



U.S. Department of State

Independent Accountant's Report on the Application of Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to the Office of Personnel Management

AUD/FM-11-01

October 1, 2010

**KEARNEY &
COMPANY**

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Kearney & Company's TIN is 54-1603527, DUNS is 18-657-6310, Cage Code is 1SJ14

**Independent Accountant's Report
on the Application of Agreed-Upon Procedures: Retirement, Health Benefits, and Life
Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report
Submitted to the Office of Personnel Management**

The Honorable Patrick E. McFarland
U.S. Office of Personnel Management

Kearney & Company, P.C. (referred to as "Kearney" and "we" in this report), performed the procedures described in the enclosure to this report, which were agreed to by the Inspector General (IG) and the Chief Financial Officer (CFO) of the U.S. Office of Personnel Management (OPM). These procedures were performed solely to assist OPM in assessing the reasonableness of retirement, health benefits, and life insurance withholdings, contributions, and enrollment information submitted via the Supplemental Semiannual Headcount Report by the Department of State (Department) for the payroll periods ended August 29, 2009, January 30, 2010, and February 27, 2010. The Agreed-Upon Procedures (AUP) relating to the submission of withholdings/contributions for retirement, health benefits, and life insurance to OPM relate to the use of the Retirement and Insurance Transfer System (RITS). RITS is the authorized method of submitting withholding and contribution information to OPM. Agency payroll providers that are technically unable to transmit benefit information to OPM via RITS may continue to submit withholdings and contributions via the hard copy Standard Form (SF) 2812 (and SF 2812-A), Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement. This AUP engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and generally accepted government auditing standards. The sufficiency of these procedures and of the related subject matter is solely the responsibility of the IG and the CFO of OPM. Consequently, we make no representation regarding the sufficiency of the procedures described in the enclosure, either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated results are presented in the enclosure.

We were not engaged to and did not conduct an examination with the objective of expressing an opinion on the withholdings and contributions for retirement, health benefits, and life insurance, or the Supplemental Semiannual Headcount Report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.



This report is intended solely for the information and use of the IG and the CFO of OPM and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
October 1, 2010

Enclosure

Agreed-Upon Procedures	Findings/Comments
<p>Obtain the agency payroll providers' (APP) September 2009 and March 2010 Supplemental Semiannual Headcount Reports submitted to the Office of Personnel Management (OPM) and a summary of Retirement and Insurance Transfer System (RITS) submissions for September 2009 and the current fiscal year. For retirement, health benefits, and life insurance, select a total of three RITS submissions for September 2009 and the current fiscal year; two of the RITS submissions selected will coincide with the September 2009 and March 2010 Supplemental Semiannual Headcount Reports. Obtain payroll information for the periods covered by the RITS submissions selected.</p>	<p>Completed. Pay periods 17 and 4 were selected, which coincided with the September 2009 and March 2010 Supplemental Semiannual Headcount Reports, respectively. The third pay period selected was pay period 2.</p>
<p>1. Compare RITS submission data with the payroll information by performing the following procedures (Note: 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.):</p> <p>1.a. Recalculate the mathematical accuracy of the payroll information.</p> <p>1.b. Recalculate the mathematical accuracy of each RITS submission for the payroll information selected in step 1.a.</p> <p>1.c. Compare the employee withholding information at the aggregate level for retirement, health benefits, and life insurance (as adjusted for reconciling items) shown on the payroll information obtained in step 1.a. with the related amounts shown on the RITS submission for the corresponding period.</p> <p>Report any differences for retirement, health benefits, and life insurance withholding information from step 1.c. that are over 1 percent of the aggregate amount reported for each of the three categories. Obtain from management a management official name, telephone number, and e-mail address, as well as an explanation for the differences above the 1 percent threshold.</p>	<p>Completed.</p> <p>Completed.</p> <p>Completed.</p> <p>Completed. The recalculation of pay period 17 Federal Employees' Group Life Insurance (FEGLI), Option A, identified differences over the OPM Agreed-Upon Procedure (AUP) threshold of 1 percent. Option A had a difference of 1.22 percent (\$103.60). Management was unable to explain this difference.</p> <p>Contact Information: Paul McVicker, Director, Financial Coordination</p>

Agreed-Upon Procedures	Findings/Comments
	<p>and Reports Division mcvickerpj@state.gov (843) 202-3858</p> <p>Jeff Mounts, Managing Director, Global Compensation mountsjc@state.gov (843) 308-5301</p>
<p>2.a. Randomly select a total of 25 individuals who were in the payroll system for all three of the RITS submissions selected above that meet all of the following criteria:</p> <ul style="list-style-type: none"> • Covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). • Enrolled in the Federal Employees Health Benefits (FEHB) Program. • Covered by basic life insurance. • Covered by at least one FEGLI optional coverage (Option A, B, or C). <p>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.</p> <ul style="list-style-type: none"> • All Notifications of Personnel Actions (SF-50) covering the pay periods in the RITS submissions selected. • The Health Benefits Election Form (SF-2809) covering the pay periods in the RITS submissions selected or, if applicable, a report (via the agency personnel office) from the agency’s automated system that allows participants to change benefits (e.g., Employee Express) that shows any health benefits transactions in the system for the individuals selected in step 2.a. (Note: A new SF-2809 is needed only if an employee is changing health benefit plans; therefore, the form could be many years old.) <ul style="list-style-type: none"> - For health benefits, compare the date of transaction with the date on the certified copy of the SF-2809 or the agency’s automated system report to determine whether the health benefit information to be used in step 2.f. covers the pay periods in the RITS submissions selected. • The Life Insurance Election Form (SF-2817) covering the pay periods in the RITS submissions selected. (Note: A new SF-2817 is needed only if an employee is changing life insurance coverage; therefore, the form could be many years old.) 	<p>Completed.</p> <p>Completed.</p> <p>Completed.</p>

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<p>2.c. For each individual selected in step 2.a., compare the base salary used for payroll purposes, and upon which withholdings and contributions generally are based, with the base salary reflected on the employee’s SF-50. Report any differences resulting from this step, and obtain management’s explanation for the differences.</p>	<p>Completed. No differences were found as a result of applying the procedure.</p>
<p>2.d. For each individual selected in step 2.a., compare the retirement plan code from the employee’s SF-50 with the plan code used in the payroll system. Report any differences resulting from this step, and obtain management’s explanation for the differences.</p>	<p>Completed. No differences were found as a result of applying the procedure.</p>
<p>2.e. For each individual selected in step 2.a., calculate the retirement amount to be withheld and contributed for the plan code from the employee’s SF-50 by multiplying the base salary from the employee’s SF-50 by the official withholding and contribution rates required by law. Compare the calculated amounts with the actual amounts withheld and contributed for the retirement plan. Report any differences resulting from this step, and obtain management’s explanation for the differences.</p>	<p>Completed. No differences were found as a result of applying the procedure.</p>
<p>2.f. For each individual selected in step 2.a., compare the employee health benefits withholdings and agency contributions with the official subscription rates issued by OPM for the plan and option elected by the employee, as documented by a Health Benefits Election Form (SF-2809) in the employee’s OPF or in a report from an automated system that allows the participant to change benefits (e.g., Employee Express). Report any differences resulting from this step, and obtain management’s explanation for the differences. The health benefits rates are on OPM’s website at http://www.opm.gov/insure/health/rates/index.asp.</p>	<p>Completed. The FEHB election in the payroll system did not agree with the election form in the OPF for three of 25 employees. The Department could not provide updated documentation supporting the FEHB elections in the payroll system.</p>
<p>2.g. For each individual selected in step 2.a., confirm that basic life insurance was elected by the employee by inspecting the Life Insurance Election Form (SF-2817) documented in the employee’s OPF. Report any differences resulting from this step, and obtain management’s explanation for the differences.</p>	<p>Kearney did not receive the election form for one of 25 employees. Based on inquiry, the Department could not locate this form.</p> <p>Completed. The FEGLI election in the payroll system did not agree with the election form in the OPF for two</p>

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<p>2.h. For each individual selected in step 2.a., calculate the withholding and contribution amounts for basic life insurance using the following information:</p> <ul style="list-style-type: none"> • For employee withholdings: Round the employee’s annual base salary up to the nearest thousand dollars and add \$2,000. Divide this total by 1,000, and multiply by the rate required by law. The life insurance rates are in the FEGLI Program Booklet on OPM’s website at http://www.opm.gov/insure/life/rates/index.asp • For agency contributions: Divide the employee withholdings calculated above by two. <p>Compare the calculated employee withholdings and agency contributions with the actual amounts withheld and contributed for basic life insurance. Report any differences resulting from this step, and obtain management’s explanation for the differences.</p> <p>2.i. For each individual selected in step 2.a., compare optional life insurance coverage elected as documented on the Life Insurance Election Form (SF-2817) in the employee’s OPF with the optional coverage documented in the payroll system. Report any differences resulting from this step, and obtain management’s explanation for the differences.</p>	<p>of 25 employees. The Department could not provide updated forms supporting the life insurance elections.</p> <p>Kearney did not receive the election forms for six of 25 employees. Based on inquiry, the Department could not locate these forms.</p> <p>Completed.</p> <p>Completed.</p> <p>Completed. No differences were found as a result of applying the procedure.</p> <p>Completed. The FEGLI election in the payroll system did not agree with the election form in the OPF for five of 25 employees. The Department could not provide updated forms supporting the life insurance elections.</p> <p>Kearney did not receive the election form for six of 25 employees. Based</p>

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<p>2.j. For each individual selected in step 2.a., calculate the withholding amounts for optional life insurance using the following information:</p> <ul style="list-style-type: none"> For Option A: Locate the employee’s age group using the age groups provided for Option A in the FEGLI Program Booklet. The withholding amount to be used is the rate listed in the FEGLI Program Booklet for that age group. Compare the calculated amount with the amount withheld for Option A Life Insurance. Report any differences resulting from this step, and obtain management’s explanation for the differences. For Option B: Inspect the Life Insurance Election Form (SF-2817) to obtain the number of multiples chosen for Option B. Locate 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 respective age group. Multiply this amount by the number of multiples chosen for Option B Life Insurance. Compare the calculated amount with the amount withheld for Option B Life Insurance. Report any differences resulting from this step, and obtain management’s explanation for the differences. For Option C: Inspect the SF-2817 to obtain the number of multiples chosen for Option C. Locate 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 for Option C Life Insurance. Compare the calculated amount with the amount withheld for Option C Life Insurance. Report any differences resulting from this step, and obtain management’s explanation for the differences. 	<p>on inquiry, the Department could not locate these forms.</p> <p>Completed. No differences were found as a result of applying the procedure.</p> <p>Completed. No differences were found as a result of applying the procedure.</p> <p>Completed. No differences were found as a result of applying the procedure.</p>
<p>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 above, and perform the following steps for each employee selected:</p> <p>3.a. Obtain Health Benefits Election Forms (SF-2809) covering the pay periods in the RITS submissions chosen, either in electronic or hard-copy format, from the selected employee’s OPF or, if applicable, obtain a report (via the agency personnel office) from the agency’s automated system that allows participants to change benefits (e.g., Employee Express) that shows any health benefit transactions in the system for the individuals selected. Hard copies can be originals or certified copies. Inspect the documentation</p>	<p>Completed.</p> <p>Completed.</p>

Agreed-Upon Procedures	Findings/Comments
<p>(i.e., SF-2809 or the agency’s system-generated report) to identify whether health benefits coverage was not elected. This can be identified in the following ways:</p> <ul style="list-style-type: none"> • Absence of an SF-2809 in the OPF and no election of coverage made through the agency’s automated system that allows participants to change benefits (e.g., Employee Express). • An SF-2809 in the OPF with Section E checked (indicating cancellation of coverage) and no later election of coverage through the agency’s automated system that allows participants to change benefits (e.g., Employee Express). • Cancellation of coverage through the agency’s automated system that allows participants to change benefits (e.g., Employee Express) and no later election of coverage with an SF-2809. <p>3.b. Compare the results in step 3.a. with the RITS submissions. Report any differences resulting from this step, and obtain management’s explanation for the differences.</p>	<p>Completed. No differences were found as a result of applying the procedure.</p>
<p>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 above, and perform the following steps for each employee selected:</p> <p>4.a. Obtain the Life Insurance Election Forms (SF-2817) covering the pay periods in the RITS submissions selected, either in electronic or hard-copy format, from the selected employee’s OPF. Hard copies can be originals or certified copies. Inspect the SF-2817 to determine whether the employee waived or cancelled basic life insurance coverage.</p> <p>4.b. Compare the results in step 4.a. with the RITS submissions. Report any differences resulting from this step, and obtain management’s explanation for the differences.</p>	<p>Completed.</p> <p>Completed. The FEGLI Election form (SF-2817) did not support that the employee had waived/cancelled life insurance coverage for two of 10 employees. The Department could not provide updated documentation supporting the waived/cancelled life insurance coverage.</p> <p>Completed.</p>

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<p>5. Calculate the headcount reflected on the September 2009 and March 2010 Supplemental Semiannual Headcount Reports selected as follows:</p> <p>5.a. Obtain existing payroll information (from step 1.a.) supporting each Supplemental Semiannual Headcount Report. If existing payroll data is not available, obtain a payroll system query that summarizes detailed payroll data supporting each Supplemental Semiannual Headcount Report as follows:</p> <ul style="list-style-type: none"> • Benefit category (see Supplemental Semiannual Headcount Report) • Dollar amount of withholdings and contributions • Number enrolled (deductions made/no deductions) • Central personnel data file code • Aggregate base salary <p>5.b. Recalculate the headcount reflected on each Supplemental 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.</p> <p>5.c. Compare the payroll information obtained in step 5.a. and the calculated headcount from step 5.b. with the information shown on each respective Supplemental Semiannual Headcount Report.</p> <p>5.d. Report any differences (i.e., gross rather than net) greater than 2 percent between the headcount reporting on each respective agency's Supplemental Semiannual Headcount Report and payroll information from step 5.a., and the calculated headcount from step 5.b. Obtain from management a management official name, telephone number, and e-mail address, as well as an explanation for the differences.</p>	<p>Completed.</p> <p>Completed.</p> <p>Completed.</p> <p>Completed. One difference greater than 2 percent was observed related to the pay periods 17, 2, and 4 U.S. Trade Headcount Reports as a result of applying the procedure. Based on inquiry, the Department does not prepare a headcount report for Agency Code 1106; however, this code was included in the payroll register because the register includes all</p>

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	<p>sub-agency codes for Agency 11.</p> <p>Contact Information: Paul McVicker, Director, Financial Coordination and Reports Division mcvickerpj@state.gov (843) 202-3858</p> <p>Jeff Mounts, Managing Director, Global Compensation mountsjc@state.gov (843) 308-5301</p>
<p>6. Calculate employer and employee contributions for retirement, health benefits, and life insurance as follows:</p> <p>6.a. Calculate retirement withholdings and contributions for the three pay periods selected in step 1.a. as follows:</p> <ul style="list-style-type: none"> i. Multiply the CSRS and FERS payroll base by the withholding and employer contribution rates required by law. ii. Compare the calculated totals from step 6.a.i. with the related amounts shown on the RITS submissions. Report any differences (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, and obtain management’s explanation for the differences. <p>6.b. Calculate employee withholdings and employer contributions for health benefits for the three pay periods selected in step 1.a. as follows:</p> <ul style="list-style-type: none"> i. Multiply the number of employees enrolled in each health benefits plan and plan option by the employee withholdings and employer contributions for the plan and option. ii. Sum the totals in step 6.b.i., and compare the results with the health benefit withholding and contribution amounts shown on the RITS submissions. Report any differences (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, and obtain management’s explanation for the differences. 	<p>Completed.</p> <p>Completed. No differences greater than 5 percent were found as a result of applying the procedure.</p> <p>Completed.</p> <p>Completed. No differences greater than 5 percent were found as a result of applying the procedure.</p>

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<p>6.c. Calculate the basic life insurance employee withholdings and employer contributions for the three pay periods selected in step 1.a. as follows:</p> <ul style="list-style-type: none"> i. Obtain a payroll system query from APP personnel to obtain the total number of employees with basic life insurance coverage and the aggregate annual basic pay for all employees with basic life insurance. ii. For employee withholdings: Add the product of 2,000 times the number of employees with basic life insurance coverage from step 6.c.i. to the aggregate annual basic pay for all employees with basic life insurance from step 6.c.i. to calculate the estimated total basic life insurance coverage. Divide this calculated total by 1,000, and multiply by the withholding rate required by law. The basic life insurance withholding rates are in the FEGLI Program Booklet on OPM’s website at http://www.opm.gov/insure/life/rates/index.asp iii. Compare the result in step 6.c.ii. with the withholdings for basic life insurance coverage reported on the RITS submission. Report any differences (i.e., gross rather than net) between the estimate and the amount of withholdings reported on the RITS submission greater than 5 percent of the amounts on the RITS submission, and obtain management’s explanation for the differences. 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 with the amount reported on the RITS submission. Report any differences (i.e., gross rather than net) between the estimated amount and the actual amount reported on the RITS submission greater than 5 percent of the amounts on the RITS submission, and obtain management’s explanation for the differences. <p>6.d. Calculate the Option A, Option B, and Option C life insurance coverage withholdings for the three pay periods selected by using detailed 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 at this step 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.)</p> <ul style="list-style-type: none"> 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. 	<p>Completed.</p> <p>Completed.</p> <p>Completed. No differences greater than 5 percent were found as a result of applying the procedure.</p> <p>Completed. No differences greater than 5 percent were found as a result of applying the procedure.</p> <p>Completed.</p>

Agreed-Upon Procedures	Findings/Comments
<p>ii. Compare the result in step 6.d.i. with the amounts for Option A reported on the RITS submissions. Report any differences (i.e., gross rather than net) greater than 2 percent of the amounts on the RITS submission, and obtain management’s explanation for the differences.</p> <p>iii. Segregate the reports for Option B and Option C insurance into the age groups shown in the FEGLI Program Booklet. For Option B, round the employee’s annual rate of basic pay up to the next 1,000, divide by 1,000, multiply by the rate for the age group, and multiply this by the number of multiples:</p> <p>(Annual rate of basic pay [rounded up] /1,000*rate*multiples).</p> <p>For Option C, multiply the rate for the age group by the number of multiples chosen for each employee.</p> <p>iv. Compare the results in step 6.d.iii. with the amounts for Option B and Option C, respectively, reported on the RITS submissions. Report any differences (i.e., gross rather than net) greater than 2 percent of the amounts on the RITS submission for Option B or Option C, and obtain management’s explanation for the differences.</p>	<p>Completed. Kearney identified a difference of 2.68 percent (\$227.14) in pay period 17. Management was unable to explain this difference.</p> <p>Completed.</p> <p>Completed. No differences greater than 2 percent were found as a result of applying the procedures.</p>