valuable insights into various stages of the hiring process in an entirely new way.
2. USA Staffing – USA Staffing, OPM's talent acquisition system for Federal agencies, provides a conduit to USAJOBS for posting job opportunity announcements and accepting, rating, and ranking applications for Federal employment. A USA Staffing upgrade is underway to strengthen data analytics around Federal recruitment and provide additional analytical tools, including

self-service data delivery tools for agency customers.

3. Enterprise Human Resources Integration (EHRI) Data Warehouse – The EHRI data warehouse is a centralized warehouse for the storage of human resources, payroll, and training information about the Executive Branch civilian workforce. It contains a wealth of information on approximately two million Federal civilian employees. This data is used as the foundation for OPM's public data use tool FedScope, and provides the basis for OPM's official reporting source - the EHRI Statistical Data Mart (SDM). The EHRI data warehouse has matured over the years and user expectations have grown considerably. In an effort to increase the utility of EHRI data, OPM plans to:
   - exploit the utility of new data elements (e.g., cybersecurity designation, telework eligibility, and national security personnel designation) to more effectively manage and plan for the Federal workforce; and
   - explore options for making more raw data available for complimenting other systems and increasing knowledge about the Federal workforce.

OPM also uses data to provide agency leaders with visual representations of their organizational characteristics and health. During FY 2014, OPM created a data tool called UnlockTalent.gov, an interactive dashboard that allows Federal leaders to take advantage of the information from the Federal Employee Viewpoint Survey and other HR resources, including EHRI data. The dashboard helps leaders better understand the data, giving them the extra support they need to create the most effective engagement programs for their employees. OPM plans to continue to refine and update the data available to agency leaders through the UnlockTalent.gov dashboard.

Strategic Goal 4 - Efficient and Effective Information Systems

OPM's information technology (IT) systems are a central driver behind its HR business functions, such as retirement, background investigations, and hiring. It is crucial to the mission and OPM operations that the agency's IT systems are managed more efficiently and effectively, and reflect a sustainable IT program.

In FY 2014, OPM rolled out its Strategic IT Plan, which provides a framework for a set of standards that supports the entirety of the HR life cycle using the Human Resources Line of Business. This framework will enable shared data and performance outcomes across the HR life-cycle while allowing flexibility for Shared Service Centers (SSCs) and agency adoption of IT tools and technologies that best meet the mission of the Federal Government. The framework will enable a culture of openness and trust through common practices and transparent IT spending while providing accountability for IT decisions. OPM has worked with the Chief Human Capital Officers (CHCO) Council to define the framework and business requirements for the delivery of Federal HR IT.

OPM will build upon the foundational successes in FY 2014 and continue to refine the CIO organization and IT program, focusing on accountability, responsiveness, engagement, transparency, and innovation, ensuring that OPM's IT staff has updated technical and management skills necessary for addressing the agency's technology opportunities. The central goals of the Strategic IT Plan are:

1. Refine the IT governance model to engage more stakeholders, including agencies, in planning of Government-wide HR solutions.
2. Continue to implement robust enterprise architecture to ensure technology meets OPM's complex, integrated business and data requirements.
3. Adopt agile IT principles throughout OPM's IT portfolio to ensure speed in adapting to evolving policies and business needs.

4. Expand opportunities to enable citizens to better understand Federal career opportunities and to enable Federal agencies to better understand where the best, most diverse talent is located and what motivates them to Federal service.

Strategic Goal 5 - Transparent and Responsive Budgets

The uncertain budget environment imposes an imperative on all OPM officials to better manage financial resources to position the agency to meet strategic priorities. OPM has allocated and aligned agency budgets to agency strategies and is tracking expenditures by strategies to ensure a continuous focus on achievement of the agency's strategic goals. Other tools, such as activity-based costing and common services allocation methodology, will improve clarity for senior managers as they collectively target resources toward achieving the agency's strategic goals. The final result will be a transparent process that supports the agency's ability to prioritize and adjust resources to align with current and future priorities.

OPM developed a new budget prioritization process that better identifies funding requirements, validates justifications, assesses priorities, and offers a platform for making decisions. The agency utilized process improvement methods and human centered design techniques and facilitation to establish this process and develop a tool that is being utilized by agency senior leaders, program offices and financial management officials. The progress made in FY 2014 established the foundation for more visibility and transparency in the budget process. OPM will continue efforts to ensure that the budget is appropriately aligned to support agency strategic goals, requirements are properly justified, and spending is monitored routinely to ensure resources are utilized efficiently.

Also in FY 2014, OPM incorporated managerial cost accounting to further enhance transparency and support the agency's methodology for determining, assigning, tracking and managing costs within the agency.

Strategic Goal 6 - Engaged Federal Workforce

In support of the President's Management Agenda, OPM is spearheading an initiative to foster a heightened connection among employees and their work and organizations to ensure employees find personal meaning in their work, take pride in their work and their organization, and believe they are valued contributors.

In FY 2014, OPM focused efforts in this area on designing and delivering leadership training to increase employee engagement; supporting agencies in hiring leaders strong in managing and leading high performing organizations; and providing tools and support to agencies to support their employee engagement efforts and enable them to make data-driven decisions in building and executing effective action plans.

OPM worked with agencies to promote rigorous, competency-based selection for supervisors, managers, and executives that targets the unique talents it takes to effectively manage people and build and retain an engaged workforce. This included the development of a new Supervisor Situational Judgment Test that can be used to assess candidates for supervisory positions against the most critical leadership competencies.

To support agencies in evaluating employee engagement based on key drivers and measures contained in the Federal Employee Viewpoint Survey (FEVS) data, OPM provided nearly 20,000 FEVS reports at subcomponent levels to provide supervisors with important information that can help inform action plans. OPM also launched unlocktalent.gov, which provides interactive visualizations of key FEVS data that can be used to drill down into results and point to areas where things are going well and where further attention may be needed. Unlocktalent.gov also provides a community of practice that agencies can use to promote and share promising practices and metrics on employee engagement. OPM also worked with agencies to evaluate inclusive work environments through the use of the New Inclusion Quotient (New IQ), which is based upon data from the FEVS.

OPM also worked to support employee engagement through workforce development. OPM continued building the Human Resources University (HRU), an online developmental resource center, to train HR practitioners across the Federal Government. The rigorous curriculum organizes courses by specialty disciplines and HR professional roles, supported by HRU's existing career maps. To prioritize these curriculum areas for course development, OPM is gathering data from HR business customers about their critical skill and role requirements to support their needs and missions. The website also offers best practices in HR, and a managers' corner where all Federal supervisors and managers can access training and resources to support their management of Federal talent.

In addition, OPM developed "Manager's Corner," an online portal which contains a wide array of tools, training courses, and resources to assist in enhancing HR related technical and leadership competencies for all Federal leaders — supervisors, managers and executives. OPM has added multiple courses and resources to help Federal leaders develop the necessary skills and competencies to increase engagement, including a new "Maximizing Employee Engagement" online course.

Strategic Goal 7 - Improved Retirement Benefit Service

OPM administers retirement and insurance benefits for approximately 2.5 million annuitants, survivors, and family members. The agency must ensure quality delivery of those benefits and respond to retiree questions and concerns in a caring and timely manner.

During FY 2014, RS implemented Services Online, a web-based application that allows retirees to view their individual information and make changes. Services Online has empowered retirees with retirement services on demand. In 2014, Services Online averaged more than 46,775 visitors per week, and more than 783,000 page views. RS processed more than 4.2 million transactions in Services Online for FY 2014. OPM aims expand the capabilities of Services Online to include the ability to receive information electronically, transmit alert notices of changes to information, permit opt-in/out of paperless tax forms, and generate Verification of Life Insurance statements. As the capabilities of Services Online are expanded, acceptance of online self-servicing will increase among the annuity roll. As a result, OPM expects call center usage to decrease; fewer improper payments, due to increased accuracy of retirees' files; and increased accuracy in tax collection based upon the individual updating of information and status.

Strategic Goal 8 - Enhanced Federal Workforce Integrity

The integrity of the Federal workforce is enhanced through the review of the suitability of individual applicants, ongoing reviews of Federal employees, and the oversight of agency Human Resource systems that promote fairness and merit in all hiring and assessment processes. OPM's support of this goal helps protect national security and provides the American people a reliable and responsible workforce they can trust in fulfilling important Government functions.

During FY 2014, OPM began performing final quality reviews of all investigations completed by its Federal Investigative Services (FIS) Federal staff. FIS also worked with the OMB, Department of Defense, and intelligence agencies to conduct a 120-day review of suitability, credentialing and security clearance procedures for Federal employees and contractors. The President approved the recommendations that resulted from the review on March 6, 2014. In addition, FIS implemented Tiers 1 and 2 of the 2012 Federal Investigative Standards with its FY 2015 products. FIS will continue to work to implement the remainder of the 2012 Federal Investigative Standards and provide emerging information to decision makers.

OPM's FIS will continue efforts to deliver high-quality background investigation products that meet or exceed security clearance timeframes established in The Intelligence Reform and Terrorism Prevention Act of 2004 (IRTPA), and by the Director of National Intelligence (DNI). FIS aims to complete 90 percent of initial national security background investigations within 40 days or less.

OPM will continue to enhance policy, procedures, and processes used to ensure people are fit to serve.

Strategic Goal 9 - Healthier Americans

During FY 2014, OPM's role in improving the health status of populations covered under OPM-sponsored health insurance programs was expanded. As OPM assumed its new responsibilities under the ACA, populations served by OPM-sponsored health insurance programs grew to include employees of tribal organizations and formerly uninsured Americans served by Multi-State Plans (MSPs), in addition to Federal employees, Federal retirees, and dependents of Federal employees and retirees. As of the end of FY 2014, OPM has made more than 150 MSP options available in 30 states plus the District of Columbia. The MSPs serve 300,000 people.

Further, OPM released three editions of the OPM Utilization Review Newsletter, focused on the management of chronic opioid therapy, testosterone therapy, and medical marijuana, which were distributed to Federal Employee Health Benefits (FEHB) carriers in 2014. In addition, OPM is completing negotiations with FEHB carriers on changes to their benefits packages for the 2015 Plan Year and will release information on pharmacy changes prior to the Federal Benefits Open Season this fall. Benefit and rate information will be released to the public in FY 2015 Q1.

In FY 2014 OPM also launched a tobacco cessation program and a flu shot program. As a result of its work, OPM was featured in the National Prevention Council Annual Report to Congress.

Quality of Performance Data

In accordance with the requirements of the Government Performance and Results Act(s) (GPRA), OPM ensures the information in its AFR, as well as APR, accurately reflects its FY 2014 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. Additional information on OPM's performance data quality will be available with the publication of OPM's FY 2014 APR and the Summary of Performance and Financial Information scheduled for publication in February 2015.

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, 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 fifteenth 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 2014, OPM held $1 trillion in assets, an increase of 2.3 percent from $987 billion at the end of FY 2013. 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 $981 billion, which represents 97.2 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 its total assets, in normal years, usually both grow.

In FY2014, there was a Debt Issuance Suspension Period (DISP) in effect from February 10, 2014, through February 14, 2014, whereby Treasury took steps on February 18, 2014, to restore principal not invested and interest foregone. See Note 1J in Section 2 of the AFR for further information.

In FY 2014, the Total Earned Retirement Program Revenue was less than the applicable cost applied to the Pension Liability by $21.1 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 $34.9 billion for FY 2014.

Liabilities

At the end of FY 2014, OPM's total liabilities were $2,197 billion, an increase of 2.3 percent from $2,149 billion at the end of FY 2013. 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.

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 $1,811 billion at the end of FY 2014, an increase of $37 billion, or 2.1 percent from the end of the previous year. [See discussion of the Net Cost to Provide CSRS and FERS Benefits below].

The Post-Retirement Health Benefits Liability, which represents the future cost to provide health benefits to active employees after they retire, is $325 billion at the end of FY 2014. This reflects an increase of approximately $10.2 billion from the amount at the end of FY 2013, or 3.2 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 $.7 billion in FY 2014 to $47 billion, or 1.5 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) factor 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

OPM reports its Federal employees' benefit programs funds in accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 43, Dedicated Collections: Amending SFFAS No. 27, "Identifying and Reporting Earmarked Funds." This Statement among other provisions, adds "an explicit exclusion for any fund established to account for pensions, other retirement benefits (ORB), other postemployment (OPEB), or other benefits provided for federal employees (civilian and military)."

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 2014 by $1,188 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 $22.0 billion in FY 2014 to $995.6 billion.

Table 3 — Net Assets Available for Benefits

($ in Billions)	FY 2014	FY 2013	Change
Total Assets	$1,009.4	$986.8	$22.6
Less "Non-Actuarial" Liabilities	13.8	13.2	0.6
Net Assets Available to Pay Benefits	$995.6	$973.6	$22.0

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 HR 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 2014 Net Cost of Operations was $72.5 billion, as compared with a net cost of $113.0 billion in FY 2013. The primary reasons for the decrease 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 $69.7 billion compared with $85.6 billion, a decrease of $15.9 billion from FY 2013. The actuarial loss of $25.2 billion for CSRS was primarily due to losses due to changes in economic assumptions, such as under SFFAS 33.

There are three prime determinants of OPM's cost to provide net CSRS benefits: one cost category (the actuarially computed Pension Expense) and two categories of earned revenue:

1) contributions by and for CSRS participants, and 2) 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 2014 by $416 million from FY 2013 and OPM's earnings on CSRS investments declined by approximately $548 million from FY 2013.

Table 4 — Net Cost to Provide CSRS Benefits

($ in Billions)	FY 2014	FY 2013	Change
Gross Cost	$ 69.7	$ 85.6	$ (15.9)
Associated Revenues	15.7	16.9	(1.2)
Net Cost	$ 54.0	$ 68.7	$ (14.7)

Current pension benefits paid are applied to the Pension Liability and, therefore, do not appear on the Statement of Net Cost; however, SFFAS No. 33 requires gains and losses from changes in long term assumptions to be displayed on the statement of net cost separately from other costs. OPM's CSRS benefits expense was $54.0 billion in FY 2014, as compared to the $68.7 billion in FY 2013. The decrease in the net cost is primarily due to the changes in economic assumptions, such as under SFFAS 33, which offset the lower headcount for CSRS.

Net Cost to Provide FERS Benefits

As shown in Table 5, the Net Cost to Provide FERS Benefits in FY 2014 decreased by $39.9 billion from FY 2013. 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 2014, OPM incurred a Pension Expense for FERS of $46.7 billion, as compared with $86.7 billion in FY 2013. The primary reason for the decrease in FERS pension expense from FY 2013 to FY 2014 was due to changes in actuarial assumptions. There was a total actuarial loss of $42.3 billion in FY 2013, which was followed by a total actuarial gain of $5.8 billion in FY 2014 that contributed to the decrease in pension expense of $39.9 billion from FY 2013 to FY 2014.

The FY 2014 Pension Expense for FERS reflects an experience gain and a gain due to changes in actuarial assumptions. The FERS experience gain in FY 2014, results primarily from the actual general salary increase being lower than assumed as well as a lower than expected 2014 COLA. The actual general salary increase in FY 2014 was 1.0 percent and the actual FERS COLA was 1.5 percent. For the prior year's FY 2013 actuarial valuation, the general salary increase that had been assumed was 2.2 percent and the assumed FERS COLA was 2.0 percent.

The liabilities for current FERS annuitants are much smaller than the liabilities for current CSRS annuitants. As such, the actual first-year COLA produces a much smaller gain for FERS than for CSRS. Conversely, the liabilities for current FERS employees are much greater than for current CSRS employees. As such, the actual first-year general salary increase produces a greater gain for FERS than for CSRS.

Contributions by and for FERS participants increased by $511 million, or 2.0 percent from the prior FY, also due to the increasing number of FERS participants.

Table 5 — Net Cost to Provide FERS Benefits

($ in Billions)	FY 2014	FY 2013	Change
Gross Cost	$ 46.7	$ 86.7	$ (40.0)
Associated Revenues	42.6	42.7	(.1)
Net Cost	$ 4.1	$ 44.0	$ (39.9)

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 2014, OPM paid FERS benefits of $9.7 billion, compared with $8.4 billion in FY 2013. The increase is due to the growing number of FERS retirees.

Net Cost to Provide Health Benefits

The Net Cost to Provide Health Benefits in FY 2014 increased by $13.1 billion from that in FY 2013 (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 2014	FY 2013	Change
Gross Cost	$ 56.5	$ 42.8	$ 13.7
Associated Revenues	42.6	42.0	.6
Net Cost (Net Income)	$ 13.9	$ .8	$ 13.1

The Postal Service Retiree Health Benefits (PSRHB) Fund is included in the Health Benefits Program. On October 1, 2009, President Obama signed into law, Public 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. For FY 2013, another $5.6 billion payment was due by September 30, 2013. In addition, for FY 2014, the scheduled payment was $5.7 billion. As of September 30, 2014, the Postal Service has not indicated its intention regarding payment of the total $22.4 billion due. Furthermore, at this point in time, Congress has not taken further action on these payments due from USPS to the PSRHB Fund.

The Post-Retirement Health Benefits (PRHB) Expense is the amount of future benefits earned by participants during the current fiscal year. For FY 2014, OPM incurred a PRHB expense of $24.0 billion, as compared with $12.5 billion in FY 2013, due to an actuarial loss from assumptions in FY 2014 as compared to an actuarial gain from assumptions in FY 2013. The actuarial gain from experience also was lower in FY 2014 as compared to FY 2013.

For the Actuarial gain/loss portion of the PRHB expense, the results were due primarily to population change, lower than expected medical cost increase, updated cost curve assumptions, and changes in the SFFAS No. 33 trend and interest assumption. The interest assumption is a single equivalent rate of 4.3 percent.

Current Benefits and Premiums stayed level with FY 2013. However, the contributions (for and by participants) increased by $0.7 billion from FY 2013 to FY 2014. As discussed above, in FY 2014, a total of $22.4 billion was due to the PSRHB Fund from the USPS.

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 2014	Total FY 2013
Claims	$ 26.4	$ 10.4	$ 36.8	$ 34.8
Premiums	4.2	2.2	6.4	6.5
Administrative and other	1.7	1.2	2.9	2.3

Net Cost to Provide Life Insurance Benefits

As seen in Table 8, the Net Cost (Net Income) to Provide Life Insurance Benefits increased from a Net Income of $(.9) billion in FY 2013 to $.1 billion in FY 2014. Gross cost increased $.6 billion due to the actuarial loss in FY 2014 as compared to FY 2013. In applying SFFAS No. 33 for calculating the Actuarial Life Insurance Liability (ALIL), OPM's actuary used salary increase and interest rate yield curve assumptions consistent with those used for computing the CSRS and FERS Pension Liability in FY 2014 and 2013. 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 assumptions were lower for FY 2014 as compared to FY 2013. Associated revenues decreased, due to lower enrollment.

Table 8 - Net Cost to Provide Life Insurance Benefits

($ in Billions)	FY 2014	FY 2013	Change
Gross Cost	$ 3.7	$ 3.1	$ .6
Associated Revenues	3.6	4.0	(.4)
Net Cost (Net Income)	$ .1	$ (.9)	$ 1.0

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 (SBR) presents the sources of OPM's budgetary resources, their status at the end of the year, obligated balances, and the relationship between its budgetary resources and the outlays it made against them.

As presented in the SBR, a total of $241.4 billion in budgetary resources was available to OPM for FY 2014. OPM's budgetary resources in FY 2014 included $62.4 billion (25.8 percent) carried over from FY 2013, plus three major additional sources:

- Appropriations Received = $46.6 billion (19.3 percent)
- Trust Fund receipts of $94.2 billion, less $14.4 billion* not available = $79.8 billion (33.1 percent)
- Spending authority from offsetting collections (SAOC) = $52.6 billion (21.8 percent)
- Total budgetary resources do not include $14.4 billion of Trust Fund receipts for the Retirement obligations pursuant to public law. In addition, in accordance with P.L. 109-435, contributions for the PSRHB Fund of the Health Benefits Program are precluded from obligation and therefore temporarily not available; the total is $48.5 billion.

Appropriations are funding sources resulting from specified Acts of Congress that authorize Federal agencies to incur obligations and to make payments for specified purposes. OPM's appropriations 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 2014	FY 2013
Trust Fund Receipts	33.1%	33.3%
Balance Brought Forward from Prior Year	25.8%	25.6%
Spending Authority from Offsetting Collections	21.8%	22.1%
Appropriations	19.3%	19.0%

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 revenues in Revolving Fund Programs.

Obligations Incurred by Program

	FY 2014	FY 2013
Retirement Benefits	64.6%	64.9%
Health Benefits	32.5%	32.2%
Life Insurance Benefits	1.7%	1.7%
Other	1.2%	1.2%

From the $241.4 billion in budgetary resources OPM had available during FY 2014, it incurred obligations of $177.7 billion less the $35.0 billion transferred from the Treasury's General Fund (see Note 1G) for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs. The $48.5 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 2014 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, 2014, were operating effectively. The qualified assurance is based on a new material weakness reported by OIG in FY 2014 concerning information technology systems authorizations. Of the two material weaknesses reported in FY 2013 one has been downgraded and the other closed.

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, 2014, 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 2014, 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.

Katherine Archuleta — NOV 12 2014

Katherine Archuleta
Director

Date

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.

The Office of the Chief Financial Officer's (OCFO) 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, 2014 was operating effectively. This qualification is based on a new material weakness reported by the OIG regarding OPM's IT systems authorization process. Previous year material weaknesses have been closed or downgraded as discussed below.

Material Weakness on OPM's Information Security Governance Downgraded

In its FY 2014 overall Federal Information Security Management Act (FISMA) report, the OPM OIG downgraded the material weakness on OPM's Information Security Goverance to a significant deficiency for FY 2014 due to imminently planned improvements. These improvements include a reorganization that will further centralize OPM's IT security structure under the Office of the Chief Information Officer (OCIO). Additionally, several information systems security officers have been hired to strengthen the function.

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

For the past three years, OIG has 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). Public Law No. 113-80 the "OPM IG Act" that was passed in FY 2014 provided the OIG with access to the RF to fund its oversight of those programs. Specifically, it designated up to 0.33 percent of OPM's RF to be allocated to the OIG to audit and investigate the fund's programs. OPM therefore believes this reported weakness has been mitigated.

New Material Weakness on IT Security Systems Authorization Process

OIG's annual FISMA audit found that there had been a regression in OPM's management of its informations systems Authorization program. Specifically, OIG reported that 11 of OPM's 47 systems are currently operating without a valid Authorization, a violation of OMB Circular A-130. OIG noted that several of these systems were the most critical and sensitive applications at

OPM. Additionally, two of the systems without an Authorization are general support systems that host a variety of the major applications; over 65 percent of the systems operated by OPM (not including contractor-operated systems) reside on one of these two support systems. Further, two systems without Authorization are owned by OPM's Federal Investigative Services (FIS), which is responsible for facilitating background investigations; any potential weaknesses in those systems could have national security implications.

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 2014 Appendix A planning, testing, evaluation, and reporting for internal control over financial reporting were done under the direction of OPM's Senior Assessment Board (Board). The Board is co-chaired by the CFO and the Associate Director, Merit System Accountability and Compliance. The Board includes senior representatives from all major OPM organizations. PIC conducted testing and evaluation of financial reporting controls under the Board's oversight. The Board approved unqualified assurance for internal control over financial reporting as of June 30, 2014.

Compliance with Federal Financial Management Improvement Act (FFMIA)

Financial Management Systems

The Federal Financial Management Improvement Act of 1996 (FFMIA) was established to ensure that Federal financial management systems provide accurate, reliable, and timely financial management information to the Federal Government managers and leaders. Further, the Act required this disclosure should be done on a basis that is uniform across the Federal Government from year to year by consistently using professionally accepted accounting standards. Specifically, FFMIA requires each agency to implement and maintain systems that comply substantially with:

- Federal Government financial management systems requirements.
- Applicable Federal Government accounting standards.
- The United States Government Standard General Ledger at the transaction level.

Based on a review of the auditors' report and other relevant information, OPM has determined that for FY 2014, OPM substantially complies with all FFMIA requirements regarding financial management systems, financial accounting standards, and application of the USSGL.

As part of the audit of OPM's FY 2013 financial statements, it was reported that OPM made significant improvements in its Fund Balance with Treasury (FBWT) reconciliations for the Revolving Funds (RF) programs; and while a few deficiencies continued to exist in FY2014, improvements will continue into subsequent years and thereby improve the accuracy and timeliness of reporting for both Salaries and Expenses (S&E) and RF reporting.

We completed an assessment of the systems of internal control against the FFMIA guidelines and policy. The objectives of our assessment were to ensure programs achieve their intended results. In addition, our resources were used consistent with OPM's mission and are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets; and reliable and timely information was maintained, reported, and used for decision making. The results indicated that the CFO was consistent with FFMIA guidelines and OPM's mission to provide reliable and timely information for agency decision making.

While the agency has seen some major improvements, OPM believes it can benefit from additional financial management improvements. The Consolidated Business Information System (CBIS) program continues to support OPM's strategic goal to "Establish responsive, transparent budgeting and costing processes" through implementation of an agency-wide Cost Accounting process and solution to be implemented by FY 2016. Most recently, the CBIS project completed its support of the agency's fiscal year annual close activities with even greater success than last fiscal year.

FFMIA Planned Activities

OPM is committed to maintaining strong systems and financial management as we continue to support and execute the mission of recruiting and retaining a world class workforce, and to continue to be a model employer for the 21st century. We take our program and financial accountability seriously and are dedicated to ensuring that funds received are expended responsibly and in a transparent manner. OPM looks forward in FY 2015 to building on our achievements to further improve internal control as we continue to support the important work of OPM using FFMIA compliant systems and processes. To do this, OPM will:

- Increase operational effectiveness and meet programmatic needs through improving business processes and financial management reporting, implementing new and updated capabilities;
- Consider the application of light technology (i.e. cloud) and implement a Shared Service Solution;
- Strengthen project management and governance capabilities within and among OPM teams and leadership; and
- Employing organizational change management to effectively eliminate "myth-busting" and to successfully adapt and sustain change.

The CBIS project has addressed most of the key issues that emerged during the initial deployment in October 2009. Phase 2, the implementation of the Trust Funds (TF) business processes, is still on an indefinite hold as directed by the CBIS Executive Steering Committee (ESC) and the OMB. However, in FY 2014, OPM invested efforts in an assessment of the TF systems that included an Analysis of Alternatives (A of A) study to determine the viability in pursuing an implementation of Phase 2. The study rendered a recommendation on three (3) alternatives for OPM's consideration.

In FY 2015, OPM plans to conduct a detailed cost benefit analysis of these alternatives and make a final determination on Phase 2. In addition, the CBIS project (under the guidance of the CFO) is addressing a key agency goal by implementing a long term technical solution (software) for cost accounting beginning in FY 2015. Implementation of an agency-wide cost accounting system will address the Notice of Findings and Recommendation 12-01 (NFR 12-01) that states "OPM is unable to fully accumulate the cost of services and products that each segment produces and delivers through the use of cost accounting information systems to report them in alignment with the major goals and outputs of the programs and activities."

While the agency has seen major improvements, OPM believes it can benefit from additional improvements to its financial management systems and processes via the use of Shared Services or a combination of a "blended approach" to shared services as directed in OMB's 25-Point Implementation Plan. Furthermore, OPM is exploring options to further adopt OMB's Memorandum 13-08 requiring agencies to utilize Federal Shared Service Centers (FSSC) for IT Hosting, Development, and Software support. Use of an FSSC would enable OPM to migrate its Financial and Procurement Systems Operations and Maintenance to leverage shared solutions that result in routine and consistent maintenance cycles, and reduced overall support costs. The cost of services is estimated to increase by an estimated $15 million across the remaining lifecycle of the Project (beginning FY 2015 through September 2018). The reason for the increased cost is based on new initiatives and activities required by OPM's workflows, the OMB, and Treasury.

In addition, the CBIS project recently completed its support of the agency's fiscal year annual close activities with even greater success than last fiscal year. With demonstrated executive leadership support to ensuring 100% success, we continue to pave our way to recognizing business process optimization of the CBIS solution for OPM. OPM's assessment and analysis confirms that while 85% of the CBIS requirements have been met, there is still a variance of 15-25%, as currently configured and implemented. While we have made significant progress in addressing the remaining challenges with CBIS functionality, a few issues remain. Specifically, OPM is looking to optimize functions, process, and service delivery across the following components which include: integration, reporting and analysis, transaction processing, and continuous training.

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 Office of the Inspector General (OIG). OPM is reporting on audit follow-up activities for the period October 1, 2013, through September 30, 2014. 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 2014	Number of Reports	Questioned Costs ($ in Millions)
Reports with no management decision on October 1, 2013	2	$ (1.5)
New reports requiring management decisions	20[1]	57.2
Management decisions made during the year	21	55.7
Costs disallowed	-	55.0[2]
Costs not disallowed	-	0.6[2]
Reports with no management decision on September 30, 2014	1	$ 0
FY 2013	**Number of Reports**	**Questioned Costs ($ in Millions)**
Reports with no management decision on October 1, 2012	2	$ 0.6
New reports requiring management decisions	23[1]	28.0
Management decisions made during the year	23	30.0
Costs disallowed	-	30.0
Costs not disallowed	-	-[2]
Reports with no management decision on September 30, 2013	2	$ (1.5)

[1] The number of new reports requiring a management decision represents reports with monetary recommendations.
[2] Represents the net of allowed cost, which includes overpayments and underpayments to insurance carriers. Numbers are also rounded.

Source: Audit Reports and Receivables Tracking System reports: Audit Reports Issued with Questioned Costs for reporting periods October 1, 2013 through March 31, 2014 and April 1, 2014 through September 30, 2014.

Federal Information Security Management Act (FISMA)

The 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 results of this review conducted for the FY 2014.

In FY 2014, the OPM Director approved a reorganization that will further centralize OPM's IT security management structure under the Office of the Chief lnformation Officer (OCIO). Significant changes have been approved related to information security governance. Additional resources were allocated to implement a centralized ISSO security management structure, and steps were also taken to implement a centralized Systems Development Life Cycle (SDLC) methodology. The plan to restructure the OCIO includes funding for 10 additional ISSO positions, bringing the total to 14. After these positions have been filled, the ISSO's security responsibility will cover 100 percent of OPM information systems. As a result, the OIG downgraded the material weakness to a significant deficiency for FY 2014.

Although the staff necessary to properly enforce and oversee the SDLC process for all OPM systems is still being put into in place, the OCIO continues to provide training to existing project managers through a Project Management Community of Practice designed to provide guidance on best practices in systems development.

In addition, in FY 2014 the OCIO established an Enterprise Network Security Operations Center (ENSOC) that provides continuous centralized support for OPM's security incident prevention/management program.

The OCIO developed a continuous monitoring strategy document that provides a high-level strategy for the implementation of information security continuous monitoring. While the initial stages of implementation began in FY 2012, full implementation of the plan is an ongoing process. The OCIO achieved the FY 2014 milestones outlined in the roadmap which included quarterly reporting for high impact systems. The next stage in the OCIO's plan involves requiring continuous monitoring by contractor operated systems and implementation of the Department of Homeland Security (DHS) Continuous Diagnostic and Mitigation program.

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 Information, Section 3, of this report.

Section 401 of the "Bipartisan Budget Act of 2013," signed into law by the President on December 26, 2013, made another change to the FERS and added another group to FERS coverage, "FERS-Further Revised Annuity Employees (FERS-FRAE). Beginning January 1, 2014, new employees (as designated in the statute) must pay an even higher employee contribution rate, an increase of 1.3 percent of salary above the percentage set for the FERS-RAE. There are now three classes of employees for FERS: FERS Regular, FERS-Revised Annuity Employees (FERS-RAE), and FERS-FRAE.

On December 26, 2013, OMB published final guidance in 2 C.F.R 200 titled Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards to improve the effectiveness and efficiency of Federal financial assistance. This guidance delivers on the objectives laid out in OMB Memorandum M-13-17 to better target financial risks and resources to achieve evidence-based outcomes. The policy simultaneously improves performance, transparency, and oversight for Federal awards. On September 30, 2014, OMB issued new metrics for the guidance.

On May 9, 2014, the President signed the Digital Accountability and Transparency Act (DATA Act), Public Law No. 113-101, to expand the Federal Funding Accountability and Transparency Act of 2006. Among other requirements, it requires a federal agency to notify the Treasury of any legally enforceable non-tax debt owed to such agency that is over 120 days (previously, 180 days) delinquent so that Treasury can offset such debt administratively.

Also new in FY 2014, Federal agencies can send their Phased Retirement applications to OPM for review beginning November 6, 2014. Phased retirement under CSRS and FERS was made possible by P.L. 112-141, the Moving Ahead for Progress in the 21st Century Act (MAP-21), otherwise known as the Transportation Funding bill.

On October 3, 2014, the Office of Management and Budget, in coordination with the National Security Council (NSC) staff and the DHS, released annual guidance to agencies on improving the security of Federal information and networks, in accordance with the Federal Information Security Management Act (FISMA) of 2002.

Goals and Strategies

OPM is firmly committed to improving financial performance and has received an unqualified audit opinion for fifteen consecutive years 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 reports to financial and program managers; has integrated financial and performance information; and uses such information to formulate its annual budget requests, as well as for day-to-day management analysis. OPM has instilled management discipline to help ensure accurate, timely, and effective budget formulation and execution.

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 2014 Financial Information

A Message from the Chief Financial Officer

This is the seventh 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 the President's Fiscal Year (FY) 2016 Budget to Congress, and a Summary of Performance and Financial Information which provides a concise briefing of the past year's outcomes. This approach offers more transparent conveyance to the public with improved quality and utility for management and stakeholders.

For the fifteenth 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 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*. Additionally, OPM's Office of the Chief Information Officer OCIO has made significant progress on resolving the information systems general control environment issues noted in prior year audits. For example, OCIO continued to build on the progress made in implementing an Agency-Wide Continuous Monitoring program.

Our reviews under the Improper Payments Information Act, as modified by the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payments and Elimination Recovery Improvement Act of 2012, included payments made from the Retirement and Health Benefits program. OPM's annual improper payment rates for these programs are less than one percent, 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 even further for these two major programs.

For the FY 2015 Congressional Budget Submission, OPM set a precedent to more clearly align financial resources with the agency's new strategic plan. This provides all of our stakeholders, to include the American tax payer, with detailed information into the distribution and focus of agency resources necessary to accomplish our mission. We will continue to submit future agency budgets that provide full transparency into resource utilization in alignment with agency goals and strategies.

OPM's Revolving Fund Programs continue to adapt to the changing Federal landscape as it relates to the demand for reimbursable services and our ability to deliver those services in the most efficient and cost-effective manner possible. To further support full transparency into the fees charged by OPM's reimbursable programs, we have been fully engaged in the implementation of a enterprise-wide managerial cost accounting effort. The development of program and agency-wide cost accounting methodologies that are fully linked to our accounting system, the Consolidated Business Information System (CBIS), will provide a more thorough understanding of the cost of activities and the subsequent fees charged for OPM services.

OPM also is improving its financial management by continuing to work with our stakeholders, shared services providers and vendors to enhance the current financial processes and systems. Considerable progress was made in FY 2014 to further the use of CBIS in a data driven manner for decision making.

We continue to carry out our oversight responsibilities over the $1 trillion 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 2014 AFR 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 10, 2014

Report No. 4A-CF-00-14-039

MEMORANDUM FOR KATHERINE ARCHULETA
Director

FROM: PATRICK E. McFARLAND *Patrick E McFarland*
Inspector General

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year 2014 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 2014 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 to audit OPM's consolidated financial statements as of September 30, 2014 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. 14-02, *Audit Requirements for Federal Financial Statements.*

KPMG's audit report for Fiscal Year 2014 includes: (1) opinions on the consolidated financial statements and the individual statements for the three benefit programs, (2) a report on internal controls, and (3) a report on compliance with laws and regulations. In its audit of OPM, KPMG found:

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

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- 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 one significant deficiency:

  - Information Systems Control Environment

  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 2014 Consolidated Financial Statements in accordance with GAS. Specifically, we:

- provided oversight, technical advice, and liaison to KPMG auditors;
- ensured that audits and audit reports were completed timely and in accordance with the requirements of Generally Accepted Government Auditing Standards (GAGAS), OMB Bulletin 14-02, and other applicable professional auditing standards;
- documented oversight activities and monitored audit status;
- reviewed responses to audit reports and reported significant disagreements to the audit follow-up official per OMB Circular No. A-50, Audit Follow-up;
- coordinated issuance of the audit report; and
- performed other procedures we deemed necessary.

Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls or on whether OPM's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated November 7, 2014, 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.

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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 thank OPM's financial management staff for their professionalism, courtesy, and cooperation during KPMG's audit and our oversight of the financial statement audit this year.

If you have any questions about KPMG's audit or our oversight, please contact me at 606-1200 or you may have a member of your staff contact Michael R. Esser, Assistant Inspector General for Audits, at 606-2143.

cc: Dennis D. Coleman
Chief Financial Officer

Daniel K. 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:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States (U.S.) Office of Personnel Management (OPM), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as "consolidated financial statements"). We have also audited the individual balance sheets of the Retirement, Health Benefits, and Life Insurance Programs (hereinafter referred to as the "Programs") as of September 30, 2014 and 2013, 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").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements and these Programs' individual financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements and the Programs' individual financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and on the Programs' individual financial statements 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 Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements and the Programs' individual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and Programs' individual financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements and Programs' individual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements and the Programs' individual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Programs' individual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Office of Personnel Management as of September 30, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

In our opinion, the Programs' individual financial statements referred to above present fairly, in all material respects, the financial position of each of the Programs as of September 30, 2014 and 2013, and their net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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 consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated 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 consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated 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.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements and on the Programs' individual financial statements as a whole. The information in the Revolving Fund (RF) Program financial statements in the consolidating financial statements (Schedules 1 through 4), the Salaries and Expense (S&E) Fund financial statements in the consolidating financial statements (Schedules 1 through 4), the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) information in the consolidating statements of net cost (Schedule 2), the Message from the Director, Message from the CFO, Transmittal from OPM's Inspector General, Other Information Section, and Appendix A are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements.

The information in the RF Program financial statements, the S&E Fund financial statements, and the CSRS and FERS information in the consolidating statements of net cost is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures

KPMG

applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in the RF Program financial statements, the S&E Fund financial statements, and the CSRS and FERS information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

The information in the Message from the Director, Message from the CFO, Transmittal from OPM's Inspector General, Other Information Section and Appendix A has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audits of the consolidated financial statements and Programs' individual financial statements as of and for the year ended September 30, 2014, we considered OPM's internal controls over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements and Programs' individual financial statements, but not for the purpose of expressing an opinion on the effectiveness of OPM's internal control. Accordingly, we do not express an opinion on the effectiveness of OPM's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in Exhibit I below that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OPM's consolidated financial statements and the Programs' individual financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin No. 14-02.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which OPM's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

OPM's Response to Finding

OPM's response to the finding identified in our audits is described in Exhibit I. OPM's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and the Programs' individual financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of OPM's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

November 7, 2014

Exhibit I. Significant Deficiency

Information Systems Control Environment

Condition

During FY 2014, the Office of Chief Information Officer (OCIO) continued to make progress in centralizing security program functions in an effort to address deficiencies noted in its security program. However, we continue to observe control weaknesses as follows:

1. The current authoritative guidance regarding two-factor authentication has not been fully applied.

2. Access rights in OPM systems are not documented and mapped to personnel roles and functions to ensure that personnel access is limited only to the functions needed to perform their job responsibilities.

3. The information security control monitoring program was not fully effective in detecting information security control weaknesses. We noted access rights in OPM systems were:

   - Granted to new users without following the OPM access approval process and quarterly reviews to confirm access approval were not consistently performed.

   - Not revoked immediately upon user separation and quarterly reviews to confirm access removal were not consistently performed.

4. The password length setting for privileged user accounts did not meet minimum OPM password length requirements.

Federal Information Process Standards 200, *Minimum Security Requirements for Federal Information and Information Systems*, and National Institute of Standards and Technology Special Publication 800-53 Revision 4, *Recommended Security Controls for Federal Information Systems*, 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. These conditions reduce OPM's ability to effectively manage its information system risk.

Recommendations

We recommend that the OCIO in coordination with the Office of the Chief Financial Officer and system owners in Program offices, ensure that resources are prioritized and assigned to:

1. Implement the current authoritative guidance regarding two-factor authentication.

2. Document and map access rights in OPM systems to personnel roles and functions, following the principle of "least privilege".

3. Enhance OPM's information security control monitoring program to detect information security control weaknesses by:

   - Implementing and monitoring procedures to ensure system access is appropriately granted to new users, consistent with the OPM access approval process.

   - Monitoring the process for the identification and removal of separated users to ensure that user access is removed timely upon separation; implementing procedures to ensure that user access, including user accounts and associated roles, are reviewed on a periodic basis consistent with the nature and risk of the system, and modifying any necessary accounts when identified.

4. Ensure the password length setting for privileged user accounts meet minimum OPM password length requirements.

Management Response

Management concurs with this finding and recommendations and will initiate appropriate corrective actions.

Consolidated Financial Statements

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED BALANCE SHEETS
As of September 30, 2014 and 2013
(In Millions)

	FY 2014	FY 2013
ASSETS		
Intragovernmental:		
Fund Balance with Treasury [Note 2]	$1,917	$129,684
Investments [Note 3]	981,247	836,255
Accounts Receivable [Note 4]	24,055	18,844
Total Intragovernmental	1,007,219	984,783
Accounts Receivable from the Public, Net [Note 4]	1,361	1,275
General Property and Equipment, Net	6	20
Other [Note 1L]	829	754
TOTAL ASSETS	$1,009,415	$986,832
LIABILITIES		
Intragovernmental [Note 6]	$735	$730
Federal Employee Benefits:		
Benefits Due and Payable	11,633	11,155
Pension Liability [Note 5A]	1,810,600	1,773,500
Postretirement Health Benefits Liability [Note 5B]	325,456	315,295
Actuarial Life Insurance Liability [Note 5C]	47,449	46,737
Total Federal Employee Benefits	2,195,138	2,146,687
Other [Notes 6 and 7]	1,380	1,318
Total Liabilities	2,197,253	2,148,735
NET POSITION		
Unexpended Appropriations	60	93
Cumulative Results of Operations	(1,187,898)	(1,161,996)
Total Net Position	(1,187,838)	(1,161,903)
TOTAL LIABILITIES AND NET POSITION	$1,009,415	$986,832

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, 2014 and 2013
(In Millions)

		FY 2014	FY 2013
Provide CSRS Benefits	Gross Costs	$44,551	$45,914
	Less: Earned Revenue	15,721	16,903
	Net Cost	28,830	29,011
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A]	25,198	39,707
	Net Cost of Operations [Notes 8 and 9]	$54,028	$68,718
Provide FERS Benefits	Gross Costs	$52,508	$44,437
	Less: Earned Revenue	42,605	42,672
	Net Cost	9,903	1,765
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A]	(5,771)	42,309
	Net Cost of Operations [Notes 8 and 9]	$4,132	$44,074
Provide Health Benefits	Gross Costs	$54,461	$42,102
	Less: Earned Revenue	42,603	41,999
	Net Cost	11,858	103
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5B]	2,032	722
	Net Cost of Operations [Notes 8 and 9]	$13,890	$825
Provide Life Insurance Benefits	Gross Costs	$3,895	$3,968
	Less: Earned Revenue	3,588	3,999
	Net Cost	307	(31)
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5C]	(163)	(858)
	Net Cost of Operations [Notes 8 and 9]	$144	($889)
Provide Human Resource Services	Gross Costs	$1,538	$1,871
	Less: Earned Revenue	1,281	1,607
	Net Cost of Operations [Notes 8 and 9]	$257	$264
Total Net Cost of Operations	Gross Costs	$156,953	$138,292
	Less: Earned Revenue	105,798	107,180
	Net Cost	51,155	31,112
	(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Notes 5A, 5B, and 5C]	21,296	81,880
	Net Cost of Operations [Notes 8 and 9]	$72,451	$112,992

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, 2014 and 2013
(In Millions)

	FY 2014	FY 2013
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	($1,161,996)	($1,093,169)
Budgetary Financing Sources:		
Appropriations Used	46,522	44,137
Other Financing Sources	27	28
Total Financing Sources	46,549	44,165
Net Cost of Operations	72,451	112,992
Net Change	(25,902)	(68,827)
Cumulative Results of Operations - Ending Balance	($1,187,898)	($1,161,996)
UNEXPENDED APPROPRIATIONS		
Beginning Balance	$93	$137
Budgetary Financing Sources:		
Appropriations Received	46,598	44,170
Appropriations Used	(46,522)	(44,137)
Other Budgetary Financing Sources	(109)	(77)
Total Budgetary Financing Sources	(33)	(44)
Total Unexpended Appropriations - Ending Balance	60	93
Net Position	($1,187,838)	($1,161,903)

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, 2014 and 2013
(In Millions)

	FY 2014	FY 2013
BUDGETARY RESOURCES		
Unobligated Balance, Brought Forward, October 1	$62,420	$59,416
Recoveries of Prior Year Unpaid Obligations	56	79
Other Changes in Unobligated Balance	(3)	(8)
Unobligated Balance, from Prior Year Budget Authority, Net	62,473	59,487
Appropriations	126,334	121,614
Spending Authority from Offsetting Collections	52,637	51,463
Total Budgetary Resources	$241,444	$232,564
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred: [Note 11]		
Direct	$175,995	$168,428
Reimbursable	1,640	1,716
Total Obligations Incurred	177,635	170,144
Unobligated Balance, End of Year:		
Apportioned	239	274
Unapportioned	63,570	62,146
Total Unobligated Balance, End of Year	63,809	62,420
Total Budgetary Resources	$241,444	$232,564
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid Obligations, Brought Forward, October 1	$14,500	$14,679
Obligations Incurred	177,635	170,144
Less: Outlays, Gross	176,934	170,244
Less: Recoveries of Prior Year Unpaid Obligations	56	79
Unpaid Obligations, End of Year	$15,145	$14,500
Uncollected Payments:		
Uncollected Payments, Federal Sources, Brought Forward, October 1	$2,967	$3,239
Change in Uncollected Payments, Federal Sources	211	(272)
Uncollected Payments, Federal Sources, End of Year	$3,178	$2,967
Memorandum (Non-add) Entries:		
Obligated Balance, Start of Year	$11,533	$11,440
Obligated Balance, End of Year	$11,967	$11,533
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority, Gross	$178,971	$173,077
Less: Actual Offsetting Collections	52,428	51,737
Less: Change in Uncollected Customer Payments from Federal Sources	211	(272)
Budget Authority, Net	$126,332	$121,612
Outlays, Gross	$176,934	$170,244
Less: Actual Offsetting Collections	52,428	51,737
Outlays, Net	124,506	118,507
Less: Distributed Offsetting Receipts	36,588	34,639
Agency Outlays, Net	$87,918	$83,868

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

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

September 30, 2014 and 2013
[$ 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 (HR) 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. The statutory authority for OPM's Federal employees' benefit programs can be found in Title 5, United States Code (USC); 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 Public Law (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. The financial statements also encompass OPM's Revolving Fund Programs as well as Salaries and Expenses.

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, USC, 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, USC, 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 historically provided or arranged 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 premium rate is derived using a common community methodology.

In 2006, the Postal Accountability and Enhancement Act (the Postal Act), 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, USC, 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, background security investigations, and employee training. These activities are financed through an intragovernmental revolving fund.

Salaries and Expenses. Salaries and Expenses (S&E) 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.

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 32.8 percent and 32.3 percent of basic pay for

FY 2014 and FY 2013, respectively. For FERS, the service cost for most or "regular" FERS participants is 15.1 percent and 14.2 percent of basic pay for FY 2014 and FY 2013, 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 FY 2014 and 2013. 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 2014 and 2013, this amount was $35.0 billion and $33.0 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 2014 and 2013).

Note: For participants, The Middle Class Tax Relief and Job Creation Job Act of 2012, P.L. 112-96, Section 5001 - Federal Employees Retirement, increased 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. The employer contribution rate is equal to the FERS service–cost, less the participant contribution rate (11.9 and 11.9 percent of pay in FY 2014 and 2013, for most participants. As noted above, due to P.L. 112-96, for most employees initially hired during calendar year 2013, the participant contribution rate is 3.1 percent of pay and the employer contribution rate is 9.6 percent of pay for FY 2014 and FY 2013. The employees applicable under P.L. 112-96 are referred to as "FERS-Revised Annuity Employees (FERS-RAE)".

Section 401 of the "Bipartisan Budget Act of 2013" made another change to the FERS and added another group to FERS coverage, "FERS-Further Revised Annuity Employees (FERS-FRAE)". Beginning January 1, 2014, new employees (as designated in the statute) must pay an even higher employee contribution rate, an increase of 1.3 percent of salary above the percentage set for the FERS-RAE. There is no difference in the FERS basic benefit paid to FERS Regular, FERS-RAE, and FERS-FRAE employees. (The basic benefit for congressional employees and Members of Congress under FERS-RAE and FERS-FRAE is different than the basic benefit paid to those groups under FERS).

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 from Treasury. 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.

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 small portion, 0.02 percent of the pay of participating employees in FY 2014 and 2013, of post-retirement life insurance coverage is not funded.

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: 1) salaries and expenses appropriation, 2) transfers from the trust fund accounts, and 3) 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 amount is presented as a transfer-in from the Treasury General Fund, obligation, and disbursement 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 10].

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. OPM invests the excess FBWT for the 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, such as in "market-based" securities that mirror the terms of marketable Treasury securities. These market-based securities have some market value risk. Monies that are immediately needed for expenditure are invested in "overnight" market-based securities.

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

Debt Exchange. The Federal Financing Bank Act of 1973 (FFB Act), P.L. 93-224, authorizes the FFB to make commitments to purchase and sell any obligation that is issued, sold, or guaranteed by a federal agency. Under the FFB Act, the FFB has authority to publicly issue up to $15 billion of its own debt securities. Debt issued by the FFB does not count against the debt limit. In addition, FFB debt is an eligible investment for all government trust funds, including the CSRDF. On October 1, 2013, the Secretary of the Treasury (the Secretary) authorized the exchange of the CSRDF's Treasury Special Investments with the Federal Financing Bank (FFB) 9(a) obligations.

Debt Issuance Suspension Period (DISP). Section 8348 of Title 5, U.S. Code, authorizes the Secretary of the Treasury to suspend additional investments of Treasury securities in the CSRDF if such additional investment could not be made without causing the public debt of the United States to exceed the public debt limit. In addition, the Secretary may sell or redeem securities, obligations, and other invested assets of the CSRDF before maturity in order to prevent the public debt from exceeding the public debt limit. The Secretary may redeem such investments only during a debt issuance suspension period (DISP) and only to the extent necessary to obtain an amount of payments authorized to be made from the CSRDF during such period. Further, the Postal Accountability and Enhancement Act of 2006 requires that investments of the Postal Service Retiree Health Benefits Fund (PSRHBF) be made in the same manner as investments of the CSRDF.

The Secretary of the Treasury determined that a DISP began on May 20, 2013 and continued until

October 17, 2013. During this period, Treasury took extraordinary measures, including those described above, to avoid exceeding the statutory debt limit. In accordance with Section 8348 (j)(4), the U.S. Government was required to pay both the CSRDF and the PSRHBF the amount of the "foregone interest" those funds would have otherwise earned had such extraordinary measures not been taken. The Treasury's Bureau of Fiscal Service (BFS) calculated the amount of "foregone interest" owed to the CSRDF and to the PSRHBF from October 1, 2013, through December 31, 2013 to be $65 million and $3.7 million, respectively.

The Continuing Appropriation Act, 2014 temporarily suspended the statutory debt limit through February 7, 2014; therefore, the Secretary of the Treasury determined that another DISP began on February 10, 2014 and continued until February 14, 2014 for the CSRDF. During this DISP the Treasury's BFS calculated the amount of "foregone interest" owed to the CSRDF from February 10, 2014 through February 14, 2014 to be $278 thousand. This amount was restored on the interest payment date of June 30, 2014.

K. Accounts Receivable, Net

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

L. Other Assets

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

M. General Property and Equipment

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

N. Benefits Due and Payable

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

O. Actuarial Liabilities and Associated Expenses

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

P. Cumulative Results of Operations

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

Q. Tax Status

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

R. Parent-Child Reporting Allocation Transfer

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

Note 2 – Fund Balance with Treasury

Fund Balances. OPM's FBWT balances by account type for September 30, 2014 and 2013 are:

September 30, 2014 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Trust Fund	$27	–	–	–	$27
Revolving Fund	–	–	–	$503	503
General Funds	–	$1,210	$6	70	1,286
Trust Revolving Funds	–	96	5	–	101
Total	**$27**	**$1,306**	**$11**	**$573**	**$1,917**

September 30, 2013 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Trust Fund	$123,201	–	–	–	$123,201
Revolving Fund	–	–	–	$557	557
General Funds	–	$1,133	$6	83	1,222
Trust Revolving Funds	–	4,699	5	–	4,704
Total	**$123,201**	**$5,832**	**$11**	**$640**	**$129,684**

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, 2014 and 2013:

September 30, 2014 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$27	$1,306	$11	$573	$1,917
Investments	857,169	72,011	43,176	–	972,356
Total, Unexpended Balance	**$857,196**	**$73,317**	**$43,187**	**$573**	**$974,273**
STATUS OF FUND BALANCES					
Unobligated:					
Available	–	–	–	$239	$239
Unavailable	–	$20,839	$42,622	109	63,570
Obligated not yet Disbursed	$7,171	4,006	565	225	11,967
Precluded (See Note 10)	850,022	48,468	–	–	898,490
Temporary Reduction	3	4	–	–	7
Total, Status of Fund Balances	**$857,196**	**$73,317**	**$43,187**	**$573**	**$974,273**

September 30, 2013 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
UNEXPENDED BALANCES					
FBWT	$123,201	$5,832	$11	$640	$129,684
Investments	719,457	65,707	41,716	–	826,880
Total, Unexpended Balance	**$842,658**	**$71,539**	**$41,727**	**$640**	**$956,564**
STATUS OF FUND BALANCES					
Unobligated:					
Available	–	–	–	$274	$274
Unavailable	–	$20,792	$41,276	78	62,146
Obligated not yet Disbursed	$6,973	3,821	451	288	11,533
Precluded (See Note 10)	835,682	46,925	–	–	882,607
Temporary Reduction	3	1			4
Total, Status of Fund Balances	**$842,658**	**$71,539**	**$41,727**	**$640**	**$956,564**

Debt Issuance Suspension Period (DISP). In FY 2014, there was a Debt Issuance Suspension Period (DISP) in effect from February 10, 2014, through February 14, 2014, whereby Treasury took steps on February 18, 2014, to restore principal not invested and interest foregone. See

Note 1J in Section 2 of the AFR for further information.

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 Trust 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 the Trust Funds.

The cash receipts collected from the public for the trust 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, 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 in which it forfeited.

The Health Benefit and Life Insurance funds had approximately $117 billion invested as of September 30, 2014. The majority of these securities are market-based and have market value risk.

Debt Issuance Suspension Period (DISP). In FY 2014, there was a Debt Issuance Suspension Period (DISP) in effect from February 10, 2014, through February 14, 2014, whereby Treasury took steps on February 18, 2014, to restore principal not invested and interest foregone. See Note 1J in Section 2 of the AFR for further information.

The following tables summarize OPM's investments by Program, all trust funds, at the end of September 2014 and 2013.

As of September 30, 2014 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program:						
Marketable:						
FFB Securities	$13,612	–	$121	$13,733	–	$13,612
Non-Marketable: (PAR)						
Par-value GAS securities	806,190	–	7,197	813,387	–	806,190
Certificates of Indebtedness	$37,367	–	10	37,377	–	37,367
Total Retirement Program	**$857,169**	**–**	**$7,328**	**$864,497**	**–**	**$857,169**
Health Benefits Program:						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$24,222	($318)	$164	$24,068	$346	$23,938
Non-Marketable: (PAR)						
Par-value GAS securities	48,468		382	48,850		48,468
Certificates of Indebtedness	–	–	–	–	–	
Total Health Benefits Program	**$72,690**	**($318)**	**$546**	**$72,918**	**$346**	**$72,406**
Life Insurance Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$44,424	$(938)	$346	$43,832	$273	$43,689
Total Life Insurance Program	**$44,424**	**$(938)**	**$346**	**$43,832**	**$273**	**$43,689**
Total Investments	***$974,283***	***$(1,256)***	***$8,220***	***$981,247***	***$619***	***$973,264***

As of September 30, 2013 ($ in millions)	Cost	Amortized Discount/ (Premium)	Interest Receivable	Investments, Net	Unamortized Discount/ (Premium)	Market Value
Intragovernmental:						
Retirement Program:						
Marketable:						
FFB Securities	$5,695	–	$66	$5,761	–	$5,695
Non-Marketable: (PAR)						
Par-value GAS securities	713,762	–	7,292	721,054	–	713,762
Certificates of Indebtedness	–	–	–	–	–	–
Total Retirement Program	**$719,457**	**–**	**$7,358**	**$726,815**	**–**	**$719,457**
Health Benefits Program:						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$23,614	($104)	$67	$23,577	$81	$23,610
Non-Marketable: (PAR)						
Par-value GAS securities	42,324	–	367	42,691	–	42,324
Certificates of Indebtedness	–	–	–	–	–	
Total Health Benefits Program	**$65,938**	**($104)**	**$434**	**$66,268**	**$81**	**$65,934**
Life Insurance Program						
Non-Marketable: (Market-based)						
Market-Based GAS securities	$43,036	$(256)	$392	$43,172	$829	$43,283
Total Life Insurance Program	**$43,036**	**$(256)**	**$392**	**$43,172**	**$829**	**$43,283**
Total Investments	***$828,431***	***$(360)***	***$8,184***	***$836,255***	***$910***	***$828,674***

Note 4 – Accounts Receivable, Net

Intragovernmental. The balances comprising OPM's intragovernmental accounts receivable as of September 30, 2014 and 2013 are:

September 30, 2014 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	$825	$23,015	$14	–	$23,854
Other			–	$201	201
Total	**$825**	**$23,015**	**$14**	**$201**	**$24,055**

September 30, 2013 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Employer contributions receivable	$784	$17,325	$14	–	$18,123
Other	474	20	–	$227	721
Total	**$1,258**	**$17,345**	**$14**	**$227**	**$18,844**

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 no later than September 30th per year from FY 2007 through FY 2016 according to the legislation. The Postal Service has not made its annual payment from FY 2011 through FY 2014; as of September 30, 2014, the Postal Service has not indicated its intention regarding payment of the total $22.4 billion due.

From the Public. The balances comprising the accounts receivable OPM classifies as "from the public" at September 30, 2014 and 2013 are presented, in the following table. See Note 1K for the methodology used to determine the allowance.

September 30, 2014 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	$96	$789	$143	–	$1,028
Overpayment of benefits [net of allowance of $106]	297	–	–	–	297
Due from carriers [net of allowance of $0]	–	36	–	–	36
Other	–	–	–	–	–
Total	**$393**	**$825**	**$143**	–	**$1,361**

September 30, 2013 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Other	Total
Participant contributions receivable	$92	$763	$138	–	$993
Overpayment of benefits [net of allowance of $101]	259	–	–	–	259
Due from carriers [net of allowance of $0]	–	21	–	–	21
Other	–	–	–	$2	2
Total	**$351**	**$784**	**$138**	**$2**	**$1,275**

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 Statement of Federal Financial Accounting Standards (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 FY 2014 and 2013:

	FY 2014		FY 2013	
	CSRS	FERS	CSRS	FERS
Interest rate	3.9%	4.3%	4.1%	4.4%
Cost of Living Adjustment*	2.5%	1.9%	2.5%	2.0%
Rate of increases in salary	1.9%	1.9%	2.2%	2.2%

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

Pension Expense. The following tables present Pension Expense by cost component for September 30, 2014 and 2013:

FY 2014 ($ in millions)	CSRS	FERS	TOTAL
Service cost	$5,550	$30,606	$36,156
Interest cost	48,342	25,213	73,555
Actuarial (gain)/ loss - Experience	(9,341)	(3,311)	(12,652)
Actuarial loss/(gain) - Assumptions	25,198	(5,771)	19,427
Pension Expense	**$69,749**	**$46,737**	**$116,486**

FY 2013 ($ in millions)	CSRS	FERS	TOTAL
Service cost	$6,697	$28,650	$35,347
Interest cost	50,016	23,236	73,252
Actuarial (gain)/ loss - Experience	(10,799)	(7,449)	(18,248)
Actuarial loss/(gain) - Assumptions	39,707	42,309	82,016
Pension Expense	**$85,621**	**$86,746**	**$172,367**

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

FY 2014 ($ in millions)	CSRS	FERS	TOTAL
Pension Liability at October 1, 2013	$1,210,800	$562,700	$1,773,500
Plus: Pension Expense			
Normal Cost	$5,550	$30,606	$36,156
Interest on the Liability Balance	48,342	25,213	73,555
Actuarial (gain)/loss:			
From experience:	(9,341)	(3,311)	(12,652)
From changes in actuarial assumptions:	25,198	(5,771)	19,427
Net (Gain)/Loss	$15,857	(9,082)	$6,775
Total Expense:	$69,749	$46,737	$116,486
Less: Costs applied to Pension Liability	(69,649)	(9,737)	(79,386)
Pension Liability at September 30, 2014	**$1,210,900**	**$599,700**	**$1,810,600**

FY 2013 ($ in millions)	CSRS	FERS	TOTAL
Pension Liability at October 1, 2012	$1,193,800	$484,400	$1,678,200
Plus: Pension Expense			
Normal Cost	$6,697	$28,650	$35,347
Interest on the Liability Balance	50,016	23,236	73,252
Actuarial (gain)/loss:			
From experience:	(10,799)	(7,449)	(18,248)
From changes in actuarial assumptions:	39,707	42,309	82,016
Net (Gain)/Loss	$28,908	$34,860	$63,768
Total Expense:	$85,621	$86,746	$172,367
Less: Costs applied to Pension Liability	(68,621)	(8,446)	(77,067)
Pension Liability at September 30, 2013	**$1,210,800**	**$562,700**	**$1,773,500**

Costs Applied to the Pension Liability. In accordance with Federal accounting standards, the Pension Liability is reduced by the total operating costs of the Retirement Program. The following table presents the costs applied to the Pension Liability in FY 2014 and 2013:

FY 2014 ($ in millions)	CSRS	FERS	TOTAL
Annuities	$69,264	$9,552	$78,816
Refunds of contributions	279	146	425
Administrative and other expenses	106	39	145
Costs applied to the Pension Liability	**$69,649**	**$9,737**	**$79,386**

FY 2013 ($ in millions)	CSRS	FERS	TOTAL
Annuities	$68,197	$8,289	$76,486
Refunds of contributions	319	121	440
Administrative and other expenses	105	36	141
Costs applied to the Pension Liability	**$68,621**	**$8,446**	**$77,067**

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 2014	FY 2013
Interest rate(1)	4.3%	4.4%
Increase in per capita cost of covered benefits(2)	4.2%	3.0%
Ultimate medical trend rate	4.2%	4.2%

(1) The single equivalent annual interest rate for FY 2014 is derived from a yield curve based on the average of the last 40 quarters through March 2014. The single equivalent annual interest rate for FY 2013 was derived from a yield curve based on the average of the last 40 quarters through March 2013.

(2) The increase in per capita cost of covered benefits for FY 2014 represents a variable trend which begins at 4.2%, rising to 5.6% in FY 2018 through FY 2021 and then declining to 4.2% by FY 2084. Last year, the increase in per capita cost of covered benefits represented a variable trend that began at 3.0%, increased for a period to 5.6%, and ultimately declined to 4.2%.

PRHB Expense. The following presents the PRHB Expense by cost component for September 30, 2014 and 2013:

($ in millions)	FY 2014	FY 2013
Service cost	$11,169	$11,568
Interest cost	13,873	14,861
Actuarial (gain)/loss - Experience	(3,114)	(14,675)
Actuarial (gain)/loss – Assumptions	2,032	722
PRHB Expense	**$23,960**	**$12,476**

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

($ in millions)	FY 2014	FY 2013
PRHB Liability at the beginning of the year	$315,295	$316,197
Plus: PRHB Expense		
Normal Cost	11,169	11,568
Interest on the Liability Balance	13,873	14,861
Actuarial (gain)/loss:		
From experience:	(3,114)	(14,675)
From assumption changes:	2,032	722
Total Expense:	23,960	12,476
Less: Costs applied to PRHB Liability	(13,799)	(13,378)
PRHB Liability at the end of the year	**$325,456**	**$315,295**

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 FY 2014 and 2013:

($ in millions)	FY 2014	FY 2013
Current benefits	$10,388	$10,310
Premiums	2,163	2,137
Administrative and other expenses	1,248	931
Total costs applied to the PRHB Liability	**$13,799**	**$13,378**

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 FY 2014 and 2013:

($ in millions)	FY 2014		FY 2013	
	One Percent Increase in Per Capita Cost	One Percent Decrease in Per Capita Cost	One Percent Increase in Per Capita Cost	One Percent Decrease in Per Capita Cost
PRHB Liability	$372,592	$286,243	$360,837	$277,329

(In $)	FY 2014			FY 2013		
	Per Capita Normal Cost at Valuation Date	One Percent Increase in Per Capita Cost	One Percent Decrease in Per Capita Cost	Per Capita Normal Cost at Valuation Date	One Percent Increase in Per Capita Cost	One Percent Decrease in Per Capita Cost
	$5,141	$6,539	$4,035	$4,926	$6,280	$3,856

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 2014 and 2013. This entails the determination of a single equivalent interest rate that is specific to the ALIL.

	FY 2014	FY 2013
Interest rate	4.2%	4.3%
Rate of increases in salary	1.9%	2.2%

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 FY 2014 and 2013:

($ in millions)	FY 2014	FY 2013
New Entrant Expense	$136	$306
Interest cost	2,001	2,085
Actuarial (gain)/ loss - Experience	(699)	(710)
Actuarial (gain)/ loss - Assumptions	(163)	(858)
Life Insurance Expense	**$1,275**	**$823**

Future Life Insurance Benefits Expense. The Future Life Insurance Benefits Expense for FY 2014 and 2013 is:

Sep 30 ($ in millions)	FY 2014	FY 2013
Life Insurance Expense	$1,275	$823
Less: Net Costs applied to Life Insurance Liability	(563)	(532)
Future Life Insurance Benefits Expense	**$712**	**$291**

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

Sep 30 ($ in millions)	FY 2014	FY 2013
Actuarial LI Liability at the beginning of the year	$46,737	$46,446
Plus: Expense		
New Entrant Expense	136	306
Interest on the Liability Balance	2,001	2,085
Actuarial (gain)/loss:		
From experience:	(699)	(710)
From assumption changes:	(163)	(858)
Total LI Expense:	1,275	823
Less: Costs applied to Life Insurance Liability	(563)	(532)
Actuarial LI Liability at the end of the year	**$47,449**	**$46,737**

Note 6 Intragovernmental and Other Liabilities

The following liabilities are classified as "Intragovernmental" on the Balance Sheet as of September 30, 2014 and September 30, 2013:

September 30, 2014 ($ in millions)	Accounts Payable	Other	Total
Retirement	$50	–	$50
Health Benefits	293	–	293
Life Insurance	7	–	7
Revolving Fund	7	468	475
Salaries and Expenses	1	1	2
Eliminations	(90)	(2)	(92)
Total Intragovernmental Liabilities	**$268**	**$467**	**$735**

September 30, 2013 ($ in millions)	Accounts Payable	Other	Total
Retirement	$60	–	$60
Health Benefits	290	–	290
Life Insurance	6	–	6
Revolving Fund	10	$460	470
Salaries and Expenses	1	2	3
Eliminations	(97)	(2)	(99)
Total Intragovernmental Liabilities	**$270**	**$460**	**$730**

The following liabilities, all current and "with the public," are classified as "other" on the Balance Sheet as of September 30, 2014 and September 30, 2013:

September 30, 2014 ($ in millions)	Withheld from benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued Administrative expenses	Contingencies	Total
Retirement Program	$910	–	–	10	$920
Health Benefits Program	–	$307	–	–	307
Life Insurance Program	–	57	–	–	57
Revolving Fund Program	–	–	$81	–	81
Salaries and Expenses	–	–	14	1	15
Total Other Liabilities	**$910**	**$364**	**$95**	**$11**	**$1,380**

September 30, 2013 ($ in millions)	Withheld from benefits	Accrued Carrier Liabilities Other Than Benefits	Accrued Administrative expenses	Contingencies	Total
Retirement Program	$871	–	–	10	$881
Health Benefits Program	–	$305	–	–	305
Life Insurance Program	–	41	–	–	41
Revolving Fund Program	–	–	$53	–	53
Salaries and Expenses	–	–	37	1	38
Total Other Liabilities	**$871**	**$346**	**$90**	**$11**	**$1,318**

Note 7 – Contingencies

Health Benefits Program. In prior years, OPM was a party to litigation in which certain Health Benefits Program carriers were seeking relief for alleged underpayment of premiums. As a result of one adverse court decision, the Department of Justice, which represented OPM in the litigation, settled most of the remaining cases (one other case was tried and lost). Judgments/settlements in those cases were paid from the Treasury Judgment Fund (TJF). However, because any underpayments that may have occurred resulted from inaccuracies in the amount of contributions by or on behalf of employee-participants that were remitted to OPM by the employing agencies (which remittances came from the respective agencies' appropriations), OPM has neither the legal responsibility nor the legal authority to reimburse the TJF. Nonetheless, the Department of the Treasury continues to assert that OPM is liable to reimburse the TJF for the amount of the judgments/settlements and as such, OPM has accrued $260 million as of September 30, 2014 and September 30, 2013 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 FY 2014, OPM has recorded a total liability of $11.3 million for the estimated amount of losses it will probably incur from litigation. For Salaries and Expenses, the estimated amount of probable losses is $1.2 million, for the Revolving Fund the estimated amount of probable losses is $0.1 million, and for the Retirement Fund the estimated amount of probable losses is $10 million. There are no contingencies recorded for the Health Benefits Fund and the Life Insurance Fund.

For FY 2013, OPM recorded a total liability of $11.1 million for the estimated amount of losses it would probably incur from litigation. For Salaries and Expenses, the estimated amount of probable losses was $0.7 million. For the Revolving Fund, the estimated amount of probable losses was $0.4 million. Lastly, for the Retirement Fund, the estimated amount of probable losses was $10 million. There were no contingencies recorded for the Health Benefits Fund and the Life Insurance Fund for FY 2013.

In addition, OPM has determined, at September 30, 2014, it is reasonably possible that losses ranging from an additional $149.0 million to $657.4 million will result, compared with $93.6 million to $600.1 million in FY 2013. For Salaries and Expenses, the total of all reasonably possible losses ranges from $60.4 million to $62.4 million, compared with $4.0 million to $4.7 million in FY 2013. For the Revolving Fund, the total of all reasonably possible losses ranges from $2.1 million to $2.9 million, compared with $2.8 to $3.2 million in FY 2013. For the Health Benefits Fund, the total of all reasonably possible losses ranges from $1.7 million to $2.2 million for both FY 2014 and FY 2013. For the Retirement Fund, the total of all reasonably possible losses ranges from $85 million to $590 million for both FY 2014 and FY 2013. For the Life Insurance Fund, there were none in either FY 2014 or FY 2013. 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 – 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, 2014 and 2013:

FY 2014 ($ in millions)	Gross Costs			Earned Revenue		
	Intra - governmental	With the Public	Total	Intra - governmental	With the Public	Total
Provide CSRS Benefits	—	$44,551	$44,551	$14,459	$1,262	$15,721
Provide FERS Benefits	—	52,508	52,508	40,801	1,804	42,605
Provide Health Benefits	—	54,461	54,461	28,938	13,665	42,603
Provide Life Insurance Benefits	—	3,895	3,895	861	2,727	3,588
Provide Human Resources Services	$158	1,380	1,538	1,281	—	1,281
Total	**$158**	**$156,795**	**$156,953**	**$86,340**	**$19,458**	**$105,798**
FY 2013 ($ in millions)	**Intra - governmental**	**With the Public**	**Total**	**Intra - governmental**	**With the Public**	**Total**
Provide CSRS Benefits	—	$45,914	$45,914	$15,407	$1,496	$16,903
Provide FERS Benefits	—	44,437	44,437	41,034	1,638	42,672
Provide Health Benefits	—	42,102	42,102	28,662	13,337	41,999
Provide Life Insurance Benefits	—	3,968	3,968	1,316	2,683	3,999
Provide Human Resources Services	$126	1,745	1,871	1,606	1	1,607
Total	**$126**	**$138,166**	**$138,292**	**$88,025**	**$19,155**	**$107,180**

Note 9 – Net Cost by Strategic Goals

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

Strategic Goal 1	Hire the Best - The Federal hiring process
Strategic Goal 2	Respect the Workforce – Employee retention through training & work-life initiatives
Strategic Goal 3	Expect the Best - Provide the necessary tools and resources for employees to perform at the highest level
Strategic Goal 4	Honor Service – Acknowledge Federal employee's service through well-designed compensation & retirement benefits
Strategic 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 2014 ($ 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	—	—	—	—	$942	**$942**
	Less earned revenue	—	—	—	—	815	**815**
	Net program cost	—	—	—	—	$127	**$127**
Goal 2	Total program cost	$53,021	$35,528	$42,944	$2,837	$(5)	**$134,325**
	Less earned revenue	11,950	32,387	32,385	2,728	(4)	**79,446**
	Net program cost	$41,071	$3,141	$10,559	$(109)	$(1)	**$54,879**
Goal 3	Total program cost	—	—	—	—	$445	**$445**
	Less earned revenue	—	—	—	—	356	**356**
	Net program cost	—	—	—	—	$89	**$89**
Goal 4	Total program cost	$15,332	$10,274	$12,418	$820	$67	**$38,911**
	Less earned revenue	3,456	9,365	9,365	788	49	**23,023**
	Net program cost	$11,876	$909	$3,053	$32	$18	**$15,888**
Goal 5	Total program cost	$1,396	$935	$1,131	$75	$89	**$3,626**
	Less earned revenue	315	853	853	72	65	**2,158**
	Net program cost	$1,081	$82	$278	$3	$24	**$1,468**
Total	**Total program cost**	**$69,749**	**$46,737**	**$56,493**	**$3,732**	**$1,538**	**$178,249**
	Less earned revenue	**15,721**	**42,605**	**42,603**	**3,588**	**1,281**	**105,798**
	Net program cost	**$54,028**	**$4,132**	**$13,890**	**$144**	**$257**	**$72,451**

The Total program cost includes any loss on pension, ORB, PRHB, or OPEB assumption changes (see Notes 5A, 5B, and 5C).
NOTE: OPM's Strategic Plan has been updated and will reflect new strategic goals for FY 2015 reporting.

Strategic Goals 2013 ($ 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	—	—	—	—	$1,071	**$1,071**
	Less earned revenue	—	—	—	—	962	**962**
	Net program cost	—	—	—	—	$109	**$109**
Goal 2	Total program cost	$19,520	$19,777	$9,763	$709	$37	**$49,807**
	Less earned revenue	3,854	9,729	9,575	912	24	**24,093**
	Net program cost	$15,667	$10,048	$188	$(203)	$13	**$25,713**
Goal 3	Total program cost	—	—	—	—	$718	**$718**
	Less earned revenue	—	—	—	—	591	**591**
	Net program cost	—	—	—	—	$127	**$127**
Goal 4	Total program cost	$63,813	$64,652	$31,917	$2,318	$(5)	**$162,695**
	Less earned revenue	12,598	31,804	31,302	2,980	(4)	**78,680**
	Net program cost	$51,216	$32,848	$615	$(663)	$(1)	**$84,015**
Goal 5	Total program cost	$2,287	$2,317	$1,144	$83	$50	**$5,882**
	Less earned revenue	452	1,140	1,122	107	34	**2,854**
	Net program cost	$1,836	$1,177	$22	$(24)	$17	**$3,028**
Total	**Total program cost**	**$85,621**	**$86,746**	**$42,824**	**$3,110**	**$1,871**	**$220,172**
	Less earned revenue	**16,903**	**42,672**	**41,999**	**3,999**	**1,607**	**107,180**
	Net program cost	**$68,718**	**$44,074**	**$825**	**$(889)**	**$264**	**$112,992**

Note 10 – 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, 2014 and 2013 (rounding may appear):

September 30 ($ in millions)	2014	2013
Temporarily precluded from obligation at the beginning of the year	$835,682	$819,751
Plus: Trust fund receipts during the year	94,182	93,444
Plus: Appropriations Received	34,988	32,995
Less: Obligations incurred during the year	114,830	110,508
Excess of trust fund receipts over obligations incurred during the year	14,340	15,931
Temporarily Precluded from Obligation at the End of the Year	**$850,022**	**$835,682**

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.

Also, FY 2014 and FY 2013 receipts included interest income. The following table presents the unobligated balance of the PSRHBF included in the Health Benefits Program that is temporarily precluded from obligation as of September 30, 2014 and 2013:

September 30 ($ in millions)	2014	2013
Temporarily precluded from obligation at the beginning of the year	$46,925	$45,347
Plus: Special Fund receipts during the year	1,543	1,578
Excess of Special Fund receipts over obligations incurred during the year	1,543	1,578
Temporarily Precluded from Obligation at the End of the Year	**$48,468**	**$46,925**

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 11 – Apportionment Categories of Incurred Obligations

An apportionment is a distribution by OMB of amounts available for obligation. OMB apportions the Salaries and Expense account on a quarterly basis [Category A]. Salaries and Expense is also, and other accounts under OPM's control such as the Trust Funds and Revolving Fund 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 [Category E].

The following chart details the direct and reimbursable obligations that have been incurred against each apportionment category as of September 30, during FY 2014 and 2013:

FY 2014 Program/Fund ($ in millions)	Category	Direct	Reimbursable	Total
Retirement Program	B	$79,842	—	**$79,842**
Retirement Program	E	34,988	—	**34,988**
Subtotal		$114,830		**$114,830**
Health Benefits Program	B	46,407	—	**46,407**
Health Benefits Program	E	11,359	—	**11,359**
Life Insurance Program	B	3,024	—	**3,024**
Life Insurance Program	E	45	—	**45**
Revolving Fund Program	B	—	$1,563	**1,563**
Salaries and Expenses	A and B	330	77	**407**
Total		**$175,995**	**$1,640**	**$177,635**

FY 2013 Program/Fund ($ in millions)	Category	Direct	Reimbursable	Total
Retirement Program	B	$77,513	—	**$77,513**
Retirement Program	E	32,995	—	**32,995**
Subtotal		$110,508		**$110,508**
Health Benefits Program	B	43,756	—	**43,756**
Health Benefits Program	E	10,964	—	**10,964**
Life Insurance Program	B	2,823	—	**2,823**
Life Insurance Program	E	46	—	**46**
Revolving Fund Program	B	—	$1,655	**1,655**
Salaries and Expenses	A and B	331	61	**392**
Total		**$168,428**	**$1,716**	**$170,144**

Note 12 – 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 2016, which will contain the actual budgetary resources information for FY 2014, will be published in February 2015 and will be available on the OMB website at http://www.whitehouse.gov/omb/. The President's Budget for FY 2015, which contains actual budgetary resource information for FY 2013, was released on March 4, 2014.

There are no material differences between the SBR and the SF-133s – "Reports on Budget Execution," for each FY 2014 and FY 2013. Additionally, there are no material differences between the actual amounts for FY 2013 published in the President's Budget and those reported in the accompanying FY 2013 Combined SBR.

Note 13 – Undelivered Orders at the End of the Period

The amounts of budgetary resources obligated for undelivered orders at the end of September 2014 and 2013 are as follows:

Undelivered Orders ($ in millions)	Revolving Fund Programs	Salaries & Expenses	Total
FY 2014	$949	$89	**$1,038**
FY 2013	$959	$89	**$1,048**

Note 14 – 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 make a distinction and also relate the two. The FY 2014 reconciliation and comparative FY 2013 reconciliation are as follows:

FY 2014 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2014
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$114,830	$57,766	$3,069	$1,563	$407	$177,635
Less: Spending Authority from Offsetting Collections and Recoveries	—	46,456	4,370	1,547	322	52,695
Less: Appropriated Trust Fund Receipts	94,183	1,543	—	—	—	95,726
Obligations Net of Offsetting Collections and Recoveries	20,647	9,767	(1,301)	16	85	29,214
Less: Offsetting Receipts	35,042	1,543	—	3	—	36,588
Net Obligations	**($14,395)**	**$8,224**	**($1,301)**	**$13**	**$85**	**($7,374)**
Other Resources	—	—	—	20	15	35
Total Resources Used to Finance/ Generated from Activities	***($14,395)***	***$8,224***	***($1,301)***	***$33***	***$100***	***($7,339)***
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$34,988	—	—	—	—	$34,988
Other	54	1,225	738	94	7	2,118
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**35,042**	**1,225**	**738**	**94**	**7**	**37,106**
Total Resources Used to Finance/ Generated From the Net Cost of Operations	**$20,647**	**$9,449**	**($563)**	**$127**	**$107**	**$29,767**
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	$37,100	$10,161)	$712	—	—	$47,973
Exchange Revenue Not in the Budget	451	(5,706)	(5)	—	—	(5,260)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	37,551	4,455	707	—	—	42,713
Components Not Requiring or Generating Resources						
Other	(38)	(14)	—	21	2	(29)
Total Components of Net Cost of Operations that Do Not Require or Generate Resources	(38)	(14)	—	21	2	(29)
Total Components of Net Cost of Operations that Do Not Require or Generate Resources in the Current Period	**$37,513**	**($4,441)**	**$707**	**$21**	**$2**	**$42,684**
NET COST OF OPERATIONS	***$58,160***	***$13,890***	***$144***	***$148***	***$109***	***$72,451***

FY 2013 ($ in millions)	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Total 2013
RESOURCES USED TO FINANCE ACTIVITIES						
Budgetary Resources Obligated:						
Obligations Incurred	$110,508	$54,720	$2,869	$1,655	$392	$170,144
Less: Spending Authority from Offsetting Collections and Recoveries	—	45,943	3,773	1,517	310	51,543
Less: Appropriated Trust Fund Receipts	93,447	1,578	—	—	—	95,025
Obligations Net of Offsetting Collections and Recoveries	17,061	7,199	(904)	138	82	23,576
Less: Offsetting Receipts	33,051	1,578	—	10	—	34,639
Net Obligations	**($15,990)**	**$5,621**	**($904)**	**$128**	**$82**	**($11,063)**
Other Resources	—	—	—	21	15	36
Total Resources Used to Finance Activities	***($15,990)***	***$5,621***	***($904)***	***$149***	***$97***	***($11,027)***
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS						
Transfer-In from General Fund	$32,995	—	—	—	—	$32,995
Other	56	$1,667	(273)	(37)	54	1,467
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**33,051**	**1,667**	**(273)**	**(37)**	**54**	**34,462**
Total Resources Used to Finance the Net Cost of Operations	**$17,061**	**$7,288**	**($1,177)**	**$112**	**$151**	**$23,435**
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD						
Components Requiring or Generating Resources in Future Periods:						
Increase in Actuarial Liabilities	$95,300	($902)	$291	—	—	$94,689
Exchange Revenue Not in the Budget	460	(5,570)	(3)	1	—	(5,112)
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	95,760	(6,472)	288	1	—	89,577
Components Not Requiring or Generating Resources						
Other	(29)	9	—	5	(5)	(20)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	(29)	9	—	5	(5)	(20)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**$95,731**	**($6,463)**	**$288**	**$6**	**$(5)**	**$89,557**
NET COST OF OPERATIONS	***$112,792***	***$825***	***($889)***	***$118***	***$146***	***$112,992***

Note 15 – Health Benefits and Life Insurance Program Concentrations

During FY 2014 and 2013, over three-fourths 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, 2014
(In Millions)
Schedule 1

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2014
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$27	$1,306	$11	$503	$70	—	$1,917
Investments [Note 3]	864,497	72,918	43,832	—	—	—	981,247
Accounts Receivable [Note 4]	825	23,015	14	202	91	($92)	24,055
Total Intragovernmental	865,349	97,239	43,857	705	161	(92)	1,007,219
Accounts Receivable from the Public, Net [Note 4]	393	825	143	—	—	—	1,361
General Property and Equipment, Net	—	—	—	6	—	—	6
Other [Note 1L]	—	172	657	—	—	—	829
TOTAL ASSETS	$865,742	$98,236	$44,657	$711	$161	($92)	$1,009,415
LIABILITIES							
Intragovernmental [Note 6]	$50	$293	$7	$475	$2	($92)	$735
Federal Employee Benefits:							
Benefits Due and Payable	6,215	4,563	855	—	—	—	11,633
Pension Liability [Note 5A]	1,810,600	—	—	—	—	—	1,810,600
Postretirement Health Benefits Liability [Note 5B]	—	325,456	—	—	—	—	325,456
Actuarial Life Insurance Liability [Note 5C]	—	—	47,449	—	—	—	47,449
Total Federal Employee Benefits	1,816,815	330,019	48,304	—	—	—	2,195,138
Other [Notes 6 and 7]	920	307	57	81	15	—	1,380
Total Liabilities	1,817,785	330,619	48,368	556	17	(92)	2,197,253
NET POSITION							
Unexpended Appropriations	—	—	—	3	57	—	60
Cumulative Results of Operations	(952,043)	(232,383)	(3,711)	152	87	—	(1,187,898)
Total Net Position	(952,043)	(232,383)	(3,711)	155	144	—	(1,187,838)
TOTAL LIABILITIES AND NET POSITION	$865,742	$98,236	$44,657	$711	$161	($92)	$1,009,415

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATING BALANCE SHEET
As of September 30, 2013
(In Millions)
Schedule 1

	Retirement Program	Health Benefits Program	Life Insurance Programs	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2013
ASSETS							
Intragovernmental:							
Fund Balance with Treasury [Note 2]	$123,201	$5,832	$11	$557	$83	—	$129,684
Investments [Note 3]	726,815	66,268	43,172	—	—	—	836,255
Accounts Receivable [Note 4]	1,258	17,345	14	229	97	($99)	18,844
Total Intragovernmental	851,274	89,445	43,197	786	180	(99)	984,783
Accounts Receivable from the Public, Net [Note 4]	351	784	138	—	2	—	1,275
General Property and Equipment, Net	—	—	—	19	1	—	20
Other [Note 1L]	—	111	643	—	—	—	754
TOTAL ASSETS	$851,625	$90,340	$43,978	$805	$183	($99)	$986,832
LIABILITIES							
Intragovernmental [Note 6]	$60	$290	$6	$470	$3	($99)	$730
Federal Employee Benefits:							
Benefits Due and Payable	6,047	4,302	806	—	—	—	11,155
Pension Liability [Note 5A]	1,773,500	—	—	—	—	—	1,773,500
Postretirement Health Benefits Liability [Note 5B]	—	315,295	—	—	—	—	315,295
Actuarial Life Insurance Liability [Note 5C]	—	—	46,737	—	—	—	46,737
Total Federal Employee Benefits	1,779,547	319,597	47,543	—	—	—	2,146,687
Other [Notes 6 and 7]	881	305	41	53	38	—	1,318
Total Liabilities	1,780,488	320,192	47,590	523	41	(99)	2,148,735
NET POSITION							
Unexpended Appropriations	—	—	—	3	90	—	93
Cumulative Results of Operations	(928,863)	(229,852)	(3,612)	279	52	—	(1,161,996)
Total Net Position	(928,863)	(229,852)	(3,612)	282	142	—	(1,161,903)
TOTAL LIABILITIES AND NET POSITION	$851,625	$90,340	$43,978	$805	$183	($99)	$986,832

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, 2014
(In Millions)

Schedule 2

	Retirement Programs								
	CSRS	FERS	Total	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2014
GROSS COSTS									
Intragovernmental	—	—	—	—	—	$272	$261	($375)	$158
With the Public:									
Pension Expense [Note 5A]	$44,551	$52,508	$97,059	—	—	—	—	—	97,059
Postretirement Health Benefits [Note 5B]	—	—	—	$21,928	—	—	—	—	21,928
Future Life Insurance Benefits [Note 5C]	—	—	—	—	$875	—	—	—	875
Current Benefits and Premiums	—	—	—	30,877	3,019	—	—	—	33,896
Other	—	—	—	1,656	1	1,236	144	—	3,037
Total Gross Costs with the Public	44,551	52,508	97,059	54,461	3,895	1,236	144	—	156,795
Total Gross Costs [Notes 8 and 9]	44,551	52,508	97,059	54,461	3,895	1,508	405	(375)	156,953
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	1,002	23,744	24,746	27,295	494	—	—	—	52,535
Earnings on Investments	13,457	17,057	30,514	1,643	367	—	—	—	32,524
Other	—	—	—	—	—	1,360	296	(375)	1,281
Total Intragovernmental Earned Revenue	14,459	40,801	55,260	28,938	861	1,360	296	(375)	86,340
With the Public:									
Participant Contributions	1,262	1,804	3,066	13,661	2,719	—	—	—	19,446
Other	—	—	—	4	8	—	—	—	12
Total Earned Revenue with the Public	1,262	1,804	3,066	13,665	2,727	—	—	—	19,458
Total Earned Revenue [Notes 8 and 9]	15,721	42,605	58,326	42,603	3,588	1,360	296	(375)	105,798
Net Cost	28,830	9,903	38,733	11,858	307	148	109	—	51,155
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A, 5B, and 5C]	25,198	(5,771)	19,427	2,032	(163)	—	—	—	21,296
Net Cost of Operations [Notes 8 and 9]	$54,028	$4,132	$58,160	$13,890	$144	$148	$109	—	$72,451

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, 2013
(In Millions)

Schedule 2

	Retirement Programs								
	CSRS	FERS	Total	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Eliminations	FY 2013
GROSS COSTS									
Intragovernmental	—	—	—	—	—	$241	$256	($371)	$126
With the Public:									
Pension Expense [Note 5A]	$45,914	$44,437	$90,351	—	—	—	—	—	90,351
Postretirement Health Benefits [Note 5B]	—	—	—	$11,754	—	—	—	—	11,754
Future Life Insurance Benefits [Note 5C]	—	—	—	—	$1,149	—	—	—	1,149
Current Benefits and Premiums	—	—	—	29,097	2,802	—	—	—	31,899
Other	—	—	—	1,251	17	1,564	181	—	3,013
Total Gross Costs with the Public	45,914	44,437	90,351	42,102	3,968	1,564	181	—	138,166
Total Gross Costs [Notes 8 and 9]	45,914	44,437	90,351	42,102	3,968	1,805	437	(371)	138,292
EARNED REVENUE									
Intragovernmental:									
Employer Contributions	1,184	23,399	24,583	26,924	495	—	—	—	52,002
Earnings on Investments	14,005	17,379	31,384	1,718	821	—	—	—	33,923
Other	218	256	474	20	-	1,686	291	(371)	2,100
Total Intragovernmental Earned Revenue	15,407	41,034	56,441	28,662	1,316	1,686	291	(371)	88,025
With the Public:									
Participant Contributions	1,496	1,638	3,134	13,333	2,680	—	—	—	19,147
Other	—	—	—	4	3	1	—	—	8
Total Earned Revenue with the Public	1,496	1,638	3,134	13,337	2,683	1	—	—	19,155
Total Earned Revenue [Notes 8 and 9]	16,903	42,672	59,575	41,999	3,999	1,687	291	(371)	107,180
Net Cost	29,011	1,765	30,776	103	(31)	118	146	—	31,112
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes [Note 5A, 5B, and 5C]	39,707	42,309	82,016	722	(858)	—	—	—	81,880
Net Cost of Operations [Notes 8 and 9]	$68,718	$44,074	$112,792	$825	($889)	$118	$146	—	$112,992

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, 2014
(In Millions)

Schedule 3

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2014
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	($928,863)	($229,852)	($3,612)	$279	$52	($1,161,996)
Budgetary Financing Sources:						
Appropriations Used	34,988	11,359	45	—	130	46,522
Other Financing Sources	(8)	—	—	21	14	27
Total Financing Sources	34,980	11,359	45	21	144	46,549
Net Cost of Operations	58,160	13,890	144	148	109	72,451
Net Change	(23,180)	(2,531)	(99)	(127)	35	(25,902)
Cumulative Results of Operations - Ending Balance	($952,043)	($232,383)	($3,711)	$152	$87	($1,187,898)
UNEXPENDED APPROPRIATIONS						
Beginning Balance	—	—	—	$3	$90	$93
Budgetary Financing Sources:						
Appropriations Received	34,988	$11,463	$47	—	100	46,598
Appropriations Used	(34,988)	(11,359)	(45)	—	(130)	(46,522)
Other Budgetary Financing Sources	—	(104)	(2)	—	(3)	(109)
Total Budgetary Financing Sources	—	—	—	—	(33)	(33)
Total Unexpended Appropriations - Ending Balance	—	—	—	3	57	60
NET POSITION	($952,043)	($232,383)	($3,711)	$155	$144	($1,187,838)

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, 2013
(In Millions)

Schedule 3

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2013
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balance	($849,058)	($239,991)	($4,547)	$376	$51	($1,093,169)
Budgetary Financing Sources:						
Appropriations Used	32,995	10,964	46	—	132	44,137
Other Financing Sources	(8)	—	—	21	15	28
Total Financing Sources	32,987	10,964	46	21	147	44,165
Net Cost of Operations	112,792	825	(889)	118	146	112,992
Net Change	(79,805)	10,139	935	(97)	1	(68,827)
Cumulative Results of Operations - Ending Balance	($928,863)	($229,852)	($3,612)	$279	$52	($1,161,996)
UNEXPENDED APPROPRIATIONS						
Beginning Balance	—	—	—	$3	$134	$137
Budgetary Financing Sources:						
Appropriations Received	32,995	$11,027	$47	—	101	44,170
Appropriations Used	(32,995)	(10,964)	(46)	—	(132)	(44,137)
Other Budgetary Financing Sources	—	(63)	(1)	—	(13)	(77)
Total Budgetary Financing Sources	—	—	—	—	(44)	(44)
Total Unexpended Appropriations - Ending Balance	—	—	—	3	90	93
NET POSITION	($928,863)	($229,852)	($3,612)	$282	$142	($1,161,903)

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, 2014
(In Millions)

Schedule 4

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2014
BUDGETARY RESOURCES						
Unobligated Balance, Brought Forward, October 1	—	$20,792	$41,276	$267	$85	$62,420
Recoveries of Prior Year Unpaid Obligations	—	—	—	48	8	56
Other Changes in Unobligated Balance					(3)	(3)
Unobligated Balance, from Prior Year Budget Authority, Net	—	20,792	41,276	315	90	62,473
Appropriations	$114,830	11,359	45	—	100	126,334
Spending Authority from Offsetting Collections	—	46,454	4,370	1,499	314	52,637
Total Budgetary Resources	$114,830	$78,605	$45,691	$1,814	$504	$241,444
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred: [Note 11]						
Direct	$114,830	$57,766	$3,069	—	$330	$175,995
Reimbursable	—	—	—	$1,563	77	1,640
Total Obligations Incurred	114,830	57,766	3,069	1,563	407	177,635
Unobligated Balance, End of Year:						
Apportioned	—	—	—	221	18	239
Unapportioned	—	20,839	42,622	30	79	63,570
Total Unobligated Balance, End of Year	—	20,839	42,622	251	97	63,809
Total Budgetary Resources	$114,830	$78,605	$45,691	$1,814	$504	$241,444

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2014
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2014
CHANGE IN OBLIGATED BALANCE						
Unpaid Obligations:						
Unpaid Obligations, Brought Forward, October 1	$6,973	$5,642	$859	$926	$100	$14,500
Obligations Incurred	114,830	57,766	3,069	1,563	407	177,635
Less: Outlays, Gross	114,632	57,412	3,003	1,484	403	176,934
Less: Recoveries of Prior Year Unpaid Obligations	—	—	—	48	8	56
Unpaid Obligations, End of Year	$7,171	$5,996	$925	$957	$96	$15,145
Uncollected Payments:						
Uncollected Payments, Federal Sources,						
Brought Forward, October 1	—	$1,821	$408	$636	$102	$2,967
Change in Uncollected Payments, Federal Sources	—	169	(48)	69	21	211
Uncollected Payments, Federal Sources, End of Year	—	$1,990	$360	$705	$123	$3,178
Memorandum (Non-add) Entries:						
Obligated Balance, Start of Year	$6,973	$3,821	$451	$290	($2)	$11,533
Obligated Balance, End of Year	$7,171	$4,006	$565	$252	($27)	$11,967
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, Gross	$114,830	$57,813	$4,415	$1,499	$414	$178,971
Less: Actual Offsetting Collections	—	46,287	4,418	1,430	293	52,428
Less: Change in Uncollected Customer Payments from Federal Sources	—	169	(48)	69	21	211
Budget Authority, Net	$114,830	$11,357	$45	—	$100	$126,332
Outlays, Gross	$114,632	$57,412	$3,003	$1,484	$403	$176,934
Less: Actual Offsetting Collections	—	46,287	4,418	1,430	293	52,428
Outlays, Net	114,632	11,125	(1,415)	54	110	124,506
Less: Distributed Offsetting Receipts	35,042	1,543	—	3	—	36,588
Agency Outlays, Net	$79,590	$9,582	($1,415)	$51	$110	$87,918

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2013
(In Millions)

Schedule 4

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2013
BUDGETARY RESOURCES						
Unobligated Balance, Brought Forward, October 1	—	$18,606	$40,326	$405	$79	$59,416
Recoveries of Prior Year Unpaid Obligations	—	—	—	69	10	79
Other Changes in Unobligated Balance					(8)	(8)
Unobligated Balance, from Prior Year Budget Authority, Net	—	18,606	40,326	474	81	59,487
Appropriations	$110,508	10,964	46	—	96	121,614
Spending Authority from Offsetting Collections	—	45,942	3,773	1,448	300	51,463
Total Budgetary Resources	$110,508	$75,512	$44,145	$1,922	$477	$232,564
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred: [Note 11]						
Direct	$110,508	$54,720	$2,869	—	$331	$168,428
Reimbursable	—	—	—	$1,655	61	1,716
Total Obligations Incurred	110,508	54,720	2,869	1,655	392	170,144
Unobligated Balance, End of Year:						
Apportioned	—	—	—	248	26	274
Unapportioned	—	20,792	41,276	19	59	62,146
Total Unobligated Balance, End of Year	—	20,792	41,276	267	85	62,420
Total Budgetary Resources	$110,508	$75,512	$44,145	$1,922	$477	$232,564

U.S. OFFICE OF PERSONNEL MANAGEMENT
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2013
(In Millions)

Schedule 4

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2013
CHANGE IN OBLIGATED BALANCE						
Unpaid Obligations:						
Unpaid Obligations, Brought Forward, October 1	$6,817	$5,724	$865	$1,130	$143	$14,679
Obligations Incurred	110,508	54,720	2,869	1,655	392	170,144
Less: Outlays, Gross	110,352	54,802	2,875	1,790	425	170,244
Less: Recoveries of Prior Year Unpaid Obligations	—	—	—	69	10	79
Unpaid Obligations, End of Year	$6,973	$5,642	$859	$926	$100	$14,500
Uncollected Payments:						
Uncollected Payments, Federal Sources,						
Brought Forward, October 1	—	$1,927	$380	$807	$125	$3,239
Change in Uncollected Payments, Federal Sources	—	(106)	28	(171)	(23)	(272)
Uncollected Payments, Federal Sources, End of Year	—	$1,821	$408	$636	$102	$2,967
Memorandum (Non-add) Entries:						
Obligated Balance, Start of Year	$6,817	$3,797	$485	$323	$18	$11,440
Obligated Balance, End of Year	$6,973	$3,821	$451	$290	($2)	$11,533
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, Gross	$110,508	$56,906	$3,819	$1,448	$396	$173,077
Less: Actual Offsetting Collections	—	46,050	3,745	1,619	323	51,737
Less: Change in Uncollected Customer Payments from Federal Sources	—	(106)	28	(171)	(23)	(272)
Budget Authority, Net	$110,508	$10,962	$46	—	$96	$121,612
Outlays, Gross	$110,352	$54,802	$2,875	$1,790	$425	$170,244
Less: Actual Offsetting Collections	—	46,050	3,745	1,619	323	51,737
Outlays, Net	110,352	8,752	(870)	171	102	118,507
Less: Distributed Offsetting Receipts	33,051	1,578	—	10	—	34,639
Agency Outlays, Net	$77,301	$7,174	($870)	$161	$102	$83,868

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, 2014
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY 2014
BUDGETARY RESOURCES							
Unobligated Balance, Brought Forward, October 1	—	$20,792	$41,276	$267	$85	—	$62,420
Recoveries of Prior Year Unpaid Obligations	—	—	—	48	8	—	56
Other Changes in Unobligated Balance	—	—	—		(3)	—	(3)
Unobligated Balance, from Prior Year Budget Authority, Net	—	20,792	41,276	315	90	—	62,473
Appropriations	$79,842	—	—	—	100	$46,392	126,334
Spending Authority from Offsetting Collections	—	46,454	4,370	1,499	314	—	52,637
Total Budgetary Resources	$79,842	$67,246	$45,646	$1,814	$504	$46,392	$241,444
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred: [Note 11]							
Direct	$79,842	$46,407	$3,024	—	$330	$46,392	$175,995
Reimbursable	—	—	—	$1,563	77	—	1,640
Total Obligations Incurred	79,842	46,407	3,024	1,563	407	46,392	177,635
Unobligated Balance, End of Year:							
Apportioned	—	—	—	221	18	—	239
Unapportioned	—	20,839	42,622	30	79	—	63,570
Total Unobligated Balance, End of Year	—	20,839	42,622	251	97	—	63,809
Total Budgetary Resources	$79,842	$67,246	$45,646	$1,814	$504	$46,392	$241,444

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 Payment Accounts

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2014
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY 2014
CHANGE IN OBLIGATED BALANCE							
Unpaid Obligations:							
Unpaid Obligations, Brought Forward, October 1	$6,972	$4,508	$854	$926	$100	$1,140	$14,500
Obligations Incurred	79,842	46,407	3,024	1,563	407	46,392	177,635
Less: Outlays, Gross	79,644	46,130	2,957	1,484	403	46,316	176,934
Less: Recoveries of Prior Year Unpaid Obligations	—	—	—	48	8	—	56
Unpaid Obligations, End of Year	$7,170	$4,785	$921	$957	$96	$1,216	$15,145
Uncollected Payments:							
Uncollected Payments, Federal Sources, Brought Forward, October 1	—	$1,821	$408	$636	$102	—	$2,967
Change in Uncollected Payments, Federal Sources	—	169	(48)	69	21	—	211
Uncollected Payments, Federal Sources, End of Year	—	$1,990	$360	$705	$123	—	$3,178
Memorandum (Non-add) Entries:							
Obligated Balance, Start of Year	$6,972	$2,687	$446	$290	($2)	$1,140	$11,533
Obligated Balance, End of Year	$7,170	$2,795	$561	$252	($27)	$1,216	$11,967
BUDGET AUTHORITY AND OUTLAYS, NET							
Budget Authority, Gross	$79,842	$46,454	$4,370	$1,499	$414	$46,392	$178,971
Less: Actual Offsetting Collections	—	46,287	4,418	1,430	293	—	52,428
Less: Change in Uncollected Customer Payments from Federal Sources	—	169	(48)	69	21	—	211
Budget Authority, Net	$79,842	($2)	—	—	$100	$46,392	$126,332
Outlays, Gross	$79,644	$46,130	$2,957	$1,484	$403	$46,316	$176,934
Less: Actual Offsetting Collections	—	46,287	4,418	1,430	293	—	52,428
Outlays, Net	79,644	(157)	(1,461)	54	110	46,316	124,506
Less: Distributed Offsetting Receipts	35,042	1,543	—	3	—	—	36,588
Agency Outlays, Net	$44,602	($1,700)	($1,461)	$51	$110	$46,316	$87,918

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 Payment 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, 2013
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY 2013
BUDGETARY RESOURCES							
Unobligated Balance, Brought Forward, October 1	—	$18,606	$40,326	$405	$79	—	$59,416
Recoveries of Prior Year Unpaid Obligations	—	—	—	69	10	—	79
Other Changes in Unobligated Balance	—	—	—		(8)	—	(8)
Unobligated Balance, from Prior Year Budget Authority, Net	—	18,606	40,326	474	81	—	59,487
Appropriations	$77,513	—	—	—	96	$44,005	121,614
Spending Authority from Offsetting Collections	—	45,942	3,773	1,448	300	—	51,463
Total Budgetary Resources	$77,513	$64,548	$44,099	$1,922	$477	$44,005	$232,564
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred: [Note 11]							
Direct	$77,513	$43,756	$2,823	—	$331	$44,005	$168,428
Reimbursable	—	—	—	$1,655	61	—	1,716
Total Obligations Incurred	77,513	43,756	2,823	1,655	392	44,005	170,144
Unobligated Balance, End of Year:							
Apportioned	—	—	—	248	26	—	274
Unapportioned	—	20,792	41,276	19	59	—	62,146
Total Unobligated Balance, End of Year	—	20,792	41,276	267	85	—	62,420
Total Budgetary Resources	$77,513	$64,548	$44,099	$1,922	$477	$44,005	$232,564

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 Payment Accounts

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF BUDGETARY RESOURCES BY MAJOR BUDGETARY ACCOUNT (Unaudited)
For the Year Ended September 30, 2013
(In Millions)

	CSRDF	HBF	LIF	RF	S&E	Feeder	FY 2013
CHANGE IN OBLIGATED BALANCE							
Unpaid Obligations:							
Unpaid Obligations, Brought Forward, October 1	$6,817	$4,623	$859	$1,130	$143	$1,107	$14,679
Obligations Incurred	77,513	43,756	2,823	1,655	392	44,005	170,144
Less: Outlays, Gross	77,358	43,871	2,828	1,790	425	43,972	170,244
Less: Recoveries of Prior Year Unpaid Obligations	—	—	—	69	10	—	79
Unpaid Obligations, End of Year	$6,972	$4,508	$854	$926	$100	$1,140	$14,500
Uncollected Payments:							
Uncollected Payments, Federal Sources, Brought Forward, October 1	—	$1,927	$380	$807	$125	—	3,239
Change in Uncollected Payments, Federal Sources	—	(106)	28	(171)	(23)	—	(272)
Uncollected Payments, Federal Sources, End of Year	—	$1,821	$408	$636	$102	—	$2,967
Memorandum (Non-add) Entries:							
Obligated Balance, Start of Year	$6,817	$2,696	$479	$323	$18	$1,107	$11,440
Obligated Balance, End of Year	$6,972	$2,687	$446	$290	($2)	$1,140	$11,533
BUDGET AUTHORITY AND OUTLAYS, NET							
Budget Authority, Gross	$77,513	$45,942	$3,773	$1,448	$396	$44,005	$173,077
Less: Actual Offsetting Collections	—	46,050	3,745	1,619	323	—	51,737
Less: Change in Uncollected Customer Payments from Federal Sources	—	(106)	28	(171)	(23)	—	(272)
Budget Authority, Net	$77,513	($2)	—	—	$96	$44,005	$121,612
Outlays, Gross	$77,358	$43,871	$2,828	$1,790	$425	$43,972	$170,244
Less: Actual Offsetting Collections	—	46,050	3,745	1,619	323	—	51,737
Outlays, Net	77,358	(2,179)	(917)	171	102	43,972	118,507
Less: Distributed Offsetting Receipts	33,051	1,578	—	10	—	—	34,639
Agency Outlays, Net	$44,307	($3,757)	($917)	$161	$102	$43,972	$83,868

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 Payment Accounts

(Unaudited)

The Schedule of Spending (SOS) presents an overview of how and where Office of Personnel Management is spending its money. The SOS is presented on a budgetary basis, the same as the Combined Statement of Budgetary Resources (SBR). The amounts shown as "Total Amounts Agreed to be Spent" agree with amounts shown as "Obligations Incurred" on the SBR.

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF SPENDING
For the Year Ended September 30, 2014
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2014
What Money is Available to Spend?						
Total Resources	$114,830	$78,605	$45,691	$1,815	$504	$241,445
Less: Amount Available but Not Agreed to be Spent	—	—	—	221	18	239
Less: Amount Not Available to be Spent	—	20,839	42,622	31	79	63,571
Total Amount Agreed to be Spent	**$114,830**	**$57,766**	**$3,069**	**$1,563**	**$407**	**$177,635**
How was the Money Spent/Issued?						
Personnel Compensation and Benefits	$34,988	$11,359	45	331	$286	$47,009
Contractual Services and Supplies	—	46,407	3,024	1,232	121	50,784
Acquisition of Capital Assets	—	—	—	—	—	—
Grant and Fixed Charges(Insur. Claims, Indemnities)	79,842	—	—	—	—	79,842
Total Amounts Agreed to be Spent	**114,830**	**57,766**	**3,069**	**1,563**	**407**	**177,635**
Who did the Money go to?						
Federal	$35,122	$11,415	$56	$281	33	$46,907
Non-Federal	79,708	46,351	3,013	1,282	374	130,728
Total Amount Agreed to be Spent	**$114,830**	**$57,766**	**$3,069**	**$1,563**	**$407**	**$177,635**

U.S. OFFICE OF PERSONNEL MANAGEMENT
SCHEDULE OF SPENDING
For the Year Ended September 30, 2013
(In Millions)

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	FY 2013
What Money is Available to Spend?						
Total Resources	$110,508	$75,512	$44,146	$1,922	$477	$232,565
Less: Amount Available but Not Agreed to be Spent	—	—	—	248	26	274
Less: Amount Not Available to be Spent	—	20,792	41,277	19	59	62,147
Total Amount Agreed to be Spent	**$110,508**	**$54,720**	**$2,869**	**$1,655**	**$392**	**$170,144**
How was the Money Spent/Issued?						
Personnel Compensation and Benefits	$32,995	$10,931	46	343	$260	$44,575
Contractual Services and Supplies	—	43,789	2,823	1,312	127	48,051
Acquisition of Capital Assets	—	—	—	—	5	5
Grant and Fixed Charges(Insur. Claims, Indemnities)	77,513	—	—	—	—	77,513
Total Amounts Agreed to be Spent	**110,508**	**54,720**	**2,869**	**1,655**	**392**	**170,144**
Who did the Money go to?						
Federal	$33,125	$11,019	$53	$215	36	$44,448
Non-Federal	77,383	43,701	2,816	1,440	356	125,696
Total Amount Agreed to be Spent	**110,508**	**54,720**	**2,869**	**1,655**	**392**	**170,144**

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

Office of the
Inspector General

November 6, 2014

MEMORANDUM FOR KATHERINE ARCHULETA
Director

FROM: PATRICK E. McFARLAND Patrick E. McFarland
Inspector General

SUBJECT: Fiscal Year 2014 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 - strategic human capital, federal health insurance initiative, and background investigations - 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 must face.

The six internal challenges included in this letter are OPM's development of new information systems, the need to strengthen controls over its information security governance, security assessment and authorization, stopping the flow of improper payments, the retirement claims process, and the procurement process for benefit programs.

Inclusion as a top challenge does not mean we consider these items to be material weaknesses. In fact, the area of security assessment and authorization is the only challenge related to a current material weakness.

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 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;
- Security Assessment and Authorization;
- Stopping the Flow of Improper Payments;
- Retirement Claims Processing; and,
- Procurement Process for Benefit Programs.

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 are presented. I would also like to point out that we have removed the following challenges from last year's discussion:

- Hiring Reform has been removed from the Strategic Human Capital challenge. Previous hiring reform efforts yielded significant improvements in the hiring process, especially in the "speed" of hiring. Since that time, most agencies have made significant progress and have since reached a point of diminishing returns in attempting to further reduce hiring times. While speed of hiring is important, efforts are now shifting to a focus on "quality" of hiring.

Honorable Katherine Archuleta 3

- Claims processing backlog as a specific Retirement Claims Processing challenge has been removed from that summary based on OPM's efforts to reduce the number of retirement cases to a manageable level.

We have added the following challenges, or components of challenges:

- Phased retirement was added as a component under the Strategic Human Capital challenge. Phased retirement is a human resources tool that will allow full-time employees to work a part-time schedule and draw partial retirement benefits during employment.

- Security Assessment and Authorization, which is a comprehensive assessment that attests that an information system's security controls are meeting the security requirements of that system, was added as a new challenge.

I believe that the support of the agency's management is critical to meeting these challenges and will result in a better OPM for our customer agencies. I also want to assure you that my staff is committed to providing audit or investigative support as appropriate, and that they strive to maintain an excellent working relationship with your managers.

If there are any questions, please feel free to call me, or have someone from your staff 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 2014 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

Strategic human capital management remains on the U.S. Government Accountability Office's high-risk list of Government-wide challenges requiring focused attention. OPM leads efforts to address key human capital challenges including veterans' employment and skills gap closure. OPM is also taking the lead in implementing phased retirement.

A. Improving the Federal Recruitment and Hiring Process

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 and has made significant progress in addressing its human capital efforts in the areas of the Veterans Employment Initiative and closing skill gaps; however, challenges remain to meet the President's reform goals.

1) Veterans Employment Initiative

Since the signing of Executive Order 13518 and the creation of the Council on Veterans Employment, in fiscal year (FY) 2013, the Executive Branch of Government hired the highest percentage of veterans since the mid-1970s, surpassing previous highs set in FY 2011 and FY 2012. The success of the initiative can be attributed to OPM's continued leadership through its Veterans Services Group, which continues to provide strategic direction to an Executive Order-directed Federal infrastructure that was created to improve the opportunities for veterans and transitioning military service members seeking Federal employment.

The implementation of a revised Government-wide Veterans Recruitment and Employment Strategic Plan will continue to guide agency efforts in eliminating barriers affecting veteran employment in the Federal Government. In conjunction with the strategic plan, the Feds Hire Vets (www.fedshirevets.gov) website is the 'one-stop-location' to provide easy access to accurate and consistent Federal employment-related information for veterans and transitioning military service members. The veteran's employment initiative also required the establishment of Veteran Employment Program Offices in the 24 Chief Human Capital Officers

(CHCO) agencies, as well as a Government-wide marketing program on the value of America's veterans. The challenge for OPM is to ensure that Federal agencies continue to value the skills and talent that veterans bring to the workplace while leveraging the tools established by the Veterans Employment Initiative.

2) Closing Skill Gaps

OPM has partnered with the CHCO Council to identify and close skills gaps across the Federal Government. The group has designed an agreed-upon method for analyzing data to forecast and identify Government-wide and agency-specific occupations and competencies that pose current or projected skills gaps. The group identified as Government-wide skills gaps five occupations (IT-Cybersecurity, Acquisitions, Economist, Human Resources and Auditor) and the multiple occupations within the Science, Technology, Engineering and Mathematics (STEM) functional area. Seven competencies (strategic thinking, problem solving, data analysis, influencing/negotiating, grants management, grants financial management, grants compliance) were also identified and each agency applied the method to identify occupations and competencies requiring gap closure.

To address the Government-wide occupations, OPM partnered with occupational leaders to design and implement strategies to close skills gaps. Each occupational leader collaborated with OPM to identify human capital strategies to address root causes for the skills gap, and implemented initiatives for recruitment, retention, development, and/or knowledge management. Each occupational leader identified a measurable indicator that has been used to track progress, and all occupations have met or exceeded their performance targets. For competency gap closure, OPM solicited agencies interest in creating pilot projects to close competency gaps, and helped agencies develop project plans with performance metrics and targets. These pilot projects will continue to be tracked for the next several years to measure competency gap closure.

In FY 2015, OPM will partner with the CHCO Council to re-evaluate skills gaps using a range of workforce data and analytic tools. Based on this reevaluation, new occupations and/or competencies may be identified while current occupations may be revalidated for continued attention. By implementing a four-year cycle of analysis/planning, strategy/implementation, and evaluation, OPM seeks to institutionalize a repeatable management process that will position the Federal government to anticipate and close skills gaps in order to assure mission accomplishment.

OPM continues to make progress in closing critical skill gaps in the Federal workforce to help agencies recruit and retain the right people with the skills needed to achieve their goals. The current challenge will be to re-evaluate the selected Government-wide and agency specific Mission Critical Occupations (MCOs) and Mission Critical Competencies (MCCs) to determine which occupations and competencies should remain as Government-wide MCOs and MCCs. OPM must also identify new occupations and competencies that warrant attention. With the aging Federal workforce, OPM must be able to help agencies identify and close skills gaps, be responsive to changing applicant and workforce needs and continue to monitor organizational performance measures in efficiency, effectiveness, and progress.

B. Phased Retirement

Phased retirement was signed into law on July 6, 2012, as part of the Moving Ahead for Progress in the 21st Century Act (MAP-21). Due to the government's aging workforce and the expectancy of a "retirement wave" as employees retire in coming years, MAP-21 requires OPM to publish regulations in the Federal Register implementing phased retirement under the Civil Service Retirement System and the Federal Employees' Retirement System. Section 100121 of MAP-21 amended Title 5, United States Code, by adding provisions to permit certain retirement-eligible employees to enter phased retirement. OPM published final regulations implementing phased retirement on August 8, 2014. Employees may start submitting applications for phased retirement no earlier than November 6, 2014.

Phased retirement is a human resources tool that will allow full-time employees to work a part-time schedule and draw partial retirement benefits during employment. The main purpose is to enhance the mentoring and training of the employees who will be filling the positions, or taking on the duties of more experienced retiring employees, but it may also be used for any learning activities that would allow for the transfer of knowledge and skills from one employee to others.

Federal agencies will be able to retain employees who would have fully retired, but who are willing to continue in Federal service for a period of time on a part-time schedule while engaging in mentoring. Phased retirement will not only assist agencies with knowledge management and continuity of operations in the short term, but also to prepare the next generation of experts for success.

The challenge for OPM is to determine how they will address administrative and procedural matters in the guidance that they provide to Federal agencies to execute phased retirement.

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 began in 2014. The following highlights these challenges and current initiatives in place to address them.

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A. Federal Employees Health Benefits Program

The ever-increasing cost of healthcare is a national challenge. For the upcoming year, 2015, the average FEHBP premium increase is 3.2 percent, which is slightly lower than last year's increase of 3.7 percent. 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. OPM 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.

The HCDW project is managed by OPM's Planning and Policy Analysis (PPA) office. PPA has hired a contractor to perform the technical development of the HCDW, and has entered into a Mutual Agreement of Understanding with the Office of the Inspector General (OIG) to share existing Fee-For-Service carrier data currently received by the OIG. The system is scheduled to go live in early FY 2015, but must first complete OPM's System Accreditation and Authorization process to ensure that adequate IT security controls are in place. The OIG will also independently evaluate the security controls of the HCDW before transferring its data to PPA.

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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.] This continues to be a complex project with a variety of operational and security issues that need to be addressed. Senior leadership will need to closely monitor this project.

2) Prescription Drug Benefits and Costs

Increases in drug costs continue to be a major contributor to the rapid growth in health care 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. In fiscal year 2014, our office began its first audit of a carrier that renewed its PBM contract under the pharmacy transparency standards that became effective on January 1, 2011. While the preliminary results show that the carrier's pharmacy claims are being priced in accordance with the terms of these standards, we still have concerns with the administrative fees that are also negotiated as part of the PBM contract. Since it is the FEHBP carriers, not OPM, that negotiated the contracts with the PBMs, and these carriers are reimbursed 100 percent for the costs they incur related to this benefit, we have concerns whether these negotiated fees are providing the best value to the FEHBP subscribers. We also continue to have concerns over the wide range of covered drugs and the use of large pharmacy networks, which contribute to the rising costs.

In its most recent FEHBP call letter (*Letter No. 2014-03, dated March 20, 2014*), OPM called on participating health plans to focus on ways to optimize pharmacy practices to ensure the safe and effective use of prescription medications while managing drug costs. To accomplish this objective, OPM called on participating health plans to consider the following in their 2015 (unless otherwise indicated) benefit proposals:

- Adding and expanding on drug management programs that control costs and improve quality and patient outcomes;
- Expanding efforts to use a common tiered benefit structure to improve members' understanding of their prescription drug benefits;
- Implementing a prescription drug cost calculator that will allow current and prospective enrollees to compare the cost of the prescription drugs they use. This calculator should be provided by all health plans by 2016;
- Implementing a managed formulary for contract year 2016. A cost calculator that allows current and prospective members to verify coverage of specific drugs, as well as an exception process, should accompany the implementation of the formulary;
- Optimizing the use of high value medication distribution channels by aligning member incentives with the most cost effective options;
- Utilizing more selective pharmacy network contracting based on cost and quality criteria; and,

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- Examining the opportunity to reduce unnecessary payments where Medicare Part B provides primary coverage for Part B drugs and supplies, for plans not currently coordinating benefits with Medicare.

While we applaud the agency for these efforts and believe that they should have a positive impact on the program, we would encourage OPM to continue evaluating the relative costs and benefits of direct contracting for PBM services to ensure that the benefits and fees negotiated are in the best interest of the FEHBP members, as well as to strengthen the controls and oversight of the FEHBP pharmacy program. The importance of this effort was initially highlighted in "The President's Plan for Economic Growth and Deficit Reduction," dated September 2011. The President's plan called for the streamlining of 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 would 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.

However, 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. While the language has been included in OPM's FEHBP Modernization initiative, it has yet to receive the necessary approvals required to allow for a change to the law. That being said, OPM should position itself and gain the expertise it will need 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 (MLR) Implementation and Oversight

OPM's FEHBP MLR methodology for community-rated carriers continues to present unique challenges. In its second year (third year for pilot program carriers), the MLR methodology requirements will need to be closely monitored and updated to adapt to a complex regulatory environment and ever-changing health insurance industry.

In order to ensure complete, accurate and current MLR carrier data, OPM must fully automate a system that stores, tracks and reports carrier MLR information (i.e., loss carry-over credits, MLR penalties paid, distributions to or from the MLR subsidization fund). The MLR carrier data will be used from one year to the next, and having an automated process will assure proper administration of the MLR methodology is maintained moving forward.

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In addition, since future audit findings impact the MLR calculation and penalty, OPM must ensure that a system exists to properly account for necessary MLR penalty adjustments after MLR subsidization funds have been distributed.

OPM's efforts to monitor and update the MLR methodology requirements, streamline and automate carrier MLR data, and develop a system to account for future MLR penalty adjustments will increase the likelihood of program success and minimize disruptions to the FEHBP rating process.

4) Health Benefit Carriers' Fraud and 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, health care providers, and individual FEHBP members. This fraud and abuse (F&A) program must have the following components: (1) an anti-fraud policy statement; (2) written action plan and procedures; (3) formal training; (4) fraud hotlines; (5) educational programs; (6) technology; (7) security; and, (8) patient safety. If carriers do not have comprehensive and effective F&A programs, fraud and abuse may go undetected, resulting in increased health care 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, carriers have not reported or timely reported all potential fraud and abuse cases and patient safety issues to OPM and the OIG. Also, certain 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 recognizes the importance of FEHBP carriers having comprehensive, effective F&A programs and is benefiting from enhanced collaboration with the OIG and the carriers in light of recent audit findings in this area.

Currently, OPM is examining its practices and a broad range of industry procedures to strengthen its existing fraud and abuse program. Steps OPM is taking include:

- Establish and communicate to FEHBP carriers a set of minimum standards to protect Federal funds and detect instances of fraud and abuse through an update of carrier letters, ensuring that procedures and programs are aligned with current industry standards.

- Clarify carriers' FEHBP F&A reporting requirements through an update of carrier letters.
- Join the Healthcare Fraud Prevention Partnership (HFPP). This collaborative arrangement allows public and private organizations to share information and best practices to improve fraud detection and prevent incorrect payments. OPM will become a communicative participant in the endeavor and will recommend that FEHBP carriers participate as well. This will allow OPM to stay abreast of changes in industry standards and work effectively with stakeholders.
- Work with the National Healthcare Anti-Fraud Association (NHCAA) to establish accreditation standards for the carriers' fraud investigators within the FEHBP. NHCAA is a public/private partnership similar to HFPP that provides data sharing services for private insurers and government entities, and education for individual fraud/abuse investigators.
- Collaborate with the OIG, share reports, questionnaires, and special projects, and engage in consistent oversight of all carrier fraud and abuse programs. OPM plans to seek OIG counsel on appropriate reporting, report analysis to maximize carrier accountability, and fluctuations in the industry to ensure their programs remain current and relevant.

Efforts thus far have confirmed inconsistencies, reporting discrepancies, and the need for clarification of some carrier requirements. OPM enhanced the review of carriers' annual reports and solicited corrective action plans to address deficiencies. OPM continues to draft updated guidance to carriers (factoring in input and suggestions from the Carriers and the OIG), seek to develop reasonable standards that might lead to a form of accreditation, and refine the measures by which carrier F&A programs can be shown to be a benefit to the FEHBP.

As is evident by the measures identified above, OPM appears committed to work collaboratively to address this important challenge facing the program. However, OPM must continue to implement controls (including contract changes, as appropriate) which will hold all FEHBP carriers accountable for operating an effective fraud and abuse 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

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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 and manage the new program.

During fiscal years 2010 through 2012, OPM received limited funding through an arrangement with the Department of Health and Human Services (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 Multi-State Plan Program (MSPP), and provided analytical support for the MSPP. Direct funding was included in OPM's fiscal year 2013 budget; however, continued funding is a significant challenge for the agency, and 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 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, and to ensure compliance with all laws, regulations, and guidance.
- Create a comprehensive oversight program.

To meet the goal of making MSPP health insurance options available for enrollment, OPM has accomplished the following:

- Contracted with the Blue Cross Blue Shield Association (BCBSA) to offer MSPs in 31 marketplaces.
- Given presentations on MSP implementation to members of Congress, States, issuers, minority and small business groups, and public advocacy groups.
- Reviewed applications submitted by issuers to offer a plan on the MSP Marketplace.
- Conducted outreach efforts to insurance issuers and other groups to raise awareness and potential participation in the MSPP.
- Conducted contract negotiations with BCBSA to expand offerings into additional marketplaces as well as with other potential issuers to offer a plan(s) on the Marketplace.

- Compiled and transmitted information on each applicable state-level issuer to HHS for the Federally Facilitated Marketplace via the Health Insurance Oversight System; to states that intend to operate their own exchange but utilize the prescribed HHS templates via System Electronic Rate Filing Form; and directly to those states who will operate their own marketplace.
- Met routinely with OPM's OIG to (1) discuss internal control structures; (2) provide status reports; (3) get feedback on the proposed regulations and contract; (4) and discuss oversight concerns.

OPM has made MSPs available in 31 marketplaces and is steadily establishing necessary processes for working with the various stakeholders. However, the continued implementation, expansion, and administration of 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 95 percent of all personnel background investigations for the Federal Government and processes approximately 2 million background investigations per year. Agencies use the background reports of investigations conducted by OPM to determine individuals' suitability or fitness for Federal civilian, military, and Federal contract employment, as well as their eligibility for access to national security classified information and access to federal facilities and information systems.

FIS has an active Integrity Assurance group and works cooperatively with the OIG to bring those background investigators who defraud OPM by falsifying background investigation reports 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.

Prior to September 9, 2014, OPM held fieldwork contracts with US Investigations Services, LLC (USIS) and two other contractors. OPM also held a support contract with USIS. On September 9th, OPM informed USIS of its decision that it will not exercise additional contract options to extend the term of its contracts for background investigations and support services.

Capacity, or the number of resources available to perform the work, is a key factor in meeting timeliness expectations and managing costs. Each of OPM's other background investigations contractors have indicated that they are willing to expand to accommodate all of OPM's workload, and under their current contracts they are required to increase their caseload per OPM's distribution. Both contractors are now moving forward to increase their capacity. However, there will be impacts to timeliness until there is capacity available to manage the workload without backlogs.

As mentioned previously, FIS is responsible for all background investigations in the federal government and conducts approximately 95 percent itself or through the use of contractors. The remaining five percent have been delegated to certain Federal agencies. FIS needs to continue to ensure these delegated agencies maintain a high level of quality assurance. In fulfilling government-wide oversight functions, FIS works closely with the Office of the Director of National Intelligence (ODNI) in pursuit of quality investigations. FIS's Agency Oversight office has established and collaborated with the ODNI to jointly conduct oversight audits of delegated agencies to evaluate the quality of the background investigations and to assess the effectiveness of the Quality Assurance Programs. FIS has increased the frequency of its audits of the delegated agencies to ensure they will be audited at least once every three years. If an audit finds that the background investigations do not meet quality standards, or if the agency does not maintain a high level of quality assurance regarding these investigations, FIS makes recommendations for corrective action.

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, for the most part they 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 information system development projects. In our opinion, the root causes of these issues have been related to the lack of centralized oversight of systems development. Many system development projects at OPM have been initiated and managed by program offices with limited 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.

At the end of FY 2013, the OCIO published a new system development lifecycle (SDLC) policy, which was a significant first step in implementing a centralized SDLC methodology at OPM. The new SDLC policy incorporated several prior OIG recommendations related to a centralized review process of system development projects. However, policy alone will not improve the historically weak SDLC management capabilities of OPM.

We also recommended that the OCIO develop a team with the proper project management and system development expertise to oversee new system development projects. Through this avenue, the OCIO should review SDLC projects at predefined checkpoints, and provide strict guidance to ensure that program office management is following OPM's

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SDLC policy and is employing proper project management techniques to ensure a successful outcome for all new system development projects.

To date, the SDLC is only applicable to OPM's major investment projects, and is not actively enforced for all information technology (IT) projects in the agency. The OCIO acknowledges the need to enforce the SDLC policy to 100 percent of OPM's IT portfolio, and is currently implementing a reorganization that addresses this issue by assigning OCIO IT project managers as a direct point of contact for each of the agency's program offices. Although these positions have been planned and funded, the staff necessary to properly enforce and oversee the SDLC process for all OPM systems is not in place at this time. In the interim, the OCIO continues to provide training to existing project managers through a Project Management Community of Practice designed to provide guidance on best practices in systems development.

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 OPM's information security governance. OPM's lack of information security 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 our FY 2010 FISMA report, we suggested that OPM adopt a more centralized approach to IT security. We recommended that the agency recruit a staff of information security professionals to act as Information System Security Officers (ISSO) that report to the OCIO. However, throughout FY 2011 and 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.

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. The OCIO developed a plan to hire a team of ISSOs to centrally manage the agency's IT security program. The OCIO hired three ISSOs in FY 2013 and one additional ISSO in early FY 2014, but these four individuals were only able to manage the security for approximately one-third of OPM's major applications.

In FY 2014, OPM's Director approved a plan to restructure the OCIO that includes funding for 10 additional ISSO positions, bringing the total to 14. After these positions have been filled, the ISSO's security responsibility will cover 100 percent of OPM information systems.

Although limited tangible improvements have been made to the security management structure in FY 2014, the ISSO positions that have been planned, approved and funded represent significant progress over prior years. Therefore, we are reducing the material weakness to a significant deficiency in our FY 2014 FISMA audit due to the planned improvements. However, we may reinstate the material weakness in FY 2015 if the OCIO is not successful in adequately implementing the planned changes.

3. SECURITY ASSESSMENT AND AUTHORIZATION

Information system Security Assessment and Authorization (Authorization) is a comprehensive assessment that attests that a system's security controls are meeting the security requirements of that system.

Our FY 2010 FISMA audit report stated that weaknesses in OPM's Authorization process represented a material weakness in the agency's IT security program. These weaknesses related to incomplete, inconsistent, and poor quality Authorization packages. In FY 2011, the OCIO published updated policies, procedures, and templates designed to improve the overall Authorization process. The OCIO also dedicated resources to oversee OPM program office activity related to system Authorizations. These new controls resulted in a significant improvement in the agency's Authorization packages. The material weakness was lowered to a significant deficiency in FY 2011, and after continued improvement, completely removed as an audit concern in the FY 2012 FISMA report.

The Authorization packages reviewed as part of the FY 2014 audit generally maintained the same satisfactory level of quality that had been observed in recent years. However, 11 out of OPM's 47 major information systems were operating without a valid Authorization. The drastic increase in the number of systems operating without a valid Authorization is alarming, and represents a systemic issue of inadequate planning by OPM program offices to authorize the information systems that they own.

The OCIO's Information Technology Security and Privacy Group continuously provides OPM program offices with adequate guidance and support to facilitate a timely Authorization process. However, many program offices do not initiate the Authorization process early enough to meet their deadlines, do not adequately budget for the contractor

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support that is needed to complete the process, and/or do not adhere to OPM policies and templates related to the artifacts required for Authorization. Each of these issues contributes to delays in finalizing system Authorizations.

We believe that the root cause of these frequent delays is the fact that there are no consequences for the program offices that operate OPM systems without a valid Authorization to operate. The Office of Management and Budget's (OMB) Circular A-130, Appendix III mandates that all Federal information systems have a valid Authorization. According to OMB, information systems should not be operating in a production environment without an Authorization, and OPM should consider shutting down systems that do not have a current and valid Authorization.

Not only is a large volume of OPM's systems operating without a valid Authorization, but several of these systems are amongst the most critical and sensitive applications owned by the agency. Two of the OCIO systems without an Authorization are general support systems that host a variety of other major applications. Over 65 percent of all systems operated by OPM (not including contractor operated systems) reside on one of these two support systems, and are therefore subject to any security risks that exist on the support systems. Furthermore, two additional systems without Authorizations are owned by OPM's Federal Investigative Services, which is responsible for facilitating background investigations for security clearance determination. Any weaknesses in the information systems supporting this program office could potentially have national security implications.

Maintaining active Authorizations for all information systems is a critical element of a Federal information security program, and failure to thoroughly assess and address a system's security weaknesses increases the risk of a security breach. We believe that the volume and sensitivity of OPM systems that are operating without an active Authorization represents a material weakness in the internal control structure of the agency's IT security program.

4. STOPPING THE FLOW OF IMPROPER PAYMENTS

Federal improper payments represent a significant loss to the government. Since 2009 the Federal Government has built a robust infrastructure of legislative and administrative requirements, most notably the OMB Circular A-123, Appendix C, with which agencies must comply to improve the detection and recovery of improper payments. OMB is set to issue updated guidance to agencies in the coming months that will apply to improper payments reporting for FY 2014 and beyond. Specifically, the updated guidance requires the following:

1. Agencies will report on improper payments in their Agency Financial Report (AFR) using 13 categories required for reporting in FY 2015 and beyond; they are encouraged to report in FY 2014 on the new categories where possible. There were previously only three categories for improper payments reporting.

2. Beginning in FY 2015, agencies will begin reporting on their internal controls over improper payments in the AFR. The primary purpose is to establish a thoughtful analysis linking agency efforts in establishing internal controls and reducing improper payment rates.

3. Beginning in FY 2014, agencies are required to conduct risk assessments to determine the risk for improper payments made to employees and charge cards.

OPM currently reports on improper payments made in the Retirement and Federal Employees Health Benefits Programs. OPM recently updated its Improper Payments Plan, highlighting activities put into place to reduce the improper payments made against these programs as well as improving collections. New developments for FY 2014 include:

1. Development of a new agreement with the Office of Workers Compensation Program. OPM has been working on renewing its agreement to conduct a match that will identify beneficiaries receiving both wage loss compensation for disability or death under the Federal Employees' Compensation Act and retirement or death benefits under the Civil Service Retirement System or Federal Employees Retirement System for the same period. The concurrent receipt of both benefits is prohibited.

2. OPM's Data Mining Working Group has developed a list of data mining activities and OPM is taking action to implement some of them.

3. OPM initiated a process to adopt the Department of the Treasury's (Treasury) Administrative Wage Garnishment regulations that will allow Treasury to garnish private sector wages for those who owe money to OPM. The rule was finalized in FY 2014.

4. OPM established a relationship with Treasury to recover improper payments made to deceased annuitants that have escheated to the states.

5. The Chief Financial Officer worked with the OIG to develop new case referral guidelines for referring improper payments to deceased annuitants to the OIG for investigation. The guidelines were effective August 2014.

6. OPM updated its work instruction for annual reporting on the improper payments program in the annual AFR based on a recommendation from the OIG in its April 2014 report. The improved controls in the revised instruction will further reduce the risk of errors in annual reporting.

7. OPM instituted processes to comply with Treasury's Do Not Pay (DNP) initiative in FY 2014. Retirement Services receives and reviews matches of OPM payments against DNP data bases. Thus far, the DNP matching process has not resulted in reduced improper payments due to the nature of OPM's programs and also due to

some technical issues with legacy payment files. OPM is working with Treasury to improve the DNP process.

While these developments are a positive step, OPM has more to do. OPM must develop processes to identify the nature of its improper payments to match the reporting categories identified in the updated OMB Circular A-123, as well as linking its control activities to specifically reduce improper payments in the reporting categories. For example, OPM performs surveys and matches against the annuity roll to identify the beneficiaries who are not entitled to benefits, but doesn't capture whether the improper payment was the result of an error made by OPM versus an eligibility issue. OPM will have to develop a structure and process among its various systems to specifically identify the nature of its improper payments for reporting in the AFR.

In addition, while OPM has made a number of improvements in its efforts to reduce improper payments across all of its programs, improper payments to deceased individuals continues to be an area where OPM needs to improve, both in reducing these payments from occurring in the first place, and in recovering them once they are made. For FY 2014, through the end of the third quarter OPM paid out $87 million to deceased annuitants. OPM needs to be more pro-active in identifying annuity payments made to deceased annuitants. Using the Social Security death data to identify deceased annuitants is a great internal control; however, there are some annuitant deaths that are never reported to Social Security or are not reported timely to Social Security and OPM, resulting in long-term improper payments.

We feel that three areas continue to hinder Retirement Services' ability to adequately address the problem of improper payments to deceased annuitants:

- OPM's Improper Payments Strategic Plan does not identify measurable goals/milestones for the Retirement Services' Retirement Inspections office, which is the primary office responsible for identification and prevention of improper payments to deceased annuitants through on-going matches, surveys, and fraud tips. The goals outlined in the Plan pertain to the overall improper payments from the retirement program as a percentage of program outlays. However, as of September 30, 2013, approximately 40 percent of the ending balance of reported retirement program improper payments pertains to improper payments made to deceased annuitants.

- A failure to adequately plan and complete special projects to identify improper payments - the best example of this is the Internal Revenue Service form 1099-R project. This project analyzed returned 1099-Rs mailed by OPM in an attempt to determine whether they were related to issues with the annuitants that need to be resolved – whether it is a change of address or the annuitant is deceased. OPM produced a report on its 1099-R project in April 2014 and referred hundreds of cases to our office of annuitants who had not responded to address verification letters from the Retirement Inspections office during the project. OPM had just placed the annuitants in "suspend status" when they made the referral to our office. However, these referrals were made prematurely because OPM had not completed

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their normal process to determine the vital status of the annuitants. This project began in 2010, and four years later OPM was still determining eligibility status and improper payment amounts. The lack of a comprehensive, carefully designed plan with milestones and deadlines to complete the project is a direct cause of this inefficiency.

- The lack of consistent management attention to foster the importance of identifying, reducing, and recovering improper payments. OPM often points to the very low improper payment rate for its Retirement Program, and as such, has not made reducing it an agency priority. When the backlog of pending retirement claims reached unacceptable levels, OPM made it a priority to reduce the backlog in a timely manner and devoted resources to this effort. OPM's leadership and management needs to do the same with respect to improper payments, particularly to deceased annuitants. OPM's Data Mining Working Group (DMWG) is a prime example of the lack of OPM's management attention to make the issue of improper payments a top agency priority. In FY 2014, the DMWG came up with ideas to identify risk areas for improper payments. However, as we understand it, the DMWG has disbanded and its future is uncertain. The vision for this group was that it be permanent, meeting periodically to explore best practices and to continue data mining to uncover areas within the Retirement Program at risk for improper payments. OPM management should establish a control environment in which reducing improper payments is a top agency priority, and adequately staff the program offices responsible for program integrity work.

5. RETIREMENT CLAIMS PROCESSING

OPM is responsible for processing in excess of 100,000 retirement applications annually for Federal employees. The timely issuance of full annuity payments to annuitants has been a long-standing challenge for OPM. In January 2012, OPM released and began implementation of a strategic plan with the goal of reducing the backlog of claims from approximately 50,000 to a working inventory of 13,000, and of adjudicating 90 percent of retirement cases within 60 days starting in July 2013. While the backlog was successfully reduced to below 13,000 by December 2013, the timeliness goal has not yet been achieved. As of September 2014, only 78.8 percent of pending claims were processed in 60 days or less.

OPM remains committed to providing accurate and timely processing of retirement claims. RS continues to take important steps to meet the challenge of improving its claims processing times by implementing its strategic plan, which includes four key areas: people, productivity and process improvements, partnering with agencies, and partial, progressive IT improvements.

Without proper resources, OPM's ability to meet its goal of processing 90 percent of retirement claims in 60 days is in jeopardy. In addition, if OPM does not receive funding for its IT initiatives, the ability to achieve sustained progress in meeting its processing goals will be severely impacted.

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6. PROCUREMENT PROCESS FOR BENEFIT PROGRAMS

In last year's letter, we expressed concerns over OPM's procurement processes for the benefit programs it administers. These programs include the BENEFEDS benefits portal, the Federal Employees Dental and Vision Insurance Program (FEDVIP), the Federal Long Term Care Insurance Program (FLTCIP), and the Federal Flexible Spending Account Program (FSAFeds). Specifically, our concerns encompassed the following areas:

- Lengthy periods of performance awarded under the contract term and numerous options exercised to extend the performance periods;
- Contracting methods utilized under the procurements; and,
- Processes followed for contract modifications.

While we acknowledge recent strides OPM has made to ensure these programs are re-competed in a timelier manner, we still have concerns that OPM's perceived need for program continuity will continue to result in the use of contract modifications to address program changes and extend periods of performance when contract re-competitions would be in the Government's best interest. It is undisputed that the lapse of these contracts would have a severe impact upon the ability of Federal employees and annuitants to select benefits and could even adversely affect recruiting and retention of Federal employees. However, inadequate acquisition planning on behalf of the Agency is not a valid reason to extend periods of performance, especially when this rationale potentially ignores the savings that could have been achieved had the contract been re-competed in a timely manner.

Additionally, while we recognize that some program changes are best addressed through a contract modification, caution needs to be exercised when the recommended changes meet the definition of a **cardinal change**. Cardinal changes are so severe that they go beyond the contract's original scope of work and would require a new procurement to encompass these changes. In our audits of the FLTCIP and the FSAFeds contracts, we noted some instances where changes that were addressed through a contract modification did, in fact, meet the definition of a cardinal change and should have required a re-competition of those contracts. Therefore, we continue to believe it is crucial that OPM fully understands and takes into account the following:

- The need for timely re-competitions of these special benefit programs. For example, the FSAFeds contract has been extended numerous times to maintain program continuity while other programs were re-competed. The result of these extensions to the FSAFeds contract is that the program's period of performance has now exceeded an 11-year period, which we believe is disadvantageous to the Government because of the constant changes in the market for this type of benefit and a lack of built-in competition for enrollees that is inherent in other benefit programs administered by OPM (i.e., the FEHBP and the FEDVIP).

  While we acknowledge that this program is currently undergoing a re-competition, we note that the re-competition has already been delayed, which resulted in the

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issuance of a memo by our office to OPM's Chief of Staff on June 11, 2014. Subsequent to the issuance of that memo, we learned that the re-competition was delayed again per a July 29, 2014, email from OPM's Federal Employees Insurance Operations (FEIO) group.

- The importance of selecting the most appropriate contracting method for the benefit program being procured. For example, the contracting method selected for the FSAFeds program (which is a FAR contract) was fixed-price with prospective price redetermination. However, FAR 16.205-3 cites limitations for using this type of contracting method, and we believe that a firm fixed-price contracting method would have been more appropriate for these programs.

  While OPM contends that the use of fixed-price with prospective price redetermination continues to be in the best interest of some Government programs due the frequently changing nature of external factors that impact these programs, we note that the recent procurement of the BENEFEDS contract utilized a firm fixed-price contracting method.

- The importance of following each program's contractual requirements for extensions and modifications. For example, our reviews of the special benefit programs found that OPM has a history of modifying contract terms and not documenting the justification for the modification, that the contract's price redetermination clause was not followed in cases where prices were re-determined, or that FAR 17.207(d)(2), the exercise of options clause, was not followed when exercising contract options.

To meet these challenges on future program procurements, we continue to encourage better coordination between OPM's Contracting Office and the FEIO group so that there is an understanding of the available procurement methods, selection of the most appropriate procurement method, and that the contractual requirements are followed from the development of the request for proposal until the contract is re-competed.

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UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415
NOV 0 6 2014

Chief Financial Officer

Agency Response

MEMORANDUM FOR PATRICK E. McFA
Inspector Gene

FROM: Dennis D. Cole
Chief Financial Officer

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

The Management Challenges identified in your annual report are, by definition, issues that are not easily resolved. In many cases, they will require multi-year investments or upgrades to technology, or substantial changes to long-standing procedures or program activities both within and outside of OPM.

We concur with the findings of your report, and OPM is committed to addressing your Top Management Challenges. In FY 2014, OPM released and began implementing a new strategic plan to guide the agency's efforts. Our strategic goals reflect our priorities, among them improved retirement services, which we aim to achieve in part by increasing the accuracy and timeliness of retirement case processing through continuous retirement modernization efforts and IT improvements. Overall, OPM strives to provide quality service, and is focused on targeted goals to manage the agency and its programs, addressing both the environmental and internal challenges identified in your report.

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.

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	**Unmodified**				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	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
Total Material Weaknesses	0	0	0	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	1	0	0	0
IT Security Systems Authorization Process	0	1	0	0	0	1
OIG Oversight of OPM Revolving Fund	1	0	1	0	0	0
Total Material Weaknesses	2	1	2	0	0	1

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)		
Compliance with Specific Requirements		
	Agency	**Auditor**
System Requirements	No lack of substantial compliance noted	No lack of substantial compliance noted
Accounting Standards	No lack of substantial compliance noted	No lack of substantial compliance noted
USSGL at Transaction Level	No lack of substantial compliance noted	No lack of substantial compliance noted

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

OMB M-12-11, *Reducing Improper Payments through the "Do Not Pay (DNP) List"*, required agencies to verify eligibility for Federal payments in order to help reduce and eliminate payment errors before they occur. The Improper Payment Elimination and Recovery Improvement Act (IPERIA) of 2012 (P.L. 112-248) strengthened the requirements for agencies to use Do Not Pay (DNP). The DNP requires agencies to review pre-payment and pre-award procedures and available databases to determine program or award eligibility and prevent improper payments before releasing any federal funds.

In the AFR, OPM is reporting details on improper payments for FY 2014 in two major programs: Retirement and the Federal Employee Health Benefits Program (FEHBP). FY 2014 improper payments for those two programs respectively are $303.3 million and $104.8 million, for a total of $408.1 million. IPERA and Appendix C to OMB Circular A-123 define programs as being susceptible to significant improper payments if the program or activity has improper payments that exceed both 1.5 percent and $10 million of program spending, or $100 million. Susceptible programs must be reported annually.

Based on OIG's FY 2012, audit of OPM's compliance with IPERA, a comprehensive improper payments plan was developed in November 2012. OPM has updated the plan including the most recent version in July 2014. OIG's March 2014 report on IPERA compliance noted the progress made by OPM in its annual improper payments reporting and found OPM compliant with IPERA.

Program Descriptions

OPM is reporting for FY 2014 improper payments for its two largest programs: Federal Retirement and FEHBP.

Retirement Program

OPM paid $78.8 billion in defined-benefits to retirees, survivors, representative payees, and families during FY 2014 under the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). Under CSRS and FERS, OPM pays monthly annuities to eligible retired employees and survivors. Eligible retirees and survivors generally receive monthly benefits but in some cases an applicant can also received a lump-sum payment. Eligible employees who leave Federal service before qualifying for retirement under CSRS or FERS may request that their contributions be returned to them in a lump-sum refund payment.

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 their 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 2014, ERCs incurred benefit and administrative expenses of over $39.4 billion on behalf of the FEHBP, and the FEHBP paid over $6.3 billion in premiums to CRCs.

I. Risk Assessment

OPM has been reporting annual improper payments for Retirement and FEHBP from the inception of IPIA. Therefore, no risk assessment is required under IPERA or the guidance for those two programs which account for about 99 percent of OPM's funding on its consolidated financial statements. FEGLI and BI programs were removed from annual reporting in FY 2013. OPM will formally review the risk of improper payments in those programs in FY 2015.

During FY 2013, OPM transferred its vendor payment process to the Federal Aviation Administration (FAA) under a shared service agreement. OPM was unable to perform a risk assessment of vendor payments in FY 2014 but monitored FAA processes during the year and noted that OPM vendors were paid timely 98 percent therefore met the intent of the Prompt Payment Act. Nevertheless, OPM will perform a quantitative risk assessment for vendor payments under the Revolving Fund and Salaries and Expenses programs in FY 2015.

II. Statistical Sampling and Other Methodology

Retirement Program

Retirement Services (RS) has procedures for identifying and recapturing improper payments, preventing erroneous payments and protecting taxpayer resources. Improper payments can be caused by issues as varied as delays in survivors reporting the death of an annuitant to outright fraud.

The improper payment rate for retirement payments combines both underpayments (monies that OPM owes to the annuitant) and overpayments (monies that OPM has paid out to the annuitant erroneously or in excess of entitlement). Improper retirement payments are calculated by dividing the underpayments (determined by statistical sampling) and the overpayments (the actual value) by total outlays. Overpayments for the fiscal year are reported by OPM's OCFO using the actual overpayments determined by RS throughout the year. For underpayments, OPM uses a statistical analysis based on an entire year's worth of audits of retirement and survivor cases under the two retirement systems to determine the value. The full process for measuring and calculating the improper payment rate is detailed in the OCFO Work Instruction on "Reporting Improper Payments for the Agency Financial Report" dated July 2, 2014.

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 No. A-123. These samples are generally judgmental, not random, targeting areas most likely to contain improper payments. The sample also includes plans which have not been audited recently as well as those plans and processes requested by agency management and contracting officers.

OPM's Healthcare and Insurance (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 a preliminary determination on each recommendation concerning whether, and to what extent, it constitutes an improper payment. HI's determinations 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 amounts questioned in OIG audit reports, number of final audits received by HI for review, audit type and scope, 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 by the plan, and the ambiguity or 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. A plan may also contest the audit's findings by documenting its position with sound evidence or by asserting differences in the interpretation of contract language. Generally, most findings the plan agrees with result in full or partial recoveries. FEHB improper payments also includes recoveries from OIG's investigations of reported fraud and abuse.

This category of improper payments is subject to wide fluctuations based on factors including the number, size, age, and timing of legal proceedings and settlements.

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. OPM is committed to reducing improper payments by implementing internal controls and corrective actions.

OPM has identified the following as the principal causes for improper payments in the retirement program and the corrective actions that RS performs to reduce their occurrence in the Retirement Program:

1. Delayed Reporting

Issue

The status of an annuitant periodically changes and can result in a change to the benefits due. These changes may be due to death or marriage. The status can also change when the annuitant is restored to earning capacity, or reemployed for other reasons. OPM relies on annuitants and other sources (such as the Social Security Administration [SSA] Death Master File) to learn of some of these status changes. Delayed reporting of the status changes, or sometimes no reporting by the annuitants and other sources, can result in an improper payment.

Corrective Actions

Matches and Survey

To identify annuitant status changes and mitigate improper payments, OPM conducts several matches and annual surveys described below. Anomalies identified in these matches and surveys are researched by OPM and, if needed, referred to the OIG.

SSA Death Master File (DMF)

OPM conducts yearly data matches between our annuity roll and the SSA DMF. These matches compare annuitant identifiers with current SSA death records. These matches supplement the weekly Consolidated Death Matches (CDM) and help identify reported deaths that might be missed in the CDMs due to timing differences.

Consolidated Death Match (CDM)

OPM compares the CDM with OPM's annuity roll weekly to identify annuitants who SSA reports as deceased. The Validated Agency Match System (VAMS) processes the death information for the purpose of terminating Federal benefits and subsequently preventing improper payments. Collection actions are initiated for any overpayments that are discovered.

Marital Survey:

OPM conducts the marital survey annually to determine if surviving spouse is still eligible for benefits. The survey determines whether the surviving spouse remarried prior to age 55. The survivor annuity is terminated if the surviving spouse or former spouse was married to the employee for less than 30 years and remarries before age 55.

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. The payee also certifies that he or she is using and managing the annuity payments in the best interest of the annuitant.

Student Survey:

OPM conducts the student survey to ensure that the surviving child meets basic eligibility requirements and is a full time student at an accredited educational institution for a monthly survivor annuity benefit.

Disability Survey:

OPM conducts the disability survey because there is a limit on the amount certain disabled retirees can earn in the calendar year. In addition, the disability survey is mandated by law. The annuitant cannot exceed the 80 percent earning capacity limit.

FERS Annuity Supplement Survey:

OPM conducts the FERS annuity supplement survey annually. OPM sends the survey to all annuitants who receive the FERS supplement. If over the annual earnings limitation, the annuity supplement is reduced or terminated.

Improved Communications

OPM strives to reduce delayed reporting of status changes by communicating important information on the OPM website and preparing and distributing videos about common life events and their impacts to annuity payments. OPM also makes use of social media to communicate important messages about these important life events. The videos and messages include the following topics:

- Death of A Retiree
- Remarriage After Retirement
- Divorce After Retirement
- Change of Address

RS communicates with annuitants through the Retirement Information Center portion of OPM's website and Twitter. Topics in FY 2014 included tips on safeguarding your annuity from fraudulent activity.

Proof of Life

OPM has previously undertaken initiatives with the Department of State and the SSA to reduce improper payments made to annuitants who live overseas and whose deaths are not reported timely. OPM targeted possible improper payments occurring in the Philippines, Japan, India, Thailand, Singapore, Hong Kong, Australia, Greece, Panama, and Costa Rica.

Examples of actions OPM took to confirm that overseas annuitants were still eligible to receive benefits included hosting verification fairs and utilizing U.S. Embassy and Consulate staff to visit the homes of annuitants who did not attend the fair.

OPM's verification efforts include direct deposit enrollment information and annuitants are highly encouraged to enroll. The banking agreements for these payments make the banks responsible for reporting known deaths.

OPM did not perform proof of life activities during FY 2014 due to fiscal constraints.

Over 90 Project

OPM periodically investigates the status of retirees and survivors over the age of 90 to ensure their monthly annuity benefits are accurate and to identify unreported deaths. OPM initially conducted an "Over 90 Project" in October 2010 in response to the OIG recommendation that (in part) stated, "OPM perform a periodic analysis of all annuitants/survivors on the active annuity roll who are 90 years of age and older to validate whether they are alive or dead…." RS did not conduct an analysis of the Over 90 annuitant population in FY 2014, but will revisit the issue in FY 2015.

Update

RS identified and documented approximately $24 million in cost savings this fiscal year through the Disability Earnings Match by terminating annuity payments to annuitants based on earned income information and through the Death Matches with receipt of death reporting data from the SSA. The Retirement Surveys and Students Branch (RSS) has identified and documented a cost savings of over $600 thousand to OPM this fiscal year in the processing of its Student, Representative Payee, Marital, FERS Annuity Supplement and Disability Earnings Surveys.

2. Prohibited Dual Benefit Payments

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 the potential for unauthorized dual benefit payments occurs when individuals apply for FERS disability while applying for SSA disability benefits. 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 sometimes approved years before the SSA determines an award, FERS annuitants can receive full, unreduced monthly annuities before SSA approves disability benefits. As a result, the annuitant will often owe OPM the cumulative amount of the SSA benefit that should have been withheld from the FERS annuity. FERS annuitants are notified of the obligation to repay the debt to the government. OPM recovers overpayments through installment deductions from recurring annuities (on-roll collections), or, in certain cases, such as very small recurring annuities, OPM must seek direct payments from debtors through off-roll collection processes.

Another example of a prohibited dual benefit is when an annuitant receives benefits simultaneously from both the U.S. Department of Labor, Office of Workers' Compensation Program (OWCP) and the Retirement Program. Retirees often have a choice between accepting the benefits of either program, and can make changes in that choice, but cannot receive dual benefits at the same time.

Corrective Actions

OPM conducts data matches to identify accounts that may be receiving improper payments. These matches monitor information from annuitants and survivors. OPM conducts the following data matches to reveal unreported deaths and other unreported events:

Disability Earnings Match (DEM)

OPM uses the DEM to audit all individuals under age of 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 annual 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, earning capacity is considered restored and the disability annuity is terminated.

FERS Annuity Supplement Match

OPM uses the annual 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 is reduced $1 for every $2 in earnings exceeding the MLE or is terminated.

Other Matches with SSA

OPM uses SSA benefit information to recalculate the benefits of certain annuitants and survivors whose computations are based, in part, on military service performed after December 1956 under the CSRS, and of certain annuitants and survivors whose annuity computation under the FERS have a CSRS component.

OPM uses SSA benefit data for the administration of certain programs by OPM's RS. OPM is legally required to offset specific benefits by a percentage of benefits payable to disability annuitants, children survivor annuitants, and spousal survivor annuitants, under Title II of the Social Security Act. This matching activity will enable OPM to compute benefits at the correct rate and determine eligibility for these benefits.

Office of Workers' Compensation Program (OWCP) Match

RS is working to renew an agreement with OWCP. The purpose of this agreement will be to establish the conditions, safeguards and procedures under which OWCP will disclose Federal employee compensation benefit data to OPM. OPM will compare entitlement to payment data and make the necessary adjustments to the annuity to ensure that they are in tandem with each other.

Update

Over the course of FY 2014, RS ran system matches on 300 military call up cases. Upon notification of a SSA benefit match, RS determined whether the case warranted a benefit reduction. In total seven cases were reissued with increased annuities.

In FY 2013, RS implemented FERS 60/40 automation. By law, FERS disability annuitants are entitled to 60 percent of their average salary less 100 percent of their Social Security Benefit for the first year. After the first year, they are entitled to 40 percent of average salary less 60 percent of their Social Security Benefit for subsequent years. If an annuitant is in interim pay after one year while his or her disability case is being adjudicated, the benefit is now automatically reduced to 40 percent of average salary to prevent overpayment.

3. Errors or Omissions by OPM employees, Employing Agency, or Applicant

Issue

OPM's annuity calculations have automated and manual components. The manual components are subject to human error. Errors can include incorrect effective dates, salary rates, and tours of duty which all impact annuity calculations. These errors may occur because OPM incorrectly entered the information or the annuitant or separating agency provided incorrect information.

Corrective Actions

Benefits Officer Training

OPM trains and provides guidance to agency benefits officers to ensure that employees understand all of the benefit options available to them. A highly trained cadre of human resource benefits officers assists OPM by producing fully developed retirement cases with accurate information, leading to fewer errors or omissions and thus fewer improper payments.

Audits

RS conducts audits on all Agency retirement packages during the screening and development stage of processing. Results are entered into the Agency Audit Tracking System and reports are generated that calculate the government wide and individual agency accuracy rates. The percentage of new claims with errors is reported monthly on the OPM web site and a detailed report is provided to the agency headquarters' benefits officers. Each month, a message is sent to the headquarter benefits officers, transmitting their results and highlighting the most common errors and tips to avoid these errors. RS is currently developing a Benefits Administration Letter that addresses the most frequent error, the failure to document a retiree's eligibility to continue health insurance coverage, which represents 22 percent of all errors.

Quality Assurance (QA) performs continuous audits of newly adjudicated retiree and survivor claims under both CSRS and FERS to calculate accuracy rates and the corresponding value of improper payments, as well as to identify any training or systemic deficiencies.

QA provides feedback through monthly and formal quarterly reports with recommendations, if applicable. These reports provide specific analysis meant to discover trends that may not be discernible in any given month. The information gained through these audits is used to make informed decisions regarding resources and to ensure compliance with policies and procedures governing the determination and payment of benefits. This activity is also leveraged for testing as part of the annual independent audit of the agency's consolidated financial statement. As such, these statistically valid audits are a critical component of our internal control activities.

Update

The current combined weighted average for CSRS and FERS annuity and survivor claims from October 1, 2013 through July31, 2014 was 94 percent.

In FY 2014, RS provided regular feedback to agencies on claims deficiencies. When agencies submit incomplete or inaccurate retirement packages, OPM is required to spend additional time and resources developing the claim before it can be processed. Working with agency Chief Human Capital Officers (CHCOs) is fundamental to improving the accuracy and completeness of incoming claims. The agency accuracy rate for retirement application submissions FY 2014 (October 1st, 2013-July 31st, 2014) was 94 percent.

4. Fraud

Issue

Although actual cases of intentional fraud are rare, some annuitants, survivors, or representative payees knowingly receive payments for which they are not entitled. Examples of potential fraud include: 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 a specified and appropriate manner when caring for the annuitant or survivor.

Corrective Actions

OPM reviews potential fraud based on statements from individuals who come forward to provide information to OPM. OPM uses online resources to corroborate the information and build a fraud case. Public records and databases, as well as available medical records, are reviewed and suspected fraud is referred to the OIG for investigation.

Update

OPM continues to block payments against the annuity roll through the Quickstart enrollment file from the Federal Reserve. In FY 2013, OPM discovered an attempted "phishing" against the annuity roll through the Quickstart enrollment file from the Federal Reserve.

OPM also continues monitoring accounts that receive more than two recurring payments from the agency each month. Any account that receives three or more annuity payments deposited in a single month is investigated for fraudulent activity.

In addition, OPM increased the enrollment rate for electronic funds transfer (EFT) from 98.84 percent in FY 2013 to 99.13 percent in FY 2014. Increasing the percentage of annuitants who receive their annuity payments through EFT helps OPM to monitor accounts, recover payments from deceased annuitants, and prevent fraud.

Other Sources for Identifying and Correcting Improper Payments

Data Mining

RS established the Data Mining Working Group (DMWG) in November 2012 to identify areas in the retirement program where fraud, errors, or delays in reporting could result in RS making improper payments. The goal of the DMWG is to establish a set of regular reviews and comparisons of data sets to identify when a high likelihood of potential fraud, errors, or delays in reporting exist. RS can then further investigate these with a goal of reducing, preventing, or recovering improper payments. The group is comprised of subject matter experts from various operational and staff offices within and outside of RS.

RS established the DMWG in response to an OIG recommendation, *Establish a Working Group to Improve Program Integrity"* within the OIG report entitled *Stopping Improper Payments to Deceased Annuitants*.

The DMWG came to closure on its discussions on data mining and released its recommendations to senior RS management. In FY 2014 management completed its review of the recommendations and discussed how they can be utilized to reduce improper payments.

OPM Task Force

OPM formed a task force to address issues concerning improper payments to deceased annuitants in response to the OIG report issued on September 14, 2011. The task force includes the Associate Director of Retirement Services, the Chief Operating Officer, the Chief Financial Officer, and the Associate Director of Merit System Accountability and Compliance. The task force is working with the related program offices to develop plans for reducing improper payments and providing status reports to the Director and OIG.

Under direction from the senior task force, OPM developed and issued its first comprehensive improper payments plan in November 2012. The plan is a living document that continues to be updated. The latest version was issued on July 2, 2014.

Returned 1099Rs

As a pilot program, OPM analyzed undelivered 1099Rs from 2010 that were returned to determine if unreported deaths had occurred.

In FY 2013, RS had ongoing communications with the OIG regarding the 1099R Project. A progress report with updated findings was published April 24, 2014.

Monitor Reclamations to Recover Funds

OPM monitors reclamation requests that are more than 60 days old that Treasury did not perform a collection action for the agency. Independent actions were performed to identify debtors and recover improper payments. Specific actions that were performed include:

Designed and implemented a report that identifies the annuity payments Treasury did not perform a collection through the reclamation process.

Implemented a new letter to request last withdrawer or joint account holder information from the financial institution.

Met with Treasury to discuss needed actions and timeframes to receive collection information for payments that were recovered through the reclamation process.

Health Benefits Program

OPM recognizes several categories of improper payments across the FEHBP. FEHBP improper payments are generally administrative in nature. Addressing administrative improper payment's requires a multi-pronged approach. Additionally, OPM is updating and consolidating its Fraud, Waste, and Abuse (FWA) guidance to improve Carriers' efforts to prevent, detect, investigate, and report FEHBP-related fraud, waste, and abuse. The Carrier Letter will consolidate definitions, require mandatory information sharing, and require a certified annual FWA report. This carrier letter is scheduled to be released in the first quarter of FY 2015.

1. Defective pricing by community-rated health maintenance organizations (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

FEHBP has incorporated the Medical Loss Ratio (MLR) for most HMOs to, in conjunction with reviewing for compliance with community methodology, ensure we are receiving the market rate. The MLR requires plans to pay at least 85 percent of premium dollars for medical claims and activities that improve the quality of health care or provide a rebate. FEHBP believes this approach may significantly reduce defective pricing issues. Previously (and for HMO audits encompassing 2012 and before), market price comparisons are performed based on when the premiums were negotiated and accepted. However, a FEHBP market price is not confirmed until a rate reconciliation review or full scope audit is performed, including an analysis of the rates paid by other employer groups (e.g. Similarly Sized Subscriber Groups).

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 capatation 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 descrepencies from fifteen percent to less than 1.5 percent.

CLER is in the process of being upgraded, further improving enrollment reconciliation by providing enrollment status for each employee, instead of aggregate enrollment data by payroll provider. This will facilitate carriers' ability to reconcile the premiums they receive which should reduce the number of enrollment discrepancies. Additionally, the upgrade will provide the capability to capture enrollment data on a per-pay-period basis which will provide a more real-time picture of enrollment and premium information. This system is scheduled to be implemented in FY 2015.

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 Medicare benefits, 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 audit resolution (AR) 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 trends in OIG findings and contract language is being reviewed and strengthened to ensure due diligence is taken in Plans' 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.

IV. Improper Payments

POPM improper payments for FYs 2013 – 2014 and its targets for 2015 – 2017 are reported in Table 12.

Retirement Program

Overpayments represented 80.1 percent of total improper payments in the Retirement Program during FY 2014. As a percentage of total outlays, the overpayment rate was .31 percent. As a percentage of total overpayments, overpayments to deceased annuitants decreased from 84.7 percent to 82.3 percent. Although OPM's overall improper payments rate for the Retirement program continues to be very low considering its size and complexity (.38 percent in FY 2014, based on Table 12), RS will continue working towards reducing improper payments in FY 2015 and beyond.

Health Benefits Program

The FEHBP improper payments increased to $104.8 million in FY 2014, from $74.2 million in FY 2013 but remained low when compared to $212.8 in FY 2012. The FY 2014 improper payment rate, 0.23 percent, is also one of the lowest rates in recent years. This year's overpayments were divided evenly between the two. FEHB's improper payment amounts are subject to substantial fluctuation from one year to the next. Audit findings and investigative recoveries reported in any given year typically represent an audit scope or investigative activity that may span several years, but are reported in the year in which the final audit report is issued, settled or recovered (investigative).

Improper payments in the FEHBP, as measured by a comprehensive group of audit determinations, plus fraud, waste and abuse recoveries, represent a small percentage of the program's total premium payments. However, OPM dedicates substantial resources to mitigate, resolve and recover improper payments and to resolve procedural audit findings. That unwavering commitment is evidenced by OPM's efforts to reduce improper payments and strengthen internal controls.

The following tables reflect the Improper Payment rates, outlook and recapture activity for both Retirement and FEHBP.

Table 12 — Improper Payment Reduction Outlook

	2013 Outlays	2013 IPs	2013 IPs	2014 Outlays	2014 IPs	2014 IPS	2014 Overpayments	2014 Underpayments	2015 Outlays	2015 IPs	2015 IPs	2016 Outlays	2016 IPs	2016 IP	2017 Outlays	2017 IPs	2017 IPs
	$ M	%	$ M	$ M	%	$ M	$ M	$ M	$ M	%	$ M	$ M	%	$ M	$ M	%	$ M
RETIREMENT																	
Total Program - Retirement	76,485.90	0.36	278.30	78,816.40	0.38	303.30	243.00	60.30	81,217.91	0.37	300.51	83,692.59	0.36	301.29	86,242.68	0.35	301.85
FEHB - All carriers	43,583.6	.17	74.2	45,839.5	.23	104.8	101.0	3.8	46,939.6	.27	127.2	48,066.2	.26	127.2	49,219.8	.26	127.2
CRCs total	6,536.3	.12	7.58	6,379.2	.11	6.9	6.9	0	7,040.9	.71	49.7	7,209.9	.69	49.7	7,383.0	.67	49.7
ERCs total	37,047.3	.18	66.61	39,460.3	.25	97.8	94.0	3.8	39,898.7	.19	77.5	40,856.3	.19	77.5	41,836.8	.19	77.5

Notes:

Numbers in this table may not add due to rounding.

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.

V. Recapture of Improper Payment Reporting

OPM has generally determined that it is not cost-effective to hire payment recovery auditors for either of its reported programs. Nevertheless, OPM has extensive internal recapture efforts for the Retirement program and FEHBP 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 2014 IP Amount Identified for Recovery (in Millions)	FY 2014 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 2014 (in Millions)	Cumulative Amounts Recovered In Prior Years FY 2014 (in Millions)
Retirement	233.10	189.30	1,504.10	1,231.40	1,737.20	1,420.70
FEHB	101.0	100.6	792.6	830.1	893.6	930.7

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 $9.8 million via Treasury.

The Digital Accountability and Transparency Act (DATA Act) of 2014 was signed into law on May 9, 2014 and became effective immediately. Section 5 of the DATA Act, which amends 31 U.S.C. 3716(c)(6), requires federal agencies to refer to the Treasury Offset Program legally enforceable non-tax debts that are 120 days delinquent for administrative offset, as opposed to the previous 180-day delinquency requirement. OPM is working to implement the new 120 days requirement.

Standard Recapture

OPM works on reclamations with the Treasury and the financial institutions. RS sends a request for reclamation to Treasury. The request must arrive at the financial institution no more than 120 days after the death is discovered and the death notification entry is sent. The financial institution returns available funds. If only part of the funds remain at the financial institution, the financial institution returns the partial funds to Treasury and provides the name and address to OPM to contact the last withdrawer of the funds. When the account does not contain any funds OPM sends a letter to the last withdrawer requesting payment of the full amount within 45 days. If no funds are returned, the off-roll collection is certified. If the financial institution does not return timely information (within 60 days), Treasury debits the account of the financial institution or its correspondent bank at the Federal Reserve Bank and returns the funds to OPM. The financial institution can protest to Treasury if the reclamation request was sent by OPM more than 120 days after learning of the death. When Treasury determines OPM sent the request more than 120 days after learning of the death, the money goes back to the financial institution, if it has already been reclaimed. If Treasury determines that OPM sent the request within 120 days, the recapture process continues.

OIG Referrals

Recapture cases with large balances occur from time to time due to substantial delays in reporting the death of an annuitant and due to untimely entry into the automated clearing house (ACH). On accounts with large balances due, letters are mailed to the last withdrawer, joint account holder or the estate and the financial institution to collect the balances. If evidence supports a fraud determination, the cases are forwarded to the OIG.

In addition, cases are referred to the OIG whenever there may be a significant improper payment and recovery seems unlikely through the normal recapture process. This occurs when an annuitant's death is discovered by OPM instead of it being timely reported by someone with knowledge of the annuitant's death. Evidence and documentation is sent to the OIG for investigative referral. The OIG routinely accepts all fraud referrals from agency program offices and provides a decision on whether or not to further investigate.

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, in concert with the Contracting Officer (CO), determines whether questionable charges are allowable under FEHBP regulations. 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 OIG audits of the FEHBP typically 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 and quantified, to include complete, timely and diligent notification, recovery, offset and reporting information, 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 to determined amounts (improper payments), which may subsequently be reversed based on the Contracting Office's evaluation of plan support for Contested and Uncollectible Questioned Costs, 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 the FEHBP.

OPM's ability to successfully recover questioned amounts in CRC audits often depends on the finding itself. For example, if the plan can not provide adequate support for its position in response to a questioned amount, our ability to recover the full questioned amount is understandably greater than if a finding is contested based on circumstances or documentation that was not evaluated during the audit. The FEHBP recovery process involves careful review and understanding of the audit finding and criteria, and working with the plan, Office of the Actuary, and Office of the General Counsel. If we can not secure payment we have the option to proceed to Final Decision, which is our intention to pursue reimbursement through legal action.

Recovery of ERC overpayments is largely done at the plan level, with plans recovering overpayments from providers and participants directly. Plan-collected overpayment recoveries are returned to the FEHBP fund via adjustments to the Letter of Credit. Our contracts with ERC's contain provisions that outline how OPM expects carriers to show due diligence in recovery efforts. If a plan has documented that its recovery efforts have been exhausted, OPM may allow all or a portion of the remaining balance, or may settle with the plan. In general, recovery of overpayments to ERCs has improved in recent years, with plans recovering a higher percentage of overpayments and audit findings being resolved and closed more timely.

VI. Accountability

OPM developed an overall improper payments plan as noted earlier. The overall plan included specific measurable goals for reducing the improper payments rate for the Retirement program and FEHBP and for recovering increasing percentages of improper payments to deceased annuitants. Inclusion of measurable goals has increased accountability within OPM. At the beginning of FY 2015, OPM will assess its performance against these goals and develop any appropriate new goals for FY 2015 and beyond. OPM notes that its improper payment rates for Retirement and FEHB are well below the OMB threshold of 1.5 percent and recoveries are also high. Therefore, it is difficult to implement cost-effective measures to reduce improper payments further or to increase recoveries significantly.

Retirement Program

The Associate Director of RS is held responsible by the OPM's Director for reducing improper payments through the 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 and management are fully dedicated to the effective administration and oversight of the FEHBP, including accountability for improper payments. Standards and Information systems timelines have been developed to expedite and facilitate the audit resolution process. Performance standards reflect resolution timeliness, 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 QA Surveillance Plans. These tools tie plan profits to performance and enable contracting officers (COs) to incentivize or penalize performance.

FEHBP takes accountability for improper payments earnestly, and COs 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, CO's must consider many technical, cost, and performance issues when 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.

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

Chief Financial Officer

OPM has established the Chief Financial Officer as the Senior Accountable Official for Improper Payments. OCFO chairs an IPWG that includes members from OPM program offices and meets regularly to address improper payments at OPM.

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.

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 and provide due process. 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 can begin.

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.

Health Benefits Program

While enhanced FEHB Plan oversight and implementation of audit resolution timelines are some 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 audits are vital and effective as a compliance and oversight tool, their results are subject to substantial variability and present challenges in meeting IPERA reporting requirements for projecting out-year improper payments, demonstrating mandatory reductions in improper payments, as well as out-year improper payment recovery targets. This may result in annual variances of tens of millions of dollars in improper payments reported from year to year.

Since 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, an audit's scope, and improper payments that are recorded but later successfully contested by Plans.

OIG Investigative recoveries also vary widely from year to year based on the number of cases opened, FEHB impact, successful prosecution, and recovery. These variables challenge the concept of linear improper payment amounts and targets and can result in obscuring or magnifying the effects of corrective actions.

IX. Agency Reduction of Improper Payments with the Do Not Pay Initiative

In the initial process, OPM and Treasury had a data-matching software challenge that did not result in reducing improper payments. This is due to the nature of OPM's programs and also due to some technical issues with legacy payment files. However, OPM has been working with Treasury to improve the DNP process.

Nonetheless, OPM has reported data to OMB based on the matching that RS does on a weekly basis against the Death Master File that OPM receives directly from the SSA based on the existing memorandum of understanding.

Retirement Program

OPM's Annuity Roll is checked weekly by RS against the Social Security death record and annually against the full DMF received from SSA to identify deceased annuitants. RS is also informed of deaths or potential disability fraud from outside individuals (e.g. family, friends, co-workers) and investigates these reports using online public databases such as LexisNexis and also as well as by requesting medical records. Additionally, OPM's OIG uses a variety of approaches to identify potential cases for further investigation, including proactive reviews of on-line records to verify annuitant pay. RS routinely refers potential cases to OIG for further review and the two offices work collaboratively to address program vulnerabilities.

The following table represents statistics from the CDM and the DMF. The DNP list includes a version of the SSA DMF that is updated twice monthly. As with the DMF that OPM checks against annually, this list does not include all of SSA's available data. OPM already performs a weekly check of its annuity roll against all of SSA's data through the CDM. The weekly verifications conducted by OPM provide a more thorough review than is available currently with DNP.

FY 2014 Death Match Statistics

Type	Performed	Total Pop.[1]	Totals Hits[2]	Total Cases Overpaid	Overpayments Identified	Savings to Government*	% of Total Pop. as stated by hits
CDM[3]	Weekly	3,117,265	48,112	9,662	$51,990,322	$75,468,765	15.40
DMF[4]	Yearly	100,838,692	290	7	$131,249	$14,173	0.00

Notes:

1 – Yearly Total Population

2 – Hits are the cases identified during the matches on OPM's active annuity roll that are reported to OPM as deceased by SSA; totals shown are yearly

3 – Consolidated Death Match is run on a weekly basis

4 – Death Master File is run on a yearly basis. Yearly Death Matches are conducted June – November; therefore, all results shown represent the Sept 30th totals

*Savings to Government represents all funds not disbursed through the end of the fiscal year. For example, if a retiree is receiving $1,000 per month in annuity and RS discovers the death in January, and the annuity is terminated. RS recognizes a savings to the government for the remainder of the FY, in this case February through September; resulting in $8,000 in annuity payments that were not disbursed. Savings to the Government are always greater for payments terminated earlier in the fiscal year.

In May 2013, the Treasury began sending monthly DNP pre-payment reports to each agency to facilitate compliance with the IPERIA. Each report contains match results of a comparison of OPM's payment files with information about deceased individuals and companies that are suspended or debarred from participating in government contracts and other programs. Depending on the results received the detailed matches are distributed through secure encrypted electronic mail files.

Treasury has provided OPM with two types of monthly reports from DNP that identify payments that may have been improperly paid to excluded parties or deceased individuals. Each report matches OPM's payments as they appear in the Treasury Payments, Claims, and Enhanced Reconciliation (PACER) file to elements of the public version of the General Services Administration's (GSA) Excluded Parties List System (EPLS-public), now known as System for Award Management (SAM)/EPLS or to the public version of the Social Security Administration's (SSA) Death Master File (DMF-public). As noted earlier, OPM and Treasury had data matching software challenges that has subsequently been rectified with the latest (Version 3) iteration of the Treaury DNP system. Thus, the results listed below is minimal in FY 2014 but OPM continues to work with Treasury DNP to reduce improper payments.

The monthly adjudication report is filled out documenting information on the adjudication of 'matches' provided by DNP monthly.

Table 14 — Implementation of the Do Not Pay Initiative to Prevent Improper Payments

	Number (#) of payments reviewed for improper payments	Dollars ($) of payments reviewed for improper payments	Number (#) of improper payments stopped	Dollars ($) of improper payments stopped	Number (#) of improper payments not stopped	Dollars ($) of improper payments not stopped
Between October 1, 2013 to September 31, 2014 for all databases [1]	10	$31,546	0	$0	0	$0
Reviews with the DMF only	6	$12,245	0	$0	0	$0

[1] Databases included in screening should be footnoted (e.g. DMF and EPLS).

Health Benefits Program

Under the FEHBP, OPM contracts with carriers to provide health insurance benefits to eligible Federal employees, retirees, employees of federally recognized Indian tribes, tribal organizations, urban Indian organizations, and their eligible family members. OPM collects healthcare premiums and makes regular payments to carriers (community-rated) or holds the funds for carriers to draw from (experience-rated). OPM does not make direct payments to healthcare providers or reimbursements to individuals for healthcare expenses; these payments are made by the carriers. Because of this payment structure, OPM utilizes one of the DNP databases, the List of Excluded Individuals/Entities (LEIE), as part of the application process for new health carriers.

The LEIE database is used as a pre-award check for carriers applying to contract with the FEHBP. Applications from carriers are due January 31 of the year prior to the start of the benefits period. As part of OPM's evaluation of the applications, the carriers' information is searched in the DNP online search portal. This search is performed annually typically in February, for all new carriers applying to the FEHBP. In February 2014, six carriers were searched, and no results were found.

In the LEIE present configuration, OPM is limited because of the limited number of new carriers that apply to join the FEHBP each year. OPM believes that if FEHBP carriers were able to directly access the DNP data bases, they could identify additional improper or questionable payments.

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, P.L. 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. OPM complies with the DCIA via Cross-Servicing.

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 Bureau of the Fiscal Service (BFS) for collection through the Treasury Offset Program (TOP). However, the DATA Act of 2014 now requires a Federal agency to notify Treasury of any legally enforceable non-tax debt owed to such agency that is over 120 days (previously, 180) delinquent so that Treasury can offset such debt administratively.

OPM has established an agreement with BFS to cross-service its debts, which allows BFS 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 $9.8 million via BFS cross servicing.

Table 16 summarizes OPM's debt management activity for September 2014 and 2013.

Table 16 — Debt Management Activity

Retirement Program ($ in Millions)		
	September 2014	September 2013
Total receivables at beginning of year	$ 360.1	$ 328.2
New receivables and accruals	242.9	217.6
Less collections, adjustments, and amounts written-off	200.3	185.7
Total receivables at end of year	$ 402.7	$ 360.1
Total delinquent	$ 17.4	$ 23.6
Percent delinquent of total receivables	4.3%	6.6%

Health Benefits Program ($ in Millions)		
	September 2014	September 2013
Total receivables at beginning of year	$ 21.1	$ 30.2
New receivables and accruals	115.7	68.3
Less collections, adjustments, and amounts written-off	100.7	77.4
Total receivables at end of period	$ 36.1	$ 21.1
Total delinquent	35.6	8.4
Percent delinquent of total receivables	98.6%	39.8%

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 61or more days old to Governmentwide rates.

Table 17 — Travel Card Usage

($ in Thousands)	September 2014	September 2013
Outstanding Balance	$ 594.2	$ 780.0
Outstanding more than 61 days	$ 1.2	$ 0.0
% outstanding more than 61 days (OPM)	0.24%	0.00%
% outstanding more than 61 days (Government wide)	4.50%	4.50%

Table 18 — Purchase Cards

($ in Thousands)	September 2014	September 2013
Outstanding Balance	$ 735.2	$ 1,268.0
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)	0.38%	.51%

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.

Freeze the Footprint

Consistent with Section 3 of the OMB Memorandum 12-12, *Promoting Efficient Spending to Support Agency Operations* and OMB Management Procedures Memorandum 2013-02, the "Freeze the Footprint" policy implementing guidance, all CFO Act departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to the FY 2012 baseline.

Table 19 — Annual Changes to Baseline

Year	OA	FRPP	Total	Annual Difference	Baseline Difference
2012	1,296,464	32,717	1,329,181	-	-
2013	1,292,784	26,265	1,319,049	-10,132	-10,132
2014	1,272,597	26,265	1,298,862	-20,187	-30,319

In order to simultaneously comply with the Freeze the Footprint policy while continuing to effectively and efficiently implement the mission of OPM – which is to recruit, retain and honor a world-class workforce to serve the American people – we will utilize a number of options, as detailed below.

- **Improved Utilization of Existing Space.** Space allocation standards for all of OPM's Field Office locations have been revised to reflect a smaller work area. We are implementing this in a phased approach, to occur during planned renovations or relocation to a new site for additional economy. Also, as renovations occur to OPM space nationwide, we are reviewing design options to improve utilization efficiencies. This will afford us greater flexibility with accommodating potential staffing increases, thus negating a requirement to acquire additional space, and will allow for additional reduction in space when feasible.
- **Co-location Opportunities.** To the greatest extent possible, OPM partners with the Department of Defense (DoD) to utilize available space for our FIS division. Presently, we have agreements with DoD at 72 military installations whereby we occupy approximately 116,608 square feet of space. This is a mutually beneficial arrangement, as this is a significant amount of space that OPM does not acquire through commercial sources at a considerable cost, and DoD space utilization is further maximized. OPM will continue to explore co-location opportunities with DoD and other Federal Agencies prior to acquisition of new space.
- **Expansion of Telework and Workspace Sharing.** Whenever possible, we will continue to explore telework and workspace (i.e. hoteling) options in order to minimize OPM's footprint.

Appendix A – Acronyms and Abbreviations

(Unaudited – See accompanying Independent Auditors' Report)

Acronym	Definition
ACA	Affordable Care Act of 2010 (Affordable Care Act or ACA)
ACH	Automated Clearing House
AFGE	American Federation of Government Employees
ALIL	Actuarial Life Insurance Liability
AFR	Agency Financial Report
APR	Annual Performance Report
ARPS	Annuity Roll Processing System
BPD	Bureau of Public Debt
BFS	Bureau of the Fiscal Service
C&A	Certification and Accreditation
CBIS	Consolidated Business Information System
CDM	Consolidated Death Match
CFO	Chief Financial Officer
CFOC	Chief Financial Officer's Council
CFR	Code of Federal Regulations
CHCO	Chief Human Capital Officer
CIC	Capital Investment Committee
CLER	Centralized Enrollment Clearinghouse System
CLIA	Congressional Legislative & Intergovernmental Affairs
CLCS	Center for Leadership Capacity Services
COB	Coordination of Benefits
COLA	Cost of Living Adjustment factor
COOP	Continuity of Operations Plan
COTS	Commerical Off-The-Shelf
CPL	Communications and Public Liaison
CRC	Community-Rated Carrier

Acronym	Definition
CSRDF	Civil Service Retirement and Disability Fund
CSRS	Civil Service Retirement System
CY	Calendar Year
DATA	Digital Accountability and Transparency Act of 2014
DAD	Deputy Associate Director
DBTS	Define Benefit Technology Solution
DCIA	Debt Collection Improvement Act of 1996
DCCS	Document Case Control System
DEM	Disability Earnings Match
DEU	Delegated Examining Unit
DHS	Department of Homeland Security
DISP	Debt Issuance Suspension Period
DMF	Death Master File
DMWG	Data Mining Working Group
DNP	Do Not Pay
DoD	Department of Defense
DSS	Defense Security Service
EAP	Employee Assistance Program
EBS	Employee Benefits System
ECTS	Executive Correspondence Tracking System
EFT	Electronic Funds Transfer
EHRI	Enterprise Human Resources Integration
ENSOC	Enterprise Network Security Operations Center
eOPF	Electronic Official Personnel Folder
EPLS	Excluded Parties List System
EPV	Expected Present Value

Acronym	Definition
eQIP	Electronic Questionnaire Investigations Processing
ERC	Experience-Rated Carrier
ES	Employee Services
ESC	Executive Steering Committee
EVMS	Earned Value Management System
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance With Treasury
FCP	Federal Ceiling Price
FEDVIP	Federal Employee Dental and Vision Insurance Program
FEGLI	Federal Employee Group Life Insurance
FEHB	Federal Employee Health Benefits
FEHBP	Federal Employee Health Benefits Program
FEI	Federal Executive Institute
FERS	Federal Employee Retirement System
FERS RAE	Federal Employee Retirement System Revised Annuity Employee
FERS FRAE	Federal Employee Retirement System Further Revised Annuity Employee
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act of 1996
FFS	Fee For Service
FIS	Federal Investigative Services
FISMA	Federal Information Security Management Act of 2002
FLRA	Federal Labor Relations Authority
FLSA	Fair Labor Standards Act
FLTCIP	Federal Long Term Care Insurance Program

Acronym	Definition
FMFIA	Federal Managers' Financial Integrity Act
FPRAC	Federal Prevailing Rate Advisory Committee
FS	Financial Services
FSA	Flexible Spending Account
FSAB	Financial Systems Advisory Board
FSC	Facilities, Security, & Contracting
FSM	Financial Systems Modernization
FSS	Federal Supply Schedule
FSSC	Federal Shared Services Center
FTE	Full-time Equivalent
FWA	Fraud, Waste, and Abuse guidance
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GAS	Government Account Series
GFIS	Government Financial Information System
GMRA	Government Management Reform Act of 1994
GPRA	Government Performance and Results Act of 1993
GPRAMA GPRA	Modernization Act of 2010
GS	General Schedule
GSA	General Services Administration
HB	Health Benefits
HC	Human Capital
HCAAF	Human Capital Assessment and Accountability Framework
HCDW	Health Care Data Warehouse

Acronym	Definition
HCLMSA	Human Capital Leadership and Merit Systems Accountability Division
HDHP	High Deductible Health Plan
HHS	Department of Health and Human Services
HIT	Health Information Technology
HMO	Health Maintenance Organizations
HR	Human Resources
HRD	Human Resources Development
HR LOB	Human Resources Line of Business
HRS	Human Resources Solutions
HRSPC	Human Resources Service Provider Consortium
HSA	Health Savings Account
ICFR	Internal Control over Financial Reporting
IO	International Operations
IP	Improper Payment
IPA	Independent Public Accounting (firm)
IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
IRS	Internal Revenue Service
ISPP	Information Security and Privacy Policy
ISSO	Information Systems Security Officers
IT	Information Technology
IV&V	Independent Verification and Validation
LAIRS	Labor Agreement Information Retrieval System

Acronym	Definition
LEIE	List of Excluded Individuals/ Entities
LI	Life Insurance
MD&A	Management Discussion and Analysis
MDC	Management Development Center
MetLife	Metropolitan Life Insurance Company
MLE	Minimum level of earnings
MLR	Medical Loss Ratio
MOU	Memorandum of Understanding
MSPB	Merit Systems Protection Board
N/A	Not applicable
NFR	Notice of Finding and Recommendation
NRC	Nuclear Regulatory Commission
NSPS	National Security Personnel System
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
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
OPEB	Other Post Employment Benefits
OPM	U. S. Office of Personnel Management
ORB	Other Retirement Benefits
OWCP	Office of Workers' Compensation Program

Acronym	Definition
PAAT	Performance Appraisal Assessment Tool
PACER	Payments, Claims, and Enhanced Reconciliation
PAR	Performance and Accountability Report
PART	Program Assessment and Rating Tool
PBM	Pharmaceutical Benefits Manager
PIC	Policy and Internal Control
PMF	Presidential Management Fellows
PMO	Project Management Organization
POA&M	Plan of Action & Milestones
PPA	Planning and Policy Analysis
PRHB	Postretirement Health Benefits
PSRHB	Postal Service Retiree Health Benefits
PSRHBF	Postal Service Retiree Health Benefits Fund
PY	Prior Year
QIA	Quality and Integrity Assurance
RF	Revolving Fund
RMP	Risk Management Plan
RS	Retirement Services
RSM	Retirement Systems Modernization
RSS	Retirement Surveys and Students
SAISO	Senior Agency Information Security Official

Acronym	Definition
SAM	System for Award Management
SAOC	Spending Authority from Offsetting Collections
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SDLC	Systems Development Life Cycle
SES	Senior Executive Service
S&E	Salaries and Expenses
SFFAS	Statement of Federal Financial Accounting Standards
SNC	Statement of Net Cost
SSA	Social Security Administration
TBD	To Be Determined
TJF	Treasury Judgment Fund
TMA	Training and Management Assistance
TOP	Treasury Offset Program
U/P	Underpayment
USAJobs USAJobs	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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