



September 20, 2007

LYNN MALCOLM
VICE PRESIDENT, FINANCE, CONTROLLER



DEBORAH GIANNONI-JACKSON
VICE PRESIDENT, EMPLOYEE RESOURCE MANAGEMENT

SUBJECT: Transmittal of Report – Independent Report on Withholdings and Contributions for Health Benefits, Life Insurance, Retirement, and Employee Headcount Data (Report Number FT-AR-07-013)

Attached is a copy of the subject report provided to the U.S. Office of Personnel Management (OPM) Office of Inspector General (OIG) (Project Number 07BD011FT000). The report is provided for information only, and requires no management action.

At the request of the OPM OIG, we performed agreed-upon procedures in accordance with generally accepted government auditing standards and with the attestation standards established by the American Institute of Certified Public Accountants. The procedures were performed solely to assist the OPM in verifying employee withholdings and employer contributions reported on the *Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement* for selected payroll periods. We also verified information presented in the *Supplemental Semiannual Headcount Report* as of March 2, 2007.

If you have any questions, please contact John Cihota, Deputy Assistant Inspector General for Financial Accountability, or Lorie Siewert, Director, Financial Reporting, at (703) 248-2100.

E-Signed by Gordon Milbourn 
[VERIFY authenticity with Approve]


Gordon C. Milbourn III
Assistant Inspector General
for Audit

Attachments

cc: H. Glen Walker
Stephen J. Nickerson
Katherine S. Banks



September 20, 2007

HONORABLE PATRICK E. McFARLAND
INSPECTOR GENERAL
UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

SUBJECT: Independent Report on Withholdings and Contributions for Health Benefits, Life Insurance, Retirement, and Employee Headcount Data (Report Number FT-AR-07-013)

We have performed the procedures described in the attachment, which were agreed upon by the Inspector General and Chief Financial Officer of the U.S. Office of Personnel Management (OPM). The procedures were performed solely to assist the OPM in verifying employee withholdings and employer contributions reported on the *Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement* for the payroll periods ended December 22, 2006, and March 16, 2007; and the *Supplemental Semiannual Headcount Report* as of March 2, 2007.

This engagement to apply agreed-upon procedures was performed in accordance with generally accepted government auditing standards and with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Inspector General and Chief Financial Officer of the OPM. Consequently, we make no representation regarding the sufficiency of the procedures described in the attachment, either for the purpose for which this report has been requested, or for any other purpose.

Background

The U.S. Postal Service Information Technology and Accounting Service Center in Eagan, Minnesota, is responsible for the calculation, disbursement, and reporting of employee withholdings and Postal Service contributions for health benefits, life insurance, and retirement. The Postal Service employed over 794,300 personnel (approximately 673,600 with benefit entitlements) as of March 2, 2007. The Postal

This report has not yet been reviewed for release under FOIA or the Privacy Act. Distribution should be limited to those within the OPM with a need to know.

Service withheld more than \$81 million and contributed about \$319 million towards benefits during each payroll period reviewed.¹ The Postal Service transmitted these funds to the OPM via the Retirement and Insurance Transfer System and prepared the *Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement* each payroll period detailing the amounts associated with each benefit category. Additionally, the Postal Service submitted the *Supplemental Semiannual Headcount Report* to the OPM detailing the number of employees associated with each specific benefits category for the payroll periods ended March 2 and August 31, 2007.

Results

Generally, we were able to verify the employee withholdings, employer contributions, and enrollment information reported and transferred to the OPM for health benefits, life insurance,² and retirement. However, we identified two reportable issues based on the procedures provided by the OPM:

- Aggregate base salaries for the Civil Service Retirement Offset employees on the *Supplemental Semiannual Headcount Report* do not accurately reflect the actual salaries paid for the reporting period. The reported salaries for regular³ and special⁴ contributors were \$19.8 million and \$45,849, respectively. However, we verified salaries of \$15.1 million and \$39,977. This occurred because the Postal Service calculated the salaries by dividing the dollar amount of the employee contributions by the Offset retirement rate instead of reporting actual salaries subject to a retirement deduction.

This methodology does not accurately reflect actual salaries paid because the Civil Service Retirement Offset category includes two contribution rates. The full Civil Service Retirement rate is applied to pretax benefits and the Offset Retirement rate is applied to gross salary less pretax benefits.

The Postal Service stated that the report format has not been updated since 1996 and does not clearly provide instructions or directions for pretax contributions. This discrepancy has been reported since 2005 and remains outstanding.

- Effective September 17, 2006, the Postal Service processed a personnel transaction to waive life insurance coverage for one employee. However, the *Life Insurance Election* form was not included as part of the official personnel file to support this transaction.

¹ This timeframe included approximately 81,600 employees who declined health benefits and approximately 1,100 employees who waived life insurance coverage.

² We obtained 45 official personnel files to verify the election or non-election of health benefits and life insurance. The universe for sample selection does not include approximately 152,900 employees who elected health benefits and basic life insurance only (no optional coverage elected).

³ Includes 7,667 employees.

⁴ Includes eight employees.



The form is the original source document and initiates withholdings and contributions from payroll records. Additionally, the OPM requires that the form be filed and kept as a permanent record.

The Postal Service contacted the employee to verify the waiver. The employee admitted to waiving optional life insurance coverage but not basic life insurance coverage. On July 9, 2007, the Postal Service processed a personnel transaction for basic life insurance coverage, supported by the *Life Insurance Election* form.

We were not engaged to and did not perform an audit, the objective of which would have been the expression of an opinion on the withholdings and contributions for health benefits, life insurance, and retirement, and the headcount report of the Postal Service. 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 Inspector General and Chief Financial Officer of the 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.

If you have any questions or need additional information, please contact me, or your staff may contact John Cihota, Deputy Assistant Inspector General for Financial Accountability, or Lorie Siewert, Director, Financial Reporting. We may all be reached at (703) 248-2100.

E-Signed by Gordon Milbourn 
VERIFY authenticity with Approve!


Gordon C. Milbourn III
Assistant Inspector General
for Audit

Attachment

cc: Mark Reger

AGREED-UPON PROCEDURES

RETIREMENT, HEALTH BENEFITS, AND LIFE INSURANCE WITHHOLDINGS/CONTRIBUTIONS AND SUPPLEMENTAL SEMIANNUAL HEADCOUNT REPORT SUBMITTED TO THE OFFICE OF PERSONNEL MANAGEMENT⁵

OBJECTIVE

Assist the Office of Personnel Management (OPM) in assessing the reasonableness of Retirement, Health Benefits, and Life Insurance withholdings and contributions as well as enrollment information submitted via the Semiannual Headcount Report.

BACKGROUND

The Agreed-Upon Procedures (AUPs) relating to the submission to OPM of withholdings/contributions for Retirement, Health Benefits, and Life Insurance relate to the use of the Retirement and Insurance Transfer System (RITS). RITS is the authorized method of submission of withholding and contribution information to OPM. Agency payroll offices (APOs) that are technically unable to transmit benefit information to OPM via RITS may continue to submit withholdings and contributions via the hard copy SF 2812 (and SF 2812-A), "Report of Withholdings and Contributions for Health Benefits, Life Insurance and Retirement to OPM." The AUPs to be applied to those APOs submitting withholdings and contributions to OPM via the hard copy SF 2812 forms are similar to those for RITS.

PROCEDURES

Obtain the APO's March Semiannual Headcount Report submitted to OPM and a summary of RITS submissions for the current fiscal year. For Retirement, Health Benefit, and Life Insurance select any three RITS submissions for the current fiscal year, one of which coincides with the March Semiannual Headcount Report. Obtain payroll information for the periods covered by the RITS submissions selected.

Note: Hereinafter, the term payroll information refers to all payroll information, whether it is a payroll register, payroll data files, or other payroll support data.

1. Compare RITS submission data with payroll information by performing the following procedures:

⁵ Office of Management and Budget Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, dated September 4, 2007.

- 1.a. Recalculate the mathematical accuracy of the payroll information. 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.
- 1.b. Recalculate the mathematical accuracy of each RITS submission for the payroll information selected in step 1.a.
- 1.c. Compare 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% threshold.

- 2.a. Randomly select a total of 25 individuals who were on the payroll system for all three of the RITS submissions selected and meet all 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 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).
- 2.b. Obtain 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 can be originals or certified copies.
 - all Notifications of Personnel Actions (SF-50) covering the pay periods in the RITS submissions chosen;
 - the Health Benefit Registration Form (SF-2809) covering the pay periods in the RITS submissions chosen or, if applicable, request that the agency personnel office obtain a report from the agency's automated system that allows participants to change benefits, (e.g. Employee Express), for any Health Benefits transactions in that system for the individuals selected in step 2.a. Compare date of transaction with date on the certified copy of the SF-2809 or the agency's automated system report requested. Confirm that the health benefit information to be used in the step 2.f covers the pay periods in the RITS submissions chosen (note: a new SF-2809 is needed only if an

- employee is changing health benefit plans, therefore the form could be many years old); and
- the Life Insurance Election Form (SF-2817) covering the pay periods in the RITS submission chosen (note: a new SF-2817 is only needed if an employee is changing life insurance coverage, therefore the form could be many years old).
- 2.c. Compare the base salary used for payroll purposes and upon which withholdings and contributions generally are based with the base salary reflected on the employees' SF-50. Report any differences.
- 2.d. For Retirement, compare the plan code on the employees' SF-50 to the plan code used in the payroll system. Report any differences and obtain management's explanation of the differences.
- 2.e. Calculate the retirement amount to be withheld and contributed for the plan code from the employees' SF-50, based upon the official withholding and contribution rates required by law. Compare to actual amounts withheld and contributed. Report any differences and obtain management's explanation of the differences.
- 2.f. For Health Benefits, compare the employee withholdings and agency contributions with the official subscription rates issued by OPM for the plan and option elected by the employees, as documented by a Health Benefits Registration Form (SF-2809) in the employees' OPF or automated system that allows the participant to change benefits (e.g. Employee Express). Report any differences and obtain management's explanation of the differences.
- 2.g. For Life Insurance, confirm that Basic Life Insurance was elected by the employees, as documented by a Life Insurance Election Form (SF-2817), in his/her OPF. Report any differences and obtain management's explanation of the differences.
- 2.h. Calculate the withholding and contribution amounts for basic life insurance using the following:
- For employee withholdings: Round the employee's annual base salary to the nearest thousand dollars and add \$2,000. Divide this total by 1,000 and multiply by the rate required by law.
 - For agency contributions: Divide the employee withholdings calculated above by two.
- Compare to actual amounts withheld and contributed. Report any differences and obtain management's explanation of the differences.

- 2.i. Also, for Life Insurance, compare 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.
- 2.j. Calculate the withholding amounts for optional life insurance using the following:
 - For Option A: Determine the employee's age group using the age groups provided for Option A in the FEGLI Program Booklet. The withholding amount is the rate listed in the FEGLI Program Booklet for that age group. Compare to amount withheld. Report any differences and obtain management's explanation of the differences.
 - For Option B: Inspect the SF-2817 to determine the number of multiples chosen for Option B. Determine 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 1000, divide by 1000, and multiply by the rate for the age group. Multiply this amount by the number of multiples chosen. Compare to amount withheld. Report any differences and obtain management's explanation of the differences.
 - For Option C: Inspect the SF-2817 to determine the number of multiples chosen for Option C. Determine 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. Compare to amount withheld. Report any differences and obtain management's explanation of the differences.
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 for testing above.

Request 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, request that the agency personnel office obtain a report 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 to determine that health benefit coverage was not elected. This can 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 (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
- 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.

Report any exceptions.

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 for testing above. Request the SF-2817s covering the pay periods in the RITS submissions chosen, either in electronic or hard copy format, from the selected employees' OPFs. Hard copies can be originals or certified copies. Inspect the SF-2817 to determine that the employee waived or cancelled Basic Life Insurance coverage. Report any exceptions.
5. Calculate the headcount reflected on the Semiannual Headcount Report selected for testing above, as follows.
 - 5.a. Obtain existing payroll information supporting the selected Supplemental Semiannual Headcount report. If existing payroll data is not available, have a payroll system query performed that summarized detailed payroll data supporting the 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.
 - Aggregate Base Salary.
 - 5.b. Recalculate the Headcount reflected on the 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 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.
 - 5.c. Compare the results of payroll information from step 5.a. with the calculated headcount from step 5.b. to the information shown on the Semiannual Headcount Report.

- 5.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 Semiannual Headcount Report and payroll information from step 5.a. and the calculated Headcount from step 5.b.
6. Calculate employer and employee contributions for Retirement, Health Benefits, and Life Insurance.
 - 6.a. Calculate Retirement withholdings and contributions for the three pay periods selected, 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 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.
 - 6.b. Calculate employee withholdings and employer contributions for Health Benefits for the three pay periods selected, 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 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.
 - 6.c. Calculate the Basic Life Insurance employee withholdings and employer contributions for the three pay periods selected as follows:
 - i. Have APO personnel perform a payroll system query to determine the total number of employees with Basic Life Insurance Program 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 to the aggregate annual basic pay for all employees selected. This represents the estimated total Basic Life Insurance coverage. Divide this total by 1,000 and multiply by the rate required by law. The Life Insurance rates can be found 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 and obtain management's explanation of the differences (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.
 - 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 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.
- 6.d. Calculate 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 include 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 is 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. Multiply 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 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.
 - ii. Divide 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 1000, divide by 1000, multiply by the rate for the age group, multiply this by the number of multiples:

(Annual rate of basic pay (rounded up)/1000*rate*multiples).

For Option C, multiply the rate for the age group by the number of multiples chosen for each employee. Report 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.