



U.S. Department of Agriculture



Office of Inspector General  
Financial Audit Operations

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

Report 11401-32-FM  
September 2010



U.S. Department of Agriculture  
Office of Inspector General  
Washington, D.C. 20250



DATE: September 16, 2010

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

Dear Mr. McFarland:

This report presents the results of the Agreed-Upon Procedures performed on the subject information processed by the Department of Agriculture's (USDA) Office of the Chief Financial Officer/National Finance Center as of August 31, 2010.

Our review included information for the following entities, listed in Appendix A of the Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, dated September 4, 2007, and amended by OMB Memorandum 09-33, dated September 23, 2009: USDA, Department of Commerce, Department of Homeland Security, Department of Housing and Urban Development, Department of Justice, Department of Labor, Department of the Treasury, Agency for International Development, and Small Business Administration.

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

If you have questions, please contact me at (202) 720-5907 or have a member of your staff contact Lynette K. Cockrell, Director, Financial Audit Operations, at (816) 823-3860.

Sincerely,

Gil H. Harden /s/  
Assistant Inspector General  
for Audit

cc:

Mark A. Reger, Chief Financial Officer, Office of Personnel Management

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# ***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 (Report 11401-32-FM)**

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### **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 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) as of August 31, 2010.<sup>1</sup>

Our objective was to perform the AUPs detailed in the Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, dated September 4, 2007, and amended by OMB Memorandum 09-33, dated September 23, 2009, 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 entities listed in OMB Bulletin 07-04, Appendix A: USDA, Department of Commerce, Department of Homeland Security, Department of Housing and Urban Development, Department of Justice, Department of Labor, Department of the Treasury, Agency for International Development, and Small Business Administration.

We identified an error in the OCFO/NFC system's calculation of Option B life insurance withholdings for Department of Homeland Security, mainly with Custom and Border Protection's customs officers. OCFO/NFC did not include premium pay for overtime inspection services as part of annual pay for the purpose of calculating the amount withheld for Option B life insurance coverage. In addition, based on our calculations for OPM's step 6.d, we estimated that had OCFO/NFC included the premium pay in these calculations, the total withholdings for the Department of Homeland Security would have been more than 2 percent higher. We brought the calculation error to OCFO/NFC officials' attention, and they informed us that a project will be established to correct this calculation error.

Based on our review of documentation for individuals in our samples, we identified two errors for benefits entered into the system by staff of the entities. Furthermore, we were unable to verify 51 personnel documents tested in steps 2, 3, and 4 because the entities' personnel officers were unable to locate the documents requested. However, we performed the calculations for salary, retirement, life, and health insurance where applicable to ensure that information from the OCFO/NFC system was accurate. We noted no exceptions. Details are provided in exhibit A.

### **Recommendation Summary**

We do not make any recommendations in this report.

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<sup>1</sup> We selected our samples from pay period (PP) 17 (August 16, 2009 through August 29, 2009); PP 22 (October 25, 2009, through November 7, 2009); PP 04 (February 14, 2010 through February 27, 2010); and the OPM 1523, Supplemental Semiannual Headcount Report, as of September 10, 2009, and March 11, 2010.

# ***Independent Auditors' Report***

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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 OPM 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 August 29, 2009 (PP17), November 7, 2009 (PP 22), and February 27, 2010 (PP 4), respectively, and OPM 1523, Supplemental Semiannual Headcount Report, as of September 10, 2009, and March 11, 2010. 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 07-04, *Audit Requirements for Federal Financial Statements*, dated September 4, 2007, and amended by OMB Memorandum 09-33, dated September 23, 2009: USDA, Department of Commerce, Department of Homeland Security, Department of Housing and Urban Development, Department of Justice, Department of Labor, Department of the Treasury, Agency for International Development, and Small Business Administration.

The engagement to apply the Agreed-Upon Procedures was performed in accordance with applicable *Government Auditing Standards* and the *Statement of Standards for Attestation Engagements* 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 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.

Gil H. Harden /s/  
Assistant Inspector General  
for Audit

September 9, 2010

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

## ***Abbreviations Used in This Report***

AUP.....	Agreed-Upon Procedures
CFO.....	Chief Financial Officer
CSRS.....	Civil Service Retirement System
FEGLI.....	Federal Employees' Group Life Insurance
FEHB.....	Federal Employees Health Benefits
FERS.....	Federal Employees' Retirement System
IG.....	Inspector General
NFC.....	National Finance Center
OCFO.....	Office of the Chief Financial Officer
OMB.....	Office of Management and Budget
OPF.....	official personnel file
OPM.....	Office of Personnel Management
PP.....	pay period
RITS.....	Retirement and Insurance Transfer System
SF.....	Standard Form
USDA.....	U.S. Department of Agriculture

## ***Exhibit A: Procedures Performed and Results***

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

Report any differences for each of the retirement, health benefits, and life insurance (categories) for step 1.c. that are over 1 percent of the aggregate amount reported for each of the three categories. Obtain from management a management official name, an explanation, telephone number, and an email address for the differences above the 1 percent threshold.

### Results

There were no differences over 1 percent.

2. See sub-steps below.
  - a. Randomly select a total of 25 individuals who were in the payroll system for all three of the RITS submissions selected above that meet all of the following criteria:
    - Covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS);
    - Enrolled in the Federal Employees Health Benefits (FEHB) Program;
    - Covered by Basic Life Insurance; and
    - Covered by at least one Federal Employees' Group Life Insurance (FGLI) optional coverage (Option A, B, or C)
  - b. Obtain the following documents, either in electronic format or hard copy format, from the official personnel file (OPF) for each individual selected in step 2.a. Hard copies can be originals or certified copies.
    - All Notifications of Personnel Actions Standard Form-50 (SF) covering the pay periods (PP) in the RITS submissions chosen;
    - The Health Benefits Election Form (SF-2809) covering the PPs in the RITS submissions chosen or, if applicable, obtain a report (via the agency personnel office) from the agency's automated system that allows participants to change benefits (e.g., Employee Express), for any health benefits transactions in that

## Exhibit A: Procedures Performed and Results

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system for the individuals selected in step 2.a. (Note: A new SF-2809 is needed only if an employee is changing health benefit plans. Therefore, the form could be many years old). Also for health benefits, compare the date of transaction with the date on the certified copy of the SF-2809 or the agency's automated system report obtained above to identify whether the health benefit information to be used in the step 2.f. covers the PPs in the RITS submissions chosen; and

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

### Results

Personnel officers were not able to locate the following 47 documents; however, we performed the calculations for salary, retirement, life, and health insurance in these cases to ensure that information from the Office of the Chief Financial Officer/National Finance Center (OCFO/NFC) system was accurate. The table below shows the entities and the types and number of documents the personnel officers were not able to locate.

<b>ENTITY</b>	<b>SF-50</b>	<b>FEHB</b>	<b>FEGLI</b>
Department of Agriculture	0	4	0
Agency for International Development	4	9	6
Department of Commerce	0	1	0
Department of Justice	1	0	4
Department of Labor	0	3	0
Department of Homeland Security	0	0	2
Department of Housing and Urban Development	0	5	1
Small Business Administration	3	2	2
Department of the Treasury	0	0	0
<b>TOTAL</b>	<b>8</b>	<b>24</b>	<b>15</b>

- c. For each individual selected in step 2.a., compare the base salary used for payroll purposes and upon which withholdings and contributions generally are based to the base salary reflected on the employee's SF-50. Report any differences resulting from this step and obtain management's explanation for the differences.

### Results

No exceptions were noted.

- d. For retirement for each individual selected in step 2.a., compare the retirement plan code from the employee's SF-50 to the plan code used in the payroll system. Report

## ***Exhibit A: Procedures Performed and Results***

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any differences resulting from this step and obtain management's explanation for the differences.

### Results

No exceptions were noted.

- e. For each individual selected in step 2.a., calculate the retirement amount to be withheld and contributed for the plan code from the employee's SF-50, by multiplying the base salary from the employee's SF-50 by the official withholding and contribution rates required by law. Compare the calculated amounts to the actual amounts withheld and contributed for the retirement plan. Report any differences resulting from this step and obtain management's explanation for the differences.

### Results

No exceptions were noted.

- f. For health benefits for each individual selected in step 2.a., compare the employee withholdings and agency contributions to the official subscription rates issued by OPM for the plan and option elected by the employee, as documented by a Health Benefits Election Form (SF-2809) in the employee's OPF or automated system that allows the participant to change benefits (e.g., Employee Express). Report any differences resulting from this step and obtain management's explanation for the differences.

### Results

No exceptions were noted.

- g. For life insurance for each individual selected in step 2.a., confirm that Basic Life Insurance was elected by the employee by inspecting the Life Insurance Election Form (SF-2817) documented in the employee's OPF. Report any differences resulting from this step and obtain management's explanation for the differences.

### Results

No exceptions were noted.

- h. For each individual selected in step 2.a., calculate the withholding and contribution amounts for Basic Life Insurance using the following:
  - For employee withholdings: round the employee's annual base salary up to the nearest thousand dollars and add \$2,000. Divide this total by 1,000 and multiply by the rate required by law. The life insurance rates are on OPM's website at <http://www.opm.gov/insure/life/rates/index.asp>.
  - For agency contributions: divide the employee withholdings calculated above by two.

## ***Exhibit A: Procedures Performed and Results***

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Compare the calculated employee withholdings and agency contributions to the actual amounts withheld and contributed for Basic Life Insurance. Report any differences resulting from this step and obtain management's explanation for the differences.

### Results

No exceptions were noted.

- i. Also, for life insurance for each individual selected in step 2.a., compare optional coverage elected as documented on the SF-2817 in the employee's OPF to the optional coverage documented in the payroll system. Report any differences resulting from this step and obtain management's explanation for the differences.

### Results

We found two FEGLI codes in the payroll system that did not match the optional coverage elected on the SF-2817 – one each at the Department of the Treasury and the Department of Housing and Urban Development. The Department of the Treasury confirmed the processing error. The Department of Housing and Urban Development was unable to contact the employee during our audit timeframe to verify the employee's intended election as the employee is on extended leave.

- j. For each individual selected in step 2.a., calculate the withholding amounts for optional life insurance using the following:
  - For Option A: Locate the employee's age group using the age groups provided for Option A in the FEGLI Program Booklet. The withholding amount to be used is the rate listed in the FEGLI Program Booklet for that age group. Compare the calculated amount to the amount withheld for Option A Life Insurance. Report any differences resulting from this step and obtain management's explanation for the differences.

### Results

No exceptions were noted.

- For Option B: Inspect the SF-2817 to obtain the number of multiples chosen for Option B. Locate the employee's age group using the age groups provided for Option B in the FEGLI Program Booklet. Round the employee's annual rate of basic pay up to the next 1,000, divide it by 1,000, and then multiply it by the rate for the respective age group. Multiply this amount by the number of multiples chosen for Option B Life Insurance. Compare the calculated amount to the amount withheld for Option B Life Insurance. Report any differences resulting from this step and obtain management's explanation for the differences.

### Results

For Option B, we identified an error in the OCFO/NFC system's calculation of Option B life insurance withholdings for the Department of Homeland Security, mainly with

## ***Exhibit A: Procedures Performed and Results***

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Custom and Border Protection’s customs officers. OCFO/NFC did not include premium pay for overtime inspection services for customs officers as provided by Public Law 103-66 when calculating withholdings for Option B life insurance, even though it should be included as “annual pay for this purpose” per 5 CFR 870.204(a)(2)(iii) and OPM’s *FEGLI Program Handbook*, dated July 2008. Of the employees we randomly selected for OPM’s step 2.j., three were customs officers who elected Option B, and all three of their withholdings for Option B for the three pay periods we audited were approximately 19 to 36 percent lower than what they should have been due to this exclusion.

We presented the calculation error to OCFO/NFC officials, who obtained guidance from OPM. OPM officials confirmed that “premium pay should be included in the calculation of annual pay for calculating the amount of, and the withholding for, FEGLI Option B coverage for customs officers.” OCFO/NFC officials informed us that a project will be established to correct this calculation error.

- For Option C: Inspect the SF-2817 to obtain the number of multiples chosen for Option C. Locate the employee’s age group using the age groups provided for Option C in the FEGLI Program Booklet. Multiply the rate for the age group by the number of multiples chosen for Option C Life Insurance. Compare the calculated amount to the amount withheld for Option C Life Insurance. Report any differences resulting from this step and obtain management’s explanation for the differences.

### Results

No exceptions were noted.

3. Randomly select a total of 10 employees who have no health benefits withholdings from the payroll information corresponding to the three RITS submissions selected above and perform the following for each employee selected.
  - a. Obtain SF-2809s covering the PPs in the RITS submissions chosen, either in electronic or hard copy format, from the selected employee’s OPF or, if applicable, obtain a report (via the agency personnel office) from the agency’s automated system that allows participants to change benefits (e.g., Employee Express) for any health benefit transactions in that system for the individuals selected. Hard copies can be originals or certified copies. Inspect the documentation (that is, SF-2809 or the agency’s system-generated report) to identify whether health benefits coverage was not elected. This can be identified 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 (e.g., Employee Express); or
    - 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 (e.g., Employee Express); or

## ***Exhibit A: Procedures Performed and Results***

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- Cancellation of coverage through the agency’s automated system that allows participants to change benefits (e.g., Employee Express) and no later election of coverage with an SF-2809.
- b. Compare the result in step 3.a. to the RITS submissions. Report any differences resulting from this step and obtain management’s explanation for the differences.

### Results

The personnel officer at Small Business Administration could not locate one of the forms. No other exceptions were noted.

4. Randomly select a total of 10 employees who have no life insurance withholdings from the payroll information corresponding to the three RITS submissions selected above and perform the following for each employee selected.
  - a. Obtain the SF-2817s covering the PPs in the RITS submission chosen, either in electronic or hard copy format, from the selected employee’s OPF. Hard copies can be originals or certified copies. Inspect the SF-2817 to identify that the employee waived or canceled Basic Life Insurance coverage.
  - b. Compare the result in step 4.a. to the RITS submissions. Report any differences resulting from this step and obtain management’s explanation for the differences.

### Results

The personnel officers could not locate three of the forms (two at Agency for International Development and one at Small Business Administration). No other exceptions were noted.

5. Calculate the headcount reflected on the September 2009 and March 2010 Semiannual Headcount Report selected, as follows.
  - a. Obtain existing payroll information (from step 1.a.) supporting each Supplemental Semiannual Headcount Report. If existing payroll data are not available, obtain a payroll system query that summarizes detailed payroll data supporting each Supplemental Semiannual Headcount Report, as follows:
    - Benefit category (see Semiannual Headcount Report),
    - Dollar amount of withholdings and contributions,
    - Number enrolled (deductions made/no deductions),
    - Central personnel data file code, and
    - Aggregate base salary.
  - b. Recalculate the headcount reflected on each Semiannual Headcount Report. If an electronic file is not available, a suggested method of recalculating the headcount is as follows: (1) estimate the number of employees per payroll register page by counting the employees listed on several pages, (2) count the number of pages in the

## ***Exhibit A: Procedures Performed and Results***

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- payroll register, and (3) multiply 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. Compare the payroll information obtained in step 5.a. and the calculated headcount from step 5.b. to the information shown on each respective Semiannual Headcount Report.
  - d. Report any differences (i.e., gross rather than net) greater than 2 percent between the headcount reporting on each respective agency Semiannual Headcount Report and payroll information from step 5.a. and the calculated headcount from step 5.b. Obtain from management a management official name, telephone number, and an email address, and an explanation for the differences.

### Results

There were no differences greater than 2 percent.

6. Calculate employer and employee contributions for retirement, health benefits, and life insurance as follows:
  - a. Calculate retirement withholdings and contributions for the three PPs selected in step 1.a. as follows:
    - i. Multiply the CSRS and FERS payroll base by the withholding and employer contribution rates required by law.
    - ii. Compare the calculated totals from step 6.a.i. to the related amounts shown on the RITS submissions. Report any differences (i.e., gross rather than net) between the calculated amounts and the amounts reported on the RITS submissions that are greater than 5 percent of the amounts on the RITS submission, and obtain management's explanation for the differences.

### Results

There were no differences greater than 5 percent.

- b. Calculate the employee withholdings and employer contributions for health benefits for the three PPs selected in step 1.a., as follows:
  - i. Multiply 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. Sum the totals in step 6.b.i. and compare the result with the health benefit withholding and contribution amounts shown on the RITS submissions. Report any differences (i.e., gross rather than net) between the calculated amounts and the amounts reported on the RITS submissions that are greater than 5 percent of the amounts on the RITS submission, and obtain management's explanation for the differences.

## ***Exhibit A: Procedures Performed and Results***

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### Results

There were no differences greater than 5 percent.

- c. Calculate the basic life insurance employee withholdings and employer contributions for the three PPs selected in step 1.a., as follows:
  - i. Obtain a payroll system query from the APP personnel to obtain 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: Add the product of 2,000 times the number of employees with Basic Life Insurance coverage from step 6.c.i. above to the aggregate annual basic pay for all employees with Basic Life Insurance from step 6.c.i above to calculate the estimated total Basic Life Insurance coverage. Divide this calculated total by 1,000 and multiply it by the withholding rate required by law. The Life Insurance withholding rates are in the FEGLI Program Booklet on OPM’s website.
  - iii. Compare the result in step 6.c.ii to the withholdings for Basic Life Insurance coverage reported on the RITS submission. Report any 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, and obtain management’s explanation for the difference.

### Results

There were no differences greater than 5 percent.

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

### Results

There were no differences greater than 5 percent.

- d. Calculate the Option A, Option B and Option C Life Insurance coverage withholdings for the three PPs selected by using the detail payroll reports used to reconcile the RITS reports in step 1. In addition to the information used for step 1, the reports should include the employee’s date of birth, annual rate of basic pay, and the number of multiples selected for Option B and C. Note: While similar to step 2.j., the calculation at this step is for the entire amount reported on the RITS submissions for the three PPs selected, as opposed to the sample of 25 employees in step 2.j.

## ***Exhibit A: Procedures Performed and Results***

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- i. Multiply the number of employees in each age group by the appropriate rate for Option A in accordance with the rates for the age groups provided in the FEGLI Program Booklet.
- ii. Compare the result in step 6.d.i. to the amounts for Option A reported on the RITS submissions. Report any differences (i.e., gross rather than net) greater than 2 percent of the amounts on the RITS submission, and obtain management's explanation for the differences.

### Results

There were no differences greater than 2 percent.

- iii. Segregate the reports for Option B and Option C insurance into the age groups shown in the FEGLI Program Booklet. For Option B, round the employee's annual rate of basic pay up to the next 1,000, then divide it by 1,000, and then multiply this amount by the rate for the age group by then multiplying this by the number of multiples:  
$$(\text{Annual rate of basic pay (rounded up)} / 1,000) * \text{rate} * \text{multiples}$$

For Option C, multiply the rate for the age group by the number of multiples chosen for each employee.
- iv. Compare the result in step 6.d.iii. to the amounts for Option B and Option C, respectively, reported on the RITS submissions. Report any differences (i.e., gross rather than net) greater than 2 percent of the amounts on the RITS submissions for Option B or Option C, and obtain management's explanation for the differences.

### Results

We identified an error in the OCFO/NFC system's calculation of Option B life insurance withholdings for Department of Homeland Security, mainly with Custom and Border Protection's customs officers. OCFO/NFC did not include premium pay for overtime inspection services as part of annual pay for the purpose of calculating the amount withheld for Option B life insurance. We estimated that had NFC included the premium pay in these calculations, Option B life insurance withholdings would have been more than 2 percent higher. We brought the calculation error to OCFO/NFC officials' attention, and they informed us that a project will be established to correct this calculation error. (See results for step 2.j., Option B.)