



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT  
Washington, DC 20415

Office of the  
Inspector General

**November 17, 2008**

Report No. 4A-CF-00-08-026

MEMORANDUM FOR HOWARD WEIZMANN  
Deputy Director

FROM: PATRICK E. McFARLAND  
Inspector General

A handwritten signature in black ink that reads "Patrick E. McFarland".

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year  
2008 Special-Purpose Financial Statements

This memorandum transmits KPMG LLP's (KPMG) report on the Office of Personnel Management's (OPM) Fiscal Year 2008 Closing Package Financial Statements and the results of the Office of the Inspector General's (OIG) oversight of the audit and review of that report. OPM's Closing Package Financial Statement Reports include the reclassified balance sheets, the statements of net cost, the statements of changes in net position, and the accompanying notes as of September 30, 2008 and 2007; the Additional Note No. 27; and the trading partner balance sheet, the statement of net cost, and the statement of changes in net position as of September 30, 2008 (hereinafter collectively referred to as the special-purpose financial statements). These special-purpose financial statements directly link the entities' audited consolidated department-level financial statements to the Financial Report of the Government (the government-wide financial statements).

We contracted with the independent certified public accounting firm KPMG to audit OPM's special-purpose financial statements as of September 30, 2008 and 2007. The contract requires that the audit be done in accordance with generally accepted government auditing standards and the Office of Management and Budget Bulletin Number 07-04, *Audit Requirements for Federal Financial Statements*.

KPMG reported that OPM's special-purpose financial statements are presented fairly, in all material respects. KPMG noted no matters involving the internal control over the financial process for the special-purpose financial statements that are considered a material weakness or significant deficiency. KPMG disclosed no instances of noncompliance or other matters that are required to be reported. The objectives of KPMG's audits of the special-purpose financial statements did not include expressing an opinion on internal controls or compliance with laws and regulations, and KPMG, accordingly, does not express such opinions.

**OIG Evaluation of KPMG's Audit Performance**

In connection with the audit contract, we reviewed KPMG's report and related documentation and made inquiries of its representatives regarding the audit. To fulfill our audit responsibilities under the Chief Financial Officers Act for ensuring the quality of the audit work performed, we conducted a review of KPMG's audit of OPM's Fiscal Year 2008 and 2007 special-purpose financial statements in accordance with Government Auditing Standards (GAS). Specifically, we:

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

Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on OPM's special-purpose financial statements. KPMG is responsible for the attached auditor's report dated November 17, 2008, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with the generally accepted GAS.

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

cc: Mark Reger  
Chief Financial Officer



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

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

We have audited the accompanying Closing Package Financial Statement Report – Balance Sheets of the United States (U.S.) Office of Personnel Management (OPM) as of September 30, 2008 and 2007; the related Closing Package Financial Statement Reports – Statements of Net Cost and Statements of Changes in Net Position, and the accompanying Financial Report (FR) Notes Report for the years then ended; the accompanying Additional Note Number (No.) 27; the accompanying Other Data Report Nos. 16 and 17; and the accompanying Trading Partner Summary Note Report – Balance Sheets as of September 30, 2008 and 2007; and the related Trading Partner Summary Note Reports – Statements of Net Cost and Statements of Changes in Net Position; except for the information included in sections entitled “Threshold” in FR Notes Report Nos. 3, 8, 11 and 15; the information included in sections entitled “Text Data” in FR Notes Reports Nos. 3, 6, 8, 11, 15, 18 and 22; FR Notes Report Nos. 11i, 11j, 11k, and 11o; the accompanying “previously reported” special-purpose financial statements and the related “previously reported” data and “line item changes” presented in the FR Notes and Trading Partner Summary Note Reports, for the years then ended (hereinafter collectively referred to as the special-purpose financial statements). These special-purpose financial statements are the responsibility of OPM’s management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OPM’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying special-purpose financial statements have been prepared for the purpose of complying with the requirements of *Volume I, Part 2 - Chapter 4700* of the U.S. Department of the Treasury’s *Treasury Financial Manual* (TFM), as described in Additional Note No. 27, solely for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office (GAO) to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of OPM’s consolidated financial statements.



In accordance with *TFM Volume I, Part 2 - Chapter 4700*, OPM prepared FR Notes Report Nos. 1 through 26, except for FR Notes Report Nos. 10a, 11e, 11f, 11i, 11m, 11n, 16, 21, 23, and 24, which were not applicable to the OPM. The OPM included Additional Note No. 27, *Summary of Significant Accounting Policies*, to disclose other data not contained in the special-purpose financial statements, but which is necessary to make the special-purpose financial statements more informative.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Office of Personnel Management as of September 30, 2008 and 2007, and its net costs and changes in net position for the years then ended in conformity with U.S. generally accepted accounting principles and the presentation pursuant to the requirements of *TFM Volume I, Part 2 - Chapter 4700*, as described in Additional Note No. 27.

OPM also prepared Other Data Report Nos. 1 through 17, except for Other Data Report Nos. 3, 4, 5, 6, 7, 8, 11, 12, 13, and 14, which were not applicable to OPM. The information included in Other Data Report Nos. 1, 2, 9, 10, and 15 is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by U.S. generally accepted accounting principles and the *TFM Volume I, Part 2 - Chapter 4700*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this supplementary information, and accordingly, we express no opinion on it.

The accompanying "previously reported" special-purpose financial statements and the related "previously reported" data and "line items changes" presented in the FR Notes and Trading Partner Summary Reports were not audited by us and accordingly we do not express an opinion there on.

The information included in the sections entitled "Threshold" in FR Notes Detail Data Report Nos. 3, 8, 11, and 15; the information included in sections entitled "Text Data" in FR Notes Detail Reports Nos. 3, 6, 8, 11, 15, 18, and 22; FR Notes Detail Report Nos. 11i, 11j, 11k and 11o; the information in the Reclassification Audit Trail Report - Statement Summary Level - Balance Sheets; and the information in the Reclassification Audit Trail Reports - Statement Summary Level - Statement of Net Cost, and Statement of Changes in Net Position are presented for purposes of additional analysis and are not a required part of the special-purpose financial statements. This information has not been subjected to the auditing procedures applied in the audits of the special-purpose financial statements and, accordingly, we express no opinion on it.

The *TFM Volume I, Part 2 - Chapter 4700* requires agencies to use the Governmentwide Financial Reporting System to input certain data as described in Additional Note No. 27. Except as discussed in this report, we express no opinion on information maintained in that system.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, we have also issued a combined auditors' report dated November 14, 2008, on our consideration of OPM's internal controls over financial reporting; and the results of our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters that are required to be reported under *Government Auditing Standards*. That report is an integral part of the audits of the consolidated balance sheets of OPM as of September 30, 2008 and 2007, and the related consolidated statements of net cost, and changes in net position, and combined statements of



budgetary resources (collectively referred to as the consolidated financial statements) for the years then ended, performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, and should be read in conjunction with this report in considering the results of our audits of the special-purpose financial statements. Our audit of the consolidated financial statements of OPM as of and for the year ended September 30, 2008, disclosed the following significant deficiencies and other matter:

Significant Deficiencies:

1. Information systems general control environment
2. Financial management and reporting process of the Office of the Chief Financial Officer

However, none of the significant deficiencies are believed to be material weaknesses.

Other Matter:

3. Other matter related to Federal Financial Management Improvement Act of 1996

Management is responsible for establishing and maintaining effective internal control. In planning and performing our audit of the fiscal year 2008 special-purpose financial statements, we also considered OPM's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of OPM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OPM's internal control over financial reporting.

Our consideration of internal control over financial reporting for special-purpose financial statements was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting for special-purpose financial statements that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects OPM's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of OPM's special-purpose financial statements that is more than inconsequential will not be prevented or detected by OPM's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the special-purpose financial statements will not be prevented or detected by OPM's internal control.

In our fiscal year 2008 audit, we did not identify any deficiencies in internal control over financial reporting for the special-purpose financial statements that we consider to be material weaknesses as defined above.

Management is responsible for complying with laws, regulations (including *TFM Volume I, Part 2 - Chapter 4700*), and contracts applicable to OPM. As part of obtaining reasonable assurance about whether OPM's fiscal year 2008 special-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,



and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions or on compliance with *TFM Volume I, Part 2 - Chapter 4700* requirements was not an objective of our fiscal year 2008 audit of the special-purpose financial statements and, accordingly, we do not express such an opinion.

The results of our tests of compliance with *TFM Volume I, Part 2 - Chapter 4700* disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

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This report is intended solely for the information and use of OPM's management, OPM's Office of Inspector General, Department of Treasury, OMB, and GAO, in connection with the preparation and audit of the *Financial Report of the U.S. Government*, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 17, 2008

U.S. Office of Personnel Management  
Government Financial Reporting System  
Additional Note to the Special-Purpose Financial Statements  
Entity – 2400 Office of Personnel Management

**Note 27 - Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The *Budget and Accounting Procedures Act of 1950* allows the Secretary of the Treasury to stipulate the format and requirements of executive agencies to furnish financial and operational information to the President and the Congress to comply with the *Government Management Reform Act of 1994* (GMRA), which requires the Secretary of the Treasury to prepare and submit annual audited financial statements of the executive branch. The Secretary of the Treasury developed guidance in the U.S. Department of Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700 to provide agencies with instructions to meet the requirements of GMRA. The *TFM Volume I, Part 2 - Chapter 4700* requires agencies to:

1. Reclassify all items and amounts on the audited consolidated, balance sheet, statements of net cost, changes in net position/income statement and custodial activity, if applicable, to the special-purpose financial statements;
2. Disclose special-purpose financial statement line item amounts identified as Federal by trading partner and amount (amounts should be net of intra-agency and intra-departmental eliminations);
3. Disclose notes required by the special-purpose financial statement line items and other notes required in the *Financial Report of the U.S. Government* (FR); and
4. Disclose other data not contained in the primary FR financial statements and notes required to meet requirements of accounting principles generally accepted in the United States of America.

The *TFM Volume I, Part 2 - Chapter 4700* requires agencies to use the Governmentwide Financial Report System (GFRS) to input the above information. For purposes of the special-purpose financial statements, the Closing Package is comprised of the following GFRS Modules:

1. Audited FS Report (GF002A)
2. Closing Package Financial Statement Reports (GF003)
3. Trading Partner Summary Note Report (GF004F)
4. FR Notes Report (FR Notes) (GF006G)
5. Other Data Report (Other Data) (GF007G)

The generic format for the special-purpose financial statements is based on the U.S. Standard General Ledger (USSGL) crosswalk to the FR financial statements and notes.

## **B. Reporting Entity**

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

The accompanying special-purpose financial statements present OPM's financial position, net cost of operations and change in net position, as required by the Chief Financial Officers Act of 1990 (CFO Act), the Government Management Reform Act of 1994 (GMRA) and *TFM Volume I, Part 2 - Chapter 4700*. The special-purpose financial statements include all accounts — appropriation, trust, trust revolving and revolving funds — under OPM's control. The special-purpose financial statements do not include the effect of any centrally-administered assets and liabilities related to the Federal Government as a whole, which may in part be attributable to OPM.

The special-purpose financial statements are comprised of the following major programs administered by OPM. The funds related to the operation of the Retirement Program, the Health Benefits Program, and the Life Insurance Program are "earmarked funds", as defined by the Statement of Federal Financial Accounting Standards (SFFAS) Number 27, *Identifying and Reporting Earmarked Funds*. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Government's general revenues.

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

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

amount paid by and for participants is essentially the same as that paid by and for participants in similarly-sized subscriber groups.

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

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

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

**Salaries and Expenses.** Salaries and Expenses provides the budgetary resources used by OPM to administer the OPM. These resources are furnished by annual, multiple-year, and no-year appropriations. Annual appropriations are made for a specified fiscal year and are available for obligation only during that fiscal year. Multiple-year appropriations are available for a definite period in excess of one fiscal year. No-year appropriations are available for obligation without fiscal year limitation.

### **C. Basis of Accounting and Presentation**

These special-purpose financial statements have been prepared to report the financial position, net cost, and changes in net position, of OPM as required by the CFO Act, GMRA and *TFM Volume I, Part 2 - Chapter 4700*. These special-purpose financial statements have been prepared from the books and records of OPM in accordance with accounting principles generally accepted in the United States of America (GAAP), Office of Management Budget (OMB) Circular No. A-136, *Financial Reporting Requirements* and *TFM Volume I, Part 2 - Chapter 4700*. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal Government. These special-purpose financial statements present proprietary information. OPM, pursuant to OMB directives, prepares additional financial reports that are used to monitor and control OPM's use of budgetary resources.

OPM has presented comparative special-purpose financial statements for the Consolidated Balance Sheets, Consolidated Statements of Net Cost, and Consolidated Statements of Changes in Net Position, in accordance with *TFM Volume I, Part 2 - Chapter 4700*.

The special-purpose financial statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that

liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to receipt or payment of cash.

#### **D. Use of Management's Estimates**

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

#### **E. Financial Statement Classifications**

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

**Federal and Non-Federal and Other Balances.** Throughout these special-purpose financial statements, Federal assets, liabilities, revenues and costs have been classified according to the type of entity with which the transactions are associated. OPM classifies as Federal, those transactions with other Federal entities (trading partners), including the USPS. In accordance with Federal accounting standards, OPM classifies employee contributions to the Retirement, Health Benefits and Life Insurance Programs as exchange revenues "from the public." OPM's entire gross cost to provide Retirement, Health and Life Insurance benefits, however, is classified as Non-Federal costs because the recipients of these benefits are Federal employees, retirees, and their survivors and families. As a consequence, on the accompanying consolidated Statements of Net Cost and in other notes to OPM's financial statements, OPM reports that there are no Federal gross costs to provide Retirement, Health and Life Insurance benefits. The consolidated Statement of Net Cost provides its users with the ability to ascertain whether OPM's exchange revenues are sufficient to cover the total cost it has incurred to provide Retirement, Health and Life Insurance benefits.

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

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

disclosed as being "not covered by budgetary resources." With minor exception, all other OPM liabilities are disclosed as being "covered by budgetary resources."

**Net Position.** OPM's Net Position comprises of OPM's net results of operations since its inception and the balance of appropriated authority granted to OPM against which no outlays have been made. The Statements of Changes in Net Position separately disclose earmarked revenue and other financing sources, included appropriations, as well as net cost of operations and cumulative results of operations attributable to earmarked funds. The balance of OPM's net position is negative because of the recognition of actuarial liabilities that will be liquidated in future periods.

**F. Net Cost of Operations**

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

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

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

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

**G. Program Funding**

**Retirement Program.** Service cost represents an estimate of the amount of contributions which, if accumulated and invested over the careers of participants, will be sufficient to fund fully their future CSRS or FERS benefits. For fiscal years 2008 and 2007, the service cost for most or "regular" CSRS participants is 25.2 and 25.0 percent of pay, respectively; for most or "regular" FERS participants, 12.0 percent of pay. Federal accounting standards require that employing agencies recognize an imputed cost for the difference between the amount contributed by and for their participating employees and the service cost of the CSRS and FERS.

**CSRS.** Both CSRS participants and their employing agencies, with the exception of USPS, are required by statute to make contributions to CSRS coverage. Regular CSRS participants and their employers each contributed 7.0 percent of pay in both fiscal years 2008 and 2007. The combined 14.0 percent of pay does not cover the service cost of a CSRS benefit. To lessen the shortfall, the Treasury is required by statute to transfer an amount annually from the General Fund of the

United States to the CSRDF; for fiscal years 2008 and 2007, this amount was \$30.9 and \$31.0 billion, respectively.

The Postal Accountability and Enhancement Act, P.L. 109-435 eliminated the requirement for the USPS to make contributions to CSRS and canceled the Postal Normal Cost payments to the CSRS retroactively to October 1, 2006.

**FERS.** Both FERS participants and their employing agencies are required by statute to make contributions for FERS coverage. The FERS participant contribution rate is equal to the CSRS participant contribution rate less the prevailing Old Age Survivor and Disability Insurance deduction rate; (0.8 percent for most participants for fiscal years 2008 and 2007). The employer contribution rate is equal to the FERS service cost less the participant contribution rate (11.2 percent of pay in fiscal years 2008 and 2007 for most participants). The total contributions by and for FERS participants (12.0 percent), therefore, fully funded the FERS service cost in both fiscal years 2008 and 2007.

**Health Benefits Program.** The Program (with the exception of the PSRHB) is funded on a “pay-as-you-go” basis, with both participants and their employing agencies making contributions on approximately a one-quarter to three-quarters basis (OPM contributes the “employer” share for Retirement Program annuitants via an appropriation). The Program continues to provide benefits to active employees (or their survivors) after they retire (post-retirement benefits). With the exception of the USPS, agencies are not required to make contributions for the post-retirement coverage of their active employees. These agencies, therefore, must recognize the service cost of providing post-retirement health benefits for active employees (\$5,520 and \$5,572 per participant for fiscal years 2008 and 2007, respectively) as an imputed cost.

P.L. 109-435 requires the USPS to make scheduled payment contributions to the new PSRHB Fund ranging from approximately \$5.4 to \$5.8 billion per year from fiscal year 2007 through fiscal year 2016, according to the legislation. Therefore, the USPS will make annual payments of the sum of the normal cost payments.

**Life Insurance Program.** The Program is funded on a “pay-as-you-go” basis, with both participants and their employing agencies making contributions to Basic life insurance coverage, generally on a two-thirds to one-third basis (OPM contributes the “employer” share for Retirement Program annuitants via an appropriation). The Program is funded using the “level premium” method, where contributions paid by and for participants remain fixed until age 65, but overcharge during early years of coverage to compensate for higher rates of expected outflows at later years. A portion of post-retirement life insurance coverage (0.02 percent of the pay of participating employees in fiscal years 2008 and 2007) is not funded. Employing agencies must recognize this amount as an imputed cost.

**Revolving Fund Programs.** OPM’s Revolving Fund Programs provide for a continuing cycle of human resource services primarily to Federal agencies on a reimbursable basis. Each program is operated at rates established by OPM to be adequate to recover costs over a reasonable period of time. Receipts derived from operations are, by law, available in their entirety for use of the fund without further action by Congress. Since the Revolving Fund Programs charge full cost, customer agencies, as well as responsibility segments within OPM, do not recognize imputed costs.

## **H. Financing Sources Other Than Earned Revenue**

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

**Transfer-in from the General Fund.** The U.S. Treasury is required by law to transfer an amount annually to the Retirement Program from the General Fund of the U.S. to subsidize in part the under-funding of the CSRS.

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

## **I. Fund Balance with Treasury**

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

## **J. Investments**

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

The Retirement Program also carries, but does not routinely invest in, securities issued by the Federal Financing Bank (FFB) and a small amount of other securities.

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

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

#### **K. Accounts Receivable, Net**

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

#### **L. Other Assets**

This represents the balance of assets held by the experience-rated carriers participating in the Health Benefits Program and by the Life Insurance Program carrier, pending disposition on behalf of OPM. Due to recent economic conditions, these balances reflect unrealized but permanent losses resulting from a reduction in the market value of assets held by our life insurance carrier.

#### **M. General Property and Equipment**

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

#### **N. Benefits Due and Payable**

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

#### **O. Actuarial Liabilities and Associated Expenses**

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

**P. Tax Status**

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