



# **Department of Veterans Affairs Office of Inspector General**

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## **DEPARTMENT OF VETERANS AFFAIRS FISCAL YEAR 2005 AGREED-UPON PROCEDURES FOR PAYROLL**

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Report No. 05-01096-218

VA Office of Inspector General  
Washington, DC 20420

September 29, 2005

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**DEPARTMENT OF VETERANS AFFAIRS**  
**Office of Inspector General**  
**Washington DC 20420**

MEMORANDUM FOR PATRICK E. McFARLAND  
INSPECTOR GENERAL  
U.S. OFFICE OF PERSONNEL MANAGEMENT

CLARENCE C. CRAWFORD  
CHIEF FINANCIAL OFFICER  
U.S. OFFICE OF PERSONNEL MANAGEMENT

TIM S. McCLAIN  
CHIEF MANAGEMENT OFFICER  
DEPARTMENT OF VETERANS AFFAIRS

FROM: Michael L. Staley  
Assistant Inspector General For Auditing  
Department of Veterans Affairs

SUBJECT: Fiscal Year 2005 Agreed-Upon Procedures for Payroll  
Department of Veterans Affairs

Please find attached the Department of Veterans Affairs (VA) Office of Inspector General's (OIG) Agreed-Upon Procedures report for the fiscal year 2005 Payroll Report as required by Office of Management and Budget Bulletin 01-02, "Audit Requirements for Federal Financial Statements."

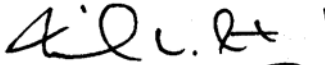
We contracted with the independent public accounting firm, Deloitte and Touche, LLP, to perform the procedures enumerated in the enclosure, which were agreed to by the OIG and the Office of Personnel Management (OPM). The procedures were performed with respect to the employer withholdings and employer contributions reported in the "Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement;" and the "Semiannual Headcount Report."

The report identified three exceptions or differences required to be reported under procedures established by OPM. The exceptions noted for Procedures 2(f) and 2(i) were attributed to VA's method of alternate rounding of VA's contributions in the benefit category. VA management, responding to the prior year findings, revised the VA's ad hoc SAS program used to prepare a report for the auditors. The revised report adequately supported the dollar amounts but did not support the calculation of the headcount reflected on the Semiannual Headcount Report selected for testing (Procedure 5).

This report is intended solely for the use of the VA Chief Financial Officer and OPM, and should not be used by those who have not agreed to, and taken responsibility for, the sufficiency of the procedures for their purposes.

If you have any questions, please contact me or Ms. Marie Maguire, Director, Financial Audit Division, at (202) 565-7013.

Sincerely,

A handwritten signature in black ink, appearing to read "M. L. Staley", with a long horizontal line extending to the right.

MICHAEL L. STALEY

Assistant Inspector General for Auditing

Attachment



**Deloitte & Touche LLP**  
555 12th Street, NW  
Suite 500  
Washington, DC 20004  
USA

Tel: 202-879-5600  
Fax: 202-579-5306  
[www.deloitte.com](http://www.deloitte.com)

## **INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES**

To the Inspector General  
Department of Veterans Affairs

and

To the Inspector General  
U.S. Office of Personnel Management:

At the request of the Department of Veterans Affairs (VA) Office of Inspector General (OIG), we have performed the procedures enumerated below, which were agreed to by the VA OIG and the Chief Financial Officer of the U.S. Office of Personnel Management (OPM), solely to assist the VA OIG and OPM to assess the reasonableness of the employee withholdings and employer contributions reported on the Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement for the payroll periods ended December 30, 2004, March 5, 2005, and April 30, 2005 and the Semiannual Headcount Report as of March 5, 2005.

This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified parties listed above. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

A copy of the Supplemental Semiannual Headcount Report as of March 5, 2005 is included with this report as Appendix A.

The procedures that we performed and our findings are as follows:

### **Procedure 1**

For the three periods selected, compare the SF-2812, "Report of Withholdings and Contributions for Health Benefits, Life Insurance and Retirement" to OPM with payroll information by performing the following procedures:

- (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.
- (b) Recalculate the mathematical accuracy of each SF-2812 submission for the payroll information selected in procedure 1(a).
- (c) Compare the employee withholding information shown on the payroll information obtained in procedure 1(a) for Retirement, Health Benefits, and Life Insurance (as adjusted for reconciling items) to the related amounts shown on the SF-2812 submission for the corresponding period.

Report any differences for Retirement, Health Benefits, and Life Insurance that are over 1 percent of the total reported for each of the three categories. Obtain and report explanations for those differences above the 1 percent threshold.

### **Findings:**

No exceptions required to be reported for procedures 1(a), 1(b) and 1(c).

### **Procedure 2**

For the three periods selected:

- (a) Randomly select a total of 25 individuals who were on the payroll system for all three of the SF-2812 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).
- (b) Obtain the following documents, either in electronic or hard copy format, from the Official Personnel File (OPF) for each individual selected in procedure 2(a). Hard copies can be originals or certified copies.
  - all Notifications of Personnel Actions (SF-50) covering the pay periods in the SF-2812 submissions chosen;

- the Health Benefit Registration Form (SF-2809) covering the pay periods in the SF-2812 submissions chosen (note: a new SF-2809 is only needed 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 SF-2812 submission chosen (note: a new SF-2817 is only needed if an employee is changing life insurance coverage, therefore the form could be many years old).
- (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 procedure 2(a). Compare date of transaction with date on the certified copy of the SF-2809 requested in procedure 2(b). Confirm that the health benefit information to be used in the procedure 2(g) covers the pay periods in the SF-2812 submissions chosen.
- (d) 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.
- (e) For Retirement, compare the plan code on the employees' SF-50 to the plan code used in the payroll system. Report any differences.
- (f) 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.
- (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 a Health Benefits Registration Form (SF-2809) in the employees' OPF or Employee Express. Report any differences.
- (h) 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.
- (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 next highest thousand dollars and add \$2,000. Divide this total by 1,000 and multiply by \$0.150 (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.

- (j) 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.
- (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 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.

### **Findings:**

No exceptions required to be reported for procedures 2(a), 2(b), 2(c), 2(d), 2(e), 2(g), 2(h), 2(j) and 2(k).



For procedure 2(f) the following difference was noted for one (1) individual.

| <b>Retirement Type</b>            | <b>Amount per D&amp;T</b> | <b>Amount per VA</b> | <b>Difference</b> |
|-----------------------------------|---------------------------|----------------------|-------------------|
| FERS Withholding and Contribution | \$214.46                  | \$214.45             | \$0.01            |

For procedure 2(i) the following difference was noted for ten (10) individuals.

| <b>Basic Life Insurance – Withholdings and Contributions</b> |                      |                   |
|--|----------------------|-------------------|
| <b>Amount per D&amp;T</b>                                    | <b>Amount per VA</b> | <b>Difference</b> |
| \$118.40   | \$118.30             | \$0.10            |

### **Management's Response:**

For procedures 2(f) and 2(i), the differences are due to VA's method of alternate rounding of VA's contributions in the benefit category.

### **Procedure 3**

Randomly select a total of 10 employees, who have no Health Benefits withholdings, from the payroll information corresponding to the three SF-2812 submissions selected for testing above. Request SF-2809s covering the pay periods in the SF-2812 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; or
- an SF-2809 in the OPF with Section E checked (indicating cancellation of coverage) and no later election of coverage through Employee Express; or
- cancellation of coverage through Employee Express and no later election of coverage with an SF-2809.

Report any exceptions.

**Findings:**

No exceptions required to be reported for procedure 3.

**Procedure 4**

Randomly select a total of 10 employees who have no Life Insurance withholdings from the payroll information corresponding to the three SF-2812 submissions selected for testing above. Request the SF-2817s covering the pay periods in the SF-2812 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.

**Findings:**

No exceptions required to be reported for procedure 4.

**Procedure 5**

Calculate the headcount reflected on the Semiannual Headcount Report selected for testing above, as follows:

- (a) Obtain existing payroll information supporting the selected Supplemental Semiannual Headcount report. Account for any significant personnel changes that may affect withholdings, contributions, and number of employees enrolled.
- (b) Recalculate the Headcount reflected on the Semiannual Headcount Report.
- (c) Compare the results of payroll information from procedure 5(a) with the calculated headcount from procedure 5(b) to the information shown on the Semiannual Headcount Report.
- (d) Report any differences (i.e., gross rather than net) greater than 2 percent between the headcount reported on VA's Supplemental Semiannual Headcount Report and payroll information from procedure 5(a) and the calculated Headcount from procedure 5(b).

## Findings:

The following differences were noted as exceeding two percent (2%) of the Semi-annual Headcount Report Data:

|                                 | <b>% Difference for<br/>Number of<br/>Employees With<br/>Deductions Made</b> | <b>% Difference for<br/>Number of<br/>Employees With No<br/>Deductions Made</b> |
|---------------------------------|--|---|
| Option B - Additional Life Ins. |  |   |
| a. To Age 35                    | -5%  | -3%   |
| b. 35-39                        | -4%  | -3%   |
| c. 40-44                        | -4%  | -3%   |
| d. 45-49                        | -5%  | -5%   |
| e. 50-54                        | -5%  | -4%   |
| f. 55-59                        | -5%  | -4%   |
| g. 60 & up                      | -4%  |   |
| CSFS Salary Offset              | * [see note below]   |   |
| FERS Military Deposits          | 3%   |   |

\* - The number of deductions per the semi-annual headcount report is 0, while the number of deductions per the SF-2812 is 168, yielding a difference between the reports of 168 persons. The percent variance is unquantifiable, as the denominator is zero.

## Management Response:

VA developed a new report to support the calculation of the amounts and number of deductions reported on the Semiannual Headcount Report. This was to address prior year findings. The new report adequately supported the dollar amounts but is being revised to correct the calculation of the number of deductions.

## **Procedure 6**

Calculate employer and employee contributions for Retirement, Health Benefits, and Life Insurance.

- (a) Calculate Retirement withholdings and contributions for the three pay periods selected, as follows:
  - i. Multiply the CSRS and FERS payroll base by the withholding and employer contribution rates required by law.

- ii. Compare the calculated totals with related amounts shown on the SF-2812 submissions. Report any variances (i.e., gross rather than net) between the calculated amounts and the amounts reported on the SF-2812 submissions greater than 5 percent.
- (b) Calculate employee withholdings and employer contributions for Health Benefits for the three pay periods selected, as follows:
  - 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 result with the Health Benefit withholding and contribution amounts shown on the SF-2812 submissions. Report any variances (i.e., gross rather than net) between the calculated amounts and the amounts reported on the SF-2812 submissions greater than 5 percent.
- (c) Calculate the Basic Life Insurance employee withholdings and employer contributions for the three pay periods selected as follows:
  - i. Have APO personnel perform a payroll system query to determine the total number of employees with Basic Life Insurance Program coverage and the aggregate annual basic pay for all employees with Basic Life Insurance coverage.
  - 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 \$0.150 (for APOs with biweekly pay periods) or \$0.3358 (for APOs with monthly pay periods).
  - iii. Compare the result in procedure 6.c.ii. to the withholdings for Basic Life Insurance coverage reported on the SF-2812 submission. Report any difference (i.e., gross rather than net) between the estimate and the amount of withholdings reported on the SF-2812 submission greater than 5 percent.
  - iv. For agency contributions: Divide the results of procedure 6.c.ii. by two -- to approximate agency contributions, which are one-

half of employee withholdings. Compare the result to the amount reported on the SF-2812 submission. Report any differences (i.e., gross rather than net) between the estimate and the amount of withholdings reported on the SF-2812 submission greater than 5 percent.

(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 SF-2812 reports in procedure 1. In addition to the information used for procedure 1, the reports should include the employee's date of birth, annual rate of basic pay, and number of multiples selected for Option B and C.

- 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 SF-2812 submission for Option A.
- 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:

$(\text{Annual rate of basic pay (rounded up)} / 1000 * \text{rate} * \text{multiples})$ .

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 SF-2812 submission for Option B and/or Option C.

### **Findings:**

No exceptions required to be reported for procedures 6(a), 6(b), 6(c) and 6(d).

\* \* \* \* \*

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and not be used by anyone other than those specified parties.

*Deloitte & Touche LLP*

September 21, 2005

## **APPENDIX A**

### **DEPARTMENT OF VETERANS AFFAIRS**

#### **SUPPLEMENTAL SEMIANNUAL HEADCOUNT REPORT AS OF MARCH 5, 2005**

## Supplemental Semiannual Headcount Report

|  |                      |   |                                       |
|--|----------------------|---|---------------------------------------|
| 1. Address of Payroll Office<br><br>Department of Veterans Affairs<br>Financial Services Center<br>1615 Woodward Street<br>Austin, TX 78772-0001 |                      | 2. Payroll office number<br>3600-0200   | 3. Report Number<br>OPM-006           |
|  |                      | 4. Date payroll paid<br>03/11/05  |                                       |
|  |                      | 5. Pay Period   |                                       |
|  |                      | From<br>02/20/05  | To<br>03/05/05                        |
| 6. To<br><br>Office of Personnel Management<br>ATTN: Funds Management Branch<br>PO Box 582<br>Washington, D.C. 20044-0582                        |                      | 7. Name of preparer (print)<br>Beverly Githens  | 8. Telephone number<br>(512) 460-5219 |
|  |                      | 9. I certify that items listed herein are correct.  |                                       |
|  |                      | Signature of authorized official      Date<br><div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: center;"> <i>Beverly Githens</i> </div> <div style="text-align: center;">         3/12/2005       </div> </div> |                                       |
|  |                      | <b>Number Enrolled</b>  |                                       |
| <b>Benefit Category</b>  | <b>Dollar Amount</b> | <b>Deductions Made</b>  | <b>No Deductions Made</b>             |
| <b>A. Life Insurance</b>   |                      |   |                                       |
| 1. Basic   | 2,595,281.20         | 198,396   | 2,730                                 |
| 2. Standard - Option A   | 112,410.35           | 63,329  | 700                                   |
| 3. Additional - Option B   |                      |   |                                       |
| a. To Age 35   | 38,634.95            | 6,801   | 99                                    |
| b. 35-39   | 65,850.98            | 7,339   | 122                                   |
| c. 40-44   | 149,179.53           | 11,018  | 166                                   |
| d. 45-49   | 309,708.09           | 15,222  | 183                                   |
| e. 50-54   | 561,212.17           | 18,275  | 193                                   |
| f. 55-59   | 742,704.94           | 13,232  | 128                                   |
| g. 60 & up   | 565,408.20           | 5,015   | 47                                    |
| 4. Family- Option C  | 166,035.06           | 72,468  | 939                                   |
| 5. Post-Retirement-Basic   |                      |   |                                       |
| 6. Total Life Insurance  | 5,306,425.47         |   |                                       |
| <b>B. Health Benefits</b>  |                      |   |                                       |
| 1. Regular   | 54,090,824.02        | 177,940   |                                       |
| 2. Payers of Full Premiums   | 115.88               | 1   |                                       |
| 3. Total Health Benefits   | 54,090,939.90        | 177,941   |                                       |



# Supplemental Semiannual Headcount Report

Page 2

|   |           |                          |                       |                               |                    |
|---|-----------|--------------------------|-----------------------|-------------------------------|--------------------|
| Payroll office number<br>3600-0200                |           | Report number<br>OPM-006 |                       | Payroll paid date<br>03/11/05 |                    |
| Benefit Category                                  |           | Dollar Amount            | Aggregate Base Salary | Number Enrolled               |                    |
| C. Retirement                                     |           |                          |                       |                               |                    |
| 1. CSRS   | CPDF Code |                          |                       | Deductions Made               | No Deductions Made |
| a. Regular Withholdings                           | 1,R       | 7,186,318.79             | 100,492,550.95        | 41,366                        | 288                |
| b. Regular Contributions                          | 1,R       | 7,182,824.70             |                       |                               |                    |
| c. Special Withholdings                           | 6,T       | 12,989.87                | 163,759.92            | 71                            | 0                  |
| d. Special Contributions                          | 6,T       | 12,989.87                |                       |                               |                    |
| e. Reg W/H - Offset Emp                           | C         | 123,030.15               | 11,170,316.48         | 5,515                         | 58                 |
| f. Reg Cont - Offset Emp                          | C         | 862,879.99               |                       |                               |                    |
| g. Special W/H - Offset Emp                       | E         | 149.92                   | 8,860.16              | 4                             | 0                  |
| h. Special Cont - Offset Emp                      | E         | 734.42                   |                       |                               |                    |
| i. Salary Offset                                  |           | 106,357.28               |                       |                               | ** 9               |
| j. Military Deposits                              |           | 111,090.94               |                       | ** 693                        |                    |
| k. Civilian Service Credit                        |           | 14,661.67                |                       | ** 117                        |                    |
| 2. FERS   |           |                          |                       |                               |                    |
| a. Regular Withholdings                           | K         | 2,985,541.48             | 355,583,317.42        | 179,058                       | 2,902              |
| b. Regular Contributions                          | K         | 41,820,026.94            |                       |                               |                    |
| c. Reserve Tech W/H                               | N         | 0.00                     | 0.00                  | 0.00                          | 0.00               |
| d. Reserve Tech Contrib                           | N         | 0.00                     |                       |                               |                    |
| e. AT Controller W/H                              | L         | 0.00                     | 0.00                  | 0.00                          | 0.00               |
| f. AT Controller Contrib                          | L         | 0.00                     |                       |                               |                    |
| g. Law&Firefighter W/H                            | M         | 9,407.05                 | 649,780.09            | 299                           | 11                 |
| h. Law&Firefighter Contrib                        | M         | 172,220.18               |                       |                               |                    |
| i. Salary Offset                                  |           | 31,271.38                |                       |                               | ** 0               |
| j.  |           |                          |                       |                               |                    |
| k. Military Deposits                              |           | 204,228.62               |                       | ** 3564                       |                    |
| 3. Total Retirement                               |           | 60,836,723.25            |                       | 226,313                       | 3,259              |
| D. Grand Total (Dollars)                          |           | 120,234,088.62           |                       |                               |                    |
| E. Total Employees (and/or Annuitants) on Payroll |           |                          |                       | 229,572                       |                    |

\* Memo entry only (do not include on line 3, Total Retirement)