

**U. S. OFFICE OF PERSONNEL MANAGEMENT**  
**SCHEDULE 3 - CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION**  
For the Year Ended September 30, 2000  
*(Dollars in Millions)*

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Consolidated
<b>(Net Cost of Operations)</b>						
Excess of Earned Revenues over Cost	(\$33,766)	(\$21,910)	\$230	(\$3)	(\$114)	(\$55,563)
<b>Financing Sources (other than earned revenues)</b>						
Appropriations Used	0	5,049	27	0	98	5,174
Transfer-in	21,556	0	0	0	0	21,556
Imputed Financing	0	0	0	0	8	8
<b>Net Results of Operations</b>	<b>(12,210)</b>	<b>(16,861)</b>	<b>257</b>	<b>(3)</b>	<b>(8)</b>	<b>(\$28,825)</b>
<b>Prior Period Adjustments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>30</b>	<b>10</b>	<b>40</b>
<b>Net Change in Cumulative Results of Operations</b>	<b>(12,210)</b>	<b>(16,861)</b>	<b>257</b>	<b>27</b>	<b>2</b>	<b>(\$28,785)</b>
<b>Decrease in Unexpended Appropriations</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(31)</b>	<b>(31)</b>
<b>Change in Net Position</b>	<b>(12,210)</b>	<b>(16,861)</b>	<b>257</b>	<b>27</b>	<b>(29)</b>	<b>(\$28,816)</b>
<b>Net Position, Beginning of Year</b>	<b>(501,390)</b>	<b>(170,953)</b>	<b>(2,295)</b>	<b>(22)</b>	<b>48</b>	<b>(674,612)</b>
<b>Net Position, End of Year</b>	<b>(\$513,600)</b>	<b>(\$187,814)</b>	<b>(\$2,038)</b>	<b>\$5</b>	<b>\$19</b>	<b>(\$703,428)</b>

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

**U.S. OFFICE OF PERSONNEL MANAGEMENT**  
**SCHEDULE 4 - CONSOLIDATING STATEMENT OF BUDGETARY RESOURCES**  
For the Year Ended September 30, 2000  
*(Dollars in Millions)*

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	Consolidated
<b>BUDGETARY RESOURCES</b>							
Appropriations	0	\$5,049	\$33	0	\$91	0	\$5,173
Total Appropriated Receipts	\$76,136	0	0	0	0	0	76,136
Less: Increase in Temporarily Unavailable Appropriated Receipts [Note 10]	30,634	0	0	0	0	0	30,634
Available Appropriated Receipts	45,502	0	0	0	0	0	45,502
Spending Authority from Offsetting Collections	0	14,644	3,242	\$243	109	(\$150)	18,088
Unobligated Balance, Beginning of Year, as Restated [Note 10]	0	4,056	20,425	33	27	0	24,541
Other	0	0	(6)	0	0	0	(6)
Total Budgetary Resources	45,502	23,749	23,694	276	227	(150)	93,298

**STATUS OF BUDGETARY RESOURCES**

Obligations Incurred	45,502	19,664	1,842	228	209	(150)	67,295
Unobligated Balances, Available	0	0	0	113	7	0	120
Unobligated Balances, Unavailable	0	4,085	21,852	(65)	11	0	25,883
Total Status of Budgetary Resources	45,502	23,749	23,694	276	227	(150)	93,298

**OUTLAYS**

Obligations Incurred	45,502	19,664	1,842	228	209	(150)	67,295
Less: Spending Authority from Offsetting Collections	0	14,644	3,242	243	109	(150)	18,088
Subtotal	45,502	5,020	(1,400)	(15)	100	0	49,207
Obligated Balance, Net - Beginning of Year	3,792	2,148	61	32	43	0	6,076
Less: Obligated Balance, Net - End of Year	3,942	2,330	114	(15)	2	0	6,373
Total Outlays	\$45,352	\$4,838	(\$1,453)	\$32	\$141	\$0	\$48,910

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

# U.S. OFFICE OF PERSONNEL MANAGEMENT

## SCHEDULE 5 - CONSOLIDATING STATEMENT OF FINANCING

For the Year Ended September 30, 2000

*(Dollars in millions)*

	Retirement Program	Health Benefits Program	Life Insurance Program	Revolving Fund Programs	Salaries and Expenses	Elim.	onsolidated
<b>Obligations and Nonbudgetary Resources</b>							
Obligations Incurred	\$45,502	\$19,664	\$1,842	\$228	\$209	(\$150)	\$67,295
Less: Spending authority From Offsetting Collections	0	14,644	3,242	243	109	(150)	18,088
Less: Total Appropriated Receipts	76,136	0	0	0	0	0	76,136
Other Financing Sources	21,556	0	0	2	0	0	21,558
Exchange Revenue Not in the Budget	(242)	20	2	0	0	0	(220)
Other	0	6	0	0	0	0	6
<b>Total Obligations, As Adjusted, and Nonbudgetary Resources</b>	<b>(9,320)</b>	<b>5,046</b>	<b>(1,398)</b>	<b>(13)</b>	<b>100</b>	<b>0</b>	<b>(5,585)</b>
<b>Resources That Do Not Fund Net Cost of Operations</b>	<b>0</b>	<b>6</b>	<b>(33)</b>	<b>10</b>	<b>12</b>	<b>0</b>	<b>(5)</b>
<b>Costs That Do Not Require Resources</b>	<b>(14)</b>	<b>6</b>	<b>114</b>	<b>2</b>	<b>(2)</b>	<b>0</b>	<b>106</b>
<b>Financing Sources Yet to be Provided</b>							
Change in Pension Liability	43,100	0	0	0	0	0	43,100
Change in Postretirement Health Benefits Liability	0	16,852	0	0	0	0	16,852
Change in Actuarial Life Insurance Liability	0	0	1,087	0	0	0	1,087
Other	0	0	0	4	4	0	8
<b>Total Financing Sources Yet to be Provided</b>	<b>43,100</b>	<b>16,852</b>	<b>1,087</b>	<b>4</b>	<b>4</b>	<b>0</b>	<b>61,047</b>
<b>Net Cost of Operations (Excess of Earned Revenue over Cost)</b>	<b>\$33,766</b>	<b>\$21,910</b>	<b>(\$230)</b>	<b>\$3</b>	<b>\$114</b>	<b>\$0</b>	<b>\$55,563</b>

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

# **REQUIRED SUPPLEMENTARY INFORMATION**

**INTRAGOVERNMENTAL ASSETS  
BY TRADING PARTNER**  
as of September 30, 2000  
*(Rounded to nearest dollar)*

OPM is required to report three categories of intragovernmental assets by trading partner: Benefit Contributions for Participants, Interest on Investments, and Fund Balance with Treasury and Investments. For each of these intragovernmental asset categories, the following schedule identifies the corresponding liability that should be reported by trading partner.

Trading Partner	Benefit Contributions for Participants	Interest on Investments	Fund Balance with Treasury and Investments
Agriculture	\$ 45,694,115	0	0
Commerce	17,780,586	0	0
Defense	191,673,097	0	0
Education	2,728,208	0	0
Energy	19,887,297	0	0
Health and Human Services	35,575,472	0	0
Housing and Urban Development	5,516,085	0	0
Interior	28,859,533	0	0
Justice	85,306,419	0	0
Labor	8,343,182	0	0
State	6,207,023	0	0
Transportation	43,858,788	0	0
Treasury	68,423,604	8,941,509,488	540,840,943,619
Veterans Affairs	86,041,815	0	0
Agency for International Development	976,104	0	0
Environmental Protection Agency	10,070,656	0	0
Federal Emergency Management Agency	1,645,291	0	0
General Services Administration	6,954,811	0	0
National Aeronautics and Space Agency	11,081,456	0	0
National Science Foundation	219,836	0	0
Nuclear Regulatory Commission	1,841,631	0	0
Small Business Administration	1,970,640	0	0
Social Security Administration	26,813,886	0	0
U.S. Postal Service	184,490,641	1,423,840	0
Other trading partners	91,280,229	0	0
<b>Total</b>	<b>\$983,240,404</b>	<b>\$8,942,933,328</b>	<b>\$540,840,943,619</b>

**INTRAGOVERNMENTAL EARNED REVENUE  
BY TRADING PARTNER**  
for the Year Ended September 30, 2000  
(Rounded to nearest dollar)

OPM must also report two categories of intragovernmental earned revenue balances by trading partner: Contributions for Participants and Interest on Investments. For both of these, the following schedule identifies the corresponding expense that should be reported by trading partner. Also, reported is OPM's "Full Cost to Generate Revenues", which is equal to these earned revenues.

Trading Partner	Contributions for Participants	Interest on Investments	Full Cost to Generate Revenue
Agriculture	\$ 796,406,663	0	
Commerce	308,204,245	0	
Defense	5,235,563,212	0	
Education	50,721,366	0	
Energy	164,159,665	0	
Health and Human Services	463,352,634	0	
Housing and Urban Development	93,621,731	0	
Interior	482,970,282	0	
Justice	1,447,460,384	0	
Labor	140,448,287	0	
State	99,190,533	0	
Transportation	749,354,133	0	
Treasury	1,196,983,774	35,679,489,604	
Veterans Affairs	1,481,883,020	0	
Agency for International Development	15,093,253	0	
Environmental Protection Agency	172,359,171	0	
Federal Emergency Management Agency	27,654,972	0	
General Services Administration	117,774,343	0	
National Aeronautics and Space Agency	189,595,677	0	
National Science Foundation	11,310,792	0	
Nuclear Regulatory Commission	31,601,569	0	
Small Business Administration	34,334,618	0	
Social Security Administration	458,977,232	0	
U.S. Postal Service	10,381,743,918	22,405,480	
Other trading partners	1,129,030,434	0	
<b>Total</b>	<b>\$25,279,795,910</b>	<b>\$35,701,895,084</b>	<b>\$60,981,690,994</b>

# **INDEPENDENT AUDITORS' REPORT**



2001 M Street, N.W.  
Washington, DC 20036

## Independent Auditors' Report

Director,  
U.S. Office of Personnel Management

This report presents the results of our audits of the consolidated balance sheet of the U.S. Office of Personnel Management (OPM) as of September 30, 2000, as well as the individual balance sheets of the Retirement, Health Benefits, and Life Insurance Programs (the Programs) as of September 30, 2000, and the related consolidated and individual Programs' statements of net cost, changes in net position, budgetary resources, and financing for the year then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered OPM's internal control over financial reporting and tested OPM's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

### Summary

As stated in our opinion, we concluded that OPM's consolidated financial statements and the individual statements of the Programs as of and for the year ended September 30, 2000, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of internal control over financial reporting resulted in reportable conditions in the following areas:

- Electronic data processing (EDP) general control environment
- Account analysis and other significant reconciliation procedures by the Office of the Chief Financial Officer (OCFO)
- Budgetary accounting structure of the OCFO
- Quality control over annual financial statement preparation
- Controls over program administration for the community-rated health carriers

Our tests of compliance with certain provisions of laws and regulations, exclusive of those referred to in the Federal Financial Managers' Integrity Act (FFMIA) of 1986, disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. However, our tests of compliance with FFMIA section 803(a) requirements disclosed instances where the OPM's financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.



The following sections discuss our opinions on OPM's consolidated financial statements and the Programs' individual financial statements, our consideration of OPM's internal control over financial reporting, the results of our tests of OPM's compliance with certain provisions of laws and regulations, and management's and our responsibilities

## **Opinion on the Financial Statements**

We have audited the consolidated balance sheet of the U.S. Office of Personnel Management as of September 30, 2000, and the related consolidated statements of net cost, changes in net position, budgetary resources, and financing for the year then ended. We have also audited the individual balance sheets of the Retirement, Health Benefits, and Life Insurance Programs as of September 30, 2000, and the individual Programs' statements of net cost, changes in net position, budgetary resources, and financing for the year then ended. These individual Program financial statements are included in the consolidating financial statements presented as schedules 1 through 5.

We did not audit the financial statements of the experience-rated health carriers, which statements comprise 1% of total assets reflected in the Health Benefits Program (HBP) individual balance sheet and substantially all of the post-retirement health benefits and current benefits reflected in the HBP statement of net cost. The experience-rated carrier financial statements were audited by other auditors, whose reports thereon have been provided to us, and our opinion, insofar as it relates to the amounts included for the experience-rated carriers, is based solely on the reports of the other auditors.

Additionally, we did not audit the financial statements of Metropolitan Life Insurance Company's Office of Federal Employees Group Life Insurance Program (OFEGLI), which statements comprise approximately 2% of total assets reflected in the Life Insurance Program (LP) balance sheet and substantially all of the current benefits reflected in the LP statement of net cost. Those financial statements were audited by other auditors, whose report thereon has been provided to us, and our opinion, insofar as it relates to the amounts included for OFEGLI, is based solely on the reports of the other auditors.

In our opinion, based on our audits and the results of other auditors, the consolidated financial statements of OPM and the individual financial statements of the Programs present fairly, in all material respects, the consolidated financial position of OPM and the financial position of each of the Programs as of September 30, 2000, and the consolidated and individual Programs' net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The information included in the sections entitled Management Discussion and Analysis (MD&A) and Required Supplementary Information is not a required part of the consolidated financial statements but is supplementary information required by the Federal Accounting Standards Advisory Board or OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit the information in the MD&A and Required Supplementary Information sections and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the consolidated financial statements of OPM taken as a whole and on the individual financial statements of the Programs. The financial statements of the Revolving Fund Programs and Salaries and Expenses funds (the Funds) included in the consolidating financial statements presented as schedules 1 through 5, are presented for purposes of additional analysis of the consolidated financial statements of OPM rather than to present the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of the individual Funds. The financial statements of the Funds have been subjected to the auditing procedures applied in the audit of the OPM's consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to OPM's consolidated financial statements taken as a whole.

## **Internal Control over Financial Reporting**

We noted certain matters, described in items 1 through 5 below, involving the internal control over financial reporting and its operation that we consider to be reportable conditions under standards issued by the American Institute of Certified Public Accountants (AICPA). However, none of the reportable conditions identified below are believed to be material weaknesses.

Our consideration of internal control over financial reporting for fiscal year 2000 would not necessarily disclose all matters that might be reportable conditions. Under standards issued by the AICPA, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect OPM's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

The objectives of our audits were not to provide assurance on OPM's internal control over financial reporting. In addition, our procedures were not designed to provide assurance on internal control over reported performance measures. Consequently, we do not provide an opinion on internal control over financial reporting or performance measures.

The status of prior year findings is presented in Exhibit I.

We also noted other matters involving internal control over financial reporting and its operation that we have reported to the management of OPM in a separate letter dated February 16, 2001.

## **1. EDP General Control Environment**

### **(a) Chief Information Officer Management, Organizational, and Accountabilities Structure**

Throughout fiscal year 2000, reorganization efforts have been underway to consolidate some information technology functions and to strengthen the role of the Office of the Chief Information Officer (OCIO). Key control areas that require entity-wide level management, which are under the control of the OCIO, include security, network and platform management, change management, and service continuity.

Recognizing that some information technology functions can be appropriately distributed, a clear accountability structure is required to ensure the OCIO is positioned to effectively coordinate and oversee the distributed functions. Additionally, several internal and external initiatives such as the Government Information Security Reform Act, the Presidential Decision Directive 63, the Health Information Portability and Accountability Act of 1996, and the OPM's Retirement Systems Modernization program will require entity-wide coordination of resources, policies, and management oversight.

### **(b) Entity-Wide Information Security Program**

As previously reported, OPM still lacks an integrated entity-wide information security program. As outlined in OMB Circular A-130, *Management of Federal Information Resources*, an effective security program includes a risk assessment process, a certification process, and an effective incident response and monitoring capability. OPM is currently in the process of developing entity-wide security policies, which should lay the foundation for an effective security plan. An entity-wide security program, including security policies and a related implementation plan, is the foundation of an entity's security control structure and a reflection of senior management's commitment to addressing security risks.

Our review and evaluation of OPM's entity-wide information security program revealed:

- Weaknesses in selected security policies, including password maintenance, RACF user profile maintenance procedures, dial up access controls, and segregation of duties for some security administrators.
- A lack of a centrally controlled information security function within OPM for data security, general support systems, application systems, and network operations.
- As reported in prior fiscal years, a security risk assessment has not been performed within the last three years, as required by OMB Circular A-130. A periodic entity-wide risk assessment is critical because all offices within OPM share common hardware, software, and network platforms and therefore, all offices are equally vulnerable to security weaknesses.
- The lack of a formally established, integrated, and robust monitoring and response capability to ensure adequate network and systems security. A limited penetration study found vulnerabilities were not properly mitigated. Although OPM immediately responded to these particular vulnerabilities when brought to management's attention, no mechanism exists to identify new risks, or to verify that implemented changes are adequate or operating as intended.