

Inspector General

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Department of Defense



Civilian Payroll and Withholding Data For FY 2007

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Acronyms

APO	Agency Payroll Office
CSRS	Civil Service Retirement System
DCPS	Defense Civilian Pay System
DFAS	Defense Finance and Accounting Service
DISA	Defense Information Systems Agency
DoDEA	Department of Defense Education Activity
DOE	Department of Energy
EPA	Environmental Protection Agency
FEGLI	Federal Employees Group Life Insurance
FERS	Federal Employees Retirement System
HHS	Health and Human Services
OPF	Official Personnel File
OPM	Office of Personnel Management
RITS	Retirement Insurance Transfer System



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

September 28, 2007

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Report on Civilian Payroll and Withholding Data for FY 2007
(Report No. D-2007-129)

We are providing this report for review and comment. The Department of the Navy, Department of Defense Education Activity, Department of Energy, and Environmental Protection Agency did not respond to the draft report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request that the Department of the Navy, Department of Defense Education Activity, Department of Energy, and Environmental Protection Agency provide comments on the recommendation by October 29, 2007.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Auddfs@dodig.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. You should direct your questions to Mr. 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:

Patricia A. Marsh
for Paul J. Granetto, CPA
Assistant Inspector General and Director
Defense Financial Auditing Service

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Department of Defense Office of Inspector General

Report No. D-2007-129

September 28, 2007

(Project No. D2007-D000FP-0065.000)

Civilian Payroll and Withholding Data for FY 2007

Executive Summary

Who Should Read This Report and Why? This report is intended for the 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 OPM.

Background. Office of Management and Budget Bulletin No. 06-03, "Audit Requirements for Federal Financial Statements," August 23, 2006, 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 FY 2007 agreed-upon procedures included DoD, Department of Energy (DOE), Department of Health and Human Services (HHS), and the Environmental Protection Agency (EPA). EPA recently transitioned its payroll functions to the Defense Finance and Accounting Service (DFAS). DoD had about 690,000 employees, DOE had about 11,000 employees, HHS had about 64,000 employees, and EPA had about 18,000 employees. We did not audit the DOE or HHS personnel files. Auditors for the DOE and HHS Inspectors General audited their respective personnel files.* Both parties provided their working papers to us.

Results. The payroll withholding amounts and total payroll amounts that DFAS reported to OPM did not exactly match to the supporting detail that DFAS provided for our analysis. However, the differences were less than the reporting thresholds prescribed in the agreed-upon procedures except for one. DFAS corrected the one difference in a timely manner when we notified them. The differences, including those that did not exceed the reporting threshold, constitute a repeat issue reported in prior Inspector General audits. For details of the analysis, see the Independent Auditor's Report and the attachment.

Withholding Data Discrepancies. We selected a sample of 315 employees and compared their payroll withholdings to authorizations in their official personnel files. The sample of 315 consisted of 180 DoD employees, 45 DOE employees, 45 HHS employees, and 45 EPA employees. The comparison revealed that 10 of the 315 employee files had a total of 10 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, or on the employee headcount of the DoD, DOE, HHS, and EPA. 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.

The Navy, DoD Education Activity, Department of Energy, and Environmental Protection Agency should continue to strengthen internal controls over the accuracy of 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, but were less than the threshold criteria prescribed in the agreed-upon procedures.

Management Comments. The Department of the Navy, Department of Defense Education Activity, Department of Energy, and Environmental Protection Agency did not provide comments on the draft of this report, issued August 23, 2007; therefore, we request that these organizations provide comments on this final report by October 29, 2007.

Table of Contents

Executive Summary	i
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Independent Auditor's Report

Overview	1
Agreed-Upon Procedures and Associated Findings (Attachment)	5

Appendixes

A. Scope and Methodology	16
B. Prior Coverage	17
C. Report Distribution	18

Independent Auditor's Report

Overview

We performed the procedures described in the attachment, agreed to by the Office of Personnel Management (OPM) Inspector General and Chief Financial Officer. We performed the procedures solely to assist OPM 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 28, 2006; February 17, 2007; and March 3, 2007; and Semiannual Headcount Reports as of March 3, 2007. We performed this engagement to apply agreed-upon procedures in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of OPM's Inspector General and Chief Financial Officer. Consequently, we make no representation regarding the attachment either for the requested purpose of this report or for any other purpose.

Comparison of Amounts Withheld and Remittance to OPM. In recent years, the Defense Finance and Accounting Service (DFAS) and supporting DoD organizations have improved management controls over the accuracy of the payroll amounts withheld and reported to OPM. We performed the agreed-upon procedures to compare the amounts reported to OPM with the amounts actually withheld from employees' pay. DFAS captures the data necessary to perform the agreed-upon procedures at the end of each pay period because the system can be adjusted retroactively. DFAS cannot reconcile the payroll database because of retroactive adjustments and the lack of a transaction-based general ledger. The captured amounts differed slightly. However, the differences were less than the threshold criteria prescribed in the agreed-upon procedures.

Payroll File Totals. The total of the gross payroll amounts in the four DoD payroll files sampled,² plus the Department of Energy (DOE), Department of Health and Human Services (HHS), and Environmental Protection Agency (EPA) files (a total of seven files) was \$6 billion for the three pay periods we reviewed. The \$6 billion represents 11.6 percent of the annual gross pay for those payrolls. The payroll withholding amounts DFAS reported to OPM for DoD, DOE, HHS, and EPA differed from the total of \$351.5 million actually withheld by \$43,639 for an overall error rate of 0.01 percent. This is similar to the difference noted for FY 2006. The overall differences for retirement, health benefits, and life insurance were less than the reporting threshold criteria of 1 percent established in the agreed-upon procedures.

Comparison of Payroll System Data to Official Personnel Files. We compared a sample of 315 employees' pay and withholdings from seven payroll data files to

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

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

documentary support recorded in Official Personnel Files (OPF).³ Of the 315 files, 180 represented DoD employees, 45 represented DOE employees, 45 represented HHS employees, and 45 represented EPA employees. Auditors for DOE and HHS reviewed their respective files, and we relied on their work. Of the 315 files reviewed, 10 had a total of 10 discrepancies. Table 1 shows the breakdown, by entity, of OPFs with discrepancies.

Table 1. OPFs with Unresolved Discrepancies by Entity

Entity	No. of OPFs	
Navy ⁴	2	2
DoDEA ⁵	4	4
DOE	2	2
EPA	1	1
Total OPF-related errors	9	9
DFAS computation error	1	1
Total	10	10

Of the 10 discrepancies:

- 2 were in health insurance withholding for DoDEA and DoE;
- 2 were in Thrift Savings Plan for DoDEA and EPA;
- 5 were in Federal Employees Group Life Insurance (FEGLI) for the Navy, DoDEA, and DoE; and
- 1 involved DFAS computations.

Resolution of Discrepancies. Initially, during our review of the 315 employee files, we found 29 OPFs with discrepancies. We provided the affected entities with the names, social security numbers, and nature of the discrepancies for each of the files. The personnel offices and DFAS subsequently provided us with documentation that explained differences between data in 19 of the 29 OPFs and data in the Defense Civilian Pay System (DCPS). As a result,

³ We selected a sample of 315 employees in accordance with criteria stated in the agreed-upon procedures. We did not project the results of our testing across the entire population.

⁴ One discrepancy resulted from an error that occurred before the employee worked for the Navy.

⁵ Department of Defense Education Activity.

we reclassified 19 OPFs with explained inconsistencies as “samples corrected at a later date.”

Of the 19 we reclassified as sample items corrected at a later date:

- 3 were from Navy,
- 2 were from the Air Force,
- 1 was from the National Guard Bureau,
- 10 were from the DoDEA, and
- 3 were from the Defense Information Systems Agency (DISA).

The Navy, Defense Agencies, DFAS, DOE, and EPA were unable to completely clarify 10 of the 29 OPFs with potential discrepancies despite their provision of additional documentation.

Causes of Discrepancies. Nine of the unresolved discrepancies resulted from OPF documentation that was not current and therefore did not support DFAS pay and withholding amounts. An additional unresolved discrepancy resulted from DFAS not accurately computing FEGLI withholding despite current documentation.

DFAS officials explained that the cause of the incorrect FEGLI computation was the use of a Last-hour Indicator, a timecard entry that notes whether an employee earned shift or environmental differential pay on the last hour worked during a pay period. The employee’s basic FEGLI and FEGLI Option B withholding would be computed on the basis of differential pay for all hours (or no hours) worked during the pay period depending on whether the timekeeper entered the Last-hour Indicator. This would create an incorrect withholding if the employee worked only part of a pay period in differential pay status. DFAS officials stated in comments on our audit report for FY 2006 that they initiated an engineering change proposal for DCPS that will, when implemented in October 2008, end dependence on the Last-hour Indicator and compute the withholding base on actual differential pay earned. Therefore, we make no recommendation on the issue at this time.

Employee Head Count. The agreed-upon procedures require us to compare the number of employees (headcount) in the payroll files with the headcount in the Supplemental Semiannual Headcount Report. Our headcounts of the employees, using the payroll files, differed from the Supplemental Semiannual Headcount Reports by less than 1 percent, well within the 2-percent reporting threshold stated 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 of the DoD payroll offices with more than 30,000 employees and the DOE, HHS, and EPA payroll offices. The overall calculated amount differed by \$0.24 million (1.32 percent) from the \$18.2 million DFAS reported to OPM. The difference between the amounts we calculated and the amounts DFAS reported to OPM did not exceed, with one exception, the 5-percent reporting threshold

prescribed in the agreed-upon procedures. DFAS corrected the discrepancy in a timely manner after we notified them of the exception.

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 0.10 and 1.07 percent in total, including employee withholdings and agency contributions from each payroll file. This was much lower than the prescribed reporting threshold of 5 percent for health insurance variances.

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, DOE, HHS, and EPA. Therefore, we are not expressing 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.

We are providing this report solely for OPM's Inspector General and Chief Financial Officer use. We prepared this report in the format directed by Office of Management and Budget Bulletin No. 06-03, August 23, 2006, (the Bulletin) 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. The Bulletin includes the requirement that we obtain management comments on this report.

In support of OPM's plan to consolidate Federal payroll providers, DFAS administered DOE, HHS, and EPA payroll functions in FY 2007. Therefore, we are the principal auditors responsible for auditing DOE, HHS, and EPA civilian payroll data. DOE auditors performed the review of the 45 DOE OPFs. HHS auditors performed the review of the 45 HHS OPFs. We relied on the work of these auditors for our reporting purposes. We performed the review of the 45 EPA OPFs.

Recommendation

We recommend that Navy, Department of Defense Education Activity, Department of Energy, and Environmental Protection Agency personnel offices continue to implement and improve payroll withholding procedures to ensure that payroll withholding authorizations support the amounts actually withheld.

Management Comments Required

The Department of the Navy, Department of Defense Education Activity, Department of Energy, and Environmental Protection Agency did not provide comments on the draft of this report; therefore, we request that these organizations provide comments on this final report by October 24, 2007.

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 APO's [Agency Payroll Office] 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 Benefit, and Life Insurance select any three RITS submissions for the current fiscal year, one of which coincides with the March Semiannual Headcount Report. Obtain payroll information for the periods covered by the RITS submissions selected.

Auditor Action for DoD, DOE, HHS, and EPA. We obtained RITS submissions for each payroll database, for the pay periods ended October 28, 2006; February 17, 2007; and March 3, 2007, and the Semiannual Headcount Report as of March 3, 2007. We also obtained payroll database extracts for the three pay periods.

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

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

Auditor Action for DoD. DFAS extracted all 7 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 21 payroll files (7 payroll files for three pay periods) with about \$5.1 billion period in total pay and about 690,000 employees in each pay period. We also totaled the CSRS, FERS, Health Insurance and Life insurance withholdings. According to DFAS, the total withholdings for DoD were approximately \$85.4 million for CSRS, \$30.1 million for FERS, \$143.5 million for Health Insurance, and \$46.7 million for Life Insurance. The total gross FY 2007 payroll for DoD was about \$44.2 billion.

Auditor Action for DoE. We performed the same procedure as for DoD. We totaled the three payroll files (one payroll file for three pay periods) with about \$39.4 million in total pay and about 10,600 employees in each pay period. According to DFAS, the total withholdings for DOE were approximately \$2.4 million for CSRS, \$0.6 million for FERS, \$2.9 million for Health Insurance, and \$1.1 million for Life Insurance. The total gross FY 2007 payroll for DOE was about \$1 billion.

Auditor Action for HHS. We performed the same procedure as for DoD. We totaled the three payroll data files (one payroll file for three pay periods) with about \$187.7 million in total pay and about 65,000 employees in each pay period.

According to DFAS, the total withholdings for HHS were approximately \$7.2 million for CSRS, \$3.5 million for FERS, \$13.1 million for Health Insurance, and \$4.6 million for Life Insurance. The total gross FY 2007 payroll for HHS was \$4.9 billion.

Auditor Action for EPA. We performed the same procedure as for DoD. We totaled the three payroll data files (one payroll file for three pay periods) with about \$186.5 million in total pay and about 18,200 employees in each pay period. According to DFAS, the total withholdings for EPA were approximately \$3.3 million for CSRS, \$1.1 million for FERS, \$4.5 million for Health Insurance, and \$1.4 million for Life Insurance. The total gross FY 2007 payroll for EPA was \$1.6 billion.

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

Auditor Action for DoD, DOE, HHS, and EPA. We recalculated the mathematical accuracy of each RITS submission of payroll information for the pay periods October 28, 2006; February 17, 2007; and March 3, 2007. We compared the recalculated amounts with the RITS submission for the corresponding pay periods. Differences between DCPS payroll file totals and the corresponding amounts in the RITS submissions were within the 1-percent reporting threshold for these comparisons.

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

Auditor Action for DoD, DOE, HHS, and EPA. We compared the employee withholding totals to the related amounts shown on the RITS submissions for Retirement, Health Benefits, and Life insurance, as evidenced by a Form 2812 produced from the RITS database. The payroll data file totals for CSRS, FERS, Health Benefits, and Life Insurance substantially equaled the amounts on the Form 2812.

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

Auditor Action for DoD, DOE, HHS, and EPA. We randomly selected 25 individuals from each of the seven payroll files (four files for DoD and one each for DOE, HHS, and EPA) who were enrolled in the Federal Retirement, Health Benefits, and FEGLI programs.

Procedure 2.b. Obtain the following documents, either in electronic or hard copy format, from the Official Personnel File (OPF) for each individual selected in step 2.a. Hard copies can be originals or certified copies.

- All Notifications of Personnel Actions (SF-50) covering the pay periods in the RITS submissions chosen;
- the Health Benefit Registration Form (SF-2809) covering the pay periods in the RITS submissions chosen or, if applicable, request that the agency personnel office obtain a report from the agency's automated system that allows participants to change benefits (e.g., Employee Express) for any health benefits transactions in that system for the individuals selected in step 2.a. Compare the date of transaction with the date on the certified copy of the SF-2809 or the agency's automated system report requested. Confirm that the health benefit information to be used in step 2.f. covers the pay periods in the RITS submissions chosen (note: a new SF-2809 is needed only if an employee is changing health benefit plans, therefore the form could be many years old); and
- the Life Insurance Election Form (SF-2817) covering the pay periods in the RITS submission chosen (note: a new SF-2817 is only needed if an employee is changing life insurance coverage; therefore, a 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 period in the RITS submissions

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

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

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

Auditor Action for DoD, DOE, HHS, and EPA. We compared the base salary used for payroll purposes with the base salary reflected on the employees' SF-50s. We did not find any discrepancies for this comparison.

Procedure 2.d. For Retirement, compare the plan code on the employees' SF-50 to the plan code used in the payroll system. Report any differences.

Auditor Action for DoD, DOE, HHS, and EPA. We compared the plan codes on the employees' SF-50s to the plan codes used in the payroll system. The DOE and HHS auditors performed the same procedure for the DOE and HHS employees' SF-50s. There were no differences between the Retirement plan codes on the employees' SF-50s and the plan codes used in the payroll system.

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

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 actual amounts withheld and contributed for CSRS and FERS participants. There were no differences for this comparison.

Auditor Action for DOE. DOE auditors calculated the retirement amount to be withheld for the plan codes from the employees' SF-50s, based on the official withholding rates required. They compared the actual amounts withheld for CSRS and FERS participants. They found no differences for this comparison.

Auditor Action for HHS. HHS auditors calculated the retirement amount to be withheld for the plan codes from the employees' SF-50s, based on the official withholding rates required. They compared the actual amounts withheld for CSRS and FERS participants. They found no differences for this comparison.

Auditor Action for EPA. 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 actual amounts withheld and contributed for CSRS and FERS participants. There were no differences for this comparison.

Procedure 2.f. For Health Benefits, compare the employee withholdings and agency contributions with the official subscription rates issued by OPM for the plan and option elected by the employees, as documented by a Health Benefits Registration Form (SF-2809) in the employees' OPF or Employee Express. Report any differences.

Auditor Action for DoD, DOE, HHS, and EPA. 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 plans and options elected by the employees, as documented in the Health Benefits Registration Forms (SF-2809) in the employees' OPFs. The DOE and HHS auditors performed the same procedure for their employees. There were two discrepancies for this comparison, one for the Defense Agencies and one for DOE.

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

Auditor Action for DoD, DOE, HHS, and EPA. We compared Life Insurance Election Forms (SF-2817) with withholding data in DCPS. The DOE and HHS auditors performed the same procedure for their employees. We found five discrepancies for this comparison; two for the Navy, two for the Defense agencies, and one for DOE.

Procedure 2.h. Calculate the withholding and contribution amounts for Basic Life Insurance using the following:

- For employee withholdings: Round the employee's annual base salary to the nearest thousand dollars and add \$2,000. Divide this total by 1,000 and multiply by \$0.15 (for APOs with biweekly pay periods) or \$0.3358 (for APOs with monthly pay periods).
- For agency contributions: Divide the employee withholdings calculated above by two.

Compare to actual amounts withheld and contributed. Report any differences.

Auditor Action for DoD, DOE, HHS, and EPA. We calculated the withholding amounts for Basic Life Insurance by rounding the employee's annual base salary up to the next thousand dollars and adding \$2,000, then dividing the result by \$1,000 and multiplying by \$0.15. The DOE and HHS auditors performed the same procedure for their employees. We identified one discrepancy for this procedure. DFAS did not correctly include differential pay in the employee's base pay for FEGLI withholding.

Procedure 2.i. Also, for Life Insurance, compare optional coverage elected as documented by an SF-2817 in the employees' OPF with optional coverage documented in the payroll system. Report any differences.

Auditor Action for DoD, DOE, HHS, and EPA. We obtained SF-2817s directly from employees' OPFs and electronic personnel databases. We obtained optional life insurance coverage data from DCPS. We compared optional life insurance coverage elected as documented on the SF-2817s with optional life insurance coverage elected as recorded in DCPS. We identified four exceptions for this comparison; one for the Navy, two for Defense agencies, and one for DOE.

Procedure 2.j. Calculate the withholding amounts for optional life insurance using the following:

- For Option A: Determine the employee's age group using the age groups provided for Option A in the FEGLI Program Booklet. The withholding amount is the rate listed in the FEGLI Program Booklet for that age group. Compare to amount withheld. Report any differences.

-
- For Option B: Inspect the SF-2817 to determine the number of multiples chosen for Option B. Determine the employee's age group using the age groups provided for Option B in the FEGLI Program Booklet. Round the employee's annual rate of basic pay up to the next 1000, divide by 1000, and multiply by the rate for the age group. Multiply this amount by the number of multiples chosen. Compare to amount withheld. Report any differences.
 - For Option C: Inspect the SF-2817 to determine the number of multiples chosen for Option C. Determine the employee's age group using the age groups provided for Option C in the FEGLI Program Booklet. Multiply the rate for the age group by the number of multiples chosen. Compare to amount withheld. Report any differences.

Auditor Action for DoD. We calculated the amounts for optional life insurance as prescribed in Procedure 2.j. We identified three discrepancies for this comparison; one for the Navy and two for the Defense agencies. These discrepancies arise from the documentation discrepancies noted for Procedure 2.i.

Auditor Action for DOE. The DOE auditors performed the same procedures and found one instance where the documentation did not support the amounts withheld according to DFAS.

Auditor action for HHS. The HHS auditors performed the same procedures and found no differences for this comparison.

Auditor Action for EPA. We performed the same procedures and found no differences for this comparison.

Procedure 3. Randomly select a total of 10 employees, who have no Health Benefits withholdings, from the payroll information corresponding to the three RITS submissions selected for testing above.

Request SF-2809s covering the pay periods in the RITS submissions chosen, either in electronic or hard copy format, from the selected employees' OPFs. Hard copies can be originals or certified copies. Via the agency personnel office, request a report from Employee Express for any Health Benefit transactions in that system for the 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; or
- 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 sample items from each of the payroll data files. The sample items represented employees 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 and found no discrepancies.

Auditor Action for DOE. We randomly selected 10 sample items from the payroll data file. The sample items represented employees who had no Health Benefits withholdings according to the payroll information corresponding to the RITS submissions selected for testing. The DOE auditors reviewed SF-2809s in the OPFs and electronic personnel databases and found no discrepancies.

Auditor Action for HHS. We randomly selected 10 sample items from the payroll data file. The sample items represented employees who had no Health Benefits withholdings according to the payroll information corresponding to the RITS submissions selected for testing. The HHS auditors reviewed SF-2809s in the OPFs and electronic personnel databases and found no discrepancies.

Auditor Action for EPA. We randomly selected 10 sample items from the payroll data file. The sample items represented employees 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 and found no discrepancies.

Procedure 4. Randomly select a total of 10 employees who have no Life Insurance withholdings from the payroll information corresponding to the three RITS submissions selected for testing above. Request the SF-2817s covering the pay periods in the RITS submissions chosen, either in electronic or hard copy format, from the selected employees' OPFs. Hard copies can be originals or certified copies. Inspect the SF-2817 to determine that the employee waived or cancelled Basic Life Insurance coverage. Report any exceptions.

Auditor Action for DoD, DOE, HHS, and EPA. We randomly selected 10 sample items from each payroll data file. The sample items represented employees who had no Life Insurance withholdings according to the DCPS payroll files. We requested and obtained the SF-2817s covering the pay periods corresponding to the RITS submissions chosen. We inspected the SF-2817s in all instances when the coverage was waived or cancelled and found no discrepancies. The DOE auditors performed the same procedure for their employees and found no discrepancies. The HHS auditors performed the same procedure for their employees and found no discrepancies. We performed the same procedure for the EPA employees and found no discrepancies.

Procedure 5. Calculate 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. If existing payroll data is not available, have a payroll system query performed that summarized detailed payroll data supporting the Supplemental Semiannual Headcount Report, as follows:

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- benefit category (see Semiannual Headcount Report),
 - dollar amount of withholdings and contributions,
 - number enrolled (deductions made/no deductions),
 - central personnel data file code,
 - aggregate base salary.

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 a 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 the information shown on the Semiannual Headcount Report.

Procedure 5.d. Report any 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.

Auditor Action for DoD, DOE, HHS, and EPA. We obtained the DFAS Semiannual Supplemental Headcount Reports for each payroll database for the pay period ended March 3, 2007. We compared those headcount reports to the payroll data files for the same pay period. The counts in the payroll data files differed from the headcount reports by less than the reporting threshold of 2 percent.

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, as follows:

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, DOE, HHS, and EPA. We calculated total CSRS and FERS retirement employee withholdings and employer contributions for the three pay periods that we reviewed, and compared the recalculated totals with the

amounts shown on the RITS submissions. The differences for these comparisons ranged from zero to 0.94 percent, well within the 5-percent reporting threshold.

Procedure 6.b. Calculate employee withholdings and employer contributions for Health Benefits for the three pay periods selected, as follows:

Procedure 6.b.i. Multiply the number of employees enrolled in each Health benefits plan and plan option by the employee withholdings and employer contributions for the plan and option.

Procedure 6.b.ii. Sum the totals in step 6.b.i. and compare the result with the Health Benefit withholding and contribution amounts shown in the RITS submissions. Report any variances and obtain management's explanation of the variances (i.e., gross rather than net) between the calculated amounts and the amounts reported on the RITS submissions greater than 5 percent of the amounts on the RITS submission.

Auditor Action for DoD, DOE, HHS, and EPA. 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 from the OPM website. We extended and added totals and compared the results with the Health Insurance withholdings and contribution amounts shown on the Forms 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 as follows:

Procedure 6.c.i. Have APO personnel perform a payroll system query to determine the total number of employees with Basic Life Insurance coverage and the aggregate annual base pay for all employees with Basic Life Insurance.

Procedure 6.c.ii. For employee withholdings: Add the product of 2,000 times the number of employees with Basic Life Insurance coverage to the aggregate annual basic pay for all employees selected. This represents the estimated total Basic Life Insurance coverage. Divide this total by 1,000 and multiply by the rate required by law. The Life Insurance rates can be found in the FEGLI Program Booklet on OPM's website.

Procedure 6.c.iii. Compare the result in step 6.c.ii to the withholdings for Basic Life Insurance coverage reported on the RITS submission and report any difference and obtain management's explanation of the 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.

Procedure 6.c.iv. For agency contributions: Divide the results of step 6.c.ii by two – this approximates agency contributions, which are one-half of employee withholdings. Compare this result to the amount reported on the RITS submission and report any difference and obtain management's explanation of the

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.

Auditor Action for DoD, DOE, HHS, and EPA. 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 employees electing Basic Life Insurance coverage for each payroll data file. We multiplied 2,000 times the number of employees electing Basic Life Insurance and added the result to the gross pay of employees who were eligible for Basic Life Insurance. We multiplied the result by \$0.15 per thousand to estimate Basic Life withholding and compared the result to the withholding amounts shown on Forms 2812. We did not find any payroll office variances greater than 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 shown on Forms 2812. All payroll office variances except one were less than the 5-percent reporting threshold for this comparison. We determined one variance to be 6.64 percent. A DFAS official stated that the payroll office processed a manual adjustment. DFAS corrected the discrepancy in a timely manner after we notified them.

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 reports in Step 1. In addition to the information used for step 1, the reports should include the employee's date of birth, annual rate of basic pay, and number of multiples selected for Options B and C. Note: While similar to step 2.j., the calculation here is for the entire amount reported on the RITS submissions for the three pay periods selected, as opposed to the sample of 25 employees in step 2.j.

Procedure 6.d.i. Multiply the number of employees in each age group by the appropriate rate for Option A in accordance with the rates for age groups provided in the FEGLI Program Booklet. Report any differences (i.e., gross rather than net) greater than 2 percent of the amounts on the RITS submission.

Auditor Action for DoD, DOE, HHS, and EPA. 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 totaled the results for each payroll data file and compared the results with the corresponding amounts on the RITS submissions. We determined that all differences are well within the 2-percent tolerance for this comparison.

Procedure 6.d.ii. Divide the reports for Option B and Option C insurance into the age groups shown in the FEGLI Program Booklet. For Option B, round the employee's annual rate of basic pay up to the next 1000, divide by 1000, multiply by the rate for the age group, multiply this by the number of multiples (annual rate of basic pay [rounded up]/1000 x rate x multiples). For Option C, multiply the rate for the age group by the number of multiples chosen for each employee.

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.

Auditor Action for DoD, DOE, HHS, and EPA. For each payroll database for each of the three pay periods we reviewed, we identified the payroll records for those employees who elected Options B and C, and those who elected each number of multiples of coverage within the allowable range (one through five multiples) using the payroll data files. We multiplied the results by the official withholding rates shown in the FEGLI Program Booklet, times the number of multiples of coverage elected, to reconstruct the total withholdings for Options B and C. We compared this result with the amounts shown on the corresponding RITS submissions. We determined that no differences exceeded the tolerances prescribed in the agreed-upon procedures.

Appendix A. Scope and Methodology

We totaled the DFAS payroll files that included about 783,000 DoD, DOE, HHS, and EPA employees with a total gross payroll of about \$6 billion for the seven DoD payroll offices plus the DOE, HHS, and EPA payroll offices for the three pay periods we reviewed. This total included all payroll offices regardless of the number of employees. The agreed-upon procedures require a review of only those payroll offices that service 30,000 or more employees. Three of the seven DoD payroll offices service fewer than 30,000 employees and are included in the total but not in the audit sample.

We reviewed payroll data and documentation supporting \$809 million for retirement, life insurance, health insurance, and Thrift Savings Plan withholdings reported each year by DFAS to OPM for DoD, DOE, HHS, and EPA civilian personnel. The total payroll processed by DFAS for these agencies was for about 783,000 employees with an annual payroll of about \$51 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 three pay periods ended October 28, 2006; February 17, 2007; and March 3, 2007. We compared the payroll data files with personnel forms for 315 randomly selected employees for gross pay, retirement, life insurance, and health insurance.

We also verified payroll data file totals and calculations of life insurance, health 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 Department of Energy Office of Inspector General performed the agreed-upon procedures that involved reviewing OPFs for DOE. Auditors from the Department of Health and Human Services Office of Inspector General performed the agreed-upon procedures that involved reviewing OPFs for HHS. 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.

Appendix B. Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) and the Air Force Audit Agency have issued seven reports discussing civilian payroll and withholding data. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Unrestricted Air Force Audit Agency reports are on the internet at <https://www.afaahq.af.mil/domainck/index/shtml>.

DoD IG

DoD IG Report No. D-2006-119, "DoD Civilian Payroll and Withholding Data for FY 2006," September 27, 2006

DoD IG Report No. D-2006-002, "DoD Civilian Payroll Withholding Data for FY 2005," October 6, 2005

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 Civilian Payroll Withholding Data for FY 2003," February 6, 2004

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

Air Force

AFAA Report No. F2007-0005-FB1000, "Follow-up Audit, Civilian Premium Payments," February 2, 2007

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

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

Auditor General, Department of the Army

Department of the Navy

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

Chief, National Guard Bureau
Director, Defense Finance and Accounting Service
Director, Defense Information Systems Agency
Director, Department of Defense Education Activity

Non-Defense Federal Organization

Office of Management and Budget
Office of Personnel Management
Department of Energy
Department of Health and Human Services
Environmental Protection Agency

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 Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Oversight and Government Reform
House Subcommittee on Government Management, Organization, and Procurement,
Committee on Oversight and Government Reform
House Subcommittee on National Security and Foreign Affairs,
Committee on Oversight and Government Reform

Team Members

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

Paul J. Granetto
Patricia A. Marsh
Douglas P. Neville
Thomas J. Winter
Jonathan M. Rabben
James B. Davis, Jr.
Frederick R. McComas
Ariel Vega
Sandra E. Nieves-Mendez
Jackeline Ortiz-Perez



Inspector General Department of Defense

