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U.S. OFFICE OF PERSONNEL MANAGEMENT

Performance and Accountability Report for Fiscal Year 2000

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U.S. OFFICE OF PERSONNEL MANAGEMENT

Performance and Accountability Report for Fiscal Year 2000

March 29, 2001

table OF CONTENTS

a message FROM THE DIRECTOR

I am pleased to present our first Performance and Accountability Report. This is our second year of reporting under the Government Performance and Results Act and the first for combining performance reporting with accountability reporting. This Report provides a thorough and complete discussion of our program and financial accomplishments during fiscal year 2000. Equally important, it speaks to our vision for the future not just of our agency, but of the Federal workforce as well.

The Office of Personnel Management is the leader in developing strategic human resources policy for the Federal government and our ultimate objective is that the Federal workforce be citizen centered, results oriented, efficient and effective. The programs we administer support the Federal agencies in areas that include but are not limited to recruitment, performance management and development, executive leadership, labor-management relations, compensation, and employee benefits.

This Report describes our many accomplishments during fiscal year 2000 that strengthened the programs and systems we administer and demonstrate our progress toward achieving our Strategic Goals. We have worked hard to meet the strategic human capital challenges that confront the Federal government as an employer, and while much remains to be done, much progress has been made.

We recognize that the worker of the 21st century has new needs, and also that the American citizens of this new century have greater expectations of their Government. We are committed to addressing those needs and meeting those expectations.

Steven R. Cohen
Acting Director
U.S. Office of Personnel Management

a message FROM THE CHIEF FINANCIAL OFFICER

This is our first Performance and Accountability Report. In it, we have integrated financial and results-oriented performance information about our agency. The Report contains our audited consolidated financial statements, which we prepared to meet the requirements of the *Government Management Reform Act of 1994*, and our annual performance report, as required by the *Government Performance and Results Act of 1993*.

We have been entrusted with more than a half a trillion dollars in assets that belong to our primary stakeholders — Federal employees, retirees and their survivors and dependents. We recognize our accountability for these resources, which encompasses safeguarding them from fraud, waste and mismanagement and providing a timely and accurate accounting of how we use them. Consequently, I am very pleased to be able to report that the independent public accounting firm of KPMG LLP has issued an unqualified or "clean" opinion on both our consolidated financial statements and on the "stand-alone" statements of the Retirement, Health Benefits, and Life Insurance Programs. I believe this accomplishment reflects our commitment to fulfilling our stewardship responsibilities with sound financial management.

I am also pleased to report that we have made significant progress in addressing our material weaknesses in management control and nonconformances with Federal financial systems requirements. During fiscal year 2000, we resolved four material weaknesses and nonconformances relating to the Retirement, Health Benefits and Life Insurance Programs, and one relating to financial management documentation. We also made noteworthy progress toward the resolution of two other issues — Health Benefits Program Enrollment and Premium Reconciliation and Fraud and Abuse in the Health Benefits Program.

While we have made important strides in financial management during the year, we know we have work left to do. We are addressing internal control and financial management systems issues relating to our Revolving Fund Programs and Salaries and Expense account. To resolve these, we are working to implement a new core financial management system in fiscal year 2003 that will meet all Federal requirements. In addition, we are working with our Investigations Service to streamline our processes in order to support the growth in their business volume.

Our accomplishments in financial management during fiscal year 2000, including the preparation of this Report, could not have been possible without the hard work of our financial, actuarial and audit staffs. I very much appreciate their professionalism and dedication.

Kathleen M. McGettigan

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

overview of the
OFFICE OF PERSONNEL MANAGEMENT

Introduction

The U.S. Office of Personnel Management oversees human resources management for the Federal government. As the leader in human resources management, we develop policies, in cooperation with Federal agencies and other stakeholders, so that agencies can recruit, hire, and retain workforces best suited to their missions. We oversee the Governmentwide implementation of these policies so that agencies uphold national values that are embodied in law — including merit principles and veterans' preference. We manage Governmentwide systems that support agencies and their employees by administering retirement, insurance, and other benefit systems for Federal employees and annuitants. Also, we administer Governmentwide compensation systems and maintain automated information systems that are used to inform the public of Federal employment opportunities and provide information to decision makers and the public about the nature and size of the current Federal workforce. In addition, we provide a wide range of human resources management advice, assistance, and other services to the agencies.

As the President's agent and advisor for operating and continuously improving the Government's human resources management (HRM) systems, we have been entrusted by Congress and the public with regulating these systems and administering Governmentwide programs.

Our Current Role

The people at OPM —

- provide leadership to strengthen human resources management throughout the Government
- help set human resources management rules with agencies' involvement
- protect the merit system and veterans' rights through oversight
- help agencies recruit nationwide
- support agencies in merit-based candidate assessment and hiring
- support agencies in workforce restructuring
- ensure the suitability of Federal employees and provide for personnel investigations
- promote executive leadership for a results-oriented Government
- provide Governmentwide human resources development leadership and policy
- deliver executive and management development and training for the Government's leaders
- operate the retirement program for Federal employees, the largest program in the Nation

- manage Federal employee health and life insurance programs
- administer the systems for setting Federal compensation and benefits
- provide tools for effective employee performance management
- promote effective labor-management and employee relations
- enhance the ability of Federal employees to balance work and personal responsibilities
- enhance and administer the Government's family-friendly leave programs
- advance Governmentwide automation of HRM systems
- manage a comprehensive workforce information system
- seek improvement through innovative HRM projects
- provide financial management and oversight of the employee benefit trust funds

progressing
TOWARD OUR STRATEGIC GOALS

Key Accomplishments in FY 2000

During FY 2000, we pushed forward with our agenda to strategically align Federal human resources management with agencies' missions and strategic goals. We ensured that agency human resource management systems operate within the principles of the merit system, delivered our services in a high quality and cost effective manner, and provided competent financial management of the employee benefit trust funds. The Management Discussion and Analysis in this report provides an overview of the Annual Performance Goals we met during FY 2000 and the status of the strategic outcomes we hope to achieve. That overview is supplemented by the detailed analysis of our performance with respect to all of our Annual Performance Goals and indicators in Appendix A. The following is a discussion of our most significant accomplishments and how they are important to achieving our strategic goals.

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Our Annual Performance Plan for FY 2000 was developed around the five goals described in our first Strategic Plan, which was published in September 1997. Although we restated our goals in the updated Strategic Plan published in September 2000, we are reporting our accomplishments according to the original five, as follows:

Goal I Provide policy direction and leadership to recruit and retain the Federal workforce required for the 21st Century.

Goal II Protect and promote the merit-based Civil Service and the employee earned benefit programs through an effective oversight and evaluation program.

Goal III Provide advice and assistance to help Federal agencies improve their human resources management programs to effectively operate within the economy, demographics and environment of the 21st Century.

Goal IV Deliver high-quality, cost-effective human resources services to Federal agencies, employees, annuitants and the public.

Goal V Establish OPM as a leader in creating and maintaining a sound, diverse, and cooperative work environment.

The outcome we seek under **Strategic Goal I** is that the Federal workforce enables agencies to meet their missions, while reflecting the diversity of the American people. We recognize that we do not and can not directly affect this outcome and that our role is to provide the Federal agencies with the leadership and tools they need to achieve this. In measuring progress toward this outcome, we assess whether we have provided the necessary leadership and delivered the needed tools, as well as whether the agencies are meeting their missions and the American people are being well served.

In FY 2000, we provided agencies with new tools and systems to strengthen their recruitment programs and enhanced the employee benefits package so that they can retain their most talented workers. We moved toward this outcome in many ways during the year, and our most significant accomplishments were as follows.

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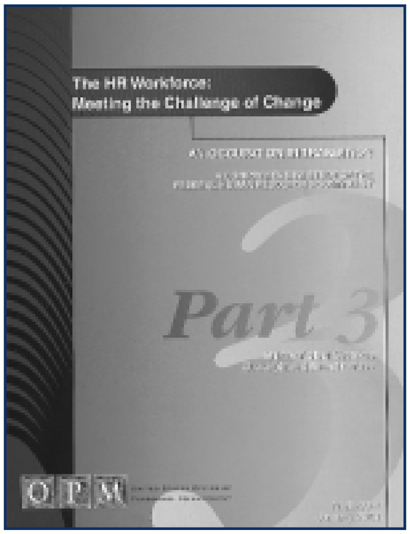

Workforce Planning. Workforce planning is a critical component of human capital management and planning as agencies confront the loss of talent and experience presented by the impending retirement of the baby boom generation. Agencies must implement succession planning programs to address the loss of skills needed in the modern workplace. Other observers have also highlighted this issue, including the General Accounting Office (see GAO's publication *High Risk Series, an Update, January 2001*), the National Academy of Public Administration, the International Personnel Management Association, and others. We continued our actions to address these needs during FY 2000 by developing the Workforce Planning and Analysis System and making it available to agencies. We conducted the first annual Workforce Planning Conference and a workshop which introduced "A Guide to Strategically Planning Training and Measuring Results," as part of our effort to lead agencies in aligning human resources with their strategic needs. Finally, we published *The HR Workforce: Meeting the Challenge of Change* in January 2000.

Recruitment and Retention. In separate efforts that complement the Workforce Planning and Analysis System, we strengthened the options that Federal agencies have to offer by debuting the Career Intern Program, publishing proposed regulations for the repayment of student loans (authorized by 5 U.S.C. 5379), and expanding the sick leave program. The Career Intern Program is based on a framework developed by an interagency Career Intern Task Force we convened during the year. The Career Intern Program will help agencies identify and recruit high quality and diverse candidates for mission critical occupations. With the authority to repay student loans for certain Federal employees and new hires, Federal agencies will have another tool to compete for highly qualified individuals and meet changing human resources and agency needs in the 21st century. Under our new expanded leave benefits policy, Federal employees may use up to 12 weeks of earned sick leave to provide care for a family member with a serious health condition. The new benefit is valuable in helping employees both at work and home and is another example of OPM's efforts to make the Federal government a model employer and an employer of first choice. Work/life and wellness programs also hold promise for improving agency abilities to recruit and retain a skilled workforce. Like the private sector, these programs are considered part of the cost of doing business. We have provided agencies with information about the new child care and health initiatives. For employees, these programs are intended to improve their health status and help them better manage their work and personal responsibilities.

Long-Term Care Insurance. With the passage of the Long-Term Care Security Act on September 19, 2000, long-term care insurance became a reality for Federal workers, members of the military, retirees and their families. This program is the first new benefit offered to Federal employees since the inception of the Federal Employees Retirement System, with its Thrift Savings Plan component, in June 1986. We worked closely with staff from the Department of Health and Human Services and congressional staff to develop a benefit package that will reflect current and anticipated market conditions and give the Federal population the opportunity to purchase a quality product at a group discount rate. We have already begun the work to implement the Long-Term Care Insurance Program by October 2002. We have launched a Website for the Program, and are positioning the resources to develop implementing regulations, solicit and review contract proposals, and develop the educational materials for potential program enrollees.

These initiatives put in place tools, systems, and programs the agencies need to recruit and retain a high quality workforce. However, we must also examine whether these actions are effective in terms of our collaboration with the agencies in developing them and their usefulness. Also, we must determine whether these initiatives are achieving the outcomes we seek: that agencies are aligning human resources management with their missions, and that they are able to recruit and retain a Federal workforce that enables them to meet their missions.

To measure these outcomes, we began laying the foundation for the corporate measurement framework described in our new strategic plan and discussed later in this report. We used existing data collection tools to establish baseline performance levels for several of these measures. The HR Policy Leadership Results shown in the Management Discussion and Analysis section establish baselines against which we will gauge future progress. As shown in that table, the results were generally positive, except that only 45% of the HR Directors indicated that their agency's workforce has the skills needed to meet the mission of their agencies.

This aligns with the belief held by many observers that the Federal government's ability to recruit the kind of workforce it needs remains a great challenge. It also supports the General Accounting Office assessment that the Government's approach to managing its people is "the critical missing link in reforming and modernizing the Federal government's management practices."

To ensure we are addressing this challenge, we established several new objectives in our September 2000 Strategic Plan. These objectives are:

- By 2002, we will attempt to create a flexible, competitive and performance-oriented strategic rewards environment that allows the Government to recruit, manage, and retain a high quality and diverse Federal workforce.
- By FY 2004, the Government's executive resources systems will appropriately distinguish leadership and technical/professional attributes and help agencies develop, select, and manage an exceptional executive corps.
- By FY 2005, Governmentwide selections will be based on assessment tools that are more comprehensive in assessing the full range of competencies needed to perform the jobs of the future.

The programs and tools we put into place during FY 2000, and the initiatives we have planned for the future will not affect the outcome measures immediately. However, we expect to see gradual improvement in the measures over a three to five year span. We have included a thorough discussion of our corporate measurement framework and the measures we will implement in the Performance Measurement section of this report.

Strategic Goal II envisions that we will maintain consistent adherence across agencies to the nine merit principles and be a model of financial management and integrity in our administration of the employee benefit trust funds. We moved closer to both of these outcomes as demonstrated by the following accomplishments.

Unqualified Audit Opinions. We continued to carry out our fiduciary responsibilities regarding our financial management of the Civil Service and Federal Employees Retirement programs, the Federal Employees Health Benefits Program, and the Federal Employees' Group Life Insurance Program. The results we expect to achieve are that these programs will be in full compliance with all Federal financial management standards and protected from waste, fraud, and abuse. We made significant strides toward these outcomes during FY 2000, the most significant being the unqualified audit opinions received during FY 2000 on the FY 1999 financial statements for the trust fund programs and the unqualified opinions received for OPM's consolidated statements for FY 2000.

In addition, our independent auditors identified no new material weaknesses in our financial systems during the audit of the FY 2000 financial statements. Finally, we made progress during FY 2000 toward the elimination of existing material weaknesses. Many of these material weaknesses are listed among our Management Challenges and resolving them represents an important step toward bringing the financial systems into full compliance with the Federal Financial Management Improvement Act.

Continued Vigilance Over the Merit System. In protecting the merit-based Civil Service, we ultimately seek the consistent honoring of and adherence to the nine merit principles in all Federal agencies. However, we are limited in the extent to which we can influence this outcome and measure our results. We believe that our best opportunity to influence this outcome lies in maintaining an active and effective oversight program and our FY 2000 performance goals reflect this concept.

The overall results of our merit system oversight activities, shown in the Management Discussion and Analysis, indicate a fairly positive employee perception about the practice of human resources management in accordance with the nine merit principles in 5 U.S.C. 2301(b).

To strengthen the effectiveness of our oversight program and improve employee perceptions regarding equity and merit in agency HRM programs, we established the following objectives in our revised Strategic Plan.

- By FY 2005, all agencies will have implemented accountability systems that effectively hold responsible officials accountable for their human resources operations and results.
- All agency units that conduct employment examinations under our delegated authority are fully trained, covered by effective internal examining accountability systems, and meet our criteria for recertification.
- Decisions of Federal adjudicatory agencies and decisions of OPM in acting on appeals are consistent with civil service laws, regulations, and policies.

In pursuit of **Strategic Goal III,** we maintained and enhanced our long-standing tradition of providing topnotch advice and assistance to support Federal agencies as they sought to improve their human resources management systems and programs to meet changing mission and workforce needs and to anticipate further changes in the 21st century. Our various programs continued to expand the variety and forms of information and assistance that is available through the OPM Website, and to receive positive feedback from our various customers that this is one of the most effective ways we can provide information and assistance. We were also mindful of the benefits of more direct interaction and networking and continued our series of successful national conferences whereby we foster interagency communications, nurture a sense of community among specialists in particular HRM areas, and bring the best thinkers and doers from the public and private sectors together to share information and ideas. Such conferences included:

- Solutions 2000, which focused on a wide vareity of recruitment, hiring, staffing, and workforce restructuring strategies, programs, and services;
- Benefits Interchange 2000, where the benefits officers throughout the Government shared the latest approaches to linking personnel and payroll and assuring that customers get the best services and information available;

- The Syposium on Employee and Labor Relations (SOLER) 2000, which continued to emphasize dispute resolution techniques as well as recent developments and emerging issues in the case law that so directly affects these programs in the agencies; and

- The Strategic Compensation Conference 2000 which shared the latest flexibilities and developments in pay, leave, classification, performance management, and incentive awards, and continued to cultivate the growing community of specialists in the agencies who are responsible for administering an increasing set of compensation options.

Strategic Goal IV describes our intentions to deliver high quality services to our customers (agencies, employees, annuitants, and the public) in a way that is cost effective and meets their evolving needs. We will achieve this outcome by leveraging information technology that will deliver these services on demand, more accurately, more consistently, and at the lowest possible cost. In recent years, we developed the broad designs for these modern support systems. During FY 2000, we defined these designs in more specific terms.

Retirement Systems Modernization. The Retirement Systems Modernization is OPM's central strategy to meet the long-term customer services and financial management objectives for the Civil Service and Federal Employees Retirement Systems. The need to modernize these systems was made more evident by the rising processing times we observed during FY 2000 on claims submitted by retiring Federal employees to collect their retirement annuity from OPM. Although financial hardship is avoided for these beneficiaries by our practice of paying an estimated interim annuity while we process their claims, the higher processing times indicate that the paper-bound business processes and older technology on which our current systems are based are inadequate for providing high quality and cost-effective benefits in the future

The Modernization project met the goals and objectives established for FY 2000. Having developed our vision for the modernized system, during FY 2000 we developed "blue prints" for the six core processes that will make this vision a reality. We completed four of the six core process blueprints — member administration, claim to payment, annuity roll maintenance, and benefits counseling — during the year. We also began a technology blueprint that describes the initial technology architecture for the modernized system. Together, the six core processes and the technology blueprints provide the design of the modernized retirement system. We also developed a performance measurement program this past year that will enable us to measure our progress as we modernize. We are now using these measures to support our corporate performance measures.

Retirement Systems Modernization will share technology with another large modernization effort, the Human Resources Data Network. We are developing plans for how these two large information technology projects will be coordinated, and how they will complement and supplement each other. These projects are part of an ever expanding array of technology implementations that include Employee Express, USAJOBS, and the OPM Website that enable us to deliver high quality and cost-effective human resource services to Federal agencies, employees, annuitants, and the public.

…the public still wants the services they have come to expect and demand from Government, which means we must continue to recruit, manage, and retain the people who deliver those services.

Y2K Roll Over. With respect to **Strategic Goal V,** as in most agencies, preparing for the Year 2000 (Y2K) roll over was one of the largest, most expensive and most complex technical and management tasks ever undertaken by OPM. This multi-year, agencywide effort to address the impact of the Y2K date change was highly successful due to extensive planning and coordination. We further ensured success by extensive end-to-end testing and compliance verification. As a result, all OPM systems operated properly on and after January 1, 2000.

Federal Human Resources Management— The Challenges Ahead

In the debate over the future size of Government (particularly a smaller Government) some people make the assumption this translates into less need for attention to recruiting, managing, and retaining a cadre of good Government workers. However, the public still wants the services they have come to expect and demand from Government, which means we must continue to recruit, manage, and retain the people who deliver those services. We must continue to focus attention on strategic human resources management, across Government, and provide the policies, tools, and flexibilities that Federal agencies must have to do this well.

Strategically managing the 1.8 million members of the Federal workforce during the 21st century will have more impact on how well the Government performs than any other action taken by Federal leaders. From January 1993 to January 2000, the Federal government civilian workforce was reduced by 384,000 employees. Many of those who left were among the most experienced professionals in their agencies. Even as the workforce became smaller, new responsibilities and new ways of doing existing work combined to demand new skills. Additional skill losses will occur as the baby boom generation reaches retirement age over the next five years.

We must develop human resources management strategies that are up to the task of recruiting and retaining the high quality and diverse workforce the Government needs. More discretion will be an important element of these strategies, but we must also balance new flexibility with the fundamental fairness and equity issues that are embodied in the laws and principles that govern the Federal civil service, such as respect for the principles of merit-based personnel decisions, veterans' preference and workforce diversity.

This is the framework for all that we are doing to lead strategic human resources management:

- We will continue to redesign the basic Federal systems for recruitment, examining, pay, classification, training, and performance management to provide more flexibility.
- We will continue to use automation to make these systems highly efficient and customer friendly.
- We will increase awareness that initiatives such as strategically planning training, work/life and wellness policies, and cooperative relationships between labor and management will help agencies meet mission goals.
- We have delegated broad authorities for hiring, training, rewards, and performance management to agencies, and will continue to encourage agencies to redelegate them to line managers, so they can introduce and use new approaches in ways that best meet their agency needs.
- As we delegate authorities and increase flexibilities, we will continue our careful oversight to ensure that managers act within the fundamental values of our Federal public service.

- We will continue to send a clear message that if we are to obtain the skills and talents we must have to be successful, we must tap into the rich diversity of American society, including minorities, women, and people with disabilities.
- Where new authority is needed, we will continue to work with Congress to revise the laws that shape our civil service systems. We expect new ideas to emerge as we continue these discussions.

While these challenges are great, we are not alone in resolving them. We will work with senior leaders within the Administration, line managers, and human resources management staffs in individual agencies, and collaborate with other stakeholders, to develop and implement new ideas.

management DISCUSSION AND ANALYSIS

The U.S. Office of Personnel Management is the President's agent and advisor for managing the Federal government's human resources management systems. How well the Federal government works depends on Federal workers and it is our core belief that the Government's human resources — our 1.8 million dedicated public servants — are our most vital asset. Like the private sector, we must fully engage in the "war for talent" if we are to successfully create the workforce for the 21st century. We must secure, develop, empower, and retain the talented people required to fulfill our mission for the American people. We must give agencies the tools and strategies to meet their unique needs in the new millennium. To accomplish this, we work closely with employing agencies to create systems that enable them to recruit, develop, manage and retain a high-caliber and representative workforce.

Our vision is that the overall quality of Government services, programs and operations will meet or exceed the public's expectations, so that Federal employees will be regarded as knowledgeable, helpful, ethical and committed to quality.

Our Mission and Strategic Goals

Four words — *Lead, Protect, Serve, and Safeguard* — describe how we carry out our responsibilities and provide the framework for our mission.

Our Mission

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

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

We *PROTECT* national values embodied in law, including merit principles and veterans' preference;

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

We *SAFEGUARD* the assets we hold in trust for participants in earned benefit programs.

Our Strategic Goals

In our first strategic plan in September 1997, we described five strategic goals.

Goal I Provide policy direction and leadership to recruit and retain the Federal workforce required for the 21st Century.

Goal II Protect and promote the merit-based Civil Service and the employee earned benefit programs through an effective oversight and evaluation program.

Goal III Provide advice and assistance to help Federal agencies improve their human resources management programs to effectively operate within the economy, demographics and environment of the 21st Century.

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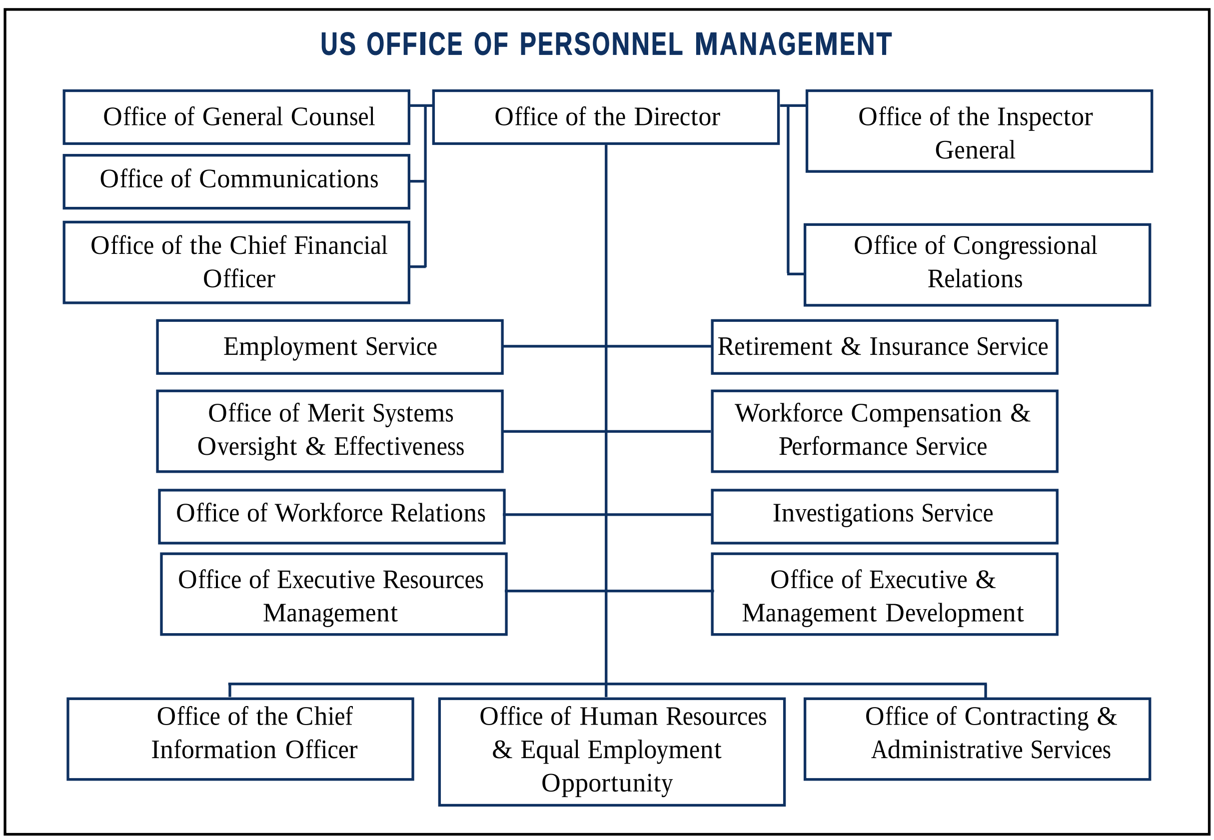
Goal V Establish OPM as a leader in creating and maintaining a sound, diverse, and cooperative work environment.

How We Are Structured to Accomplish Our Mission

We are led by a Director, who is appointed by the President to serve a four-year term and is confirmed by the U.S. Senate. Our Deputy Director is also appointed by the President and confirmed by the Senate. We are organized into the following eight core functional units, each providing Governmentwide policy and services in a specific area of human resources management: the Employment Service; the Investigations Service; the Retirement and Insurance Service; the Workforce Compensation and Performance Service; the Office of Merit Systems Oversight and Effectiveness; the Office of Workforce Relations; the Office of Executive Resources Management; and the Office of Executive Management Development. [See organization chart below.]

We also have four “corporate management” offices — such as our the Offices of the Chief Financial and Chief Information Officers — and several staff offices.

Many of our approximately 3,700 employees are located in our headquarters in Washington, D.C. We also have a field presence in 16 major cities across the country, and two operating centers, in Macon, Georgia, and Boyers, Pennsylvania.



Information about Our Programs

We accomplish our mission and strategic goals through the administration of programs that address the full range of Federal human resources management issues including oversight of the merit system, design and delivery of employee benefits, classification, pay and leave systems, maintenance of personnel security, promoting executive development, and the support of workforce relations.

Retirement Program

The Retirement Program covers essentially all Federal civilian employees. It is comprised of two defined benefit programs: the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). The basic benefits of both systems are paid by the Civil Service Retirement and Disability Fund (CSRDF). By law, CSRDF funds may be used to pay all disbursements and operating expenses of both programs.

The Civil Service Retirement System. The Civil Service Retirement System (CSRS) was created by the *Civil Service Retirement Act* in 1920 to provide retirement benefits for Federal employees. The CSRS is a stand-alone pension system — its defined benefits are not intended to be a supplement to or be supplemented by other retirement benefits. The CSRS covers most Federal employees hired before 1984 and provides benefits to the survivors of deceased CSRS annuitants and employees. For all practical purposes, the system was closed to new entrants in 1984.

The Federal Employees Retirement System. The Federal Employees Retirement System (FERS) was established on June 6, 1986, by the *Federal Employees' Retirement System Act of 1986* (P.L. 99-335). FERS is a three-part pension program, using Social Security as a base and providing a defined benefit component and a thrift savings plan. OPM administers the defined benefit component of FERS. The Federal Retirement Thrift Investment Board, an independent agency, administers the thrift savings plan. The FERS covers most employees first hired after December 31, 1983, and provides benefits to the survivors of deceased FERS annuitants and employees.

The table on the following page presents a general comparison of CSRS and FERS provisions:

Retirement Program Participation. FERS membership among active employees overtook CSRS membership in 1995 and by the end of fiscal year 2000 represents 60% of all covered employees. We expect the CSRS population to decline significantly over the next decade, as CSRS participants retire or leave Federal service for other reasons. The following chart shows CSRS and FERS participation among active employees:

	1996	1997	1998	1999*	2000
CSRS	1,343,000	1,272,000	1,189,000	1,009,165	947,918
FERS	1,447,000	1,463,000	1,497,000	1,536,339	1,569,656
Total	2,790,000	2,735,000	2,686,000	2,545,504	2,517,574

* Revised

As the FERS employee population has grown, so too has the FERS annuitant population. As can be seen below, the number of FERS annuitants is still quite small, representing only 5% of the total annuitant population at the end of fiscal year 2000.

Provision	CSRS	FERS
Unreduced annuity	Age 55 with 30 years of service; age 60 with 20 years of service; age 62 with 5 years of service.	Age 55 with 30 years of service gradually increasing until it reaches age 57 for employees born between 1948 and 1970 or later; age 60 with 20 years of service and age 62 with 5 years of service.
Basic annuity formula	High 3 years average salary times 1.5 percent times first 5 years; 1.75 percent times next 5 years and 2 percent times service over 10 years.	High 3 years average salary times 1.0 percent times years of service, or 1.1 percent if retiring on or after age 62 with 20 years of service.
COLAs	Full inflation rate measured by CPI (Consumer Price Index).	None before age 62 for most employees; full CPI at age 62 if CPI is less than 2 percent, 2 percent if CPI is 2 to 3 percent, and CPI less 1 percent if CPI is higher than 3 percent.
Refund options	May choose to withdraw contributions in lump sum when leaving. May redeposit, if not may get actuarially reduced annuity.	May choose to withdraw contributions in lump sum when leaving. Will receive no annuity. Refunded contributions may not be redeposited. Refunds receive market rate interest.
Disability benefits	Benefit generally equal to projected benefit at age 60 or 40 percent of high-3 average salary, whichever is less.	Total FERS and Social Security benefit equal to at least 40% of high-3 salary plus 40% of Social Security disability benefits.
Survivor benefits	Pays benefits to the eligible survivors of employees with at least 18 months of creditable civilian service. If while an active employee, spouse receives 55 percent of accrued benefit. If while retiree, spouse receives 55 percent of annuity.	Pays benefits to the eligible survivors of employees with at least 18 months of creditable civilian service. If while an active employee with less than 10 years of service, spouse receives lump-sum payment plus greater of half of high-3 average pay, or half of annual rate of pay at death. If while an active employee with more than 10 years, spouse will also receive an annuity equal to one-half of accrued Basic Benefit.
Death Benefits	Spouses of employees receive 55 percent of the annuity the employee would have received had the employee retired on disability. Spouses of deceased annuitants generally receive 55 percent of the annuity. Children of annuitants and employees receive a flat monthly amount.	Spouses of employees who die in service after 18 months of service receive $15,000 plus one-half of the annual pay at death, or one-half of the highest three years average pay at date of death, whichever is higher. If the employee had 10 years of service, the spouse also receives an annuity equaling 50 percent of the accrued retirement benefit. Spouses of annuitants generally receive 50 percent of the annuity. Children of annuitants and employees receive a flat monthly amount, minus the amount of Social Security benefits payable to them.

	1996	1997	1998	1999*	2000
CSRS	2,265,275	2,269,074	2,271,188	2,258,757	2,247,691
FERS	67,875	83,203	98,162	109,360	128,813
Total	2,333,150	2,352,277	2,369,350	2,368,117	2,376,504

* Revised

Health Benefits Program

The Health Benefits Program was established by the *Federal Employees Health Benefits Act of 1959* (P.L. 86-382). The law made basic hospital and major medical protection available to active Federal employees, annuitants, and their families. The law also allows OPM to contract with qualified carriers and establish program-wide eligibility requirements. The Program has several features that make it one of the Nation's leading health benefits plans: participants have an unparalleled choice in the variety of available health plans; they are not required to pass a medical exam in order to enroll; there are no coverage exclusions for pre-existing conditions or waiting periods; and participants are given an opportunity to change their coverage every year during the annual Open Season.

During fiscal year 2000, we implemented an important new benefit: premium conversion. A form of cafeteria plan, it allows enrollees in the Program to elect to have deductions taken from their salaries on a pre-tax basis.

Types of Plans. In fiscal year 2000, 291 health benefits plans participated in the Program. These plans generally are of two types: Fee-for-Service (comprised of the Federal employees plan offered by the Blue Cross and Blue Shield Association and the employee organization-sponsored plans) and health maintenance organizations (HMOs). A Fee-for-Service (FFS) plan is a traditional type of insurance that allows the participant to use any doctor or hospital; they are called FFS because doctors and other providers are paid for each service. An HMO is a health plan that provides care through a network of physicians and hospitals located in particular geographic or service areas.

Health Benefit Program Enrollment. Enrollment in the Program is 4.1 million, or about 86% of the eligible population — 2.2 million enrollees are active employees and 1.9 million are annuitants. Including dependents, the Program covers approximately 9 million individuals. Enrollment in the Health Benefits Program, by type of plan, is presented below. As can be seen below, enrollment in the Program as a whole and by type of plan has remained relatively constant since 1996.

	1996	**1997**	**1998**	**1999**	**2000**
FFS	2,922,451	2,920,031	2,888,827	2,892,681	2,898,144
HMO	1,219,240	1,212,985	1,230,354	1,229,969	1,185,642
Total	4,141,691	4,133,016	4,119,181	4,122,650	4,083,786

Life Insurance Program

The Life Insurance Program was created in 1954 by the *Federal Employees Group Life Insurance Act* (P.L. 83-598) and covers over 4 million Federal employees and annuitants — about 90% of eligible employees and annuitants. Administered through a contract with the Metropolitan Life Insurance Company (MetLife), it is the largest group life insurance program in the world.

Types of Coverage. The Program provides group term life insurance. As such, it does not build up any cash value or paid-up value. It consists of Basic life insurance coverage and three options:

Basic life insurance is determined by the amount of an employee's annual rate of basic pay, rounded to the next highest thousand, plus two thousand dollars. Most Federal employees are automatically covered by Basic insurance unless they decline.

Standard optional insurance is $10,000 of coverage an employee can elect in addition to Basic insurance.

Additional optional insurance is coverage an employee can elect based on multiples of his or her basic pay.

Family optional insurance is coverage an employee can elect in multiples of $5,000 up to a maximum of $25,000 for spousal coverage, and in multiples of $2,500 up to a maximum of $12,500 for each eligible child.

Program Enrollment. The following table shows enrollment in the Life Insurance Program for Basic life insurance and the three optional coverages (in thousands). As can be seen, although enrollment in the Program as a whole has remained generally constant since 1996, Additional and Family coverage has experienced an increase in popularity in the last year or two, while enrollment in Standard has been consistently falling.

	1996	1997	1998	1999	2000 Estimated
Basic	4,024	3,982	3,973	3,953	3,941
Standard	1,394	1,379	1,356	1,352	1,330
Additional	1,304	1,288	1,277	1,294	1,375
Family	1,355	1,226	1,220	1,299	1,347

Insurance-in-Force. Insurance-in-force is the estimated dollar value of all Program coverage, including Basic insurance, and Standard, Additional, and Family optional insurance. As can be seen in the following table, insurance-in-force increased by 11% this year due in large part to decisions made by participants during the open enrollment period last April.

(in Billions)	1999	2000
Basic	$276.1	$305.3
Standard	22.1	22.2
Additional	191.6	209.6
Family	9.7	18.5
Total	$499.5	$555.6

Life Insurance Claims. MetLife adjudicates and pays the vast majority of claims for the Life Insurance Program. Claims paid by MetLife are, as follows (in $ millions):

	1996	1997	1998*	1999*	2000
Number of Claims Paid	74,671	73,705	72,314	73,034	78,657
Dollar Value of Claims Paid	$1,551	$1,556	$1,565	$1,638	$1,812

* Revised

Human Resources Management Programs

Merit Systems Oversight Programs

Merit Systems and Veterans' Rights Oversight. The administration of a civil service merit system ensures compliance with Federal personnel laws and regulations. Merit principles ensure that Federal agencies invest taxpayers' money only in employees who are most likely to do a good job, and that they base hiring, pay, promotions, and reductions-in-force on a process that is objective, job-related, and fair. Veterans' rights are an integral part of the merit-based personnel system that we safeguard.

Agency adherence to the merit principles and veterans' rights is assessed by conducting oversight reviews at the Governmentwide, agency, and installation levels. The information gathered from these reviews is used for policy development to ensure compliance with both the merit principles and personnel laws and regulations. Work is conducted with other agencies on demonstration projects to explore potential improvements in personnel systems and better and simpler ways to manage Federal personnel.

Workforce Information System. OPM sets the standards for the maintenance of personnel records at employing agencies and provides instructions for release of personnel data under the Freedom of Information and the Privacy Acts. Data pertaining to the Federal workforce is collected and maintained to support personnel management decision-making. In addition, statistical data on the diversity of the Federal workforce is gathered, analyzed, and maintained and evaluation reports prepared for the Congress.

Employment Services Programs

Employment Policy and Delegated Examining Unit Certification. The authority for most employment examining was delegated to employing agencies in 1994, while responsibility to ensure that they adhere to corporate policies for staffing was retained at OPM. These policies include merit principles, veterans' preference, and a commitment to equal opportunity. To make delegated examining effective, training and reference materials are provided to employing agencies and their examining operations are certified through the Delegated Examining Unit Certification Program.

Workforce Planning Programs. OPM establishes policy, provides guidance and tools, and administers programs for workforce planning, reductions-in-force, separation incentives, and early retirement, as well as provides advice on internal reorganization and career transition initiatives. These activities ensure that agencies can effectively address their strategic human capital needs and maintain diversity in the workforce. Many of these workforce planning services are provided on a reimbursable basis.

Administrative Law Judge Program. The Governmentwide Administrative Law Judges (ALJ) program allows employing agencies to fill those positions in a way that protects public confidence. The program reviews and approves competitive employment actions, classifies positions, and administers the ALJ loan and senior ALJ employment programs.

Employment Information. The employment information program administers a Governmentwide listing of all job vacancies in the competitive service currently open to outside applicants, plus many vacancies outside of the competitive service. This allows employers to quickly reach a wide range of potential employees and provides for open competition from all segments of society. Job seekers find it easy to learn about openings 24 hours a day, seven days a week, through USAJOBS. USAJOBS uses the Internet, telephones, and touch-screen kiosks, to provide the public more information than ever before about job vacancies throughout the Federal government.

Federal Personnel Security Program

The Federal Personnel Security Program ensures the fitness and suitability of applicants for and appointees to positions in the Federal service. To carry out this responsibility, OPM sets Governmentwide investigations policy for the Federal personnel security program and carries out on-site inspections to help ensure that employing agencies are following established policies. Personnel investigations relating to personnel suitability and security also are provided, on a reimbursable basis, through a contractor.

Workforce Compensation and Performance Programs

Classification, Pay and Leave Programs. The standards for classifying Federal jobs, establishing pay scales, and enhancing the Federal government's leave package are governed by several laws, regulations, and executive orders. Through the classification, pay, and leave programs these compensation factors are adjusted for labor markets and to address recruitment and retention issues.

Performance Management and Awards Programs. Performance management and awards programs promote effective performance management and ensure that individual accountability is established and maintained throughout the Federal workforce. The programs set guidelines for evaluating, developing, and rewarding employee performance and also provide agencies with guidance and assistance about how to identify and correct performance problems.

Workforce Relations Programs

Advice and consultation is provided to employing agency officials through a broad range of workforce relations programs to support the development of effective labor-management relations, employee relations practices, life long learning programs, and work/life and wellness programs. These programs help agencies accomplish their missions and develop effective agency policies in these areas. The programs act as a clearinghouse for Governmentwide information on best practices, innovations, data trends and other information on Federal labor-management and employee relations.

Executive Resources Programs

The development, selection, and management of Federal executives are fostered by the executive resources programs. This is accomplished by allocating senior executive position and appointment authorities; establishing critical competencies used to select and develop new executives; administering qualifications review boards and the Presidential Rank Award program; and overseeing the Senior Executive Service (SES) Candidate Development Programs and the SES Performance Management System. In addition, we provide world-class executive and management development programs at three strategically-located OPM training centers.

Our Performance in 2000

We had a strong record of achievement during fiscal year 2000 in terms of our five strategic goals. We increased attention across Government to strategic human resources management and continued to successfully oversee the merit system and administer the employee benefit trust funds. We improved our ability to provide advice and assistance to employing agencies and deliver services to our customers and improved how we manage our own operations, systems, and infrastructure. However, we did not complete all of our ambitious policy leadership agenda and found that we need to improve certain aspects of our customer services.

Our Performance Plan included 117 annual performance goals that described the specific actions and initiatives we planned to accomplish in fiscal year 2000. We met the performance level for 103 of these, which demonstrated significant progress toward fully achieving our Strategic Goals. We dropped four goals before the beginning of the year, since they were not critical to our agenda, or relevant to actual program results. More importantly, our analysis of the goals we did not meet revealed areas where we need to improve and we have developed plans to address these. Also, our analysis led us to improving our goals and measures in 2001 and 2002.

2000 PERFORMANCE SUMMARY

Strategic Goals	Total Annual Goals	Total Goals Met	Total Goals Not Met	Total Goals Dropped
I. Provide policy direction and leadership to recruit and retain the Federal workforce required for the 21st Century.	47	41	4	2
II. Protect and promote the merit-based Civil Service and the employee earned benefit programs through an effective oversight and evaluation program.	14	14	0	0
III. Provide advice and assistance to help Federal agencies improve their human resources management programs to effectively operate within the economy, demographics and environment of the 21st Century.	16	14	1	1
IV. Deliver high-quality, cost-effective human resources services to Federal agencies, employees, annuitants and the public.	17	12	4	1
V. Establish OPM as a leader in creating and maintaining a sound, diverse, and cooperative work environment.	23	22	1	0
2000 Totals	117	103	10	4

Strategic Goal I. Our fiscal year 2000 Annual Performance Plan described 47 annual performance goals to move us forward in achieving this Goal. We met 41 of these and, in so doing, improved the ability of employing agencies to recruit and retain a workforce that is citizen-centered, results-oriented, and characterized by quality of service.

We developed new workforce planning tools, the Career Intern Program, flexibilities for addressing Y2K staffing needs, regulations to implement student loan repayment, new guidance to support effective diversity recruitment, and revised SES performance management regulations.

We enhanced Federal employee benefits with the passage of the Long-Term Care Security Act, the Expanded Sick Leave program, health benefits premium conversion, and mental health and substance abuse parity in the Health Benefits Program.

As shown in the table on the following page, these data indicate that public satisfaction with Federal government services is comparable to the private sector, and job satisfaction among Federal employees is improving.

HR POLICY LEADERSHIP RESULTS

Measure/Indicator	1998	1999	2000
% of Human Resource Directors who agree:			
OPM collaborates effectively on policy making	*No Data*	*No Data*	*74%*
OPM HRM guidance, programs, and strategies are useful	*No Data*	*No Data*	*81%*
Workforce has skills to meet agencies' missions	*No Data*	*No Data*	*45%*
American Customer Satisfaction Index Results:			
Overall public satisfaction with Federal agency services	*No Data*	*68.6*	*68.6*
Overall customer satisfaction with private sector services	*No Data*	*71.9*	*71.2*
Governmentwide Employee Survey Results:			
Overall job satisfaction	*62%*	*60%*	*63%*
Overall quality of work	*72%*	*72%*	*72%*

However, only 45% of Federal human resources directors believe that their workforce has the skills needed to meet the mission of their agencies. Thus, despite signs of improvement, human resources management remains a challenge for the Government as a whole. The four annual goals we did not achieve were due to missed internal deadlines on revised strategies for system improvements in classification, staffing and personnel recordkeeping. These goals have either since been met or are being addressed in FY 2001.

Strategic Goal II. We continued to maintain active and effective oversight of the merit system and the Federal employee benefit trust funds. In our oversight of the merit system, we completed our scheduled reviews of seven large and eight small agencies and conducted 78 delegated examining audits. The effectiveness of our oversight of the Retirement, Health Benefits, and Life Insurance Programs is evidenced by the unqualified audit opinion we received on these financial statements.

These activities resulted in our achieving all of the 14 goals described in our fiscal year 2000 Performance Plan and in a fairly positive perception by Federal employees about the practice of human resources management in accordance with the nine merit principles in 5 U.S.C. 2301(b), as shown below.

MERIT SYSTEM OVERSIGHT RESULTS

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

Our Performance Plan described five goals designed to improve our financial stewardship of the employee benefit programs and ensure that the monies are protected from waste, fraud, abuse, and mismanagement. To achieve these results, we must assure that the financial management systems substantially comply with Federal Financial Management Improvement Act requirements and that an aggressive financial oversight program is maintained. We made significant strides toward these outcomes during fiscal year 2000, meeting all five of our annual goals and achieving the results shown below.

TRUST FUND FINANCIAL MANAGEMENT RESULTS

Measure/Indicator	1998	1999	2000
Audit Opinions:			Unqualified
Retirement Program	Unqualified	Unqualified	on
Health Benefits Program	Unqualified	Unqualified	Consolidated
Life Insurance Program	Unqualified	Unqualified	OPM
			Financials
Audits completed by Inspector General	53	64	80
Dollars saved from audit activities	$76.4M	$51.9M	$102.5M
Return on investment for audit activities (per $1 spent)	$9.00	$5.92	$11.30
Timely payment of Retirement benefits (% paid on time)	97%	98%	97%
Administrative cost per annuitant	$40.94	$44.47	$42.42

Strategic Goal III. Our Performance Plan described 16 goals relating to providing advice and assistance to employing agencies. We accomplished 14 of these goals, dropped one from our agenda, and did not meet one. We advanced experiments in human resource flexibility among agencies by assisting them in implementing six human resource management demonstration projects during fiscal year 2000. We assisted in the improvement of human resources management across the Government by conducting organizational assessment surveys. In addition, we enhanced our Website to provide information on the full range of human resource management flexibilities that support accomplishment of agency strategic goals. We conducted well-attended and highly rated conferences that promoted an on-going dialogue with our stakeholders about the most critical issues. Finally, we provided agencies with a broad range of advice and assistance on employee health services and work/life and wellness programs to support the Federal workforce.

Strategic Goal IV. We provide human resource services to employing agencies, employees, retirees, and their families that are high quality, cost effective, and meet their needs. We established 17 annual goals in our fiscal year 2000 Performance Plan that pertained to the delivery of these services and met 12 of them. We did not meet the targets we set for ourselves for four of these goals, and we dropped one from our agenda during the year.

The results of our service delivery activities during fiscal year 2000, shown in the table on the following page, indicate that customer satisfaction with most of our services remained at or near their historically high levels. The use of our USAJOBS Website continues to grow and is an example of how technology can be used to provide services to an increasing number of customers. However, we did not meet the timeliness and accuracy targets we had set for processing retirement

SERVICE DELIVERY RESULTS

Measure/Indicator	1998	1999	2000
Customer Satisfaction:			
% HR Directors Agreeing Website Services are Convenient	N/A	N/A	98%
% Public Users Satisfied w/Employment Information	91%	92%	91%
% Annuitants Satisfied w/Overall Retirement Services	90%	96%	93%
% Enrollees Satisfied w/Health Benefit Plan – HMOs	N/A	60%	59%
% Enrollees Satisfied w/Health Benefit Plan – FFSs	N/A	70%	70%
Timeliness/Accessibility of Services:			
Website Hits on USAJOBS	8.5 M	13.1 M	15.4 M
CSRS Annuity Claims Timeliness	23 Days	32 Days	44 Days
FERS Annuity Claims Timeliness	93 Days	94 Days	185 Days
Service Quality/Accuracy:			
% HR Directors Agreeing OPM Website Services are Relevant	N/A	N/A	100%
% HR Directors Agreeing OPM Website Services are Sufficient	N/A	N/A	89%
CSRS Annuity Claims Accuracy	92.9%	88.3%	93.5%
FERS Annuity Claims Accuracy	94.5%	92.4%	87.6%
% HB Enrollees Enrolled in Top-Rated Plan	65%	32%	90%
Cost Effectiveness:			
Retirement/Survivor Claims Unit Cost	$72.46	$81.82	$83.52

claims and handling customer service requests. Thus, we need to improve the delivery of these services and have made this a priority for 2001 and 2002.

Strategic Goal V. We recognize that we cannot accomplish our goals without the support of a well-trained, diverse, and motivated workforce at OPM. Thus, we plan to create and maintain a sound, diverse, and cooperative work environment. During fiscal year 2000, we met 22 of the 23 performance goals in this regard. Perhaps, our most significant accomplishments during the year were our successful Y2K rollover and the greater diversity of our own workforce.

Analysis of Our 2000 Financial Performance

These are the first agency-wide consolidated financial statements we have prepared. We are pleased to report that we have received an unqualified ("clean") opinion from our auditors, KPMG LLP. An unqualified opinion means that our financial statements were fairly stated in all material respects. Moreover, our auditors did not report any material weaknesses in our internal controls over our financial reporting. Since 1997, we have received unqualified opinions on the "stand-alone" financial statements of the Retirement and Life Insurance Programs; and since 1998, on the "stand-alone" financial statements of the Health Benefits Program.

Analysis of Balance Sheet

The Balance Sheet presents the total amounts we have available for our use [*Assets*] against the total amounts we owe [*Liabilities*] and the amount that comprises the difference [*Net Position*].

Assets. We had over $552 billion in total assets at the end of fiscal year 2000, compared with $520 billion at the end of fiscal year 1999. The balance sheet separately identifies intragovernmental assets from all other assets. Almost all — about $551 billion — of our assets are intragovernmental, representing our claims against other Federal agencies.

Our largest asset, *Investments* [$540.3 billion], represents almost 98 percent of our total assets at the end of fiscal year 2000. As we routinely collect more money than we disburse, our investment portfolio continued to grow in fiscal year 2000. We invest all Retirement, Health Benefits, and Life Insurance Program balances that we do not immediately need for payment, but only in special securities issued by the U.S. Treasury.

Our next largest asset is *Interest Receivable on Investments* at $8.9 billion. This is the amount of interest owed to us on our investment portfolio by the U.S. Treasury at the end of the year.

Liabilities. We have three very large, long-term liabilities that we categorize on the Balance Sheet as "Actuarial Liabilities." They are estimated at the end of each year by our actuaries. We report Actuarial Liabilities for each of the earned benefit Programs that we administer: Retirement, Health Benefits, and Life Insurance. In computing the Actuarial Liabilities, our actuaries apply assumptions to historical cost information in order to estimate the future cost of benefits for current and future retirees.

The *Pension Liability,* the actuarial liability for the Retirement Program, is $1,031.1 billion at the end of fiscal year 2000. This is the first time that we have reported the Pension Liability at over one trillion dollars! The Pension Liability increased $43 billion (4.3 percent) from the $988 billion reported at the end of last year [see discussion of Pension Expense below].

The actuarial liability for the Health Benefits Program, the *Postretirement Health Benefits Liability,* is $192.2 billion at the end of fiscal year 2000, an increase of almost $17 billion (9 percent) over that at fiscal year-end 1999. The increase in the Postretirement Health Benefits Liability resulted from a large increase in our estimate of future health benefits claims that was not entirely offset by the increase in our estimate of future contributions by and for participants.

The *Actuarial Life Insurance Liability* is different from the Pension and Postretirement Health Benefits Liabilities. Whereas the other two are liabilities for "post-retirement" benefits only, the Actuarial Life Insurance Liability is an obligation for both pre-retirement and post-retirement life insurance benefits. The Actuarial Life Insurance Liability increased by $1.1 billion in fiscal year 2000 to $24.7 billion at the year-end, due principally to the coverage changes elected by participants during the open enrollment period last April.

Net Position. *Net Position* is the difference between our total assets and total liabilities. At the end of fiscal year 2000, our Net Position is a negative $703.4 billion dollars, which means that our liabilities exceed our assets by this amount. At the end of fiscal year 1999, our Net Position was a negative $674.6 billion. As can be seen on the Statement of Changes in Net Position, our Net Position decreased as a result of our net cost of operations, which was partially offset by a "transfer-in" of $21.6 billion to the Retirement Program from the U.S. Treasury.

The reason for our negative Net Position is the large Actuarial Liabilities that we report on our Balance Sheet. In fact, our total assets exceed our "non-actuarial" liabilities by $544.6 billion at the end of fiscal year 2000. The Retirement, Health Benefits, and Life Insurance Programs are funded in a manner that ensures that there will be sufficient assets available to pay claims for benefits well into the future.

Analysis of the Statement of Net Cost

The Statement of Net Cost presents our net cost of operations by our "responsibility segments." We have defined responsibility segments by the four major types of services we provide and have assigned costs to them. These are the Cost to Provide CSRS, FERS, Health and Life Insurance Benefits.

Net Cost to Provide CSRS Benefits. The Net Cost to Provide CSRS Benefits in fiscal year 2000 is $32.9 billion, an increase of $14.7 billion over fiscal year 1999. The increase in the Net Cost to Provide CSRS Benefits can be attributed in large part to a smaller "actuarial gain" component of Pension Expense related to the CSRS in fiscal year 2000; $3.2 billion versus $17.1 billion in fiscal year 1999. To the extent that actual experience differs from the assumptions made by our actuary in computing Pension Expense, actual gains or losses will occur. Since actuarial gains reduce Pension Expense, the smaller actuarial gain in fiscal year 2000 resulted in a larger Pension Expense than in fiscal year 1999.

(In Billions)	**2000**	**1999**	**Difference**
Gross Cost	$70.4	$55.7	$14.7
Associated Revenues	37.5	37.5	0
Net Cost	$32.9	$18.2	$14.7

Net Cost to Provide FERS Benefits. The Net Cost to Provide FERS Benefits in fiscal year 2000 is $883 million. By contrast to the CSRS, the Net Cost to Provide FERS Benefits decreased by $1.9 billion from fiscal year 1999. This decrease in net cost can be attributed mostly to an increase in revenues; approximately $850 million in contributions by and for participants and $840 million in interest on investments.

(In Billions)	**2000**	**1999**	**Difference**
Gross Cost	$18.0	$18.2	($0.2)
Associated Revenues	17.1	15.4	1.7
Net Cost	$ 0.9	$ 2.8	($1.9)

Net Cost to Provide Health Benefits. The Net Cost to Provide Health Benefits in fiscal year 2000 is $21.9 billion, an increase of $17.5 billion over fiscal year 1999. Most of this increase in net cost ($16.6 billion) can be attributed to an actuarial loss in the calculation of the Postretirement Health Benefits Expense of $4.8 billion in fiscal year 2000 versus an actuarial gain of $11.8 billion in fiscal year1999.

(In Billions)	**2000**	**1999**	**Difference**
Gross Cost	$36.5	$17.9	$18.6
Associated Revenues	14.6	13.5	1.1
Net Cost	$21.9	$ 4.4	$17.5

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

(In Millions)	**Disclosed**	**Applied to PRHB**	**Total 2000**	**Total 1999**
Health Benefits Claims	$8,812	$5,158	$13,970	$13,112
Premiums	3,500	1,171	4,671	4,514
Administrative and other	480	580	1,060	993

Net Cost to Provide Life Insurance Benefits. Unlike the other responsibility segments, there is a "negative" Net Cost to Provide Life Insurance Benefits in fiscal year 2000, since the associated revenues exceed gross costs by $230 million. In fiscal year 2000, however, the amount by which revenues exceeded gross costs was smaller than in fiscal year 1999. This was due in large part to a greater increase in the Actuarial Life Insurance Liability ($1.1 billion in fiscal year 2000 versus $0.2 billion in fiscal year 1999), attributable to the open enrollment period last April.

(In Billions)	**2000**	**1999**	**Difference**
Gross Cost	$2.9	$1.9	$1.0
Associated Revenues	3.1	3.0	0.1
Net Excess of Revenue	$0.2	$1.1	($0.9)

Analysis of the Statement of Budgetary Resources

We may incur obligations and make payments to the extent that we have budgetary resources to cover them. The Statement of Budgetary Resources depicts the budgetary resources that we had available in fiscal year 2000 to cover our obligations and the status of our budgetary resources at year-end.

As can be seen, we had $93.3 billion available to us in budgetary resources in fiscal year 2000. Our budgetary resources derive from the budgetary resources carried over from last year ($24.5 billion) as well as the three major sources of new budgetary resources:

1. Appropriations ($5.2 billion)
2. Available appropriated receipts ($45.5 billion)
3. Spending authority from offsetting collections ($18.1 billion).

Appropriations are legislative actions that authorize Federal agencies to incur obligations and to make payments for specified purposes. Our appropriations of $5.2 billion were principally to fund contributions for retirees and survivors who participate in the Health Benefits Program.

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

From the $93.3 billion in budgetary resources we had available to us in fiscal year 2000, we incurred obligations of $67.3 billion mainly for benefits for participants in the Retirement, Health Benefits and Life Insurance Programs. The excess of the budgetary resources we had available in fiscal year 2000 over the obligations we incurred against them is classified as being “unavailable” (for obligation) at year-end.

Systems, Controls and Legal Compliance

Federal Managers’ Financial Integrity Act Compliance

The objective of our management control program is to ensure that we have effective stewardship over the Federal resources that have been entrusted to us. Our stewardship responsibilities include the safeguarding of those resources from fraud, waste, and mismanagement and managing our programs with integrity and in compliance with all applicable laws.

We have evaluated the management controls we have in place, as required by the *Federal Managers' Financial Integrity Act* (FMFIA). In so doing, we relied on the assessments by our senior executives of their programmatic and administrative functions and on the findings and results of the audit conducted on the 1999 financial statements by our Office of the Inspector General and the independent public accounting firm, KPMG LLP. We can report that, when considered collectively, and with the exception of the items presented below, our management controls are achieving their intended objectives and that our financial management systems conform to Federal requirements. We have established a goal to resolve all material weaknesses and nonconformances cited by our auditors and identified through the FMFIA process in as timely a manner as is technically practicable and economically feasible. We have corrective action plans in place to address each material weakness and nonconformance.

We believe we have made significant progress in resolving our material weaknesses in management controls and nonconformances with Federal financial systems requirements. Five material weaknesses and nonconformances were resolved in fiscal year 2000 and we have made particularly noteworthy progress toward the resolution of two others.

SUMMARY OF MATERIAL WEAKNESSES AND NONCONFORMANCES

	Beginning of the Year	New	Corrected	End of the Year
2000	10	2	5	7
1999	15	0	5	10

PENDING MATERIAL WEAKNESSES AND NONCONFORMANCES

	Target Date For Correction	Description
Health Benefits Program Enrollment and Premium Reconciliation ⁕★	2001	Our oversight and monitoring of enrollment and premium reconciliations with community-rated carriers participating in the Health Benefits Program needs to be strengthened.
Fraud and Abuse in the Health Benefits Program ⁕★	2001	We do not have the legal authority to investigate and prosecute fraud and abuse in the Health Benefits Program.
Revolving Fund and Salaries and Expense Account Cash Reconciliation and Control ★	2001	There are inadequate procedures and insufficient controls in place over the reconciliation of the Fund Balance with Treasury and the records of the Revolving Fund and Salaries and Expense account.
Revolving Fund and Salaries and Expense Account Data Reconciliation and Control ★	2001	Controls over transactions entered into the Revolving Fund and Salaries and Expense general ledgers are inadequate.
Systems Development Life Cycle	2001	We do not have a Systems Development Life Cycle process in place for major systems implementation efforts.
General EDP Control Environment	2001	We must strengthen four areas of EDP general control: (1) entity-wide security; (2) access control; (3) control over application changes and systems development; and (4) service continuity planning.
Revolving Fund and Salaries and Expense Account Financial Management System	2002	The financial management system supporting the Revolving Fund and Salaries and Expense account is not compliant with FFMIA requirements.

⁕ See "Noteworthy Progress in 2000" below.
★ This has been assessed as one of the most serious challenges facing OPM by the Inspector General.

NOTEWORTHY PROGRESS ON PENDING MATERIAL WEAKNESSES IN 2000

Health Benefits Program Enrollment and Premium Reconciliation	We are working with a contractor to implement a centralized enrollment system that will greatly facilitate the enrollment and premium reconciliation in the Program. The system requirements are being defined and a pilot process is expected to be completed in the next year. Once implemented, the centralized enrollment system will receive enrollment data from employing agencies; build and maintain an enrollment database; process and combine data for dissemination to participating carriers and work jointly with agencies and carriers to reconcile enrollment.
Fraud And Abuse In the Health Benefits Program	We have been working to amend existing law to include language that would afford the Health Benefits Program to investigate and prosecute fraud. Our efforts have succeeded in including the necessary language in several bills, although, to date, none have been reported out of their respective subcommittees.

MATERIAL WEAKNESSES AND NONCONFORMANCES CORRECTED IN 2000	
	Description/Resolution
Health Benefit Program Carrier Audit Cycles	This weakness has been resolved by our implementation of an audit guide by which independent public accountants submit reports on Health Benefit Program carrier financial results.
Annuitant Withholdings	This weakness involves the inability of our systems to provide effective controls over the amounts withheld from the annuities of retirees and survivors. Much of the problem has been resolved and the weakness is no longer considered to be material.
Financial Management Policies and Procedures	This material weakness addressed the inadequate documentation of our financial management policies, systems and procedures. We developed policies and procedures in a number of areas and the weakness is no longer considered to be material.
Controls over Investments	There were inadequate controls over the investment process, including a lack of procedures. In view of our installation of major segments of a new automated investment management system, the weakness is no longer considered to be material.
Employee Benefit Program Systems Integration	With the implementation of our new core financial management systems, all feasible automated links with subsystems and other supporting processes have been established.

Federal Financial Management Improvement Act Compliance

Our auditors, KPMG LLP, are required to report on whether our financial management systems comply with the *Federal Financial Management Improvement Act of 1996* (FFMIA). The purpose of the FFMIA is to ensure that our systems generate reliable, timely and consistent financial information, using professionally-accepted accounting standards. To comply substantially with FFMIA, our systems must support the preparation of financial statements and other financial and budget reports; provide reliable and timely financial information for managing our operations; account for assets reliably, so that they are properly protected from loss, misappropriation, or destruction; and meet these requirements in a way that is consistent with Federal accounting standards and the Standard General Ledger.

To gauge our compliance with FFMIA, KPMG LLP performed the tests contained in Office of Management and Budget (OMB) Bulletin No. 01-02. In considering the compliance of our financial management systems with the FFMIA, KPMG LLP assessed individually the systems we use to (1) manage the Retirement, Heath Benefits, and Life Insurance Programs and (2) manage the Revolving Fund Programs and Salaries and Expenses.

In its report on the audit of our fiscal year 2000 financial statements, KPMG LLP cited the financial management systems supporting the Revolving Fund Programs and Salaries and Expenses as being substantially noncompliant with the FFMIA. More specifically, they reported the following:

- The financial management systems we use to manage the Revolving Fund Programs and Salaries and Expenses lack a formal budgetary accounting structure, which compromises our ability to comply with budget preparation, execution and reporting requirements.

- The financial management systems used to manage the Revolving Fund Programs and Salaries and Expenses do not provide for the recording of financial events in a manner that is consistent with the Standard General Ledger.

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

We understand the concerns that KPMG LLP cites and agree with most of them. Nonetheless, we have determined that our financial management systems *as a whole* substantially comply with the FFMIA. We base our determination on our own internal assessment and the fact that the vast majority of our financial management operations are executed by systems that KPMG LLP did not assess as being noncompliant.

KPMG LLP's findings vis-a-vis the financial management systems we use to manage the Revolving Fund Programs and Salaries and Expenses are serious and we are addressing them as such. In fact, we have reported to the President and Congress [see FMFIA above] that they do not materially conform to the requirements of OMB Circular A-127. We reported as well that various processes and procedures supporting the financial management of the Revolving Fund Programs and Salaries and Expenses are material weaknesses in management controls.

We have developed a remediation plan to resolve our noncompliances with the FFMIA. Our major initiative is the complete replacement of the financial management system supporting the Revolving Fund Program and Salaries and Expenses. We anticipate that our new financial management system will be fully operational by fiscal year 2003.

Debt Collection Improvement Act Compliance

The **Debt Collection Improvement Act of 1996** (Public Law 104-134) has had a major impact on the way a Federal entity makes payments and collects monies owed it. The Act enhances debt collection Governmentwide and encourages the use of electronic funds transfer. We comply with the Act in the following ways:

Treasury Offset Program. One important provision of the Act is the requirement that non-tax debts owed that have been delinquent for a period of 180 days be turned over to the Treasury for collection or termination. To date, we have collected over 3,166 payments ($1.1 million) owed us via the Treasury Offset Program.

Computer Matching. We believe that it is equally important to prevent overpayments in the first place as it is to collect them once they become debts. Thus, we maintain an aggressive and active program integrity function to prevent waste, fraud, and abuse of Retirement Program benefit payments. One of the primary tools supporting this function is the use of computer matching agreements. As such, we exchange payment information with other Federal agencies to identify individuals who have died or are no longer eligible for benefits for other reasons. As can be seen below, in fiscal year 2000, our computer matching activities identified more than $29 million in overpayments and prevented an additional $86 million from being overpaid (in $ millions).

	1996	1997	1998	1999	2000
Overpayments Identified	$26	$20	$16	$21	$29
Overpayments Avoided	$45	$46	$44	$64	$86

Fraud Investigation Activities. In addition, we continued to aggressively pursue fraud tips and work closely with law enforcement bodies to investigate and terminate criminal fraud activities involving Retirement benefits. During fiscal year 2000, our fraud investigation activities identified more than $1.0 million in overpayments and prevented an additional $0.3 million from being overpaid.

Promoting Direct Deposit. The 93 percent of our Retirement Program annuitants participating in direct deposit represent the highest percentage among benefit-paying Federal programs. We believe it may be difficult to convince a great many of the remaining annuitants to enroll, since they are older individuals who may be uncomfortable with the concept of electronic payments and banking. Most of the future growth in the direct deposit participation will come from new annuitants, since the vast majority are already paid their salaries by electronic funds transfer, and by annuitants who live overseas.

	Percentage Paid by EFT
Retirement Program annuitants	93
OPM employees	95
Carriers participating in Health and Life Insurance Programs	100
Other vendors	20

Managing Accounts Receivable. To improve our receivable management program, we implemented a modern receivables management system. The result will be, we are confident, a significant upgrade in our ability to manage effectively our Retirement Program receivables portfolio. The following chart shows our receivables management activity for the Retirement Program.

	1996	1997	1998	1999	2000
Total receivables at year end (in $ millions)	$97.5	$107.3	$115.5	$123.7	$ 145.9
Total delinquent receivables (%)	56.7	29.4	29.8	31.1	27.3
Delinquent under one year (%)	21.3	13.2	11.0	11.8	9.4
Delinquent over one year (%)	35.3	16.2	18.8	19.3	17.9
Uncollectible receivables (%)	38.1	35.4	34.6	32.3	0.4
Installment receivables (%)	22.9	21.7	22.3	22.2	20.3
Total receivables written-off (in $ millions)	$3.8	$5.1	$4.4	$9.0	$2.4
Receivables Collection Rate (%)	53.1	50.8	50.8	48.8	46.0

Inspector General Act of 1978 Compliance

Our Office of the Inspector General (OIG) conducts periodic audits of the records of carriers participating in the Health Benefits Program to determine whether the amounts they have charged to the Program contacts comply with their contracts and Federal procurement regulations. During fiscal year 2000, the OIG issued 50 final reports, which contain recommendations for monetary adjustment in the aggregate amount of $150.7 million due the Program. There were three reports for which no management decision had been made within six months of issuance; however, resolution of these items has been postponed at the request of the OIG.

	Number of Reports	Questioned Costs (in $ millions)	Unsupported Costs (In $ millions)
Reports for which no management decision had been made by October 1, 1999	19	56.1	
Reports issued during 2000	50	150.7	5.8
Reports for which a management decision was made during the reporting period:	50	141.2	
1. Disallowed Costs		101.5	
2. Costs not disallowed		39.7	
Reports for which no management decision has been made by September 30, 2000	19	65.7	
Reports for which no management decision has been made within 6 months of issuance	*3	*8.1	

* Resolution of these items has been postponed at the request of the OIG.

Management Challenges

The following is a brief outline of what we see as the most important currently-known demands, risks, uncertainties, and conditions affecting our agency.

- We must enhance our computer security environment by developing an integrated enterprise-wide program encompassing data security, general support systems, application systems, network operations continuity of operations and data recovery.
- We must implement our Health Benefits Program enrollment and premium reconciliation system, so that we can enhance our control over the payments we make to community rated carriers. This is an area cited by our Inspector General as one of the most serious challenges we face.
- We must continue our Retirement Systems Modernization (RSM) effort. RSM is our strategy to meet our long-term customer service, financial management and business goals for the Retirement Program. It is only through modernization that we can ensure the future delivery of high quality services to our stakeholders. We fully concur with the Inspector General's identification of RSM as one of our most significant, high-risk challenges. We also agree that there exists a degree of uncertainty in any effort of such

size and scope and we are taking all feasible mitigating actions. Our ability to implement RSM functionality on a timely basis is dependent upon the continued availability of necessary funding.

- We must continue to enhance our Government Performance and Results Act process, using performance data to more effectively plan, budget, execute, and evaluate our programs and activities.
- As it continues to be a nation-wide problem, we must obtain the statutory authority to investigate and prosecute health care fraud in the Health Benefits Program. This is an area cited by our Inspector General as one of the most serious challenges we face.
- We must continue to generate consolidated financial statements, as well as stand-alone financial statements for the Retirement, Health Benefit and Life Insurance Programs, that receive unqualified audit opinions. This is not assured, but will depend upon our ability to attract and retain competent accounting personnel at all levels.
- Although we received an unqualified audit opinion on our first consolidated financial statements, we know that much work must yet be done. For instance, our auditors cited five reportable conditions, which represent significant deficiencies in our internal control structure. We must resolve all of our weaknesses in internal controls and noncompliances with FFMIA.
- We must establish fundamental systemic and procedural control over our Revolving Fund and Salaries and Expense account activities. The implementation of our new financial management system would be an enormous step in this direction, as long as funding is available. This is an area cited by our Inspector General as one of the most serious challenges we face.
- We fully recognize the importance of human resource accountability across Government and that we must play a critical role in addressing it. We have already deployed tools and started initiatives that assist employing agencies in developing human resources management and accountability systems. We will tailor our future initiatives to the priorities of the new Administration, as we proceed in this area. This is an area cited by our Inspector General as one of the most serious challenges we face.

U.S. OFFICE OF PERSONNEL MANAGEMENT

CONSOLIDATED FINANCIAL STATEMENTS

For Fiscal Year 2000

CONSOLIDATED FINANCIAL STATEMENTS

U.S. OFFICE OF PERSONNEL MANAGEMENT

CONSOLIDATED BALANCE SHEET

As of September 30, 2000

(Dollars in Millions)

ASSETS	
Intragovernmental:	
Fund Balance with Treasury	$544
Investments, Net [Note 2]	540,297
Accounts Receivable, Net:	
Benefit Contributions for Participants	983
Interest on Investments	8,943
Other Receivables	100
Total Intragovernmental	550,867
Accounts Receivable, Net:	
Benefit Contributions by Participants	617
Other Receivables	186
Assets Held by Insurance Carriers	441
Property and Equipment	10
TOTAL ASSETS	552,121
LIABILITIES	
Intragovernmental	149
Benefits Due and Payable	6,072
Premiums Due and Payable	410
Actuarial Liabilities:	
Pension Liability [Note 4]	1,031,100
Postretirement Health Benefits Liability [Note 5]	192,217
Actuarial Life Insurance Liability [Note 6]	24,662
Other	939
Total Liabilities	1,255,549
Net Position:	
Unexpended Appropriations	13
Cumulative Results of Operations	(703,441)
Total Net Position	(703,428)
TOTAL LIABILITIES AND NET POSITION	$552,121

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENT OF NET COST
For the Year Ended September 30, 2000

(Dollars in Millions)

	Provide CSRS Benefits	Provide FERS Benefits	Provide Health Benefits	Provide Life Insurance Benefits	Provide Human Resource Services	Consolidated
Cost to Provide Benefits and Services	$70,417	$17,989	$36,553	$2,937	$359	$128,255
Less: Earned Revenues	37,534	17,106	14,643	3,167	242	72,692
Net Cost of Operations (Excess of Earned Revenues over Cost)	$32,883	$883	$21,910	($230)	$117	$55,563

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

U. S. OFFICE OF PERSONNEL MANAGEMENT

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended Sepember 30, 2000

(Dollars in Millions)

Net Cost of Operations	**($55,563)**
Financing Sources (other than earned revenues)	
Appropriations Used	**5,174**
Transfer-in	**21,556**
Imputed Financing	**8**
Net Results of Operations	**(28,825)**
Prior Period Adjustments	**40**
Net Change in Cumulative Results of Operations	**(28,785)**
Decrease in Unexpended Appropriations	**(31)**
Change in Net Position	**(28,816)**
Net Position, Beginning of Year	**(674,612)**
Net Position, End of Year	**($703,428)**

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
CONSOLIDATED STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2000
(Dollars in Millions)

BUDGETARY RESOURCES		
Appropriations		$5,173
Total Appropriated Receipts	$76,136	
Less: Increase in Temporarily Unavailable Appropriated Receipts [Note 10]	30,634	
Available Appropriated Receipts		45,502
Spending Authority from Offsetting Collections		18,088
Unobligated Balance, Beginning of Year, as Restated [Note10]		24,541
Other		(6)
Total Budgetary Resources		93,298
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred		67,295
Unobligated Balances, Available		120
Unobligated Balances, Unavailable		25,883
Total Status of Budgetary Resources		93,298
OUTLAYS		
Obligations Incurred		67,295
Less: Spending Authority from Offsetting Collections		18,088
Subtotal		49,207
Obligated Balance, Net - Beginning of Year		6,076
Less: Obligated Balance, Net - End of Year		6,373
Total Outlays		$48,910

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

U.S. OFFICE OF PERSONNEL MANAGEMENT

CONSOLIDATED STATEMENT OF FINANCING

For the Year Ended September 30, 2000

(Dollars in Millions)

Obligations and Nonbudgetary Resources	
Obligations Incurred	$67,295
Less: Spending Authority from Offsetting Collections	18,088
Less: Total Appropriated Receipts	76,136
Other Financing Sources	21,558
Exchange Revenue Not in the Budget	(220)
Other	6
Total Obligations, as Adjusted, and Nonbudgetary Resources	(5,585)
Resources That Do Not Fund Net Cost of Operations	(5)
Costs That Do Not Require Resources	106
Financing Sources Yet to be Provided	
Change in Pension Liability	43,100
Change in Postretirement Health Benefits Liability	16,852
Change in Actuarial Life Insurance Liability	1,087
Other	8
Total Financing Sources Yet to be Provided	61,047
Net Cost of Operations	$55,563

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

U.S. OFFICE OF PERSONNEL MANAGEMENT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2000

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The U.S. Office of Personnel Management (OPM) is the Federal government's human resources agency and was created as an independent agency of the Executive Branch of government on January 1, 1979. Many of the functions of the former U.S. Civil Service Commission were transferred to OPM at that time. The accompanying consolidated statements present OPM's financial position, net cost of operations, change in net position, status of budgetary resources, and a reconciliation of the net cost of operations to budgetary obligations as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements include all accounts -- appropriations, trust funds, and revolving funds - under OPM's control. The financial statements do not include the effect of any other 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 five major OPM Programs:

1. Retirement Program

The Program is comprised of two defined-benefit pension plans administered by OPM: the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). These plans cover substantially all full-time, permanent civilian Federal employees. Both plans are operated through the Civil Service Retirement and Disability Fund (CSRDF), a trust fund. The CSRS, implemented in 1921, is a stand-alone plan, providing benefits to most Federal employees hired before 1984. The FERS, established in 1986, uses Social Security as its base and provides an additional defined benefit and a voluntary thrift savings plan to employees first entering Federal service after 1983. OPM administers the defined benefit portion of the FERS only.

On the Consolidated Statement of Net Cost, the full cost of the Retirement Program is assigned to two responsibility segments: *Provide CSRS Benefits* and *Provide FERS Benefits.*

2. Health Benefits Program

OPM administers a Health Benefits Program that provides hospitalization and major medical protection to Federal employees, retirees, former employees, family members, and former spouses. The Program, established in 1960, is operated through the Employees Health Benefits Fund and the Retired Employees Health Benefits Fund, revolving trust funds. Health benefits carriers contract with OPM to provide packages of benefits, which are of two types: fee-for-service that reimburse participants or their health care providers for the cost of services and are usually experience-rated; and health maintenance organizations that provide or arrange for comprehensive health care services on a prepaid basis through designated providers and are usually community-rated.

On the Consolidated Statement of Net Cost, the full cost of the Health Benefits Program is assigned to the responsibility segment, *Provide Health Benefits*.

3. Life Insurance Program

OPM administers a Life Insurance Program that provides group term life insurance coverage to over four million Federal employees and retirees, as well as family members and former spouses. Established in 1954, the Program is operated though the Employees Group Life Insurance Fund, a revolving trust fund. The Program consists of Basic life insurance coverage and three packages of optional coverage.

On the Consolidated Statement of Net Cost, the full cost of the Life Insurance Program is assigned to the responsibility segment, *Provide Life Insurance Benefits*.

4. Revolving Fund Programs and Salaries and Expenses

The Revolving Fund Programs provide a variety of human resource services to Federal agencies, such as pre-employment testing, security investigations, and training. On the Consolidated Statement of Net Cost, the full cost of the Revolving Fund Programs is assigned to the responsibility segment, *Provide Human Resources Services*.

Salaries and Expenses finances the operating expenses necessary to carry out most of OPM's functions and responsibilities.

B. BASIS OF ACCOUNTING AND PRESENTATION

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and compiled from OPM's records, in accordance with the form and content requirements of OMB Bulletin No. 97-01 – *Form and Content of Agency Financial Statements* (as amended) and OPM's own accounting policies, as summarized in this note. As such, the financial statements may differ from the reports, also prepared by OPM pursuant to OMB directives, that are used to monitor and control OPM's use of its budgetary resources.

C. USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires OPM 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. CLASSIFICATION OF ASSETS, LIABILITIES, REVENUE AND COST

1. Since OPM has the legal authority to use its assets for authorized purposes, all OPM assets are classified as "entity assets."

2. All costs to provide benefits to participants in the Retirement, Health Benefits and Life Insurance Programs are considered to be "with the public." Virtually all earned revenues, except for contributions by participants, are considered to be "intragovernmental."

3. Since all OPM revenues are earned, they are classified as "exchange" revenues and deducted from costs on the Statement of Net Cost.

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

E. BUDGETARY RESOURCES

OPM may incur obligations and make expenditures to the extent that it has budgetary resources available to cover them. OPM's budgetary resources are derived for the most part from collections. Collections by the Retirement Program -- a transfer from the General Fund of the U.S. Treasury, interest on investments, and contributions made by and for participating employees -- are classified as "appropriated receipts." Collections by the Health Benefits and Life Insurance Programs -- earnings on investments and contributions made by and for those employees participating – and by the Revolving Fund Programs – reimbursements for human resource services -- are classified as "spending authority from offsetting collections."

F. LIABILITIES

OPM's authority to liquidate its liabilities is provided by law in the form of budgetary resources. Where OPM has been provided the authority to use its assets to liquidate liabilities, the liabilities are considered to be "covered by budgetary resources." The liabilities for which OPM has no authority to liquidate are considered to be "not covered by budgetary resources."

G. FUND BALANCE WITH TREASURY

The U.S. Treasury processes deposits and disbursements for OPM. The Fund Balance with Treasury represents appropriated, revolving, and trust funds immediately available to OPM for authorized expenditure.

H. INVESTMENTS

OPM invests all Retirement, Health Benefits, and Life Insurance Program balances that are not immediately needed for expenditure. OPM is restricted by law to invest in interest-bearing investments that are guaranteed as to principal and interest. Investments are stated at amortized acquisition cost [par value plus or minus amortized discount or premium, respectively]. Premium and discount are amortized into interest income over the term of the investment using the interest method. Most OPM investments are in non-marketable, market-based securities that have a yield equaling the average of all marketable Public Debt securities with four or more years to maturity.

OPM initially invests Retirement Program collections in special-issue, non-marketable securities called certificates of indebtedness ("Certificates"), that are issued at face value and mature on the following June 30. The Certificates are routinely redeemed at face value to pay for authorized Program expenditures. Each June 30, all outstanding certificates are "rolled over" into non-marketable, market-based securities, with maturities spread over 15 years. The Retirement Program also carries, but does not routinely invest in, securities issued by the U.S.

Postal Service (USPS) and the Federal Financing Bank (FFB), as well as marketable Public Debt securities.

Quoted market prices are used to value investments in marketable Treasury securities; market-based Treasury securities are valued by market prices quoted for the securities upon which they are based. There are no quoted market prices for the remaining investments, which are valued using various factors. The fair value of the Federal Financing Bank securities and the Certificates is equal to their par values. The fair value of the U.S. Postal Service securities is based on yields currently available on comparable securities.

I. ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts owed to OPM by other Federal agencies (classified as (intragovernmental) and by the public. Most intragovernmental accounts receivable are contributions due from Federal agencies for their employees participating in the Retirement, Health Benefits and Life Insurance Programs. Receivables from the public generally represent (1) contributions due by participants to the Retirement, Health Benefits and Life Insurance Programs; (2) amounts due to the Retirement Program from the recipients of benefits, who have been subsequently determined to be ineligible for them; (3) amounts due to Health Benefits Program by participating carriers representing disallowed charges to their contracts. The balance of accounts receivable is stated net of an allowance for uncollectible amounts, that is based on past collection experience and an analysis of outstanding amounts due.

J. ASSETS HELD BY INSURANCE CARRIERS

This represents the amount held by the experience-rated carriers participating in the Health Benefits Program and by the Life Insurance Program carriers, pending expenditure for authorized purposes.

K. PROPERTY AND EQUIPMENT

Property and equipment purchases that exceed OPM's established capitalization thresholds are stated at cost. Depreciation is determined on the straight-line method over the estimated useful life of the asset. Minor purchases, repairs and maintenance are charged to expense as they are incurred.

L. BENEFITS AND PREMIUMS DUE AND PAYABLE

This reflects claims filed by participants in the Retirement, Health Benefits and Life Insurance Programs that are unpaid in the current reporting period, and payable in the subsequent period. For the Health Benefits and Life Insurance Programs, the amount includes an estimate of claims incurred but not yet reported.

Community-rated plans contracting with the Health Benefits Program are not required to maintain separate accounting records for Program activities. On the accompanying balance sheet, "premiums due and payable" is the amount owed by OPM to the community-rated carriers in the current reporting period, and payable in the subsequent period.