



OCT - 8 2004

MEMORANDUM FOR: SAMUEL T. MOK
Chief Financial Officer
Michael R. Powell
for

FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: Report on the Agreed-Upon Procedures for Retirement,
Health Benefits and Life Insurance Withholdings/Contributions and
Semiannual Headcount
Report No. 22-05-002-13-001

Attached is the subject Agreed-Upon Procedures report. The Office of Inspector General contracted with the independent certified public accounting firm of R. Navarro & Associates, Inc., CPAs (RNA) to perform the agreed-up procedures. The contract required that this report be prepared in accordance with OMB Bulletin 01-02, Appendix 1 (as revised July 27, 2004).

We reviewed RNA's report and related documentation and inquired of its representatives. However, RNA is responsible for the attached agreed-upon procedures and the conclusions expressed in the report. Our review disclosed no instances where RNA did not comply, in all material respects, with auditing standards generally accepted in the United States of America (GAAS), Government Auditing Standards (GAS), and Office of Management and Budget audit requirements.

If you have any questions, please contact Michael McFadden, Office of Accountability Audits, on (202) 693-5144.

Attachment



OCT - 8 2004

Mr. Harvey D. Thorp
Assistant Inspector General for Audits
U. S. Office of Personnel Management
Office of Inspector General
1900 E Street, NW, Room 6400
Washington, DC 20415-0001

Dear Mr. Thorp:

Enclosed is the Report on the Agreed-Upon Procedures for Retirement, Health Benefits and Life Insurance Withholdings/Contributions and Semiannual Headcount (Report No. 22-05-002-13-001). The Office of Inspector General contracted with the independent certified public accounting firm of R. Navarro & Associates, Inc., CPAs (RNA) to perform the agreed-up procedures. The contract required that this report be prepared in accordance with OMB Bulletin 01-02, Appendix 1 (as revised July 27, 2004).

We reviewed RNA's report and related documentation and inquired of its representatives. However, RNA is responsible for the enclosed agreed-upon procedures and the conclusions expressed in the report. Our review disclosed no instances where RNA did not comply, in all material respects, with auditing standards generally accepted in the United States of America (GAAS), Government Auditing Standards (GAS), and Office of Management and Budget audit requirements.

If you have any questions, please contact Michael McFadden, Office of Accountability Audits, on (202) 693-5144.

Sincerely,

Elliot P. Lewis
Assistant Inspector General
for Audit

Enclosure

cc: Michael R. Esser
Chief, Internal Audits Division
OPM Office of Inspector General

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES FOR THE
RETIREMENT, HEALTH BENEFITS, AND LIFE INSURANCE
WITHHOLDINGS/CONTRIBUTIONS AND THE MARCH 31, 2004 SUPPLEMENTAL
SEMIANNUAL HEADCOUNT REPORT SUBMITTED TO THE
OFFICE OF PERSONNEL MANAGEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

R. Navarro & Associates, Inc.
Certified Public Accountants

Report Number: 22-05-002-13-001
Date Issued: October 7, 2004

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ACRONYMS

AICPA	American Institute of Certified Public Accountants
APO	Agency Payroll Office
CFO	Chief Financial Officer
CSRS	Civil Service Retirement System
DOL	Department of Labor
DOLARS	Department of Labor Accounting and Related Systems
EE	Employee Express
FEHB	Federal Employee Health Benefits
FERS	Federal Employee Retirement System
GAO	Government Accountability Office
IDEA	Interactive Data Extraction & Analysis
OA	Office of Audit
OASAM	Office of the Assistant Secretary for Administration and Management
OCFO	Office of Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPF	Official Personnel File
OPM	Office of Personnel Management
POI	Personnel Office Indicator
PP	PeoplePower
PP/PT	PeoplePower/PeopleTime
RITS	Retirement and Insurance Transfer System
SF	Standard Form
SGL	Standard General Ledger

EXECUTIVE SUMMARY

We performed the procedures specified in OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements, Agreed-Upon Procedures, Appendix I-1*, as amended by OMB Memorandum 04-22, to assist the U.S. Office of Personnel Management (OPM) in assessing the reasonableness of retirement, health benefits, and life insurance withholdings/contributions, as well as enrollment information submitted via the Supplemental Semiannual Headcount Report.

This report includes the agreed-upon procedures and the results from applying those procedures for retirement, health benefits, and life insurance withholdings/contributions, and employee headcount information submitted to OPM.

The agreed-upon procedures included U.S. Department of Labor personnel and payroll information for the semiannual period ended March 31, 2004. Agreed-upon procedures generally comprised comparative and analytical functions. As required by the agreed-upon procedures, we used a random sample selection methodology.

Discrepancies were present in AUP steps 2 and 4.

Our procedures were performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and Government Auditing Standards issued by the Comptroller General of the United States.

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

The Honorable Harvey D. Thorp
Assistant Inspector General for Audits
U.S. Office of Personnel Management
Office of Inspector General

We have performed the procedures described in OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements, Agreed-Upon Procedures, Appendix I-1*, as amended by OMB Memorandum 04-22, which were agreed to by the Inspector General, the Chief Financial Officer, and the Associate Director for Retirement and Insurance Service of the U.S. Office of Personnel Management (OPM), solely to assist OPM with respect to the reasonableness of employment withholdings and employer contributions reported on the Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement for the payroll periods ended January 24, 2004, March 6, 2004, and April 3, 2004; and the Supplemental Semiannual Headcount Report as of March 16, 2004. The U.S. Department of Labor's management is responsible for the employment withholdings and employer contributions reported on the Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement for the payroll periods ended January 24, 2004, March 6, 2004, and April 3, 2004; and the Supplemental Semiannual Headcount Report as of March 16, 2004. This engagement to apply agreed-upon procedures was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants and Government Auditing Standards issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the Inspector General, the Chief Financial Officer, and the Associate Director for Retirement and Insurance of OPM. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The agreed-upon procedures and related results of procedures are included in the attached AGREED-UPON PROCEDURES AND RESULTS.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the withholding and contributions of Health Benefits, Life Insurance, and Retirement and the employee Headcount Report of the U.S. Department of Labor. 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 information and use of the Inspector General, the Chief Financial Officer, and the Associate Director for Retirement and Insurance of OPM and is not intended to be and should not be used by anyone other than these specified parties. This report 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.

R. Navano & Associates, Inc.

October 7, 2004

Cc: Clarence C. Crawford, Chief Financial Officer, Office of Personnel Management
Kathleen M. McGettigan, Deputy Associate Director, Center for Retirement & Insurance Services Program,
Office of Personnel Management

AGREED-UPON PROCEDURES AND RESULTS

<i>Step</i>	<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
1a	Foot the payroll register or payroll data file that contains the payroll information.	We footed, without exception, the payroll information.
1b	Foot the RITS submission selected.	We footed, without exception, the payroll information from the RITS submissions.
1c	Trace employee withholding information shown on the footed payroll information for retirement, health, and life insurance benefits (as adjusted for reconciling items) to the related amounts shown on the RITS submission for the corresponding period. Report any differences greater than 1%. Obtain and report explanations for those differences above the threshold.	We traced the footed payroll withholding to the corresponding amounts on RITS submissions selected for the AUP. There were no differences greater than 1 percent, therefore no explanations were required.
2a	Randomly select a total of 25 individuals who were on the payroll system for all three of the RITS submissions selected for testing that also meet the criteria set forth in OMB Bulletin 01-02, <i>Appendix I-1, Agreed-Upon Procedures</i> , as amended by OMB Memorandum 04-22.	We used the PP/ PT database provided and extracted three selected pay periods using IDEA software. We then used IDEA to select a random sample of 25 national office employees from the three pay periods selected and verified that the selected sample met the criteria in OMB Bulletin 01-02, <i>Appendix I-1, Agreed-Upon Procedures</i> , as amended by OMB Memorandum 04-22.
2b	Obtain the following documents, either in electronic or hard copy format, from the OPFs for each individual selected in step 2a: <ul style="list-style-type: none"> • all Notifications of Personnel Actions (SF-50) covering the pay periods in the RITS submissions chosen; • the Health Benefits Registration Form (SF—2809) covering the pay periods in the RITS submission chosen; and • the Life Insurance Election Form (SF-2817) covering the pay periods in the RITS submission chosen. 	All documents listed in <i>OMB Bulletin 01-02, Appendix I-1, Agreed-Upon Procedures</i> , step 2b for the selected individuals were obtained from the OPFs.
2c	Request a report from Employee Express for any Health Benefits transactions in that system for the individuals selected in step 2a. Compare the date of the transaction with the date on the certified copy of the SF-2809 requested in step 2b. Confirm that the health benefits information to be used in the step 2g covers the pay periods in the RITS submissions chosen.	All necessary Employee Express (EE) files were viewed. All applicable transaction dates were matched to those on the certified copies of the SF-2809s. All of the health benefits information to be used in the step 2g covered the pay periods in the RITS submissions chosen.

<i>Step</i>	<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
2d	Verify that the base salary used for payroll purposes agrees with the base salary reflected on the employee's SF-50. Report any differences.	We verified, with 4 exceptions, that the base salary shown on the payroll register agreed with the approved base salary reflected on the employee's Personnel Action, SF-50. Sample 2 - 2.25% Difference Sample 5 - 2.26% Difference Sample 7 - 2.25% Difference Sample 17 - 2.25% Difference
2e	For Retirement, compare the plan code on the employees' SF-50 to the plan code used in the payroll system. Report any differences.	We verified, without exception, that the retirement plan code on the employees' SF-50 agrees to the plan code used in the payroll system.
2f	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.	Actual and calculated withholding and contribution agreed without exception.
2g	For health benefits, verify that the employee withholdings and agency contributions agree with the official subscription rates issued by OPM for the plan and option elected, as documented by form SF 2809 in the employees OPF or through Employee Express. Report any differences.	We verified, with 3 exceptions, that the employee withholdings and agency contributions agreed with the official subscription rates issued by OPM for the plan and option elected, as documented by form SF 2809 in the employees OPF or through Employee Express. For samples 3, 5, & 24 the documented FEHB plan elections on the SF-2809 differed with the documented elections in PeoplePower. As a result of these differences, there were also differences in the auditor calculation for plan withholdings and contributions and the recorded withholdings and contributions in PeoplePower.
2h	For life insurance, verify that Basic Life Insurance was elected by the employees, as documented by a SF 2817 in the employees' OPF. Report any differences	We verified, with 1 exception, that Basic Life Insurance coverage was elected by the employees. Sample 10 waived FEGLI on 2/5/86. No election was documented in the OPF since.

<i>Step</i>	<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
2i	<p>Calculate the withholding and contribution amounts for basic life insurance using the following:</p> <p>For <u>employee withholdings</u>: 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 \$0.150 (for APOs with biweekly pay periods).</p> <p>For <u>agency contributions</u>: Divide the employee withholdings calculated above by 2. Compare to actual amounts withheld and contributed.</p> <p>Report any differences.</p>	<p>Calculated FEGLI withholding and contribution amounts agreed to actual amounts without exception.</p>
2j	<p>For Life Insurance, compare the optional coverage elected as documented by an SF-2817 in the employees' OPF with optional coverage documented in the payroll system.</p> <p>Report any differences.</p>	<p>We verified, with 2 exceptions, that the optional coverage elected as documented by an SF-2817 in the employees' OPF agreed with optional coverage documented in the payroll system.</p> <p>Sample 3 – SF-2817 indicated 1 Option B election. PP/PT indicated 2.</p> <p>Sample 10 – The most recent SF-2817 indicated Life Insurance was waived. PP/PT indicated Life Insurance was elected with 5 Options B Multiples.</p>

<i>Step</i>	<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
2k	<p>Calculate the withholding amounts for the optional life insurance coverage using the following:</p> <p>For <u>Option A</u>: 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.</p> <p>For <u>Option B</u>: 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 1,000, and multiply by the rate for the age group. Multiply this amount by the number of multiples chosen. Compare to amounts withheld. Report any differences.</p> <p>For <u>Option C</u>: 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.</p>	<p>We verified, without exception, that Optional Life Insurance Option A and Option C withholdings agreed to the amounts calculated using the criteria provided by OPM. Option B was verified with 2 exceptions.</p> <p>Option B exceptions: Sample 3 – (50.0%) Sample 10 – (100%)</p> <p>Auditor's Note: Sample 3 – SF-2817 indicated 1 Option B election. PP/PT indicated 2. Sample 10 – The most recent SF-2817 indicated Life Insurance was waived. PP/PT indicated Life Insurance is elected with 5 Options B Multiples.</p>
3	<p>Randomly select a total of 10 employees who have no Health Benefits from the three pay periods selected for testing.</p> <p>Verify that the employees did not elect Health Benefits coverage.</p> <p>Report any exceptions.</p>	<p>We verified, without exception, that Health Benefits were not elected by the selected employees.</p>
4	<p>Randomly select a total of 10 employees who have no Life Insurance withholdings from the three pay periods selected for testing.</p> <p>Verify that the employees either waived or canceled Life Insurance coverage.</p> <p>Report any exceptions.</p>	<p>We verified, with 1 exception, that the selected employees did not elect Life Insurance coverage.</p> <p>Sample 3 did not have a Life Insurance Election Form in their OPF.</p>
5a	<p>Obtain existing payroll information supporting the selected Supplemental Semiannual Headcount report.</p>	<p>Payroll information supporting the Semiannual Headcount report was obtained.</p>

<i>Step</i>	<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
5b	Calculate the headcount by counting the number of employees (using a computer audit routine) on the payroll data file for the period.	We calculated 16,179 employees in the payroll data file using a computer audit routine.
5c	Compare the results of payroll information from step 5a with the calculated headcount from step 5b to the information shown on the Semiannual Headcount Report.	We compared the results of the payroll information (steps 5a/5b) with the Semiannual Headcount Report.
5d	Report any differences greater than 2 percent between the agency's Semiannual Headcount Report and the payroll information from step 5a and the calculated headcount from step 5b.	There was a difference between the calculated headcount and the Semiannual Headcount Report of 16 employees, or 0.10 percent.
6a	Calculate Retirement withholdings and contributions by multiplying the CSRS and FERS payroll base by the withholding and employer contribution rates required by law. Compare the calculated totals with related amounts shown on the RITS submissions. Report any variance greater than 5 percent.	All variances between the calculated retirement withholding amounts and the RITS submissions were less than 5 percent.
6b	Calculate Health Benefit withholdings and contributions by multiplying the number of employees enrolled in each Health Benefit plan and plan option by the employee withholdings and employer contributions for the plan and option. Sum the totals and compare the result with the RITS submission. Report any variances greater than 5 percent.	All variances between the calculated health benefits withholding amounts and the RITS submissions were less than 5 percent.
6c	Calculate the Basic Life insurance withholdings and contributions as follows: For <u>employee withholdings</u> : 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 Basic Life Insurance coverage. Divide this total by 1,000 and multiply by \$0.155 (for APOs with biweekly pay periods. Compare the results with the RITS submission. For <u>agency contributions</u> : Divide the employee withholdings by 2 – this approximates agency contributions, which are one-half of employee withholdings. Compare the results with the RITS submission. Report any variances greater than 5 percent.	All variances between the calculated basic life insurance withholding amounts and the RITS submissions were less than 5 percent.

<i>Step</i>	<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
6d	<p>Calculate the Option A, Option B, and Option C Life Insurance coverage withholdings for the three pay periods selected by using the results of payroll system queries from step 6a. Multiply the number of employees in each age group by the appropriate rate for Option A in accordance with the rate for age groups provided in the FEGLI Program Booklet. Report any differences greater than 2 percent. 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 1,000, divide by 1,000, multiply by the rate for the age group, multiply this by the number of multiples.</p> <p>For Option C, multiply the rate for the age group B the number of multiples chosen for each employee.</p> <p>Report any 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.</p>	<p>There were no differences greater than 2 percent for Option A, Option B, or Option C.</p>

MANAGEMENT'S RESPONSE TO RESULTS OF PROCEDURES

The following are Management's responses to differences noted in the reported results to the *Agreed-Upon Procedures*:

At the time the report was issued, we had not received an official signed response from Management concerning the differences noted in the results of procedures.