

October 6, 2005



Financial Management

Report on Civilian Payroll and Withholding Data for FY 2005 (D-2006-002)

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Acronyms

CSRS	Civil Service Retirement System
DCPS	Defense Civilian Pay System
DFAS	Defense Finance and Accounting Service
DOE	Department of Energy
FEGLI	Federal Employees Group Life Insurance
FERS	Federal Employees Retirement System
OIG	Office of Inspector General
ODIG-AUD	Office of the Deputy Inspector General for Auditing
OPF	Official Personnel File
OPM	Office of Personnel Management
RITS	Retirement Insurance Transfer System
TSP	Thrift Savings Plan



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DEPARTMENT OF DEFENSE
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October 6, 2005

MEMORANDUM FOR DEPARTMENT OF THE ARMY
DEPARTMENT OF THE NAVY
DEPARTMENT OF THE AIR FORCE
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
INSPECTOR GENERAL, DEPARTMENT OF ENERGY
OFFICE OF PERSONNEL MANAGEMENT, CHIEF,
INTERNAL AUDITS DIVISION

SUBJECT: Report on Civilian Payroll and Withholding Data for FY 2005
(Report No. D-2006-002)

We are providing this report for review and comment. The Department of the Army, Defense Commissary Agency, and Department of Energy did not respond to the draft report. However, we considered comments from the Navy, Air Force, Defense Finance and Accounting Service, Defense Logistics Agency, and Defense Threat Reduction Agency when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request that the Department of the Army, Defense Commissary Agency, and the Department of Energy provide comments on the recommendation by November 7, 2005.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Aud-dfs@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Douglas P. Neville at (703) 428-1061 (DSN 328-1061) or Mr. Thomas J. Winter at (703) 428-1082 (DSN 328-1082). For the report distribution, see Appendix C. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in black ink, appearing to read "Paul J. Granetto".

Paul J. Granetto, CPA
Assistant Inspector General,
Defense Financial Auditing
Service

Department of Defense Office of Inspector General

Report No. D-2006-002

October 6, 2005

(Project No. D2005-D000FP-0084)

Civilian Payroll and Withholding Data for FY 2005

Executive Summary

Who Should Read This Report and Why? This report is intended for use of the Office of Personnel Management (OPM) Inspector General and its Chief Financial Officer 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. The report discusses the results of agreed-upon audit procedures developed for the OPM.

Background. Office of Management and Budget Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements," October 16, 2000, requires all Federal agencies to review their civilian employee retirement, health benefits, and life insurance payroll withholdings. The OPM Inspector General and its Chief Financial Officer developed specific agreed-upon procedures to review civilian employees' withholdings and are, therefore, responsible for the adequacy of the agreed-upon procedures. We applied the agreed-upon procedures in accordance with the standards established by the American Institute of Certified Public Accountants. The audit of FY 2005 included the Department of Energy (DOE), which transitioned its payroll functions to the Defense Finance and Accounting Service (DFAS). We did not audit the DOE personnel files. Auditors for the DOE Inspector General audited those files and provided their working papers to us. We entered into a Memorandum of Understanding with the DOE to establish the scope of work to be performed by each agency.

Results. The payroll withholding amounts and total payroll amounts that the DFAS reported to OPM did not exactly match the supporting detail that DFAS provided for our analysis. However, the differences are less than the thresholds prescribed in the agreed-upon procedures. This is a repeat issue reported in prior Inspector General audits. For details of the analysis, see the Independent Auditor's Report and Attachment starting on page 5.

Withholding Data Discrepancies. We selected a sample of 225 employees and compared their payroll withholdings to authorizations in their official personnel files. The sample of 225 included 180 DoD employees and 45 DOE employees. The comparison revealed that 14 of the 225 employee files sampled had a total of 25 discrepancies.

Conclusion. We performed the agreed-upon procedures specifically pertaining to payroll. We were not engaged to and did not perform an audit with the objective of expressing an opinion on the withholdings and contributions for health benefits, life insurance, retirement, and on the employee headcount of the DoD and DOE. Therefore, we are not expressing an opinion. We performed additional procedures based on generally accepted government auditing standards that we considered necessary in the circumstances.

We compared Forms 592, used for Payroll Certification and Summary, with the total payroll amounts in the payroll files. We found no material differences between the DFAS payroll footings and the corresponding amounts reported on Forms 592. This accuracy is a significant improvement from FYs 2003 and 2004. We compared Forms 2812, used for reporting the withholding and contribution for health benefits, life insurance, and retirement, with data in the Defense Civilian Pay System. The differences for retirement, life insurance, and health insurance withholdings and contributions were less than the reporting threshold criteria of 1 percent established in the agreed-upon procedures for these categories.

The DFAS and supporting DoD and DOE organizations should improve management controls over the accuracy of the payroll amounts withheld and remitted to the OPM. The withholding amounts we calculated while performing the agreed-upon procedures differed from the withholding amounts presented in the DFAS reports.

Management Comments and Audit Response. The Navy, Air Force, Defense Finance and Accounting Service, Defense Logistics Agency, and Defense Threat Reduction Agency concurred with the recommendation and provided management comments that are responsive. The Department of the Army and the Defense Commissary Agency did not provide comments on the draft of this report; therefore, we request that these organizations provide comments on this final report by November 7, 2005. The Department of Energy declined to comment on the draft of this report, which we issued on August 8, 2005. The management comments are discussed in the Overview section of this report. We included the full text of the Navy, Air Force, Defense Finance and Accounting Service, Defense Logistics Agency, and Defense Threat Reduction Agency comments in the Management Comments section of this report.

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Independent Auditor's Report

Overview

We performed the procedures described in the attachment, agreed to by the OPM Inspector General and Chief Financial Officer. We performed the procedures solely to assist with respect to employee withholdings and employer contributions reported on the Report of Withholdings and Contributions for health benefits, life insurance, and retirement¹ for the payroll periods ended October 16, 2004; January 22, 2005; February 19, 2005; and March 5, 2005; and Semiannual Headcount Reports as of February 19, 2005, and March 5, 2005. We performed this engagement to apply agreed-upon procedures in accordance with the standards established by the American Institute of Certified Public Accounts. The sufficiency of the procedures is solely the responsibility of OPM's Inspector General and its Chief Financial Officer. Consequently, we make no representation regarding the attachment either for the purpose for which this report has been requested or for any other purpose.

Comparison of Amounts Withheld and Remittance to OPM. The DFAS and supporting DoD organizations have improved management controls over the accuracy of the payroll amounts withheld and remitted to OPM. We performed the agreed-upon procedures to compare the amounts reported to OPM with the amounts withheld from employees' pay. The amounts differed slightly. However, the differences were under the threshold criteria prescribed in the agreed-upon procedures.

Payroll File Totals. The payroll withholding amounts DFAS reported to OPM exceeded the totals of the DFAS database (the amounts actually withheld) by \$97,351 for an overall error rate of 0.03 percent. This is an improvement from FY 2004, when the payroll amounts DFAS reported to OPM exceeded the footings of the DFAS database by \$344,330 with an overall error rate of .06 percent. The dollar differences found this year, which range as high as 0.18 percent, are immaterial with respect to the DoD financial statements. The difference still represents a material management control weakness, however, because of the sensitivity of payroll. The differences for retirement, health benefits, and life insurance were less than the reporting threshold criteria of 1 percent established in the agreed-upon procedures.

Payroll Certification and Summary. The total of the gross payroll amounts in the four DoD payroll files sampled² and the DOE file was \$5.94 billion for the four pay periods we reviewed, which represents 91 percent of the total. This differed by \$6,326 from the total of amounts on Form 592, "Payroll for Personnel Services Payroll Certification and Summary," originally provided by DFAS. Comparisons showed significant improvements from last year and indicate that DFAS has implemented recommendations made in our FY 2004 audit report.

¹ Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS).

² The agreed-upon procedures require sampling of payroll files of 30,000 or more employees.

Comparison of Payroll System Data to Official Personnel Files. We compared a sample of 225 employees’ pay and withholdings from five payroll data files to documentary support recorded in Official Personnel Files (OPF)³. Of the 225 files, 180 were DoD employees and 45 were DOE employees. DOE auditors reviewed the 45 files and we relied on their work. Of the 225 OPFs reviewed, 14 had a total of 25 discrepancies. Table 1 shows the breakdown by entity of OPFs with errors.

<u>Entity</u>	<u>Number of OPFs</u>	<u>Number of Discrepancies</u>
Defense Agencies	5	13
Navy	3	4
DOE	3	3
Army	2	4
Air Force	<u>1</u>	<u>1</u>
Total	14	25

Of the 25 discrepancies:

- Five were in gross pay,
- Nine were in life insurance,
- Five were in FERS retirement,
- Five were in Thrift Savings Plan (TSP), and
- One was in CSRS retirement.

Personnel Documents from Databases. During our review of the 225 employee sample files, we identified 33 OPFs with what appeared to be discrepancies. We provided the Army, Navy, Air Force, Defense agencies, and DOE with the names, social security numbers, and the nature of the discrepancies for each of the 33 files. The Army, Navy, Air Force, Defense agencies, and DOE subsequently provided us with documentation that explained differences between data in 26 of the OPFs and data in the Defense Civilian Pay System (DCPS). We accepted personnel documents generated from personnel file databases that completely explained differences between data in 19 of the OPFs and data in DCPS. As a result, we reclassified 19 OPFs with explained inconsistencies to “samples corrected at a later date.”

³ Based on agreed-upon procedures, we selected a sample of 225 employees in accordance with criteria stated in OMB Bulletin 01-02. We do not project the results of our testing across the entire population.

Of the 19 we reclassified as correct:

- one was from the Air Force,
- one was from the Army,
- one was from the Navy,
- five were from Defense agencies, and
- eleven were from DOE.

The Army, Navy, Defense agencies, and DOE were unable to clarify 14 out of 33 OPFs with potential discrepancies despite additional documentation. We included the 14 OPFs with discrepancies remaining in the total of 25 differences discussed in the paragraph “Comparison of Payroll System Data to Official Personnel Files” on page 2.

Causes of Discrepancies. Five discrepancies between SF-50, “Notification of Personnel Action,” data in the OPF and gross pay data in the pay system resulted in 14 of the 25 items listed in Table 1. Amounts for retirement, life insurance, and Thrift Savings Plan withholdings are computed based on percentages of gross pay. Therefore, a discrepancy involving gross pay can cause discrepancies in retirement, life insurance, and TSP withholdings. Missing life insurance elections caused another three discrepancies. An inconsistency between TSP withholding in the pay system and a missing TSP election form accounted for another single discrepancy. It should be noted that gross pay discrepancies also can create additional discrepancies, accounting for multiple items in a single OPF. Miscalculations in withholding amounts caused the remaining eight discrepancies.

Calculations Required. The agreed-upon procedures require us to compare the number of employees (headcount) in the payroll data files with the headcount in the Supplemental Semiannual Headcount Report. Our headcounts of the employees, using payroll data files, differed from the Supplemental Semiannual Headcount Reports by less than 1 percent, well within the 2-percent reporting threshold allowed for headcount comparison in the agreed-upon procedures.

Life Insurance. Our recalculation of basic life insurance from the payroll data files supported the amounts reported to OPM for all DoD payroll offices with more than 30,000 employees and for DOE. The overall calculated amount of \$18.94 million differed by \$0.21 million (1.11 percent) from the \$19.15 million DFAS reported to OPM. The difference between the amounts we calculated and the amounts DFAS reported to OPM did not exceed the 5-percent reporting threshold for this recalculation.

Health Insurance. Our recalculations of health insurance withholdings from payroll data files supported the amounts DFAS reported to OPM. The amounts we recalculated from the payroll data files varied from the amounts DFAS reported to OPM by percentages between .10 and .96 percent in total, including employee withholding and agency contributions for each payroll file. This was

much lower than the prescribed reporting threshold of 5 percent for health insurance variances.

Comparison of Amounts Transferred. We compared DFAS records with OPM documentation for the total dollar amounts transferred for the payroll periods sampled. We found that all the amounts reported by the DCPS equaled the amounts reported by OPM Retirement and Insurance Transfer System (RITS).

We performed the agreed-upon procedures specifically pertaining to payroll. We were not engaged to and did not perform an audit with the objective of expressing an opinion on the withholdings and contributions for health benefits, life insurance, retirement, and on the employee headcounts of DoD and DOE. Therefore, we do not express an opinion. However, we performed additional procedures based on generally accepted government auditing standards that we determined necessary to evaluate the integrity of the data.

This report is intended solely for use by OPM's Inspector General and its Chief Financial Officer. This report is prepared in the format directed by Office of Management and Budget Bulletin No. 01-02, October 16, 2000, to address the results of the agreed-upon procedures. Accordingly, this report should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes. In FY 2002, OMB guidance added additional requirements that we obtain management comments on this report.

In support of OPM's plan to consolidate Federal payroll providers, DFAS administered DOE payroll functions in FY 2005. Therefore, we were the principal auditors responsible for auditing DOE civilian payroll information. DOE auditors performed the review of the 45 DOE Official Personnel Files. We relied on the work of DOE auditors for our reporting purposes.

Management Comments on the Finding and Audit Response

Management Comments. The Air Force commented that we inappropriately included the Air Force in the list of organizations, on page 3 of the draft report, for which we identified discrepancies that were not resolved after the initial review.

Audit Response. We agree that the Air Force comment is appropriate. We deleted the Air Force from the listing of organizations that had discrepancies that were not subsequently resolved.

Recommendations, Management Comments and Audit Response

We recommend that the Army, Air Force, Navy, Defense Logistics Agency, Defense Commissary Agency, Defense Threat Reduction Agency, and Department of Energy:

- 1. Continue to implement and improve DoD and DOE personnel office payroll withholding procedures to ensure accuracy and timeliness of payroll withholding authorizations.**
- 2. Correct the errors in personnel files that we have identified and provided for correction.**

Navy comments. The Navy concurred with the recommendation. The Navy also recommended that we identify discrepancies in future audits that are attributable to DFAS. Specifically, Navy management mentioned one of the four discrepancies that we identified to the Navy as being attributable to DFAS.

Audit Response. We agree with the Navy's recommendation to identify discrepancies that are attributable to DFAS, and that one of the four Navy discrepancies is attributable to DFAS. This discrepancy is included in the six discrepancies caused by miscalculations of withholding for basic FEGLI coverage on page 9 of the report, in the discussion of agreed-upon procedure step 2.i. We will continue to identify discrepancies in audit sample items that are attributable to DFAS in future audits.

Air Force Comments. The Air Force concurred with the recommendation. Because the Air Force had no identified audit sample item discrepancies, no further action is required.

Defense Finance and Accounting Service Comments. The Defense Finance and Accounting Service concurred with the report. Because we did not address any recommendations to DFAS, no further action is required.

Defense Logistics Agency Comments. The Defense Logistics Agency concurred with the recommendations and completed a responsive corrective action in June 2005.

Defense Threat Reduction Agency Comments. The Defense Threat Reduction Agency concurred with the recommendation and initiated a responsive corrective action to be completed in September 2005.

Agreed-Upon Procedures and Associated Findings (Attachment)

This attachment contains the OPM agreed-upon procedures, the auditor actions, and the results of accomplishing those procedures.

Procedure. Obtain the Agency Payroll Office's March Semiannual Headcount Report submitted to OPM and a summary of Retirement Insurance Transfer System (RITS) submissions for the current fiscal year. For retirement, health benefits, 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.

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

Procedure 1a. Recalculate the mathematical accuracy of the payroll information. For cross-servicing agencies, if internal controls are the same for all agencies serviced, it is only necessary to perform this procedure for one agency.

Auditor Action for DoD. DFAS extracted all seven DoD payroll data files from the payroll history database and sent them to us by compact disc from the Pensacola, Florida, operating location. We totaled the 28 payroll data files (seven payroll files for four pay periods) with about \$6.4 billion in total pay and about 687,000 employees in each payroll period. We also totaled the Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS), health insurance, and life insurance withholdings. According to DFAS, the total withholdings for DoD were approximately \$55.2 million for Federal Employees' Group Life Insurance (FEGLI), \$175.9 million for health insurance, \$130.3 million for CSRS, and \$30.5 million for FERS.

Auditor action for DOE. DFAS extracted the DOE payroll data file from the payroll history database and sent it to us by compact disc from the Pensacola, Florida, operating location. We totaled four payroll data files (one payroll file for four pay periods) with about \$154.6 million in total pay and about 10,800 employees in each payroll period. We totaled the CSRS and FERS withholdings, health insurance withholdings, and life insurance withholdings. According to DFAS, the total withholdings for DOE were approximately \$1.3 million for FEGLI, \$3.5 million for health insurance, \$3.7 million for CSRS, and \$0.7 million for FERS. The total gross payroll for DOE was \$154.6 million.

Procedure 1b. Recalculate the mathematical accuracy of each RITS submission for the payroll information selected in step 1.a.

Auditor Action for DoD and DOE. We recalculated the mathematical accuracy of each RITS submission for the payroll information for the pay periods ended October 16, 2004; January 22, 2005; February 19, 2005; and March 5, 2005. OPM provided copies of the RITS submission for the corresponding periods.

Procedure 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 related amounts shown on the RITS submission for the corresponding period.

Auditor's Actions for DoD and DOE. We compared the employee withholding totals to the related amounts shown on the RITS submission for retirement, health benefits, and life insurance, as evidenced by a Form 2812 that OPM produced from the RITS database. The payroll data file totals for CSRS, FERS, health benefits, and life insurance substantially equaled the amounts on the OPM Form 2812, with the greatest single discrepancy being 0.18 percent.

Procedure 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 CSRS or the FERS;
- enrolled in the Federal Employees Health Benefits Program;
- covered by Basic Life Insurance;
- covered by at least one Federal Employees Group Life Insurance (FEGLI) optional coverage (Option A, B, or C).

Auditor Action for DoD and DOE. We randomly selected 25 individuals from each of the four payroll data files in DoD with more than 30,000 employees, and the DOE payroll data file, who were enrolled in Federal retirement, health benefits, and life insurance programs.

Procedure 2.b. Obtain the following documents, either in electronic or hard copy format, from the 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 (note: a new SF-2809 is needed only if an employee is changing health benefit plans; therefore, the form could be many years old);
- the Life Insurance Election Form (SF 2817) covering the pay periods in the RITS submissions 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).

Auditor Action for DoD. We obtained Notifications of Personnel Actions (SF-50), Health Benefit Registration Forms (SF-2809), and Life Insurance Election Forms (SF 2817) covering the pay periods in the RITS submission chosen.

Auditor Action for DOE. We verified that the DOE auditors obtained Notifications of Personnel Actions (SF-50), Health Benefit Registration Forms (SF-2809), and Life Insurance Election Forms (SF-2817) covering the pay periods in the RITS submission chosen.

Procedure 2.c. Via the agency personnel office, request a report from Employee Express for any health benefit transactions in that system for the individuals selected in step 2.a. Compare the date of transaction with the date on the certified copy of the SF-2809 requested in step 2.b. Confirm that the health benefit information to be used in step 2.g. covers the pay periods in the RITS submissions chosen.

Auditor Action for DoD and DOE. We did not find any differences between OPF documentation and DCPS. Therefore, we did not have to request copies of any automated health benefits elections (SF-2809) from the agency personnel office.

Procedure 2.d. Compare the base salary used for payroll purposes, and on which withholdings and contributions generally are based, with the base salary reflected on the employee's SF-50. Report any differences.

Auditor Action for DoD. We compared the base salary used for payroll purposes with the base salary reflected on the employees' SF-50s. Out of the 180 files we sampled, five employees' SF-50s did not support the base salaries used for payroll purposes. The five errors totaled \$462.35.

Auditor Action for DOE. The DOE auditors compared the base salary used for payroll purposes with the base salary reflected on the employees' SF-50s. All 45 files sampled had SF-50s that supported the base salaries used for payroll purposes.

Procedure 2.e. For Retirement, compare the plan code on the employee's SF-50 to the plan codes used in the payroll system. Report any differences.

Auditor Action for DoD and DOE. We compared the plan codes on the employees' SF-50s to the plan codes used in the payroll system. The DOE auditors performed the same procedures for the DOE employees' SF-50s. We did not note any differences between the retirement plan codes on the employees' SF-50s and the retirement plan codes used in the payroll system.

Procedure 2.f. Calculate the retirement amount to be withheld and contributed for the plan code from the employees' SF-50s, based upon the official withholding and contribution rates required by law. Compare the actual amounts withheld and contributed. Report any differences.

Auditor Action for DoD. We calculated the retirement amount to be withheld and contributed for the plan codes from the employees' SF-50s, based on the official withholding and contribution rates required. We compared the retirement amounts we calculated to actual amounts withheld and contributed for CSRS and FERS participants. We noted differences only for the five employees whose SF-50s did not support the base salaries. Differences for the five totaled \$68.03.

Auditor Action for DOE. DOE auditors calculated the retirement amount to be withheld and contributed for the plan codes from the employees' SF-50s, based on the official withholding and contribution rates required. There were no differences to note for the CSRS retirement amounts withheld. A DFAS rounding error caused the only FERS retirement discrepancy. DFAS rounded down, not up as they should have.

Procedure 2.g. 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 Health Benefits Registration Forms (SF-2809) in the employees' OPFs or Employee Express. Report any differences.

Auditor Action for DoD and DOE. We obtained the official subscription rates for health benefits issued by OPM for all plans and options available to Federal employees. We compared the employee withholdings and agency contributions with the official subscription rates issued by OPM for the plans and options elected by the employees, as documented by Health Benefits Registration Forms (SF-2809) in the employees' OPFs. The DOE auditors performed the same procedure for the DOE sample employees. We did not note any health withholding differences.

Procedure 2.h. For life insurance, confirm that Basic Life Insurance was elected by the employee, as documented by a Life Insurance Election Form (SF-2817), in his/her OPF. Report any differences.

Auditor Action for DoD and DOE. We compared Life Insurance Election Forms (SF-2817) with withholding data in DCPS. The DOE auditors performed the same procedure for the DOE sample employees. We concluded that the OPFs had proper documentation to support the elections.

Procedure 2.i. 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 \$0.15 (for Agency Payroll Offices with biweekly pay periods) or \$0.3358 (for Agency Payroll Offices with monthly pay periods).
- For agency contributions: Divide the employee withholdings calculated above by two.

Auditor Action for DoD. We calculated the withholding and contribution amounts for basic life insurance by rounding the employee's annual base salary to the nearest thousand dollars and adding \$2,000, then dividing the result by 1,000 and multiplying by \$0.15. We identified six discrepancies, all caused by calculation errors, for DoD employees. The total dollar value of the discrepancies was \$2.40.

Auditor Action for DOE. DOE auditors performed the same procedure and found one discrepancy.

Procedure 2.j. 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.

Auditor Action for DoD. We obtained SF-2817 documents directly from employees' OPFs and electronic personnel data files. We obtained life insurance optional coverage data from DCPS. We compared optional life insurance coverage elected as documented on the SF-2817s with optional life insurance coverage as recorded in the DCPS. We identified five differences for DoD employees, with a total dollar value of \$93.13.

Auditor Action for DOE. The DOE auditors identified one instance where DOE records showed an employee's withholdings as Option A, Option B (5 multiples), and Option C (1 multiple); but the employee's OPF did support an election of Option B (5 multiples), and Option C (although for 5 multiples), but not Option A. DOE officials initiated corrective action during the audit.

Procedure 2.k. 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.
- 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 1,000, divide by 1,000, and multiply by the rate for the age group. Multiply this amount by the number of multiples chosen. Compare the amount withheld. Report any 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 the amount withheld. Report any differences.

Auditor Action for DoD. We calculated the amounts for optional life insurance. We identified five DoD optional life insurance errors. The errors resulted from systematic gross pay errors and differences between the employees' elections and data in DCPS. The dollar value of these errors totaled \$93.13.

Auditor Action for DOE. The DOE auditors performed the same procedure and identified one error caused by a miscalculation of the hours worked during the pay period. A difference between optional coverage shown in DCPS and

coverage elected by the employee caused another error. The dollar value of the error totaled \$2.44.

Procedure 3. Randomly select a total of 10 employees who have no health benefit withholdings from the payroll information corresponding to the RITS submissions selected for testing.

Request SF-2809s covering the pay periods in the RITS submissions chosen, whether in electronic or hard copy format, from the selected employees' OPFs. Hard copies can be originals or certified copies. Via the agency personnel office, request a report from Employee Express for any health benefits transactions in that system for individuals selected. 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 Employee Express.
- An SF-2809 in the OPF with Section E checked (indicating cancellation of coverage) and no later election of coverage through Employee Express.
- Cancellation of coverage through Employee Express and no later election of coverage with an SF-2809. Report any exceptions.

Auditor Action for DoD. We randomly selected 10 employees from the payroll data files who had no health benefits withholdings according to the payroll information corresponding to the RITS submissions selected for testing. We reviewed SF-2809s in the OPFs and electronic personnel databases. The DoD does not participate in the Employee Express; however, DoD does use the Electronic Benefits Information System, which we inspected for documentation to determine whether the employee elected health benefit coverage. We found no evidence of election of coverage for employees who had no health benefit withholdings.

Auditor Action for DOE. We randomly selected 10 employees per payroll data file who had no health benefits withholdings from the payroll information corresponding to the RITS submissions selected for testing. DOE auditors reviewed OPFs and electronic personnel databases for SF-2809s. The DOE does not participate in the Employee Express; however, the DOE uses an internal electronic database, which we inspected to determine whether the employee elected health benefit coverage. We found no indication of election of coverage for employees who had no health benefit withholdings.

Procedure 4. Randomly select a total of 10 employees who have no life insurance withholding from the payroll information corresponding to the three RITS submissions selected for testing. 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 canceled Basic Life Insurance coverage. Report any exceptions.

Auditor Action for DoD and DOE. We randomly selected 10 employees from each payroll data file who had no life insurance withholdings according to the DCPS payroll files. We requested, obtained, and reviewed the SF-2817s covering the pay periods in the RITS submissions chosen. We inspected the SF-2817s in all instances when the coverage was waived and did not find any errors. DOE auditors performed the same procedure and did not find any errors.

Procedure 5. Recalculate the headcount reflected on the Semiannual Headcount Report selected for testing above, as follows:

Procedure 5.a. Obtain existing payroll information supporting the selected Supplemental Semiannual Headcount Report selected for testing above, 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.

Procedure 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 computer audit routine) the number of employees on the payroll data file for the period.

Procedure 5.c. Compare the results of payroll information from step 5.a. with the calculated headcount from step 5.b. to information shown on the Semiannual Headcount Report.

Procedure 5.d. Report any differences (i.e., gross rather than net) greater than two 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.

Auditor Action for DoD and DOE. We obtained the DFAS Supplemental Semiannual Headcount Report for the pay periods ended February 19, 2005, for Payroll Office 1400 and 0800 and March 5, 2005, for Payroll Offices 0100, 0500, and 0600. We compared those headcount reports to the payroll data files from DFAS-Pensacola for the same period. The counts in the payroll data files differed from the headcount reports by 564 employees, which are under the reporting threshold of 2 percent, as shown in Table 2.

<u>Payroll Data File</u>	<u>Report Date</u>	<u>Headcount per Payroll Data Files</u>	<u>Employee Headcount Report</u>	<u>Difference</u>
97380100	3/5/2005	162,715	162,715	0
97380500	3/5/2005	88,546	88,546	0
97380600	3/5/2005	145,370	145,372	(2)
97380800	2/19/2005	227,114	226,548	566
97381400	2/19/2005	<u>10,869</u>	<u>10,869</u>	<u>0</u>
Totals		634,614	634,050	564

Procedure 6. Calculate employer and employee contributions for retirement, health benefits, and life insurance.

Procedure 6.a. Calculate retirement withholdings and contributions for the three pay periods selected.

Procedure 6.a.i. Multiply the CSRS and FERS payroll base by the withholding and employer contribution rates required by law.

Procedure 6.a.ii. Compare the calculated totals with related amounts shown on the RITS submissions. Report any 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.

Auditor Action for DoD and DOE. We calculated the total CSRS and FERS retirement employee withholdings and employer contributions for the four pay periods that we reviewed, and compared the recalculated totals with the amounts shown on the RITS submissions. The differences between the calculated total of CSRS and FERS employee retirement withholdings and employer contributions, and the related amounts shown on the RITS submissions are within the 5-percent reporting threshold, as shown in Table 3.

Table 3. Differences Between DFAS and RITS Information for CSRS and FERS Employee Withholding and Employer Contributions

<u>Pay Period</u>	Employee Withholding (absolute value)		Employee Contributions (absolute value)	
	<u>CSRS Percent Difference Range</u>	<u>FERS Percent Difference Range</u>	<u>CSRS Percent Difference Range</u>	<u>FERS Percent Difference Range</u>
10/16/2004	0.29 - 0.77	<0.01 - 0.24	0.01 - 0.63	<0.01 - 0.08
1/22/2005	0.20 - 1.44	<0.01 - 0.12	<0.01 - 0.12	0.01 - 0.20
2/19/2005	0.20 - 0.35	<0.01 - <0.01	<0.01 - 0.12	4.67 - 4.87
3/5/2005	0.19 - 1.23	<0.01 - 4.26	<0.01 - 0.12	4.25 - 4.36
Overall	0.19 - 1.44	<0.01 - 4.26	<0.01 - 0.63	<0.01 - 4.87

Procedure 6.b. Calculate employee withholdings and employer contributions for health benefits for the three pay periods selected.

Auditor Action for DoD and DOE. We obtained the number of employees enrolled in each health insurance plan for each payroll data file from data provided by DFAS as RITS submissions. We obtained the official subscription rates for health benefits issued by OPM for all plans and options available to Federal employees from the OPM website. We extended and added totals and compared the results with the health insurance withholdings and contribution amounts shown on the OPM Collection and Deposit System Standard Form 2812. None of the payroll offices had variances greater than the 5-percent reporting threshold for this comparison.

Procedure 6.c. Calculate the basic life insurance employee withholdings and employer contributions for the three pay periods selected.

Auditor Action for DoD and DOE. We totaled the amount of gross pay of employees in each payroll data file who were eligible for basic life insurance. We divided this sum by 80 and multiplied by 2,087 to determine annual gross earnings of employees electing basic life insurance coverage. We used data from DCPS to obtain a count of the number of employees electing basic life insurance for each payroll file. We multiplied 2,000 times the number of employees electing basic life and added the result to gross pay of employees who were eligible for basic life insurance. We multiplied the total times 15.0 cents per thousand to estimate basic life withholding, and compared the result with the withholding amounts shown on the OPM Collection and Deposit System Standard Form 2812. All payroll offices' discrepancies were below the 5-percent reporting

threshold for this comparison. To estimate agency contributions, we divided the estimated basic life withholding by two and compared it to employer basic life contributions on the OPM Collection and Deposit System Standard Form 2812. All payroll offices' discrepancies were below the 5-percent reporting threshold for this comparison.

Procedure 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 report in Step 1.

Auditor Action for DoD and DOE. We obtained the number of participating employees from DFAS for each payroll file data file. We totaled the individual withholding for Option A, Option B, and Option C for each payroll data file and each date. All payroll offices' discrepancies were below the 2-percent reporting threshold for this comparison.

Appendix A. Scope and Methodology

We totaled the sampled payroll files that included about 697,000 DoD and DOE employees with a total gross payroll of about \$6.5 billion for the seven DoD payroll offices plus the DOE payroll office for the four pay periods we reviewed. This total included all payroll offices regardless of the number of employees. The agreed-upon procedures require a review of the payroll offices that service 30,000 or more employees. Three of the seven DoD payroll offices service less than 30,000 employees and are part of the total but not part of the audit sample.

We reviewed data and documentation supporting \$2.4 billion in payroll for retirement, life insurance, health insurance, and Thrift Savings Plan withholdings reported each year by DFAS to OPM for DoD and DOE civilian personnel. The total DoD plus DOE payroll was for about 697,000 employees with an annual payout of about \$42.4 billion.

We performed the agreed-upon procedures required by OMB. Specifically, we reviewed data and documentation supporting gross pay and payroll withholdings that DFAS reported to OPM for the four pay periods ended October 16, 2004; January 22, 2005; February 19, 2005; and March 5, 2005. We also reviewed management controls over the reporting process. We compared the payroll data files with personnel forms for 225 randomly selected employees for gross pay, retirement, health insurance, and life insurance.

We also verified payroll data file totals and calculations of insurance and retirement withholdings. We performed additional procedures based on generally accepted government auditing standards that we considered necessary in the circumstances.

Use of Computer-Processed Data. We did not evaluate the general and application controls of the DCPS that processes payroll data, although we did rely on data produced by that system to conduct the audit. We determined data reliability by totaling the data provided to us from the system and comparing the totals to summary documents previously prepared from the system. Not evaluating the controls did not affect the results of the application of the agreed-upon procedures.

Work of Other Auditors. Auditors from the Office of Inspector General, DOE, performed the agreed-upon procedures that involved reviewing OPFs. We reviewed their working papers and determined that we can rely on their work.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Financial Management high-risk area.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We assessed DoD personnel offices' management controls over accuracy of personnel elections for payroll withholding, transmission of payroll withholding data to DFAS, and retention of personnel payroll withholding election data in the official civilian personnel files. We also assessed the adequacy of management controls over reporting payroll summary data to OPM through the RITS system. We reviewed the annual statements of assurance by the Military Departments and Defense agencies to determine whether they disclosed the inconsistency between official personnel files and DCPS payroll withholding data.

Adequacy of Management Controls. We identified a management control weakness for DoD personnel offices as defined by DoD Instruction 5010.40. Specifically, we identified weaknesses involving:

- DoD personnel offices' management controls for accuracy of personnel payroll withholding elections,
- timely transmission of personnel payroll withholding data to DFAS, and
- retention of personnel payroll withholding elections in official personnel files.

The inadequate controls did not ensure:

- proper payment and withholdings for civilian personnel,
- timely transmission of civilian personnel payroll withholding data, and
- retention of documents and data supporting payroll withholding in the official personnel files.

We previously reported this management control weakness in DoD IG Report No. D-2002-070, issued March 25, 2002. Recommendations 1.a., 1.b., and 2. in that report have been implemented and should improve DoD personnel office payroll withholding procedures. We provided a copy of that report to the senior officials responsible for management controls of the personnel offices of the Military Departments and Defense agencies for their information and use.

Adequacy of Management's Self-Evaluation. Self-evaluation by the Military Departments and Defense agencies did not identify the weakness because management did not identify the area as an assessable unit.

Appendix B. Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) and the Air Force Audit Agency (AFAA) have conducted multiple reviews related to civilian payroll information, controls over the payroll process, and payroll expenses. Unrestricted DOD OIG reports are on the Internet at www.dodig.osd.mil/audit/reports. Unrestricted Air Force Audit Agency reports are on the Intranet at www.afaa.hq.af.mil.

DoD IG

DoD IG Report No. D-2005-036, "DoD Civilian Payroll Withholding Data for FY 2004," February 17, 2005

DoD IG Report No. D-2004-051, "DoD Payroll Withholding Data for FY 2003," February 6, 2004

DoD IG Report No. D-2003-060, "DoD Payroll Withholding Data for FY 2002," March 18, 2003

DoD IG Report No. D-2002-070, "DoD Payroll Withholding Data for FY 2000," March 25, 2002

DoD IG Report No. D-2001-109, "DoD Payroll Withholding Data for FY 2000," April 27, 2001

DoD IG Report No. D-2000-156, "DoD Payroll Withholding Data for FY 1999," June 29, 2000

Air Force Audit Agency

AFAA Report No. F2004-0001-FB1000, "Civilian Premium Payment," October 1, 2003

AFAA Report No. 01053014, "Civilian Pay FY 2000," July 23, 2001

AFAA Report No. 99054002, "Selected Civilian Pay Entitlement," March 1, 2000

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Under Secretary of Defense for Personnel and Readiness

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Information Systems Agency
Director, Defense Logistics Agency
Director, Defense Commissary Agency
Director, Defense Contract Management Agency
Director, Defense Security Service
Director, DoD Education Activity
Director, Washington Headquarters Service
Director, Defense Threat Reduction Agency
Director, Defense Technology Security Administration
Director, American Forces Information Service

Non-Defense Federal Organizations

Office of Management and Budget
Office of Personnel Management
Department of Energy

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
1508 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

AUG 31 2005

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Department of the Navy comments on Report on civilian Payroll and
Withholding Data (Project No. D2005-D000FP-0084)

The Department of the Navy concurs with both of the report recommendations, i.e., to continue our efforts to ensure the accuracy and timeliness of payroll withholdings, and to correct errors identified by this audit. However, we recommend that future audits differentiate between errors generated by the Services and errors attributable to the Defense Finance and Accounting Service. Such a differentiation would provide a more accurate depiction of the audit findings. Had this approach been in place for this year's audit, the Department of the Navy's discrepancy rate would have been reduced by 25%.

We appreciate the opportunity to comment on this report. If you have questions, your staff may contact Mr. Bruce Sorrell on (202) 685-6538.

A handwritten signature in black ink, appearing to read "William A. Navas, Jr.", written over a horizontal line.

William A. Navas, Jr.
Assistant Secretary of the Navy
(Manpower and Reserve Affairs)

Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS, UNITED STATES AIR FORCE
WASHINGTON, DC

24 AUG 2005

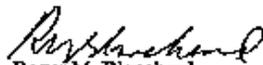
MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: HQ USAF/DP
1040 Air Force Pentagon
Washington DC 20330-1040

SUBJECT: DoDIG Draft Audit Report, Civilian Payroll Withholding Data for FY 2005
(Project No. D2005-D000FP-0084) (Your Memo, 8 August 2005)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report.

Since all Air Force discrepancies were corrected and/or rectified on the spot, to include the one that was mentioned on page 2 of subject report, we concur with your findings and recommendations. However, we have a comment regarding the reference to the Air Force on page 3 of subject report. Since the Air Force was able to provide complete documentation to clarify the one discrepancy, Air Force should be removed from the first sentence on page 3. Therefore, the Air Force had no discrepancies. Our point of contact for this review is Ms. Lynda Lake at 703-692-4521.


Roger M. Blanchard
Assistant Deputy Chief of Staff, Personnel

cc:
SAF/FMPF
HQ AFPC/DPC
HQ AFPC/CD

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
FACILITY: WINSTON BLADE
ADDRESS: 100 BRADDOCK ROAD, APOC

DFAS-P/TN

August 26, 2005

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING
SERVICE, OFFICE OF THE INSPECTOR GENERAL, DoD

SUBJECT: Requested Follow-up Comments to Draft Report on Civilian Payroll And
Withholding Data (Project No. D2005-D000FP-0084)

Per your request, shown below are the Defense Finance and Accounting Service (DFAS)
comments to the DoDIG Draft Report:

We Concur. There are no findings or recommendations for DFAS.

Questions your staff may have concerning this matter may be directed to my Audit Project
Manager, Ms. Anita White, DFAS-PX/DE, (303) 676-6809.

Patrick T. Shine
Patrick T. Shine
Director, Military and Civilian Pay Services

www.dfas.mil
Your Financial Partner @ Work

Defense Logistics Agency Comments



IN REPLY
REFER TO

I-14

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

SEP - 1 2005

MEMORANDUM FOR INSPECTOR GENERAL DEPARTMENT OF DEFENSE

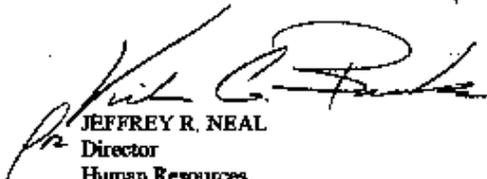
SUBJECT: Report on Civilian Payroll and Withholding Data
(Project No. D2005-D000FP-0084)

In regards to your memorandum dated August 8, 2005, subject as above, the Defense Logistics Agency (DLA) Office of Human Resources concurs with the finding of the Civilian Payroll and Withholding Audit for Fiscal Year 2005.

Two Standard Form 50s were printed from our Electronic Official Personnel Folder and filed in the hard-copy Official Personnel Folder. This action was completed on June 24, 2005.

DLA will continue to work with the Defense Finance and Accounting Service to strive and ensure that each personnel record contains accurate data and that the proper documentation is maintained.

If you have any questions, you may direct them to Ms. Kathryn Roberts, of my staff, at (703) 767-6410.


JEFFREY R. NEAL
Director
Human Resources

Defense Threat Reduction Agency Comments



Defense Threat Reduction Agency
8725 John J. Kingman Road MSC 6201
Ft Belvoir, VA 22060-6201

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF
DEFENSE

SEP 13 2005

SUBJECT: Report on Civilian Payroll and Withholding Data (Project No. D2005-
D000FP-0084)

The Defense Threat Reduction Agency (DTRA) recognizes the importance of ensuring our personnel actions, especially those related to payroll, are handled correctly and in a timely manner. DTRA, as a personnel advisory center agency, works with the Washington Headquarters Services (WHS) as our Department of Defense (DoD) Personnel Office to ensure the records of our personnel are properly maintained.

DTRA concurs with audit recommendation 1 that DoD personnel offices should improve payroll withholding procedures and will work with WHS and the Defense Finance and Accounting Service in that endeavor.

DTRA concurs with audit recommendation 2 that identified personnel files with errors should be corrected. The individual concerned has been notified of the errors and we will work with him to have the corrections completed by September 16, 2005.

Although not a specific recommendation in the audit, Appendix A of the audit asks for comments on a material management control weakness at DoD Personnel Offices on the processing of withholding data. DTRA is a personnel advisory center only, and therefore this weakness does not pertain to this Agency. We will work with WHS to ensure the records of our personnel are properly maintained.

A handwritten signature in black ink, appearing to read "Myron E. Kunka".

Myron E. Kunka
Director
Business Directorate

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Defense Financial Auditing Service, prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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Ariel Vega