



U.S. Department of Agriculture



Office of Inspector General
Financial & IT Operations

Audit Report

Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to the Office of Personnel Management (OPM)

Report No. 11401-27-FM
September 2007



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



September 21, 2007

The Honorable Patrick E. McFarland
Inspector General
U.S. Office of Personnel Management
Theodore Roosevelt Federal Building
1900 E Street NW., Room 6400
Washington, D.C. 20415-0001

Subject: Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance
Withholdings/Contributions and Supplemental Semiannual Headcount Report
Submitted to the U.S. Office of Personnel Management (OPM)

Dear Mr. McFarland:

This report presents the results of the Agreed-Upon Procedures performed on the subject information processed by the U.S. Department of Agriculture's (USDA) Office of the Chief Financial Officer/National Finance Center for fiscal year 2007 through August 31, 2007.

Our review included information for the following agencies listed in Appendix A of the Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, dated August 23, 2006: USDA, Department of Commerce, Department of Justice, Department of the Treasury, Department of Homeland Security, Department of Housing and Urban Development, Agency for International Development, Department of Labor, and Small Business Administration.

This review was performed as required by OMB and in accordance with the *Statements of Standards for Attestation Engagements* established by the American Institute of Certified Public Accountants.

If you have any questions, please contact me at (202) 720-6945, or have a member of your staff contact Steve Rickrode, Director, Administration and Finance Division, at (202) 720-1918.

Sincerely,

/s/

ROBERT W. YOUNG
Assistant Inspector General
for Audit

cc:
Mark A. Reger, Chief Financial Officer, OPM

Executive Summary

Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to the Office of Personnel Management (OPM) (Audit Report No. 11401-27-FM)

Results in Brief

This report presents the results of the Agreed-Upon Procedures (AUP) performed on the retirement, health benefits, and life insurance withholdings/contributions and supplemental semiannual headcount reports submitted to the U.S. Office of Personnel Management (OPM) by the U.S. Department of Agriculture's (USDA) Office of the Chief Financial Officer/National Finance Center (OCFO/NFC) for fiscal year 2007 as of August 31, 2007.¹

Our objective was to perform the AUPs detailed in the Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, dated August 23, 2006, in order to assist OPM in assessing the reasonableness of retirement, health, and life insurance withholdings/contributions and employee data submitted by OCFO/NFC for the following agencies listed in OMB Bulletin No. 06-03, Appendix A: USDA, Department of Commerce, Department of Justice, Department of the Treasury, Department of Homeland Security, Department of Housing and Urban Development, Agency for International Development, Department of Labor, and Small Business Administration.

There were no differences that exceeded the allowable thresholds noted during our review; however, we identified seven errors for benefits entered into the system by the various Departments' personnel officers. We were also unable to verify 46 personnel documents tested in steps 2, 3, and 4 because the Departments were unable to locate the documents requested. However, we performed the calculations for salary, retirement, life, and health insurance in these cases to ensure that the OCFO/NFC systems were accurate. We noted no exceptions. Details are provided in exhibit A.

¹ We selected our samples from pay period 22 (October 29 – November 11, 2006), pay period 03 (February 4 – February 17, 2007) and pay period 04 (February 18 – March 3, 2007) of fiscal year 2007 and the OPM 1523, *Supplemental Semiannual Headcount Report*, as of March 3, 2007.

Abbreviations Used in This Report

AUP	Agreed-Upon Procedures
CFO	Chief Financial Officer
FEGLI	Federal Employees' Group Life Insurance
IG	Inspector General
NFC	National Finance Center
OCFO	Office of the Chief Financial Officer
OMB	Office of Management and Budget
OPF	Official Personnel Files
OPM	Office of Personnel Management
PP	pay period
RITS	Retirement and Insurance Transfer System
SF	standard form
USDA	U.S. Department of Agriculture

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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



Report of the Office of Inspector General

TO: Honorable Patrick E. McFarland
Inspector General
U.S. Office of Personnel Management

We have performed the procedures described in exhibit A, which were agreed to by the Inspector General (IG) and Chief Financial Officer (CFO) of the U.S. Office of Personnel Management (OPM), solely to assist with respect to the employee withholdings and employer contributions reported by the U.S. Department of Agriculture's (USDA) Office of the Chief Financial Officer/National Finance Center (OCFO/NFC) on the standard form 2812, Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement, for the pay periods (PP) ending November 11, 2006 (PP 22), February 17, 2007 (PP 3), and March 3, 2007 (PP 4), of fiscal year 2007, respectively, and OPM 1523, *Supplemental Semiannual Headcount Report*, as of March 3, 2007. The reports submitted by OCFO/NFC included information for the following entities listed in Appendix A of the Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, dated August 23, 2006: USDA, Department of Commerce, Department of Justice, Department of the Treasury, Department of Homeland Security, Department of Housing and Urban Development, Agency for International Development, Department of Labor, and Small Business Administration.

The engagement to apply the Agreed-Upon Procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the IG and the CFO of OPM. Consequently, we make no representations regarding the sufficiency of the procedures described either for the purpose for which this report has been requested or for any other purpose. The results of the engagement are detailed in exhibit A.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the withholdings and contributions for health benefits, life insurance, and retirement, and the headcount reports prepared by OCFO/NFC. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the IG and CFO of OPM and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

/s/

ROBERT W. YOUNG
Assistant Inspector General
for Audit

August 31, 2007

cc:
Mark A. Reger, Chief Financial Officer, OPM

Exhibit A – Procedures Performed and Results

1. Compared the Retirement and Insurance Transfer System (RITS) submission data with payroll information by performing the following procedures.
 - a. Recalculated the mathematical accuracy of the payroll information. For cross-servicing agencies, if the internal controls were the same for all agencies serviced, it was only necessary to perform this procedure for one agency.
 - b. Recalculated the mathematical accuracy of each RITS submission for the payroll information selected in step 1.a.
 - c. Compared the employee withholding information shown on the payroll information obtained in step 1.a. for retirement, health benefits, and life insurance (as adjusted for reconciling items) to the related amounts shown on the RITS submission for the corresponding period.

Report any differences for retirement, health benefits, and life insurance that are over 1 percent of the total reported for each of the three categories. Report and obtain management's explanation for those differences above the 1 percent threshold.

Results

There were no differences over 1 percent.

2.
 - a. Randomly selected a total of 25 individuals who were on the payroll system for all three of the RITS submissions selected and met all the following criteria.
 - Covered by the Civil Service Retirement System or the Federal Employees' Retirement System;
 - enrolled in the Federal Employees' Health Benefits Program;
 - covered by Basic Life Insurance; and
 - covered by at least one Federal Employees' Group Life Insurance (FEGLI) optional coverage (Option A, B, or C).
 - b. Obtained the following documents, either in electronic or hard copy format, from the Official Personnel File (OPF) for each individual selected in step 2.a. Hard copies could be originals or certified copies.
 - All Notifications of Personnel Actions (standard form (SF) 50) covering the pay periods in the RITS submission chosen.
 - The Health Benefits Election Form (SF-2809) covering the pay periods in the RITS submission chosen or, if applicable, requested that the agency personnel office obtain a report from the agency's automated system that allows participants to

Exhibit A – Procedures Performed and Results

change benefits (e.g., Employee Express) for any health benefits transaction in that system for the individuals selected in step 2.a. Compared date of transaction with date on the certified copy of the SF-2809 or the agency’s automated system report requested. Confirmed that the health benefits information to be used in step 2.f. covers the pay periods in the RITS submissions chosen (note: a new SF-2809 was needed only if an employee was changing health benefit plans; therefore, the form could be many years old).

- The Life Insurance Election Form (SF-2817) covering the pay periods in the RITS submission chosen (note: a new SF-2817 was needed only if an employee was changing coverage; therefore, the form could be many years old).

Results

The following 43 documents were not located by the personnel officers; however, we performed the calculations for salary, retirement, life, and health insurance in these cases to ensure that the Office of the Chief Financial Officer/National Finance Center systems were calculating accurately.

DEPARTMENT	SF-50	FEHB	FEGLI
Agriculture		1	1
Agency for International Development		1	2
Justice		1	1
Homeland Security		2	2
Housing and Urban Development			2
Small Business Administration	16	8	3
Commerce		1	1
Labor			1
TOTAL	16	14	13

- c. Compared the base salary used for payroll purposes and upon which withholdings and contributions generally are based with the base salary reflected on the employee’s SF-50. Report any differences and obtain management’s explanation of the differences.

Results

No exceptions noted.

- d. For retirement, compared the plan code on the employee’s SF-50 to the plan code used in the payroll system. Report any differences and obtain management’s explanation of the differences.

Exhibit A – Procedures Performed and Results

Results

No exceptions noted.

- e. Calculated the retirement amount to be withheld and contributed for the plan code from the employee's SF-50, based upon the official withholding and contribution rates required by law. Compared to actual amounts withheld and contributed. Report any differences and obtain management's explanation of the differences.

Results

No exceptions noted.

- f. For health benefits, compared the employee withholdings and agency contributions with the official subscription rates issued by the Office of Personnel Management for the plan and option elected by the employees, as documented by a SF-2809 in the employee's OPF or automated system that allows the participant to change benefits. Report any differences and obtain management's explanation of the differences.

Results

No exceptions noted.

- g. For life insurance, confirmed that Basic Life Insurance was elected by the employees, as documented by SF-2817, in his/her OPF. Report any differences and obtain management's explanation of the differences.

Results

No exceptions noted.

- h. Calculated the withholding and contribution amounts for Basic Life Insurance using the following.
 - For employee withholdings: Rounded the employee's annual base salary up to the nearest thousand dollars and add \$2,000. Divided this total by 1,000 and multiplied the rate required by law. The life insurance rates were found in the *FEGLI Program Booklet* on OPM's website.
 - For agency contributions: Divided the employee withholdings calculated above by two.
 - Compared to actual amounts withheld and contributed. Report any differences and obtain management's explanation of the differences.

Exhibit A – Procedures Performed and Results

Results

No exceptions noted.

- i. Also, for life insurance, compared optional coverage elected as documented by an SF-2817 in the employee's OPF with optional coverage documented in the payroll system. Report any differences and obtain management's explanation of the differences.

Results

We found seven sample items that did not match the FEGLI code in the payroll system, three in Department of Housing and Urban Development, one each in Agency for International Development, Small Business Administration, Department of Justice, and Department of the Treasury. Management at the Agency for International Development, Small Business Administration, and Department of the Treasury stated that these were input errors. Management for Department of Housing and Urban Development and Department of Justice did not respond.

- j. Calculated the withholding amounts for optional life insurance using the following.
 - For Option A: Determined the employee's age group using the age groups provided for Option A in the *FEGLI Program Booklet*. The withholding amount was the rate listed in the *FEGLI Program Booklet* for that age group. Compared to amount withheld. Report any differences and obtain management's explanation of the differences.

Results

No exceptions noted.

- For Option B: Inspected the SF-2817 to determine the number of multiples chosen for Option B. Determined the employee's age group using the age groups provided for Option B in the *FEGLI Program Booklet*. Rounded the employee's annual rate of basic pay up to the next 1,000, divided by 1,000, and multiplied by the rate for the age group. Multiplied this amount by the number of multiples chosen. Compared to amount withheld. Report any differences and obtain management's explanation of the differences.

Results

No exceptions noted.

- For Option C: Inspected the SF-2817 to determine the number of multiples chosen for Option C. Determined the employee's age group using the age groups provided for Option C in the *FEGLI Program Booklet*. Multiplied the rate for the age group by the

Exhibit A – Procedures Performed and Results

number of multiples chosen. Compared to amount withheld. Report any differences and obtain management's explanation of the differences.

Results

No exceptions noted.

3. Randomly selected a total of 10 employees who had no health benefits withholdings from the payroll information corresponding to the three RITS submissions selected for testing above.

Requested SF-2809s covering the pay periods in the RITS submissions chosen, either in electronic or hard copy format, from the selected employees' OPFs or, if applicable, requested that the agency personnel office obtain a report from the agency's automated system that allowed participants to change benefits for any health benefit transactions in that system for the individuals selected. Hard copies could be originals or certified copies. Inspected the documentation to determine that health benefits coverage was not elected. This could be determined in the following ways:

- Absence of an SF-2809 in the OPF and no election of coverage made through the agency's automated system that allows participants to change benefits;
- an SF-2809 in the OPF with section E checked (indicating cancellation of coverage) and no later election of coverage through the agency's automated system that allows participants to change benefits; or
- cancellation of coverage through the agency's automated system that allows participants to change benefits and no later election of coverage with an SF-2809.

Report any exceptions.

Results

No exceptions noted.

4. Randomly selected a total of 10 employees who had no life insurance withholdings from the payroll information corresponding to the three RITS submissions selected for testing above. Requested the SF-2817s covering the pay periods in the RITS submission chosen, either in electronic or hard copy format, from the selected employees' OPFs. Hard copies could be originals or certified copies. Inspected the SF-2817 to determine that the employee waived or canceled Basic Life Insurance coverage. Report any exceptions.

Exhibit A – Procedures Performed and Results

Results

Three of the forms were not located by the personnel officers (two at the Small Business Administration and one at the Department of the Treasury). No other exceptions were noted.

5. Calculated the headcount reflected on the *Supplemental Semiannual Headcount Report* selected for testing above, as follows.
 - a. Obtained existing payroll information supporting the selected *Supplemental Semiannual Headcount Report*. If existing payroll data was not available, had a payroll system query performed that summarized detailed payroll data supporting the *Supplemental Semiannual Headcount Report*, as follows.
 - Benefit category
 - Dollar amount of withholdings and contributions
 - Number enrolled (deductions made/no deductions)
 - Central Personnel Data File Code
 - Aggregate base salary.
 - b. Recalculated the headcount reflected on the *Supplemental Semiannual Headcount Report*. If an electronic file was not available, a suggested method of recalculating the headcount was as follows: (1) estimated the number of employees per payroll register page by counting the employees listed on several pages, (2) counted the number of pages in the payroll register, and (3) multiplied the number of employees per page by the number of pages, or count (using a computer audit routine) the number of employees on the payroll data file for the period.
 - c. Compared the results of payroll information from step 5.a. with the calculated headcount from step 5.b. to the information shown on the *Supplemental Semiannual Headcount Report*.
 - d. Report any differences and obtain management's explanation of the differences (i.e., gross rather than net) greater than 2 percent between the headcount reporting on the agency's headcount report and the payroll information from step 5.a. and the calculated headcount from step 5.b.

Results

There were no differences greater than 2 percent.

6. Calculated employer and employee contributions for retirement, health benefits, and life insurance.
 - a. Calculated retirement withholdings and contributions for the three pay periods selected, as follows.

Exhibit A – Procedures Performed and Results

- i. Multiplied the CSRS and FERS payroll base by the withholding and employer contribution rates required by law.
- ii. Compared the calculated totals with related amounts shown on the RITS submissions. Report any variances and obtain management's explanation of the variances (i.e., gross rather than net) between the calculated amounts and the amounts reported on the RITS submissions greater than 5 percent of the amounts on the RITS submission.

Results

There were no differences greater than 5 percent.

- b. Calculated employee withholdings and employer contributions for health benefits for the three pay periods selected, as follows.
 - i. Multiplied the number of employees enrolled in each health benefits plan and plan option by the employee withholdings and employer contributions for the plan and option.
 - ii. Summed the totals in step 6.b.i. and compared the result with the health benefit withholding and contribution amounts shown on the RITS submissions. Report any variances and obtain management's explanation of the variances (i.e., gross rather than net) between the calculated amounts and the amounts reported on the RITS submissions greater than 5 percent of the amounts on the RITS submission.

Results

There were no differences greater than 5 percent.

- c. Calculated the Basic Life Insurance employee withholdings and employer contributions for the three pay periods selected, as follows.
 - i. Had agency payroll office personnel perform a payroll system query to determine the total number of employees with Basic Life Insurance coverage and the aggregate annual basic pay for all employees with Basic Life Insurance.
 - ii. For employee withholdings: Added the product of 2,000 times the number of employees with Basic Life Insurance coverage to the aggregate annual basic pay for all employees selected. This represented the estimated total Basic Life Insurance coverage.

Divided this total by 1,000 and multiplied by the rate required by law. The Life Insurance rates could be found in the *FEGLI Program Booklet* on OPM's website.

- iii. Compared the result in step 6c.ii. to the withholdings for Basic Life Insurance coverage reported on the RITS submission. Report any difference and obtain management's

Exhibit A – Procedures Performed and Results

explanation of the difference (i.e., gross rather than net) between the estimate and the amount of withholdings reported on the RITS submission greater than 5 percent of the amounts on the RITS submission.

Results

There were no differences greater than 5 percent.

- iv. For agency contributions: Divided the results of step 6.c.ii. by two – this approximates agency contributions, which are one-half of employee withholdings. Compared this result to the amount reported on the RITS submission and report any differences and obtain management’s explanation of the differences (i.e., gross rather than net) between the estimate and the amount reported on the RITS submission greater than 5 percent of the amounts on the RITS submission.

Results

There were no differences greater than 5 percent.

- d. Calculated the Option A, Option B, and Option C Life Insurance coverage withholdings for the three pay periods selected by using detail payroll reports used to reconcile the RITS reports in step 1. In addition to the information used for step 1, the reports should have included the employee’s date of birth, annual rate of basic pay, and number of multiples selected for Option B and C. Note: While similar to step 2.j., the calculation here was for the entire amount reported on the RITS submissions for the three pay periods selected, as opposed to the sample of 25 employees in step 2.j.
 - i. Multiplied the number of employees in each age group by the appropriate rate for Option A in accordance with the rates for age groups provided in the *FEGLI Program Booklet*. Report any differences (i.e., gross rather than net) greater than 2 percent of the amounts on the RITS submission.

Results

There were no differences greater than 2 percent.

- ii. Divided the reports for Option B and Option C insurance into the age groups shown in the *FEGLI Program Booklet*. For Option B, rounded the employee’s annual rate of basic pay up to the next 1,000, divided by 1,000, multiplied by the rate for the age group, multiplied this by the number of multiples.

(Annual rate of basic pay (rounded up)/1,000*rate*multiples).

Exhibit A – Procedures Performed and Results

For Option C, multiplied the rate for the age group by the number of multiples chosen for each employee. Reported any differences and obtain management's explanation of the differences (i.e., gross rather than net) greater than 2 percent of the amounts on the RITS submission for Option B and/or Option C.

Results

There were no differences greater than 2 percent.