



Office of the  
Inspector General

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

**November 13, 2009**

Report No. 4A-CF-00-09-037

MEMORANDUM FOR JOHN BERRY

Director

FROM: PATRICK E. McFARLAND  
Inspector General

A handwritten signature in black ink, appearing to read "Patrick E. McFarland", written over the printed name.

SUBJECT: Audit of the Office of Personnel Management's Fiscal Year  
2009 Consolidated Financial Statements

This memorandum transmits KPMG LLP's (KPMG) report on its financial statement audit of the Office of Personnel Management's (OPM) Fiscal Year 2009 Consolidated Financial Statements and the results of the Office of the Inspector General's (OIG) oversight of the audit and review of that report. OPM's consolidated financial statements include the Retirement Program, Health Benefits Program, Life Insurance Program, Revolving Fund Programs (RF) and Salaries & Expenses funds (S&E).

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

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires OPM's Inspector General or an independent external auditor, as determined by the Inspector General, to audit the agency's financial statements in accordance with Government Auditing Standards (GAS) issued by the Comptroller General of the United States. We contracted with the independent certified public accounting firm KPMG LLP to audit OPM's consolidated financial statements as of September 30, 2009 and for the fiscal year then ended. The contract requires that the audit be performed in accordance with generally accepted government auditing standards and the Office of Management and Budget (OMB) bulletin number 07-04, *Audit Requirements for Federal Financial Statements*.

KPMG's audit report for Fiscal Year 2009 includes: (1) opinions on the consolidated financial statements and the individual statements for the three benefit programs, (2) a

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

- The consolidated financial statements were fairly presented, in all material respects, in conformity with generally accepted accounting principles.
- There were no material weaknesses identified in the internal controls. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

However, KPMG's report did identify two significant deficiencies:

- Information systems general control environment (OPM and the Programs), and
- Financial management and reporting processes of the Office of the Chief Financial Officer (OCFO). (RF Program and S&E Fund)

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

- KPMG's report on compliance with certain provisions of laws and regulations disclosed one other matter related to the Federal Financial Management Improvement Act of 1996 (FFMIA). (RF Program and S&E Fund)

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

In connection with the audit contract, we reviewed KPMG's report and related documentation and made inquiries of its representatives regarding the audit. To fulfill our audit responsibilities under the CFO Act for ensuring the quality of the audit work performed, we conducted a review of KPMG's audit of OPM's Fiscal Year 2009 Consolidated Financial Statements in accordance with GAS. Specifically, we:

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

Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on OPM's financial statements or internal controls or on whether OPM's financial management systems substantially complied with FFMIA or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditor's report dated November 10, 2009, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with the generally accepted GAS.

In accordance with the OMB Circular A-50 and Public Law 103-355, all audit findings must be resolved within six months of the date of this report. In order to ensure audit findings are resolved within the required six-month period, we are asking that the OCFO respond directly to the OIG within 90 days of the date of this report advising us whether they agree or disagree with the audit findings and recommendations. As stated in OMB Circular A-50, where agreement is indicated, the OCFO should describe planned corrective action. If the OCFO disagrees with any of the audit findings and recommendations, they need to explain the reason for the disagreement and provide any additional documentation that would support their opinion.

In closing, we would like to congratulate OPM's financial management staff for once again issuing the consolidated financial statements by the November 16 due date. Their professionalism, courtesy, and cooperation allowed us to overcome the many challenges encountered during OPM's preparation, KPMG's audit, and the OIG's oversight of the financial statement audit this year. If you have any questions about KPMG's audit or our oversight, please contact me or have a member of your staff contact Michael R. Esser, Assistant Inspector General for Audits, at 606-2143.

cc: Mark Reger  
Chief Financial Officer





The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed the following instance of noncompliance or other matter that is 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended:

3. Other matter related to Federal Financial Management Improvement Act (RF Program and S&E Fund)

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

### **OPINION ON THE FINANCIAL STATEMENTS**

We have audited the accompanying consolidated balance sheets of the U.S. Office of Personnel Management as of September 30, 2009 and 2008, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years then ended. We have also audited the individual balance sheets of the Programs as of September 30, 2009 and 2008, and the related individual statements of net cost, changes in net position, and budgetary resources for the years then ended. The Programs' individual financial statements are included in the consolidating financial statements presented in the Consolidating Financial Statements section of OPM's *Fiscal Year 2009 Agency Financial Report*.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OPM and the financial position of each of the Programs as of September 30, 2009 and 2008, and the consolidated and individual Programs' net costs, changes in net position, and budgetary resources, for the years then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management Discussion and Analysis and Required Supplementary Information sections of OPM's *Fiscal Year 2009 Agency Financial Report* is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. 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 information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of OPM taken as a whole and on the Programs' individual financial statements. The individual financial statements of the RF Program and S&E Fund included in the Consolidating Financial Statements section of OPM's *Fiscal Year 2009*



*Agency Financial Report* (Schedules 1 through 4) are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, and budgetary resources of the individual RF Program and S&E Fund. The financial statements of the RF Program and S&E Fund have been subjected to the auditing procedures applied in the audit of the consolidated financial statements of OPM and, in our opinion, are fairly stated in all material aspects in relation to OPM's consolidated statements taken as a whole.

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

The information in the Other Accompanying Information, and Appendix A, included in OPM's *Fiscal Year 2009 Agency Financial Report*, are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

In our fiscal year 2009 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting



that we consider to be significant deficiencies and that are described in Items 1 and 2 below. Exhibit I presents the status of prior year significant deficiencies.

### **1. Information systems general control environment**

Information system general control deficiencies identified in previous years related to OPM and the Programs continue to persist or have not been fully addressed and consequently are not in full compliance with authoritative guidance. Specifically, security policies and procedures, including drafting risk assessment and security plans, have not been updated to incorporate current authoritative guidance, sufficient independent oversight of certain certification and accreditation activities are not consistently performed, and the procedures performed to certify and accredit certain financial systems were not complete. In addition, we noted that application access permissions have not been fully documented to describe the functional duties the access provides to assist management in reviewing the appropriateness of system access, instances where background investigations and security awareness training was not completed prior to access being granted, and certain weaknesses in granting access to application and physical access to system resources. Finally, we found that the Plans of Actions and Milestones (POA&M) were not always accurate and complete.

#### **Recommendation**

The OCIO should continue to update and implement entity-wide security policies and procedures and provide more direction and oversight to Program Offices for completing and appropriately overseeing certification and accreditation requirements and activities. In addition, documentation on application access permissions should be enhanced and linked with functional duties and procedures for granting logical and physical access needs to be refined to ensure access is granted only to authorized individuals. Finally, policies and procedures should be developed and implemented to ensure POA&Ms are accurate and complete.

#### **Management Response**

OPM concurs with these findings and recommendations. The Center for Information Services intends to take such additional actions as the following:

- Clarifying roles and responsibilities in the certification and accreditation of systems;
- Training the OPM's designated security officers in conducting certification and accreditation of systems and in the handling of plans of action and milestones ;
- Reviewing and revising as necessary OPM's process for establishing new user access accounts;
- Investigating tools that can be used to mask personally identifiable information in production use;
- Documenting and implementing change control monitoring procedures for data base administrator activities; and



- Beginning discussions with the staff of the OPM's Chief Financial Officer on how to establish and maintain functional descriptions.

## **2. Financial Management and Reporting Process of the Office of the Chief Financial Officer**

Certain deficiencies in the operation of the OCFO's internal control over financial management and reporting, affecting the accuracy of the RF Program and S&E Fund, continue to exist at OPM. The Government Financial Information System (GFIS) is not designed properly to allow for:

- a. Capture of certain financial information and is not properly configured to produce useful financial reports that provide accurate information regarding related intragovernmental activities and balances.
- b. Reconciliations are not consistently or always clearly documented and are not always performed in a timely manner for the S&E Fund.
- c. Unidentified differences from prior years continue to exist between Treasury and GFIS.

According to OMB Circular A-123, transactions should be promptly recorded, properly classified, and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for documentation.

Deficiencies in the ability to record, process, summarize and report financial data may misstate financial information reported in the RF Program and S&E Fund.

### **Recommendation**

The OCFO should continue implementation of its corrective action plan which should reduce or eliminate the need for correcting journal entries. Further, we recommend that:

1. OPM complete the implementation of a new accounting system to ensure that all financial information is properly captured and is properly configured to produce useful financial reports that provide accurate information regarding related intragovernmental activities and balances.
2. OPM continue to identify and correct existing differences between OPM's internal data and the information reported by Treasury. At such a time when no additional reductions can be identified, OPM should, in conjunction with appropriate oversight agencies, write down the remaining amount to clear the remaining Fund Balance with Treasury balance.
3. OPM CFO management actively enforce procedures regarding the documentation of Salaries and Expense Fund reconciliations in accordance with guidelines outlined in



the "Treasury Financial Manual" and OPM's "Cash Management Policy and Procedures."

### **Management Response**

OPM acknowledges deficiencies in the GFIS system used for the Revolving Fund and Salaries and Expenses accounts and concurs with KPMG's recommendations. Beginning in fiscal year 2010, OPM migrated to a new software solution. OPM worked throughout FY 2009 towards the deployment of the new OPM accounting system. Extensive data cleanup was performed within FY 2009 in preparation for transferring balances between the old and new systems. The new system supports the capture and reporting of all financial information regarding related intra-governmental activities and balances. Additionally, OPM continues to reconcile, identify and correct differences between OPM's internal data and Treasury balances, processing adjusting entries as needed. OPM OCFO management will continue to enhance and enforce procedures to document timely reconciliations compliant with the *Treasury Financial Manual* and OPM's *Cash Management Policy and Procedures*.

### **COMPLIANCE AND OTHER MATTERS**

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

The results of our tests of FFMIA disclosed no instances in which OPM's or the Programs' financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report. The results of our tests did disclose one other matter regarding FFMIA related to the RF Program and S&E Funds, as described below.

#### **3. Other matter related to Federal Financial Management Improvement Act of 1996 (FFMIA)**

##### **United States Standard General Ledger**

In accordance with OMB Circular A-127, *Financial Management Systems*, as amended, OPM is to record financial events consistent with the applicable definitions, attributes, and processing rules defined in the United States Standard General Ledger at the transaction level. The OCFO does not consistently record RF Program and S&E Fund transactions at the United States Standard General Ledger transaction level.



## **Recommendation**

We recommend that the OCFO should continue implementation of a new accounting system to replace the GFIS system and related processes and procedures to enable the OCFO to account for the RF Program and S&E Fund's transactions in accordance with the United States Standard General Ledger at the transaction level.

## **Management Response**

OPM concurs with the recommendation. The GFIS financial system could not be configured to fully meet the requirements of FFMIA. OPM's new accounting system, Consolidated Business Information System (CBIS) was deployed for the RF program and the S&E Fund accounts on October 1, 2009. CBIS is designed and configured to properly capture and report all financial data necessary to provide accurate information regarding related intra-governmental activities at the transaction level. OPM will ensure that the implementations of the financial system requirements are in compliance with FFMIA.

\* \* \* \* \*

## **RESPONSIBILITIES**

**Management's Responsibilities.** Management is responsible for the consolidated financial statements of OPM and the individual financial statements of the Programs; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to OPM.

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2009 and 2008 consolidated financial statements of OPM and the individual financial statements of the Programs based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OPM's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the overall consolidated OPM financial statements and Programs' individual financial statements;



- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated OPM financial statements and Programs' individual financial statement presentation.

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

In planning and performing our fiscal year 2009 audit, we considered OPM's internal control over financial reporting by obtaining an understanding of OPM's and the Programs' internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements of OPM and the individual financial statements of the Programs. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of OPM's or the Programs' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of OPM's or the Programs' internal control over financial reporting.

As part of obtaining reasonable assurance about whether OPM's fiscal year 2009 consolidated and the Programs' fiscal year 2009 individual financial statements are free of material misstatement, we performed tests of OPM's and the Programs' compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to OPM and the Programs. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

We noted certain additional matters that we have reported to management of OPM in a separate letter dated November 10, 2009.

---

OPM's responses to the findings identified in our audit are presented for each finding as Management Response, herein. We did not audit OPM's response and, accordingly, we express no opinion on it.



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

KPMG LLP

November 10, 2009

**Exhibit I**

No.	Title of Finding from FY08 Report	Program/Fund	Prior Year Status	Current Year Status	Factors Affecting Current Year Status
1	Information Systems General Control Environment	All (A)	Significant Deficiency	Significant Deficiency – See FY 2009, Condition No. 1	OPM has made continual annual improvements to Information Systems General Control Environment, however, deficiencies still exist.
2	Financial Management Reporting Processes of the Office of the Chief Financial Officer (OCFO)	S&E; RF	Significant Deficiency	Significant Deficiency - See FY 2009, Condition No. 2	OPM has made improvements, however, deficiencies still exist because of system limitations.

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