

U.S. OFFICE OF GOVERNMENT ETHICS



Fiscal Year 2007
Performance Accountability Report
Management Discussion and Analysis
Annual Program Performance Report
Management Assurances
Audited Financial Statements

November 2007



United States
Office of Government Ethics
1201 New York Avenue, NW., Suite 500
Washington, DC 20005-3917

November 15, 2007

The Honorable Jim Nussle
Director
Office of Management and Budget
Washington, DC 20503

Dear Mr. Nussle:

I am pleased to transmit to you the Performance Accountability Report (PAR) for the Office of Government Ethics (OGE) for FY 2007. Our PAR includes our Management Discussion and Analysis of OGE's Mission, Goals, and Program Highlights for FY 2007, our Annual Performance Report on how we met our performance goals, Management Assurances, and the Audited Financial Statements.

In FY 2007, OGE had many noteworthy accomplishments which included preparing a comprehensive transition plan to assist ethics officials with their preparations for the upcoming transition, addressing emerging ethics issues as they arise, and using technology to improve the delivery of ethics services, information, and materials. These accomplishments are discussed in detail in this report.

OGE management is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. In accordance with OMB guidance, I have determined that the performance and financial data included in this report are complete and reliable. I am

The Honorable Jim Nussle

Page 2

pleased to certify, with reasonable assurance, that OGE's systems of accounting and internal control are in compliance with the provisions of the Federal Managers' Financial Integrity Act.

I am also pleased to report OGE has received an unqualified opinion on its financial statements, as of September 30, 2007. In addition, the auditors found no material weaknesses related to OGE's compliance and internal controls over financial reporting.

If you need additional information with regard to these statements, please contact Daniel D. Dunning, Deputy Director, Office of Administration and Information Resources Management, at 202-482-9203.

Sincerely,

/s/

Robert I. Cusick
Director

INTRODUCTION

The Office of Government Ethics (OGE) is a separate executive branch agency established under the Ethics in Government Act of 1978, as amended (5 U.S.C. app. 401). The Director is appointed by the President with the advice and consent of the Senate for a five-year term.

The Office of Government Ethics is headquartered in Washington, DC. Currently, OGE is authorized a staff of 80 full-time equivalents. This discussion and analysis provides a brief overview of OGE's mission, goals of its Strategic Plan, and highlights of its accomplishments in FY 2007. For detailed information on OGE, visit its website at www.usoge.gov.

SUMMARY OF OGE'S MISSION

The Office of Government Ethics exercises leadership in the executive branch to prevent conflicts of interest on the part of Government employees and to resolve those conflicts of interest that do occur. In partnership with executive branch agencies and departments, OGE fosters high ethical standards for employees and strengthens the public's confidence that the Government's business is conducted with impartiality and integrity. The chief responsibilities of OGE are:

- Developing, in consultation with the Attorney General and the Office of Personnel Management (OPM), rules and regulations to be promulgated by the President or the Director of the Office of Government Ethics (OGE's Director) pertaining to standards of ethical conduct of executive branch officials, public and confidential financial disclosure of executive branch officials, executive agency ethics training programs, and the resolution of conflicts of interest;
- Monitoring compliance with the executive branch financial disclosure requirements of the Ethics in Government Act of 1978, as amended;
- Providing ethics program assistance and information to executive branch agencies through a desk officer system;
- Developing and delivering training courses and creating materials and training aids to be used by agencies in conducting training of Federal employees;

- Conducting periodic reviews of the ethics programs of executive agencies;
- Ordering corrective action on the part of agencies that OGE's Director deems necessary, including orders to establish or modify an agency's ethics program;
- Providing guidance on and promoting understanding of ethical standards in executive agencies through an extensive program of Government ethics advice, education and training;
- Evaluating the effectiveness of the Ethics in Government Act, the conflict of interest laws, and other related statutes;
- Recommending appropriate new legislation or amendments; and
- Supporting U.S. international anticorruption initiatives by providing technical assistance primarily to prevention programs.

GOALS OF OGE'S STRATEGIC PLAN for FY 2007-2011

To achieve its mission and ultimately its stated vision, OGE has established the following three strategic goals:

- Strengthening the ethical culture within the executive branch
- Preventing conflicts of interest; and
- Promoting good governance.

HIGHLIGHTS OF FY 2007 ACCOMPLISHMENTS

OGE's accomplishments in FY 2007 reflect the successful outcomes of its strategic plan. Its report of those achievements is described in detail below. A few highlights of OGE's FY 2007 accomplishments include:

FY 2007 was the first year of OGE's new five-year Strategic Plan. Last year's budget document outlined how the OGE would meet those new objectives during the first two years of that Plan. OGE announced that it would undertake initiatives to support three main priorities in FY 2007 and FY 2008, and OGE made substantial progress during FY 2007 in all three areas:

- *Assisting in the transition to a new Administration.* OGE created a comprehensive transition plan listing the guidance documents, regulations, training and other materials it would produce during FY 2007 and 2008 to assist ethics officials with their preparations for the upcoming transition. OGE then began to meet those objectives, for example, by issuing memoranda for ethics officials and drafting or revising several pamphlets for Federal employees. OGE also worked on materials it will provide to ethics officials in FY 2008 to help them with the anticipated upsurge in nominee financial disclosure reports during the Presidential transition, and met with a focus group of ethics officials to determine what they viewed their needs to be in preparing for the transition. In addition, OGE completed draft revised rules on blind trusts and submitted them to Department of Justice (DOJ) and OPM for review.
- *Addressing emerging ethics issues as they arise.* A key emerging issue on which OGE has focused involves the ethics issues associated with contractors in the Federal workplace. A number of media reports in FY 2007 noted questions about contractor conflicts of interest in certain Federal programs, and many of these programs also attracted Congressional attention. OGE continued to seek opportunities to raise awareness about these concerns, through presentations to outside organizations such as the Defense Industry Initiative conference and an ABA Public Contracts section meeting, and by other means such as coordinating with Office of Management and Budget's (OMB) Office of Federal Procurement Policy and the Government

Accountability Office regarding their work on related issues.

- *Using technology to improve the delivery of ethics services, information, and materials.* OGE sought new ways to use technology to deliver ethics training and information to Federal employees and ethics officials in FY 2007. OGE released a series of online training courses on topics ranging from working with contractors to a tutorial on the ethics rules that apply to special Government employees. It also partnered with another Federal agency to present web-based training that allowed OGE to train ethics officials at multiple locations simultaneously. In addition, OGE worked with several agencies that are developing their own electronic financial disclosure formats to ensure the legal sufficiency the forms and instructions.

The successful planning and delivery of the 15th National Government Ethics Conference (National Conference) was another significant undertaking for OGE in FY 2007. The conference's agenda provided a major opportunity to address OGE's priorities. The National Conference was comprised of workshops organized into six themed tracks, with one track devoted to emerging issues. The track included several workshops on contractor ethics issues. Another track focused on preparing for the next transition and offered sessions on topics such as reviewing nominee financial disclosure reports and what ethics officials need to know about the transition process. At the National Conference, OGE's Director introduced a Leadership Initiative to the ethics community. This effort was initiated in FY 2007 to engage the leadership of Federal departments and agencies in developing and supporting an ethical culture in the executive branch.

Finally, in FY 2007, OGE played an important role in the United States' anti-corruption foreign policy initiatives, many of which focused on the prevention of corruption. OGE has internationally recognized experience in designing ethics programs that complement other government systems. Accordingly, OGE was asked by the Department of State to provide significant assistance in the development of programs and policies related to good governance, including various working groups and task forces of the APEC and the U.S.-China Joint Liaison Group, and in the development of a review mechanism for implementation of

the UN Convention Against Corruption. These efforts not only enhanced foreign policy goals, but also highlighted the United States' commitment to an ethical public workforce.

**Annual Program Performance Report
Office of Government Ethics for FY 2007**

FY 2007 Results

Strategic Goal One: Strengthening Ethical Culture Within the Executive Branch

Objective 1.1: Improving the Effectiveness of Ethics Policy

In FY 2007, OGE began to prepare for the Presidential transition that will take place in FY 2008 and FY 2009. As an initial step, OGE developed a comprehensive plan for identifying and updating guidance relevant to the transition, including guidance for officials leaving the current Administration. OGE's first new policy memorandum in support of this goal addressed the issue of whether, and under what circumstances, an executive branch employee may assist someone in seeking a job in the private sector. During FY 2007, OGE also began the process of training its newer employees on topics that are particularly relevant to the transition, such as the rules applicable to seeking employment and post-employment activities and financial disclosure.

As part of OGE's effort to continually review and update policy guidance for ethics officials, OGE published a number of comprehensive memoranda providing advice on key questions. These memoranda, which are provided to agency ethics officials and are available to the public on OGE's website, discussed issues such as the ethics rules that apply to detailees under the Intergovernmental Personnel Act, gifts of tickets, and Government employees asked to serve as expert witnesses. The memoranda also provided guidance on issuing conflict of interest waivers to employees, counting days of service for special Government employees, and determining what is a "matter" for purposes of the ethics rules. In FY 2007, 93 percent of ethics officials surveyed said that OGE policy guidance was useful.

One of the emerging issues in which OGE has been active is the area of contractor ethics. Because an increasing number of contractor employees are assigned to work in Federal buildings alongside Federal employees, ethics issues that arise from working in such close proximity continue to raise concerns. In January 2007, the Acquisition Advisory Panel released its final report on Federal contracting to the OMB and Congress. The report adopted several recommendations by OGE regarding the need

for executive branchwide ethics rules on contractors in the Federal workplace.

In a related development, OGE submitted comments on proposed rules prepared by the Federal Acquisition Regulatory Council that would establish certain ethics requirements for Federal contractor employees. OGE also advised the Government Accountability Office (GAO) on its inquiry into ethics issues involving contractors in the Department of Defense. In addition, OGE launched an online training course specifically for contractor employees. The course is designed to inform contractors about the rules that apply to Government employees and to alert contractor employees to avoid conduct that might trigger an inadvertent ethics violation.

Another emerging ethics issue addressed by OGE in FY 2007 was the impact of alternative pay systems on financial disclosure requirements. OGE previously had conducted a survey of agencies that have implemented non-standard pay systems (e.g., other than the GS or SES systems) to determine how the agencies were deciding who was required to file a public financial disclosure report. OGE determined that, generally, agencies were adequately addressing financial disclosure, and OGE issued advice to assist those agencies who were still dealing with the issue. OGE exceeded its FY 2007 goal for the percentage of ethics officials who rate OGE as responsive to emerging ethics program issues.

In addition, since January, Congress has considered several pieces of legislation affecting Government ethics laws. OGE has closely tracked the development of these proposals and has provided technical assistance regarding the impact of these proposals on the existing executive branch program. OGE also has responded to Congressional and OMB requests for comment on draft bills, legislation, bill reports and testimony. Specifically, OGE timely completed 169 OMB requests for review and comment in FY 2007 with OGE's comments on direct ethics issues incorporated 97 percent of the time. This represents a 48 percent increase in the number of requests for review over FY 2006 (114) and a 31 percent increase over FY 2005 (129). The percentage of OGE's comments incorporated on direct ethics issues also increased from 89 percent in FY 2005 and FY 2006 to 97 percent in FY 2007.

Performance Measures

OGE tracks its progress toward achieving its strategic goals through specific objectives assessed with reference to established performance measures. Baseline data for the majority of measures was established by merging statistical data from a variety of existing sources, including ethics training surveys, annual ethics program questionnaires, employee ethics surveys, and surveys of ethics officials.

OGE’s success in meeting its performance targets is shown below:

Objective 1.1						
Improve the Effectiveness of Ethics Policy						
Performance Measures	Performance Targets - Projected					
	FY Actual Results in bold					
	Baseline	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Percent of ethics officials who rate OGE as responsive to emerging ethics program issues	78%	80%	80%	80%	80%	80%
		81%				
Percent of ethics officials who rate guidance as useful	94%	95%	95%	95%	95%	95%
		93%				
Percent of ethics officials who say they receive the guidance they need to do their jobs effectively	85%	85%	85%	85%	90%	90%
		82%				

Objective 1.2: Enhance Assistance to and Oversight of Agency Ethics Programs

OGE hosted its National Conference in March 2007 that provided a major opportunity to address OGE’s priorities. Almost 600 ethics officials from 85 agencies or components of executive branch departments located at headquarters and regional offices participated in the three-and-a-half day conference. In addition, representatives from the Inspector General (IG) community and civil society organizations participated. National Conference participants attended workshops organized into six themed tracks, including tracks devoted to leadership, emerging issues, and preparation for the Presidential transition following the general election in November 2008.

For the first time, all conference materials were available in electronic format and distributed to participants on flash drives, thus enabling participants to refer easily to the information after the conference and providing an archive for future course development.

At the National Conference OGE launched two initiatives, both developed by OGE in FY 2007: the "Leadership Initiative" focused on the critical role of high-level agency leadership in promoting an ethical culture and the "Compliance Plus" initiative focused on the need for agencies to maintain effective ethics programs by establishing and meeting goals beyond minimum compliance with statutory and regulatory requirements. The initiatives were created as a result of close coordination with the ethics community. OGE's Director introduced the Leadership Initiative in the conference's keynote address.

Because leadership support is a critical component of a successful agency ethics program, OGE is committed to raising the level of discourse between the leadership of executive branch agencies and the ethics community. As part of the Leadership Initiative, OGE developed and provided to agencies suggestions for concrete actions that can be implemented at the leadership level to enhance agency ethics programs.

The Compliance Plus approach enhances the usefulness of the program review process by emphasizing the goal of identifying and sharing model practices. Model practices focus on improving the processes and systems necessary to achieve compliance requirements, thus freeing up ethics program resources. Model practices assist ethics officials in setting comprehensive performance targets for their programs. The approach encourages cooperative work among ethics offices to establish benchmarks over time to facilitate program assessments.

OGE took additional steps to leverage the resources of the ethics community. First, OGE convened various focus groups to discuss its leadership initiative and to promote wider access to and use of training products that received awards at the National Conference. Second, OGE instituted lunch-time forums to focus on the emerging issue of the upcoming transition and enhance program management. Third, OGE continued to forge a stronger relationship with regional ethics officials and the IG community by including topics of interest to them in the conference agenda.

OGE also focused on Presidential transition issues as part of its efforts to enhance assistance to agency ethics officials in FY 2007. For example, OGE offered a presentation at its National Conference on book deals by executive branch officials. OGE expects to issue written guidance on this topic in FY 2008. In FY 2007, OGE also began training additional staff to review financial disclosure reports. This action was taken in anticipation of a significant surge in the volume of reports filed by Presidential nominees for positions requiring Senate confirmation during the Presidential transition following the general election in November 2008. The National Conference also included an OGE presentation urging executive branch agencies to begin preparations for this upcoming Presidential transition, by training additional review of financial disclosures. In addition, OGE produced written guidance for ethics officials on the requirements of public financial disclosure and conflicts analysis for 20 financial instruments, as a supplement to OGE's financial disclosure guidance manual, *Financial Disclosure: A Reviewer's Reference*.

OGE worked on several issues in connection with tax matters related to ethics programs. In order to assist executive branch agencies in requesting Certificates of Divestiture (which allow employees to defer capital gains taxes on assets they are required to divest), OGE issued a DAEOgram describing the processing of such requests and developed a draft recommended format for requests. OGE provided technical advice to officials from the Supreme Court and the Administrative Office of the United States Courts regarding draft rules they had created to implement a newly authorized judicial branch program for Certificates of Divestiture. OGE also worked with officials of the Internal Revenue Service (IRS) to develop IRS regulations regarding the tax treatment of accelerated payments under deferred compensation plans pursuant to 26 U.S.C. § 409A, when such payments are accelerated as a means of complying with Governmental ethics requirements.

In FY 2007, OGE also continued to provide strong liaison services to ethics officials in executive branch departments and agencies through the OGE desk officer program and the random call desk. Desk officers delivered timely, accurate, and consistent guidance to executive branch ethics officials on a wide range of ethics issues, from answering questions about conflicts of interest and other ethics rules to identifying model practices and programs in other agencies and offering suggestions for improving program operations. In addition, numerous complex legal and policy questions were answered by OGE

attorneys. OGE also continued its efforts to enhance individual programs and the ethics community as a whole through its identification, development and dissemination of model practices.

OGE provided quality ethics education and training to over one thousand agency ethics officials in FY 2007, in addition to the training provided during the National Conference. To measure the effectiveness of the training, OGE administered an assessment tool during the training. The results: 100 percent of ethics officials indicated that their knowledge of, and ability to apply, ethics laws and rules increased as a result of the training they received. Using feedback provided by ethics officials who attended OGE training and from the instructors, as well as observations made by the instructional designers, OGE revised certain courses to ensure that they are up-to-date and effective. To further ensure the accuracy and quality of its products, OGE expanded the formal internal review and approval process for course materials. OGE also developed numerous job aids -- e.g., flow charts, timelines, and summaries -- to help ethics officials perform their jobs. Copies of these job aids were distributed to ethics officials either as part of ethics training or upon request.

In FY 2007, OGE launched a new award program to recognize agency educational achievements and invited ethics officials to submit their best training products. OGE selected the 10 most effective agency ethics training programs, from more than 60 entries, and met with representatives of the agencies that developed the products to discuss how to leverage the programs for use by all executive branch agencies.

OGE conducted onsite reviews of 24 ethics programs at executive branch departments and agencies in order to: (1) identify and report on strengths and weaknesses of the programs; (2) make specific recommendations for program enhancements; (3) provide technical assistance to agencies; (4) identify and share model practices; (5) provide guidance on correcting deficiencies and implementing specific recommendations and suggestions; and (6) promote the goal of reaching beyond mere compliance with regulatory standards. OGE's program reviews continued to emphasize the importance of having written procedures for following up with delinquent financial disclosure filers. OGE also conducted six-month follow-up reviews to address recommendations and suggestions made in its reports. Through discussions with ethics officials and examination of relevant documentation, OGE determines

whether appropriate practices and procedures are in place to provide reasonable assurances that the identified program weaknesses are appropriately addressed.

OGE completed a special project at the Federal Emergency Management Agency (FEMA), providing the Department of Homeland Security, FEMA and OGE leadership with suggestions to enhance the overall effectiveness of the FEMA ethics program. The project arose from FEMA's interest in working informally with OGE to examine and improve their program outside the structure of routine onsite review. This project complemented an ongoing series of program reviews of other components of the Department of Homeland Security, provided a basis for developing improvements to OGE's general review process, and established a framework for an improved approach to program review that is designed to more actively engage agency ethics officials in understanding OGE's program concerns and in developing strategies to effectively address agency-specific challenges.

OGE administered surveys to evaluate agency ethics programs and establish baseline data for OGE's FY 2007-2011 strategic plan. OGE developed and used a newly designed survey -- administered to ethics officials throughout the approximately 130 departments and agencies of the executive branch -- to assess the effectiveness of the services and support provided by OGE and to help establish benchmarks for performance measures defined in the strategic plan. OGE also administered surveys to measure employees' perceptions of their agencies' ethical culture and ethics program.

Performance Measures

OGE's success in meeting its performance targets is shown below:

Objective 1.2 Enhance Assistance and Oversight						
Performance Measures	Performance Targets - Projected					
	Baseline	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Percent of ethics officials who are satisfied with education and training provided by OGE to support ethics officials	64%	70% 72%	75%	80%	90%	90%
Percent of ethics officials who view OGE's program review process as adding value to their own programs	65%	75% 57%*	85%	90%	90%	90%
Percent of agencies that conduct internal reviews or audits to evaluate their program's compliance with applicable ethics laws and regulations	59%	60% 60%	65%	70%	75%	80%
Percent of agencies that use self-assessment surveys to evaluate employee perceptions of their agency's ethics program and ethical culture	24%	25% 28%	30%	40%	40%	50%
Percent of ethics officials who are satisfied with information shared on ethics program model practices	55%	65% 63%	70%	75%	85%	85%

* The phrasing of the request for this information may have suggested that only agencies participating in a program review in 2007 had relevant data. OGE believes that the program review process, particularly in identifying and promoting implementation of model practices, adds value to the overall ethics program. Notably, the Compliance Plus initiative is intended to enhance the overall understanding of the usefulness of program review as a tool to identify and share model practices with the entire ethics community.

Objective 1.3: Increase Employee Awareness of Their Ethics Responsibilities

OGE finalized improvements to the confidential financial disclosure reporting system in FY 2007. OGE issued a new reporting form to be used by approximately 300,000 employees. The form was designed to be completed electronically, although paper submission is still required. OGE implemented changes in the system that included a new reporting date (February 15) and a new reporting period (calendar year), as well as streamlined reporting requirements. OGE launched an online training course for confidential filers to acquaint them with the new reporting requirements and form, and provided a set of Frequently Asked Questions (FAQs) that confidential filers can access through the OGE website. OGE has received strong positive feedback from ethics officials on the improvements in this form. The FAQs were also one of the website's most frequently reviewed sections.

As exemplified by the training materials related to financial disclosure, OGE plays an important role in preparing training materials that can either be used by agencies as issued or modified for agency-specific needs. While individual departments and agencies prepare much of the training information distributed to their staffs, OGE-produced materials reduce the time and resources that agencies would otherwise have to spend in producing their own training. For example, in support of OGE's efforts to emphasize ethics issues that result from the Government's increasing use of contractors, OGE issued: (1) a brochure that outlines ethics rules for Government employees who are primarily involved in contracting and procurement activities, and (2) an online training course for Government employees who work with contractors on a frequent basis. OGE launched another online course that explains how the ethics rules apply to special Government employees (SGEs) (i.e., temporary or intermittent employees who work for 130 days or less). This course is expected to be particularly useful to members of Federal advisory committees.

OGE expanded its use of low-cost technology to deliver ethics training and information to Federal employees and ethics officials in FY 2007. Many of its training products are available on its website. Here are some creative ways OGE presented ethics information in FY 2007, in addition to the web-based courses described above:

- OGE successfully partnered with the Environmental Protection Agency to conduct OGE's first live, online, interactive training. The training was broadcast to 25 ethics officials at 4 separate sites. Because EPA funded the program, the broadcast focused exclusively on the needs of EPA staff. The project provided a solid framework for OGE's future development and delivery of live, cost-effective training programs.
- OGE developed comic strip-style posters, *Ethics Guardian*, which can be used to educate employees on ethics rules and regulations. The posters are available to agencies in an electronic format that allows customization of information about agency ethics contact points. In response to requests from ethics officials, OGE provided over 350 customized versions of the posters to representatives from more than 65 agency components. OGE continues to receive requests for customized versions.
- OGE began to develop a series of instructor-led courses for employee ethics training. The courses consist of instructor and participant guides and an evaluation instrument. OGE distributes the courses via email in response to agency requests. Over 150 ethics officials have requested and received the first course, "Initial Ethics Orientation." Other courses in the series will be released in FY 2008.
- OGE developed a series of online ethics crossword puzzles. The crossword puzzles focused on topics including: Misuse of Position, Outside Activities, and Gifts. Agencies have downloaded puzzles from its website and have begun to create their own crossword puzzles.

Performance Measures

OGE's success in meeting its performance targets is shown below:

Objective 1.3						
Increase Employee Awareness and Understanding						
Performance Measures	Performance Targets - Projected					
	Baseline	FY Actual Results in bold				
		FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Percent of agencies that incorporate OGE education and training products into their program	66%	70% 72%	75%	80%	90%	90%
Percent of participants whose knowledge of the ethics rules increased after participating in OGE conducted training	87%	90% 100%	90%	100%	100%	100%
Percent of ethics officials who are satisfied with employee education and training programs provided by OGE	44%	55% 57%	60%	70%	80%	80%
Percent of employees who indicate they are familiar with ethics rules	52%	60% 59%	70%	70%	80%	80%
Percent of employees who indicate that they recognize ethics issues when they arise	59%	65% 66%	70%	75%	80%	80%
Percent of employees who believe that if ethics concerns are reported to the agency, action is taken to resolve them	51%	55% 56%	65%	70%	75%	75%
Percent of employees who believe that employees who are caught violating ethics rules are disciplined	42%	45% 50%	45%	50%	55%	60%

Objective 1.4: Increase OGE's Focus on Senior Officials' Roles in Implementing Ethics Program

OGE's Director introduced the Leadership Initiative to the broader ethics community at the National Conference. The initiative provides agency leaders with suggestions for concrete actions that they can implement to fulfill their ethics responsibilities. Leadership support is a critical component of a successful agency ethics program. OGE is committed to raising

the level of discourse between the leadership of executive branch agencies and the ethics community. To achieve this goal, OGE consulted with several sources to identify specific steps that agency leaders may institute to promote an ethical culture and to support an agency's ethics program. OGE worked closely with the Department of the Interior, which developed a comprehensive program to ensure compliance with regulatory requirements and to underscore their Secretary's commitment to establishing an ethical culture throughout the Department.

The theme was further reinforced by the Secretary of the Department of the Interior, who was a keynote speaker at OGE's National Conference. The leadership theme also was interwoven into all of the presentation streams of the conference. The Leadership Initiative continued after the conference with a series of working groups of ethics officials to discuss strategies to engage agency leadership and implement effective leadership actions.

OGE also instituted a practice of inviting agency leadership to meet with OGE's leadership in connection with ethics program reviews. In addition to promoting the importance of the ethics program, this practice serves to help ensure personal commitment to the program by agency leadership as well as to define and allocate sufficient agency resources for the program. OGE'S Director met with several high-level agency leaders, including the Secretaries or other top officials of cabinet-level and other executive branch agencies that were scheduled for onsite reviews in FY 2007: the Department of Agriculture, the Department of Education, the Department of the Interior, the Federal Trade Commission and the Pension Benefits Guaranty Corporation. As a result, many agencies have implemented or are developing plans to improve their programs. These improvements include restructuring their ethics programs to ensure that the programs are optimally located within the organizational hierarchy to most effectively carry out their responsibilities and reflect leadership commitment to their objectives.

Performance Measures

OGE’s success in meeting its performance targets is shown below:

Objective 1.4 Promoting Agency Leadership						
Performance Measures	Performance Targets - Projected					
	FY Actual Results in bold					
	Baseline	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Percent of employees who believe their agency leaders pay attention to ethics	64%	65%	70%	75%	75%	80%
		69%				
Percent of employees who believe their immediate supervisors pay attention to ethics	75%	75%	75%	80%	80%	80%
		80%				

Strategic Goal Two: Preventing Conflicts of Interest

Objective 2.1: Enhance Assistance to the President and Congress in the Presidential Appointment Process

In preparation for the Presidential transition, OGE began assessing the training needs of individual agencies on the review of public financial disclosure reports. In the course of reviewing nominee reports in FY 2007, OGE scrutinized the work of agency ethics officials and met internally to discuss the issues that were arising in the course of these reviews. Also, OGE’s financial disclosure team and program reviewers met to discuss specific issues with agency programs in connection with the review of financial disclosure reports. Based on this assessment, OGE will continue in FY 2008 to provide agency reviewers with guidance and instruction that will improve their review of public financial disclosure reports.

OGE worked more closely with ethics officials to provide guidance on ethics agreements for nominees to resolve the nominees’ potential conflicts of interest. Heightened scrutiny of the quality of these ethics agreements increased the emphasis on resolving conflicts prospectively. In order to build the skills of agency ethics officials, OGE contacted agency ethics officials directly to explain and negotiate changes to their nominees’ ethics agreements. In FY 2007, 98 percent of

officials complied with their ethics agreements within the required time frame.

In addition to this individualized work, OGE has developed draft written guidance on ethics agreements as a supplement to OGE's financial disclosure guidance manual, *Financial Disclosure: A Reviewer's Reference*. OGE will issue a final version of this guidance in FY 2008.

In addition, several presentations at OGE's National Conference addressed both technical disclosure issues and substantive conflicts issues related to nominee financial disclosure. OGE also conducted training for new financial disclosure reviewers in Washington, DC.

In OGE's FY 2008 budget request, OGE indicated that it intended to convert its *Financial Disclosure: A Reviewer's Reference* to a primarily electronic format so that it could be timely updated to respond to emerging trends in financial arrangements. The guide is currently available on OGE's website in HTML and PDF versions. OGE had planned in FY 2007 to convert this document to a new format that would be easier to update. However, OGE lacked the financial resources to accomplish the technological steps necessary to complete this task. Instead, OGE published a separate supplement to this manual.

OGE submitted a proposed regulation on qualified blind trusts and qualified diversified trusts to DOJ and OPM for review. This proposed regulation revises existing regulations in order to clarify the process for establishing such trust instruments. OGE had hoped to issue the proposed regulation in FY 2007, but a staffing shortage in 2007 delayed its issuance. After the review process is completed, OGE will adopt a final regulation on its trust program before the beginning of the Presidential transition.

In FY 2007, OMB informed OGE that its request to undertake an OMB-sanctioned e-Gov Initiative for the development of an e-filing system for financial disclosure reports in the executive branch would not be approved. OGE considered the possibility of attempting to manage an informal non-OMB sanctioned e-Gov initiative, but rejected that approach because OGE has neither the finances nor staff resources to oversee such an uphill effort of a strictly voluntary nature without definite funding sources. Instead, OGE decided to allow each agency to undertake its own development of an electronic filing process to

use with either the public (SF 278) or confidential (OGE Form 450) reporting system.

Even though each department or agency will decide its own progression into the electronic filing arena, the integrity of financial disclosure processes will continue to be one of OGE's highest priorities. Accordingly, OGE will take the following steps: (1) continue to monitor the executive branch's movement into this area by requesting basic information on future Annual Ethics Program Questionnaires; (2) be a member of the "Electronic Filing Workgroup" formed late in FY 2007 to promote the development and advancement of executive branchwide electronic financial disclosure report filing; and (3) oversee agency electronic filing efforts as part of its Program Review Division's future reviews of agency ethics programs.

Accordingly, OGE provided assistance to executive branch agencies that are developing electronic financial disclosure systems. OGE communicated with agencies regarding plans and requirements for such systems in a DAEOgram, at a special meeting of Designated Agency Ethics Officials, and at OGE's National Conference. OGE's staff provided feedback to the Army, the Federal Deposit Insurance Corporation, and the Federal Aviation Administration regarding electronic filing formats they had developed. OGE also provided evaluations of the legal sufficiency of frequently asked questions and screen instructions that the Army had developed in connection with its electronic filing system.

Performance Measures

OGE's success in meeting its performance targets is shown below:

Objective 2.1						
Enhance Assistance to the President and the Congress						
Performance Measures	<u>Performance Targets - Projected</u>					
	Baseline	FY Actual Results in bold				
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
Number of agencies using an electronic filing system	2	6	*	*	*	*
		4				
Percent of users who are satisfied with electronic filing systems	**	**	**	**	**	**

Objective 2.1 Enhance Assistance to the President and the Congress						
Performance Measures	Performance Targets - Projected					
	Baseline	FY Actual Results in bold				
		FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Percent of officials who comply with ethics agreements within required time frames	95%	95%	95%	95%	95%	95%
		98%				
Resolves all conflicts and technical reporting issues for nominee financial disclosure reports no later than five days after a nomination is made.	90%	90%	90%	95%	95%	95%
		95%				

Objective 2.2: Monitor Continued Compliance With Conflict of Interest Laws

In FY 2007, OGE continued to identify and address executive branch compliance with annual financial disclosure report requirements and ethics agreements. During the fiscal year, over 900 Presidentially appointed, Senate confirmed (PAS) SF 278 annual and termination reports were filed with OGE for its final review and certification. During this process, OGE worked with agencies to ensure that the reports were technically accurate and conflict free. In addition, OGE strengthened its monitoring system to ensure that reports are filed as quickly as possible. As a result, OGE experienced an 8 percent increase in reports that did not require a filing extension. OGE also analyzed the quality of the reviews performed at the agency level. This analysis will serve as the focus of a targeted program review in FY 2008.

OGE also continued its monitoring of ethics agreements of PAS officials. During this fiscal year, OGE monitored a total of 212 agreements made by 127 PAS officials. Because of OGE's strict follow-up procedures, 98 percent of all required actions were completed within the standard initial period of 90 days.

In FY 2007, OGE program reviewers routinely emphasized the importance of notifying public filers once their reports had been reviewed and certified. In those cases where reports had not been certified or were certified late due to filing errors or inconsistencies, OGE program reviewers ensured that agency officials were making efforts to collect or correct the information that was delaying certification. In addition, OGE's reviews of agency ethics programs identified and reported on systemic weaknesses that led to the late submission and review of annual and termination public financial disclosure reports. OGE has recommended a variety of strategies that agencies could use to correct these weaknesses, including: utilizing human resources officials to ensure that the ethics office is timely notified of incoming, incumbent, and departing filers; including the filing requirement in filers' position descriptions; and foregoing raises or promotions for those employees who are delinquent in filing.

IGs provide critical support to the enforcement of ethics laws and rules, as they usually conduct the primary investigations of alleged violations. Therefore, OGE seeks opportunities to strengthen the relationship between IGs and the ethics community and to help IGs understand the application of the ethics requirements. For example, OGE provided IGs with training on the review of public financial disclosure reports and provided a briefing on the OGE program review process. In addition, OGE staff consulted regularly with IG offices to advise them on ongoing investigations.

Performance Measures

OGE’s success in meeting its performance targets is shown below:

Objective 2.2						
Monitoring Compliance with Conflict of Interest Laws						
Performance Measures	Performance Targets - Projected					
	Baseline	FY Actual Results in bold				
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	
Percent of audited entities that provide public financial disclosure report filers with feedback after their reports have been reviewed	84%	85%	90%	90%	95%	95%
		100%				
Percent of audited entities that have written procedures for following up with delinquent filers	49%	60%	75%	90%	100%	100%
		91%				

Objective 2.3: Administer an Effective Confidential Financial Disclosure System

OGE made improvements to the confidential financial disclosure process through the issuance of new rules and a new form that streamlines the reporting requirements. (See discussion in Strategic Goal One, Objective 1.2.) In addition, OGE continued to encourage and approve the use of alternative confidential financial disclosure procedures to permit agencies to obtain information about specific kinds of financial interests that can present conflicts for their employees. In FY 2007, OGE approved the use of alternative confidential financial disclosure procedures for the Department of the Army, the Department of Justice, the Defense Science Board, the Inter-American Foundation, the President’s Foreign Intelligence Advisory Board, and the Office of Thrift Supervision. Finally, during the course of its onsite evaluations of agency ethics programs, OGE ensured that previously approved alternative procedures were being administered in compliance with the plan approved by OGE.

Performance Measures

OGE’s success in meeting its performance targets is shown below:

Objective 2.3						
Improved Administration of Confidential System						
Performance Measures	<u>Performance Targets - Projected</u>					
	FY Actual Results in bold					
	Baseline	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Percent of alternative systems judged by program review to have been effectively implemented	60%	65%	70%	80%	90%	90%
		100%				
Percent of required confidential filers who filed by end of reporting year	70%	***	75%	75%	80%	80%

***The regulation was amended for this reporting period. Results for FY2007 will be available in FY2008.

Strategic Goal Three: Promoting Good Governance

Objective 3.1 Increase OGE’s Support of and Cooperation With Federal, State and Local Agencies Implementing Programs That Help Support Good Governance

In FY 2007 OGE engaged in a number of activities with Federal, State and local agencies that promote integrity, accountability, and transparency in Government. At the Federal level, OGE’s Director maintained consistent communication with the IG community through regular attendance at the President’s Council on Integrity and Efficiency’s (PCIE) and the Executive Council on Integrity and Efficiency’s (ECIE) monthly meetings. The Director continued to serve on the PCIE Integrity Committee and was a featured speaker at the 2007 PCIE/ECIE Conference. OGE also maintained a consistent presence at the Federal Interagency Ethics Council, an informal group of executive branch ethics officials who meet monthly to share model practices and practical information. In support of the substantial number of federal advisory committees, OGE staff participated in a multi-day curriculum development exercise held by the General Services Administration to improve training for

Federal Advisory Committee management officers in Departments and agencies.

At the State and local level, OGE continued to be an active member of the Council on Governmental Ethics Laws (COGEL), an organization of Federal, State and local government agencies primarily from the United States and Canada that, in part, are responsible for Government ethics and access to information programs. In FY 2007, OGE received requests for good practice information from several COGEL member organizations including the ethics offices in New York City and the State of Illinois. OGE made its own requests of COGEL members for practical information on topics of mutual interest such as the ethics issues associated with the increasing number of contractor employees in the Government workforce. OGE staff participated in both COGEL Conferences that were, for scheduling reasons, held during the same fiscal year.

Throughout FY 2007, OGE coordinated extensively with Federal, State and local government agencies in conjunction with U.S. obligations under international anti-corruption conventions and mutual evaluation mechanisms. In addition to obtaining specific information on the laws, regulations and policies for the programs of these agencies that support anti-corruption efforts, OGE used the anti-corruption conventions and evaluation mechanisms as platforms for discussions of specific internationally recognized good governance and integrity issues. OGE worked cooperatively with Federal agencies to implement or report on implementation of recommendations made specifically to the United States through these evaluations.

OGE exceeded its targets for the year. As expected, however, the range of cooperative endeavors in which it engaged with Federal, state and local agencies did not always lend itself easily to gathering written, qualitative feedback. It was pleased to note that in its discussions with these agencies and entities, they indicated they found their interactions with OGE to be useful. OGE certainly found them to be.

Performance Measures

OGE's success in meeting its performance targets is shown below:

Objective 3.1 Increase OGE's Support of and Cooperation With Federal, State and Local Agencies Implementing Programs That Help Support Good Governance						
Performance Measures	Performance Targets					
	FY Actual Results in bold					
	Baseline	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Number of programs/projects involving federal agencies/organizations	6	8 14	8	10	10	10
Percent of feedback from federal program/project attendees indicating OGE participation was useful	30%	30% 95%	40%	50%	50%	60%
Number of programs/projects involving state/local/government agencies/organizations	2	2 5	2	3	3	3
Percent of feedback from state and local program/project attendees indicating OGE participation was useful	30%	30% 100%	40%	50%	50%	60%

Objective 3.2: Enhance Outreach to the Public and Private Sector and Civil Society

OGE continued to serve the public effectively by providing timely and thorough responses to public requests for information relating to public financial disclosure reports and the semi-annual reports of travel payments accepted from non-Federal sources, as well as queries from the general public handled through its call desk system. To enhance general public access to information about the agency and the executive branch ethics program, OGE also continued to work with the Government Printing

Office to refine OGE's website design and to modernize the features of the site.

The Director and other members of the staff made numerous presentations in FY 2007 to private sector and civil society organizations whose understanding of the Federal ethics program would help support public trust in Government. The audiences included non-Government organizations, professional and business associations and educational institutions. The OGE Director and his staff specifically reached out to organizations OGE wished to engage in a dialogue on key emerging issues. For example, the Director spoke to the Defense Industry Initiative, a coalition of major defense contractors on the ethics issues of contractors in the Federal workplace. Others in OGE made presentations to organizations such as the Public Contracts section of the American Bar Association, a large group of private-sector companies who market products and services to the Government, and a national association of scientists. Overall, these interactions resulted in consistently positive responses.

Performance Measures

OGE's success in meeting its performance targets is shown below:

Objective 3.2						
Enhance Outreach to the Private Sector and Civil Society						
Performance Measures	Performance Targets					
	Baseline	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Number of meetings, speeches, presentations and similar outreach efforts to organizations that represent the public, civil society and persons who do business with the Government	8	10	10	12	12	15
		12				
Percent of feedback from attendees indicating that interaction with OGE was useful	30%	30%	40%	50%	50%	60%
		100%				

Objective 3.3: Support U.S. Foreign Policy Anti-Corruption and Good Governance Initiatives

OGE's provision of ethics program expertise and an understanding of an ethics program's role in good governance have had an appreciable and positive effect on the recipients of United States anti-corruption foreign policy initiatives as well as within the executive branch. FY 2007 was an extremely active and highly successful year for OGE in its support of United States foreign policy initiatives in the area of corruption prevention -- certainly more active than initially anticipated.

OGE served as a primary representative of the United States Government at the plenary meeting of the Council of Europe's Group of States Against Corruption (GRECO) during the consideration and adoption of the second round evaluation report on the United States; continued to represent the United States at GRECO meetings throughout the year; and was selected to continue to serve as expert evaluators of other GRECO members during the third round of evaluations which will begin in FY 2008.

The United Nations Convention Against Corruption has been and continues to be a priority United States anti-corruption foreign policy initiative. At the request of the Department of State and because of its expertise in mutual evaluation mechanisms, OGE served as a principal member of an interagency committee responsible for developing the United States' position on review of implementation of the Convention; represented the United States at UN meetings to develop a system for reviewing implementation of the Convention; coordinated a substantial portion of the United States' response to the checklist required of all States Parties to the Convention; and assisted in the initial stages of a pilot review program.

Throughout FY 2007, OGE provided expertise in a number of initiatives of other international organizations in which the United States is a member. OGE worked with the Asia Pacific Economic Cooperation (APEC) Anticorruption and Transparency Task Force by developing and leading the Task Force discussion on proposed Conduct Principles for Public Officials in the APEC economies. These Principles were ultimately adopted by APEC leaders in their September, 2007 meeting in Australia.

OGE continued to serve as a United States expert resource to the Organization for Economic Cooperation and Development Public Governance and Territorial Development Directorate on a

variety of topics and programs including post-employment, lobbying, and assessing integrity programs. OGE also served as the head of the United States delegation to the Fifth Global Forum on Fighting Corruption and Safeguarding Integrity in South Africa and as a United States host in high-level exchanges with China in support of the Anti-Corruption Working Group of the U.S.-China Joint Liaison Group.

In long-standing support of the Department of State's International Visitor Leadership Program, OGE continued to meet with delegations of foreign visitors interested in ethics, conflicts of interest, transparency, and other good governance initiatives. During FY 2007, OGE hosted approximately 40 delegations made up of approximately 300 visitors from over 60 countries. Nearly 60 percent of the surveyed visitors were public officials and the others included journalists, academics, and members of non-governmental organizations. In FY 2007, OGE began surveying the delegations and found that nearly all visitors reported that OGE's presentations helped them understand the role of OGE and how the executive branch ethics program works and that they felt the knowledge they gained from the presentations would be useful to them in their countries.

OGE continued to support a number of other Department of State programs in FY 2007, including the International Information Program, by participating in video conferences and web-chats with groups of individuals from numerous countries including Bangladesh, Paraguay, Mozambique and Cameroon, and in Speaker Program visits in Thailand and Vietnam. Additionally, OGE worked with the Bureau for International Narcotics and Law Enforcement Affairs within the State Department, to provide technical assistance to individual country anti-corruption programs and continued to review follow-up reports on anti-corruption prevention efforts made by countries who have signed on to the Follow up Mechanism of the Inter-American Convention Against Corruption.

Performance Measures

OGE's success in meeting its performance targets is shown below:

Objective 3.3 Support U.S. Foreign Policy Anti-Corruption and Good Governance Initiatives						
Performance Measures	Performance Targets					
	Baseline	FY Actual Results in bold				
		FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Number of programs/projects OGE participates in at the request U.S. foreign policy agencies/ organizations	7	7 21	7	8	8	8
Percent of feedback from program/project participants indicating that interaction with OGE was useful	30%	30% 90%	40%	50%	50%	60%

Enhanced Internal Administrative Support

Without critical, internal administrative support, OGE could not successfully pursue or reach its strategic goals. During FY 2007, OGE maintained vital services related to budget and finance, human resources, graphics, facilities and property management, travel, procurement, telecommunications, records management, and information and website technologies.

To add to this array of services and related reporting requirements, OGE took steps to better enable OGE to attract and retain a highly efficient workforce. OGE met the Office of Personnel Management deadlines for requesting recertification of its SES pay-for-performance system and revised both its Human Resources Manual Chapter on OGE's SES Performance Appraisal System and its SES performance appraisal form. OGE also revised its Manual chapters dealing with employee training, telework, incentive awards, and time and attendance. OGE also adopted policies regarding the credit of prior experience for leave purposes and the recruitment of attorneys.

OGE completed a review of its pandemic plan for continuity of operations in such an event. In addition to enhancing its security profile by complying with HSPD-12 deadlines, OGE entered into an extensive review of emergency and security issues with other Federal agencies sharing the same worksite, the General Services Administration, and the Federal Protective Service. OGE also revised its Administrative Manual chapters concerning mail, procurement, travel, and forms management.

In FY 2007, OGE undertook several initiatives to improve business processes. For example, OGE initiated a review of its storage and tracking of SF-278s and a review of the control and disposition of e-mail. It also successfully completed a test of OGE's access to the Army's electronic Financial Disclosure Management System. OGE procured software to better permit the IT Security Officer to monitor IT network changes. OGE developed a database to enable a more expeditious reporting of training data to the Office of Personnel Management. OGE participated in the National Finance Center's migration of its IT functions from New Orleans to Denver. OGE also developed a data breach policy. Looking to the future, OGE initiated steps for the transition from WITS2001 to WITS3 and for the implementation of a standardized desktop configuration developed by OMB, as well as continuing the transition to Internet Protocol version 6, all of which are to be finalized in 2008.

MANAGEMENT ASSURANCES

Annual Assurance Statement on Internal Controls and Internal Control over Financial Reporting

OGE's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). OGE conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, OGE can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007 was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, OGE conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, OGE can provide reasonable assurance that its internal control over financial reporting as of June 30, 2007 was operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

/s/

Robert I. Cusick
Director
Office of Government Ethics
November 15, 2007

OFFICE OF GOVERNMENT ETHICS

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED
SEPTEMBER 30, 2007 AND 2006

**OFFICE OF GOVERNMENT ETHICS
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
TABLE OF CONTENTS**

INDEPENDENT AUDITOR’S REPORT ON THE FINANCIAL STATEMENTS.....	1
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL	2
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	4
BALANCE SHEET.	5
STATEMENT OF NET COST	6
STATEMENT OF CHANGES IN NET POSITION	7
STATEMENT OF BUDGETARY RESOURCES.....	8
NOTES TO THE FINANCIAL STATEMENTS.....	9



INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Directors
Office of Government Ethics
Washington, D.C.

We have audited the accompanying balance sheet of the Office of Government Ethics (OGE) as of September 30, 2007 and 2006, and the related statements of net cost, changes in net position, budgetary resources, and financing for the years then ended (collectively referred to as the financial statements). These financial statements are the responsibility of OGE's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirement for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OGE as of September 30, 2007 and 2006, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with U.S. Government Auditing Standards and OMB Bulletin No. 07-04, we have also issued a report dated November 9, 2007 on our consideration of the OGE's internal control over financial reporting and its compliance with provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The information in "Management's Discussion & Analysis" is presented for the purpose of additional analysis and is required by OMB Circular No. A-136, revised *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and, accordingly, express no opinion on it.

Largo, Maryland
November 9, 2007



BROWN & COMPANY CPAs, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
Office of Government Ethics
Washington, D.C.

We have audited the financial statements of the Office of Government Ethics (OGE) as of and for the year ended September 30, 2007 and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in U.S 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*.

In planning and performing our audit, we considered the OGE's internal control over financial reporting by obtaining an understanding of the OGE's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on internal control and therefore, we do not express an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 07-04, a significant deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, or non-compliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be significant deficiencies or material weaknesses as defined above.

In addition, with respect to internal control objective related to the performance measures included in the “Management’s Discussion & Analysis,” we obtained an understanding of the design of internal controls relating to the existence and completeness assertions, and determined whether they have been placed in operation as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide an opinion on internal control over reported performance measures, and, accordingly, we do not express an opinion on such controls.

This report is intended solely for the information and use of the management of the OGE, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Beam & Company". The signature is written in a cursive, flowing style with a long horizontal stroke extending to the right.

Largo, Maryland
November 9, 2007



BROWN & COMPANY CPAs, PLLC
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS**

Board of Directors
Office of Government Ethics
Washington, D.C.

We have audited the financial statements of the Office of Government Ethics (OGE) as of and for the year ended September 30, 2007, and have issued our report thereon dated November 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in U.S. 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*.

The management of the OGE is responsible for complying with laws and regulations applicable to the OGE. As part of obtaining reasonable assurance about whether the OGE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the OGE.

The results of our tests of compliance disclosed no reportable instances of noncompliance with other laws and regulations discussed in the preceding paragraph that are required to be reported under U.S. Government Auditing Standards or OMB Bulletin No. 07-04.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion. However, we noted no noncompliance with laws and regulations, which could have a direct and material effect on the determination of financial statement amounts.

This report is intended solely for the information and use of the management of the OGE, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Largo, Maryland
November 9, 2007

**UNITED STATES OFFICE OF GOVERNMENT ETHICS
BALANCE SHEET
AS OF SEPTEMBER 30, 2007 AND 2006
(In Dollars)**

	<u>2007</u>	<u>2006</u>
ASSETS		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 2,444,572	\$ 2,522,555
Total Intragovernmental	2,444,572	2,522,555
Accounts Receivable, Net	-	58
Total Assets	<u>\$ 2,444,572</u>	<u>\$ 2,522,613</u>
 LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	\$ 179,683	\$ -
Unfunded FECA Liability	69,004	68,025
Payroll Taxes payable	63,214	97,056
Total Intragovernmental Liabilities	311,901	165,081
Accounts Payable	277,991	271,703
Payroll Taxes payable	7,443	8,123
Accrued Fund Payroll Leave	420,901	516,530
Unfunded Annual Leave (Note 3)	719,372	615,550
Total Liabilities	<u>\$ 1,737,608</u>	<u>\$ 1,576,987</u>
 NET POSITION		
Unexpended Appropriations	\$ 1,495,340	\$ 1,629,143
Cumulative Results of Operations	(788,376)	(683,517)
Total Net Position	<u>\$ 706,964</u>	<u>\$ 945,626</u>
Total Liabilities and Net Position	<u>\$ 2,444,572</u>	<u>\$ 2,522,613</u>

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

**UNITED STATES OFFICE OF GOVERNMENT ETHICS
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(In Dollars)**

	2007	2006
PROGRAM COSTS		
SALARIES AND EXPENSE		
Gross Costs (Note 6)	\$ 12,044,502	\$11,731,732
Less: Earned Revenue	(260,700)	(600)
Net Program Costs	11,783,802	11,731,132
Net Cost Of Operations	\$ 11,783,802	\$11,731,132

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

**UNITED STATES OFFICE OF GOVERNMENT ETHICS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(In Dollars)**

	<u>2007</u>	<u>2006</u>
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balances	\$ (683,517)	\$ (674,164)
Budgetary Financing Sources		
Appropriation Used	11,069,035	10,940,873
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others	609,908	780,906
Total Financing Sources	11,678,943	11,721,779
Net Cost of Operations	11,783,802	11,731,132
Net Changes	(104,859)	(9,353)
Cumulative Results Of Operations	\$ (788,376)	\$ (683,517)
UNEXPENDED APPROPRIATIONS:		
Beginning Balances	\$ 1,629,143	\$ 2,101,830
Budgetary Financing Sources		
Appropriations Received	11,115,085	11,148,000
Other Adjustments (recissions, etc)	(179,853)	(679,814)
Appropriations Used	11,069,035	(10,940,873)
Total Budgetary Financing Sources	(133,803)	(472,687)
Total Unexpended Appropriation	\$ 1,495,340	\$ 1,629,143
Net Position	<u>\$ 706,964</u>	<u>\$ 945,626</u>

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

**UNITED STATES OFFICE OF GOVERNMENT ETHICS
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(In Dollars)**

	2007	2006
BUDGETARY RESOURCES		
Unobligated Balance brought forward, October 1	\$ 1,006,499	\$ 1,531,327
Recoveries of Prior-Year unpaid obligation	186,569	155,259
Budget Authority		
Appropriation	11,115,085	11,148,000
Spending Authority from offsetting collections		
Collected	260,700	600
Subtotal	12,568,853	12,835,186
Permanently Not Available		
Cancellations of Expired and No-Year Accounts	(179,853)	(568,334)
Enacted Rescissions	-	(111,480)
Total Budgetary Resources	<u>\$ 12,389,000</u>	<u>\$ 12,155,372</u>
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	\$ 10,968,667	\$ 11,148,873
Reimbursable	260,964	-
Subtotal	11,229,631	11,148,873
Unobligated Balance:		
Available	157,939	76,981
Unobligated Balance Not Available	1,001,430	929,518
Total Status of Budgetary Resources	<u>\$ 12,389,000</u>	<u>\$ 12,155,372</u>
CHANGE IN OBLIGATED BALANCES		
Obligated Balance, Net,		
Net, Unpaid obligations, brought forward, October 1	\$ 1,516,056	\$ 1,764,801
Total Unpaid Obligated Balance, Net, Beginning of Period	1,516,056	1,764,801
Obligations Incurred, Net	11,229,631	11,148,873
Less: Gross Outlays	11,273,915	11,242,359
Less: Recoveries of Prior Year unpaid Obligations, Actual	186,569	155,259
Obligated Balance, Net, End of Period		
Unpaid Obligations	\$ 1,285,203	\$ 1,516,056
Total Unpaid Obligated Balance, Net, End of Period	\$ 1,285,203	\$ 1,516,056
NET OUTLAYS		
Net Outlays:		
Gross Outlays	\$ 11,273,915	\$ 11,242,359
Less: Offsetting Collections	(260,700)	(600)
Net Outlays	<u>\$ 11,013,215</u>	<u>\$ 11,241,759</u>

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, status and availability of budgetary resources of Office of Government Ethics (OGE). The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Accountability of Tax Dollars Act of 2002 and the Office of Management and Budget (OMB) Bulletin Number 07-04, Audit Requirements for Federal Financial Statements. They have been prepared from, and are fully supported by, the books and records of OGE in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), OMB Circular A-136, Financial Reporting Requirement and OGE accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control OGE's use of budgetary resources.

The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources. In accordance with OMB Circular A-136, the financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all dollar amounts are presented in dollars.

B. Reporting Entity

The Office of Government Ethics (OGE), a small agency within the executive branch, was established by the Ethics in Government Act of 1978. In partnership with executive branch agencies and departments, OGE fosters high ethical standards for employees and strengthens the public's confidence that the Government's business is conducted with impartiality and integrity.

C. Budgets and Budgetary Accounting

OGE receives all funding through Congressional appropriation from the budget of the United States. Annual appropriations are used, within statutory limits, to incur obligations for specified purposes. OGE also has reimbursable authority to conduct an Annual Ethics Conference. Budgetary resources are recorded when funds on deposit with the Department of Treasury are made available to OGE through a warrant(s) for expenditures and liabilities.

D. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Revenues & Other Financing Sources

Congress enacts annual and multi-year appropriations to be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained from service fees and reimbursements from other government entities and the public.

Appropriations are recognized as a financing source when expended. Revenues from service fees associated with reimbursable agreements are recognized concurrently with the recognition of accrued expenditures for performing the services.

We recognize as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on our behalf by the Office of Personnel Management (OPM).

F. Taxes

OGE, as a Federal entity, is not subject to Federal, State, or local income taxes, and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

G. Fund Balance with Treasury

The U.S. Treasury processes cash receipts and disbursements. Funds held at the Treasury are available to pay agency liabilities. OGE does not maintain cash in commercial bank accounts or foreign currency balances. (See Note 2 for additional information).

H. Accounts Receivable

Accounts receivable consists of amounts owed to OGE by other Federal agencies and the public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when either (1) based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay, or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property, Plant and Equipment, Net

OGE's property, plant and equipment is recorded at original acquisition cost and is depreciated using the straight-line method over the estimated useful life of the asset. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. OGE's capitalization threshold is \$50,000 for individual purchases and \$500,000 for bulk purchases. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property, plant and equipment. The useful life classifications for capitalized assets are as follows:

<u>Description</u>	<u>Useful Life (years)</u>
Leasehold Improvements	9
Office Furniture	5
Computer Equipment	3
Office Equipment	5

J. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

K. Liabilities

Liabilities covered by budgetary or other resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due.

Liabilities not covered by budgetary or other resources represent amounts owed in excess of available Congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future Congressional appropriations or other funding. Intragovernmental liabilities are claims against OGE by other Federal agencies. Additionally, the Government, acting in its sovereign capacity, can abrogate liabilities. (See Note 3 for additional information).

L. Accounts Payable

Accounts payable consists of amounts owed to other Federal agencies and the public.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to the Office of Personnel Management upon the retirement of that individual. No credit is given for sick leave balances upon the retirement of Federal Employee's Retirement System (FERS)-covered employees .

N. Accrued Workers' Compensation

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual costs incurred are reflected as a liability because OGE will reimburse the Department of Labor (DOL) two years after the actual payment of expenses. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

O. Retirement Plans

OGE employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). The employees who participate in CSRS are beneficiaries of AB's matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 elected to join either FERS and Social Security, or remain in CSRS. FERS offers a savings plan to which OGE automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For FERS participants, OGE also contributes the employer's matching share of Social Security.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, OGE remits the employer's share of the required contribution.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OGE recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicates these factors to OGE for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. OGE recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

OGE does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM.

P. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Q. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities.

R. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. OGE recognizes contingent liabilities, in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated. OGE discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to OGE for agency operations. There are no contingencies that require disclosure.

S. Expired Accounts and Cancelled Authority

Unless otherwise specified by law, annual authority expires for incurring new obligations at the beginning of the subsequent fiscal year. The account in which the annual authority is placed is called the expired account. For five fiscal years, the expired account is available for expenditure to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period but not previously reported. At the end of the fifth expired year, the expired account is cancelled.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Reclassification

Certain fiscal year 2006 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation. Under SFFAS 7, OMB has reclassified the Statement of Financing to be presented in a note as Reconciliation of Net Cost of Operations to Budget.

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2007 and 2006 were:

	<u>2007</u>	<u>2006</u>
Appropriated Funds	\$ 2,444,572	\$ 2,522,555
Total	<u>\$ 2,444,572</u>	<u>\$ 2,522,555</u>

Status of Fund Balances with Treasury:

	<u>2007</u>	<u>2006</u>
Unobligated Balance		
Available	\$ 157,939	\$ 76,981
Unavailable	1,001,430	929,518
Obligated Balance not yet Disbursed	<u>1,285,203</u>	<u>1,516,056</u>
Total	<u>\$ 2,444,572</u>	<u>\$ 2,522,555</u>

Restricted unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

NOTE 3. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities on OGE's Balance Sheet as of September 30, 2007 and 2006, include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Unfunded FECA liability is an intragovernmental liability not covered by budgetary resources. Unfunded FECA liabilities are \$69,004 and \$68,025 as of September 30, 2007 and 2006, respectively. Other liabilities not covered by budgetary resources consist of unfunded leave. Unfunded leave balances are \$719,372 and \$615,550 as of September 30, 2007 and 2006, respectively.

NOTE 4. LEASES**Operating Leases**

OGE occupies office space under a lease agreement that is accounted for as an operating lease. The lease term is for a period of ten (10) years commencing on February 2, 2004 and ends February 1, 2014.

<u>Fiscal Year</u>	<u>Totals</u>
2008	\$ 1,369,249
2009	1,372,655
2010	1,386,826
2011	1,401,175
2012	1,415,909
Thereafter	<u>1,909,753</u>
Total Future Payments	<u>\$ 8,855,567</u>

NOTE 5. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs represent goods and services exchange transactions made between two reporting entities within the Federal government, and are in contrast to those with non-federal entities (the public). Such costs are summarized as follows:

	<u>2007</u>	<u>2006</u>
Intragovernmental Costs	\$ 3,448,805	\$ 3,669,971
Public Costs	8,595,697	8,061,761
Less: Earned Revenue	<u>260,700</u>	<u>600</u>
Total Net Cost	<u>\$ 11,783,802</u>	<u>\$ 11,731,132</u>

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

NOTE 6. OPERATING/PROGRAM COSTS

OGE's operating and programs costs as of September 30, 2007 and 2006 were \$12,044,502 and \$11,731,732, respectively. Earned revenues for their Annual Ethics Conference was \$260,700 for FY 2007. OGE's Annual Ethics Conference was canceled for FY 2006.

<u>Budgetary Object Classifications</u>	<u>2007</u>	<u>2006</u>
Personnel and Benefits	\$ 9,209,227	\$ 9,178,569
Travel and Transportation	111,059	79,959
Rents, Communication & Utilities	1,345,165	1,407,914
Printing and Contractual Services	1,031,969	802,917
Supplies and Materials	187,868	117,817
Equipment	105,011	144,556
Interest and Dividend	54,203	-
Total	<u>\$ 12,044,502</u>	<u>\$ 11,731,732</u>

NOTE 7. IMPUTED FINANCING SOURCES

OGE recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the Office of Personnel Management (OPM). Amounts paid from the U.S. Treasury's Judgment Fund in settlement of claims or court assessments against OGE are also recognized as imputed financing. For the years ended September 30, 2007 and 2006, imputed financing was \$609,908 and \$780,906, respectively.

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

NOTE 8. EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). However, the President's Budget that will include FY 07 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2008 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb>.

The 2008 Budget of the United States Government, with the Actual Column completed for 2006, has been reconciled with the Statement of Budgetary Resources, and there are no material differences.

NOTE 9. UNDELIVERED ORDERS AT THE END OF THE PERIOD

Beginning with FY 2006, the format of the Statement of Budgetary Resources has changed and the amount of undelivered orders at the end of the period is no longer required to be reported on the face of the statement. Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the years ended September 30, 2007 and 2006, undelivered orders amounted to \$335,971 and \$622,644, respectively.

NOTE 10. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

RESOURCES USED TO FINANCE ACTIVITIES	2007	2006
Budgetary Resources Obligated		
Obligations Incurred	\$ 11,229,631	\$ 11,148,873
Less: Spending Authority from Offsetting Collections and Recoveries	447,269	155,859
Obligations Net of Offsetting Collections and Recoveries	10,782,362	10,993,014
Other Resources		
Imputed Financing from Costs Absorbed by Others	609,908	780,906
Net Other Resources Used to Finance Activities	609,908	780,906
Total Resources Used to Finance Activities	<u>\$ 11,392,270</u>	<u>\$ 11,773,920</u>
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	\$ 286,673	\$ (52,141)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	286,673	(52,141)
Total Resources Used to Finance the Net Cost of Operations	<u>\$ 11,678,943</u>	<u>\$ 11,721,779</u>
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	\$ 103,822	\$ 2,115
Other	1,037	7,238
Total Components of Net Cost of Operations That will not Require or Generate Resources in the Current Period	<u>\$ 104,859</u>	<u>\$ 9,353</u>
NET COST OF OPERATIONS	<u>\$ 11,783,802</u>	<u>\$ 11,731,132</u>

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