

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE APPLICATION OF AGREED-UPON
PROCEDURES: SELECTED
PERSONNEL-RELATED COST ITEMS**

Department of Transportation

Report Number: FI-2005-077

Date Issued: September 27, 2005



**U.S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

September 27, 2005

The Honorable Patrick E. McFarland
Inspector General
U.S. Office of Personnel Management
Room 6400
1900 E Street, N.W.
Washington, DC 20415

Dear Inspector General McFarland:

This report transmits the results of our review of selected personnel-related cost items during fiscal year 2005. We performed limited procedures that were agreed to by the Inspector General and Chief Financial Officer of the U.S. Office of Personnel Management (OPM). We performed these procedures solely to assist 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.

We reviewed the 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 November 27, 2004, and January 22, 2005, and the Semiannual Headcount Report as of February 19, 2005.¹ We found the Department's reporting of withholdings and contributions in these areas reasonable based on the agreed-upon procedures. The enclosure describes the results from performing each procedure.

In performing the agreed-upon procedures, we conducted our attestation engagement work in accordance with the Generally Accepted Government Auditing Standards, which incorporate the standards established by the American Institute of Certified Public Accountants. Departmental management agreed with the results presented.

¹ On September 13, 2005, we verified that departmental officials have completed the Retirement and Insurance Transfer System (RITS) submissions covering the 11 months ended August 31, 2005, as required by OPM.

The sufficiency of the procedures is solely the responsibility of the Inspector General and Chief Financial Officer of OPM. Consequently, we make no representation regarding the sufficiency of the procedures described in the enclosure either for the purpose for which this report has been requested or for any other purpose.

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, or the Semiannual Headcount Report of the Department of Transportation. 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 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 questions concerning this report, please call Rebecca Leng, Assistant Inspector General for Information Technology and Computer Security at (202) 366-1488 or Joann Adam, Project Manager, at (405) 954-5116.

Sincerely,



Theodore P. Alves
Principal Assistant Inspector General
for Auditing and Evaluation

Enclosure

cc: Chief Financial Officer, Office of Personnel Management

ENCLOSURE. AGREED-UPON PROCEDURES

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

RESULTS OF PROCEDURES

We obtained our Agency² payroll office's (APO) March Semiannual Headcount Report submitted to OPM and a summary of Retirement and Insurance Transfer System (RITS) submissions for the current fiscal year. For retirement, health benefits, and life insurance, we selected three RITS submissions for the current fiscal year, one of which coincided with the March Semiannual Headcount Report. Specifically, the three RITS submissions were for the pay periods ending November 27, 2004; January 22, 2005; and February 19, 2005. The pay period ending February 19, 2005, coincides with the March Semiannual Headcount Report. We obtained 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. We compared RITS submission data with payroll information by performing the following procedures:
 - 1.a. We recalculated the mathematical accuracy of the payroll information.
 - 1.b. We recalculated the mathematical accuracy of each RITS submission for the payroll information selected in step 1.a.
 - 1.c. We 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.

Result: We found no exceptions to report. *Specifically, we did not identify any differences for retirement, health benefits, and life insurance that were over 1 percent of the total reported for each of the three categories.*

- 2.a. We 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:

² Agency refers to the Department of Transportation.

- They were covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS);
 - They were enrolled in the Federal Employees Health Benefits Program;
 - They were covered by basic life insurance; and
 - They were covered by at least one Federal Employees Group Life Insurance (FEGLI) optional coverage (Option A, B, or C).
- 2.b. We 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. The hard copies were originals or certified copies.
- All Notifications of Personnel Actions (SF-50) covering the pay periods in the RITS submissions chosen above;
 - The Health Benefit Registration Form (SF-2809) covering the pay periods in the RITS submissions chosen (note: a new SF-2809 is only needed if an employee is changing health benefit plans, therefore some forms were 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 some forms were many years old).
- 2.c. Via the Agency personnel office, we requested a report from Employee Express for any health benefit transactions in that system for the individuals selected in step 2.a. We compared the date of transaction with date on the certified copy of the SF-2809 requested in step 2.b. We confirmed that the health benefit information to be used in step 2.g. covered the pay periods in the RITS submissions chosen above.
- 2.d. We compared 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.
- Result: We found no exceptions to report.**
- 2.e. For Retirement, we compared the plan code on the employees' SF-50 to the plan code used in the payroll system.
- Result: We found no exceptions to report.**
- 2.f. We calculated 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. We compared this to the actual amounts withheld and contributed.

Result: We found no exceptions to report.

- 2.g. For health benefits, we compared 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 an SF-2809 in the employees' OPF or Employee Express.

Result: We found no exceptions to report.

- 2.h. For life insurance, we confirmed that basic life insurance was elected by the employees, as documented by a Life Insurance Election Form (SF-2817) in his or her OPF.

Result: We found no exceptions to report.

- 2.i. We calculated the withholding and contribution amounts for basic life insurance using the following:

- For employee withholdings: We rounded the employee's annual base salary to the nearest thousand dollars and added \$2,000. We divided this total by 1,000 and multiplied by \$0.150 because the APO has biweekly pay periods.
- For Agency contributions: We divided the employee withholdings calculated above by two.

We compared this to actual amounts withheld and contributed.

Result: We found no exceptions to report.

- 2.j. Also, for life insurance, we compared optional coverage elected as documented by an SF-2817 in the employees' OPF with optional coverage documented in the payroll system.

Result: We found no exceptions to report.

- 2.k. We calculated the withholding amounts for optional life insurance using the following:

- For Option A: We determined 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. We compared this to the amount withheld.

Result: We found no exceptions to report.

- For Option B: We inspected the SF-2817 to determine the number of multiples chosen for Option B. We determined the employee's age group using the age groups provided for Option B in the FEGLI Program Booklet. We 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. We multiplied this amount by the number of multiples chosen. We compared this to the amount withheld.

Result: We found no exceptions to report.

- For Option C: We inspected the SF-2817 to determine the number of multiples chosen for Option C. We determined the employee's age group using the age groups provided for Option C in the FEGLI Program Booklet. We multiplied the rate for the age group by the number of multiples chosen. We compared this to the amount withheld.

Result: We found no exceptions to report.

3. We 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.

We requested SF-2809s covering the pay periods in the RITS submissions chosen, either in electronic or hard-copy format, from the selected employees' OPFs. The hard copies were originals or certified copies. Via the Agency personnel office, we requested a report from Employee Express for any health benefit transactions in that system for the individuals selected. We inspected the documentation to determine that health benefit coverage was not elected. This was determined in the following ways:

- Absence of an SF-2809 in the OPF and no election of coverage made through Employee Express; or
- An SF-2809 in the OPF with Section E checked (indicating cancellation of coverage) and no later election of coverage through Employee Express; or
- Cancellation of coverage through Employee Express and no later election of coverage with an SF-2809.

Result: We found no exceptions to report.

4. We 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. We requested the SF-2817s covering the pay periods in the RITS submissions chosen, either in electronic or hard-copy format, from the selected employees' OPFs. The hard copies were originals or certified copies. We inspected the SF-2817 to determine that the employee waived or cancelled basic life insurance coverage.

Result: We found no exceptions to report.

5. We calculated the headcount reflected on the Semiannual Headcount Report selected for testing above, as follows.

5.a. We obtained existing payroll information supporting the selected Supplemental Semiannual Headcount Report. Since existing payroll data were not available, we had APO personnel perform a payroll system query 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, and
- Aggregate base salary.

5.b. We recalculated the headcount reflected on the Semiannual Headcount Report. Since an electronic file was not available, we used the suggested method of recalculating the headcount. Specifically, we (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.

5.c. We compared 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.

Result: We found no exceptions to report. *Specifically, there were no 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. We calculated employer and employee contributions for retirement, health benefits, and life insurance.

- 6.a. We calculated the retirement withholdings and contributions for the three pay periods selected, as follows:
- i. We multiplied the CSRS and FERS payroll base by the withholding and employer contribution rates required by law.
 - ii. We compared the calculated totals with related amounts shown on the RITS submissions.

Result: We found no exceptions to report. *Specifically, we found no 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. We calculated employee withholdings and employer contributions for health benefits for the three pay periods selected, as follows:
- i. We 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. We 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.

Result: We found no exceptions to report. *Specifically, we found no 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. We calculated the basic life insurance employee withholdings and employer contributions for the three pay periods selected as follows:
- i. We had APO 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: We 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 represents the estimated total basic life insurance coverage. We divided this total by 1,000 and multiplied by \$0.150 because the APO has biweekly pay periods.

- iii. We compared the result in step 6.c.ii. to the withholdings for basic life insurance coverage reported on the RITS submission.

Result: We found no exceptions to report. *Specifically there was no 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.*

- iv. For Agency contributions: We divided the results of step 6.c.ii. by two—this approximates Agency contributions, which are one-half of employee withholdings. We compared this result to the amount reported on the RITS submission.

Result: We found no exceptions to report. *Specifically, we found no 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. We 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 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.k., 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.k.

- i. We 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. We compared this result to the amount reported on the RITS submission.

Result: We found no exceptions to report. *Specifically, we found no differences (i.e., gross rather than net) greater than 2 percent of the amounts on the RITS submission.*

- ii. We divided the reports for Option B and Option C insurance into the age groups shown in the FEGLI Program Booklet. For Option B, we 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). We compared this result to the amount reported on the RITS submission.

For Option C, we multiplied the rate for the age group by the number of multiples chosen for each employee. We compared this result to the amount reported on the RITS submission.

Result: We found no exceptions to report. *Specifically, we found no 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.*