

February 17, 2005



# Financial Management

DoD Civilian Payroll Withholding  
Data for FY 2004  
(D-2005-036)

Department of Defense  
Office of the Inspector General

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### **Acronyms**

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



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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February 17, 2005

MEMORANDUM FOR DEPARTMENT OF THE ARMY  
DEPARTMENT OF THE NAVY  
DEPARTMENT OF THE AIR FORCE  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Report on DoD Civilian Payroll Withholding Data for FY 2004  
(Report No. D-2005-036)

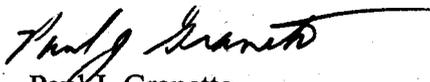
We are providing this report for review and comment. The Department of the Navy, Department of the Air Force, and Defense Finance and Accounting Service comments conformed to the requirements of DoD Directive 7650.3; therefore, additional comments are not required. The Department of the Army did not respond to the draft report. We considered management comments when preparing the final report.

Government Accountability Office Government Auditing Standards require that management provide comments on the draft report. The Department of the Army did not provide comments; therefore, we request that the Army provide comments on this final report by March 18, 2005.

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

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Douglas P. Neville at (703) 428-1061 (DSN 328-1061) or Mr. Thomas J. Winter at (703) 428-1270 (DSN 328-1270). See Appendix C for the report distribution. We have listed the team members inside the back cover.

By direction of the Deputy Inspector General for Auditing:

  
Paul J. Granetto  
Assistant Inspector General  
Defense Financial Auditing  
Service

cc: KPMG

# Department of Defense Inspector General

Report No. D-2005-036

(Project No. D2004FH-0046)

February 17, 2005

## DoD Civilian Payroll Withholding Data for FY 2004

### Executive Summary

**Who Should Read This Report and Why?** This report is intended for use of the Inspector General and the Chief Financial Officer of the Office of Personnel Management and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. The report discusses the results of agreed-upon audit procedures developed for the Office of Personnel Management.

**Background.** Office of Management and Budget Bulletin No. 01-02, October 16, 2000, requires all Federal agencies to review their civilian employee retirement, health benefits, and life insurance payroll withholdings. The Office of Personnel Management Inspector General and 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.

**Results.** The payroll withholding amounts and total payroll amounts that the Defense Finance and Accounting Service reported to the Office of Personnel Management did not exactly match the supporting detail Defense Finance and Accounting Service provided for our analysis. However, the differences are less than the thresholds prescribed in the agreed-upon procedures. This is a repeat issue from prior Department of Defense Inspector General audits. For details of the analysis, see the Independent Auditor's Report and Attachment.

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

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

We compared Forms 592, used for Payroll Certification and Summary, with the total payroll amounts in the payroll files. We found significant discrepancies (see the attached Independent Auditor's Report). The discrepancies were similar to those for FY 2003 and indicate that DFAS did not fully implement recommendations made in our FY 2003 audit report, although DFAS concurred with the recommendations. DFAS officials explained

that the errors occurred when at least one technician downloaded the Forms 592 twice, causing the computer to double the amounts in the reports. DFAS officials also stated that their personnel did not reconcile the reports to payroll before reporting to DFAS Cleveland and before signature by the Director of Civilian Payroll Operations. Defense Finance and Accounting Service should reconcile the Forms 592 to payroll prior to certifying that the payroll is correct and proper for payment, and should download the Forms 592 only once for the payroll-certifying officer's signature.

In addition, the Defense Finance and Accounting Service and supporting DoD organizations could improve management controls over the accuracy of the payroll amounts withheld and remitted to the Office of Personnel Management. The withholding amounts we calculated while performing the agreed-upon procedures differed from the withholding amounts presented in Defense Finance and Accounting Service reports. We compared Forms 2812, used for reporting the withholding and contribution for health benefits, life insurance, and retirement. The differences for retirement, life insurance and health were less than the reporting threshold criteria of 1 percent established in the agreed-upon procedures for these categories.

**Management Comments and Audit Response.** The Navy and Air Force concurred with the finding and provided management comments that are responsive. The Defense Finance and Accounting Service concurred with the recommendations and cited guidance that is intended to preclude the erroneous payroll reporting and certification. However, the guidance was effective before FY 2004, most recently updated in March 2003. Compliance with this guidance would result in payroll amounts being reconciled and properly certified, and data for Form 592 being downloaded only once. The Defense Finance and Accounting Service stated that computer software incompatibility may have created the appearance of inaccurate data when the data had been reported correctly. We will examine this issue in a future audit. The Department of the Army did not provide comments on the draft of this report; therefore, we request that the Army provide comments on this final report by March 18, 2005. We included the full text of the Navy, Air Force, and DFAS comments in the Management Comments section of this report.

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# Independent Auditor's Report

## Overview

We performed the procedures described in the attachment, which were agreed to by the U.S. Office of Personnel Management (OPM) Inspector General and Chief Financial Officer. The procedures were designed to compare records 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 October 4, 2003; December 27, 2003; February 21, 2004; and March 6, 2004; and Semiannual Headcount Reports as of February 21, 2004, and March 6, 2004. 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 the Office of Personnel Management (OPM) Inspector General and Chief Financial Officer. Consequently, we make no representation regarding the sufficiency of the procedures described in the attachment either for the purpose for which this report has been requested or for any other purpose.

**Comparison of Amounts Withheld and Remittance to OPM.** The Defense Finance and Accounting Service (DFAS) and supporting DoD organizations have improved management controls over the accuracy of the payroll amounts withheld and remitted to OPM. We performed the agreed-upon procedures to compare the amounts withheld from employees' pay with the amounts DFAS reported withheld from employees' pay. The amounts differed slightly, however, the differences were less than the threshold criteria prescribed in the agreed-upon procedures.

**Payroll File Totals.** We totaled the sampled payroll files that included about 623,000 employees within a given pay period, with a total gross payroll of about \$5.5 billion for the four pay periods we reviewed. The payroll withholding amounts DFAS reported to OPM exceeded the totals (footings) of the DFAS database (the amounts actually withheld) by \$344,330 for an overall error rate of 0.06 percent. This is an improvement from FY 2003, when the payroll amounts DFAS reported to OPM exceeded the footings of the DFAS database by \$2.243 million, for an overall error rate of 0.65 percent. The dollar differences found this year are less than those of last year, and are not material with respect to the DoD financial statements. However, the differences, which range as high as 5.36 percent for life insurance withholdings on one payroll file for one pay period, represent a material management control weakness in the preparation and reporting of DoD payroll, if only because of the sensitivity of payroll. Management should have addressed this material weakness in response to recommendations in prior audit reports. The differences for retirement, health, and life insurance were less than the reporting threshold criteria of 1 percent established in the agreed-upon procedures. However, one of the discrepancies (out of 16 comparisons) for life insurance exceeded the reporting threshold criteria.

**Payroll Certification and Summary.** The total of the gross payroll amounts in the payroll files was \$5.46 billion. However, the totals of the amounts on the

Forms 592, "Payroll For Personnel Services Payroll Certification and Summary" originally provided by DFAS, was \$5.79 billion. Comparisons of the four files for four pay periods showed:

- One of the Forms 592 exceeded payroll 380100 by \$337 million (approximately 100 percent),
- Three of the Forms 592 exceeded the payroll files by a multiple of \$100,000 and these accounted for a \$700,000 difference,
- Nine of the Forms 592 matched the payroll files exactly, and
- The remaining three comparisons resulted in an immaterial difference of \$4,720.46.

DFAS personnel explained that the 100 percent difference was due to the Form 592 being downloaded twice for the Director's signature. DFAS personnel also stated that DFAS Pensacola did not fully reconcile these Forms 592 before reporting the amounts to DFAS Cleveland, and before the Payroll Certifying Officer signed them. DFAS personnel further stated that the three differences in multiples of \$100,000 were due to data truncation in the payroll file data provided for our analysis. These discrepancies were similar to those for FY 2003, and indicate that DFAS did not fully implement recommendations made in our FY 2003 audit report, although DFAS concurred with the recommendations last year.

**Comparison of Payroll System Data to Official Personnel Files.** We compared a sample of 180 employees' pay and withholdings from the 4 payroll data files to documentary support for amounts recorded in Official Personnel Files (OPF). This comparison resulted in 25 discrepancies from 14 of the OPFs.<sup>1</sup>

<b>FY 2004 Withholding Data Discrepancies for 180 Personnel Files Sampled</b>		
<u>Type of Discrepancy</u>	<u>Number of Items</u>	<u>Percent of 180 Items</u>
Correct File Documentation	155	86.11%
Thrift Savings	10	5.55%
Gross Pay	5	2.78%
FERS Employees	4	2.22%
Life Insurance	3	1.67%
CSRS Employees	2	1.11%
Health Benefits	<u>1</u>	<u>.56%</u>
<b>Total</b>	<b>180</b>	<b>100.00%</b>

<sup>1</sup>Based on agreed-upon procedures, we selected a sample of 180 employees in accordance with criteria stated in OMB Bulletin No. 01-02. We do not intend to project the results of our testing across the entire population.

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**Causes of Discrepancies.** Five inconsistencies between SF-50, “Notification of Personnel Action,” data in the OPF and gross pay data in the pay system caused 14 of the 25 discrepancies. Inconsistencies between TSP withholding in the pay system and the amounts indicated on the TSP-1 election forms accounted for another seven discrepancies, all caused by missing election forms. Missing life insurance forms caused another two discrepancies. One discrepancy was the result of an erroneous health deduction and one discrepancy was caused by a calculation error in an employee’s Civil Service Retirement System (CSRS) deduction.

**Personnel Documents from Databases.** During our review of the 180 employee sample files, we identified 22 OPFs with what appeared to be discrepancies. We provided the Army, Navy, Air Force, and Defense agencies with the names, social security numbers, and the nature of the discrepancies for each of the 22 files. The Army, Navy, Air Force, and Defense agencies later provided us with forms printed from personnel file databases that explained differences between data in 17 of the OPFs and data in the Defense Civilian Pay System (DCPS). We accepted personnel documents generated from personnel file databases that completely explained differences between data in eight of the OPFs and data in DCPS. However, data in 14 of the 22 OPFs still had unresolved discrepancies from data in the DCPS. Relying on the documents printed by the Military Departments and Defense agencies for our use, we reclassified eight OPFs with explained inconsistencies to “samples that were corrected at a later date.” Of the eight files we reclassified as correct:

- one was from the Air Force,
- one was from the Army,
- two were from the Navy, and
- four were from Defense agencies

The Army, Navy, and Defense agencies were unable to clarify 14 out of 22 OPFs with potential discrepancies despite additional documentation. The 14 OPFs with discrepancies remaining are included in the total of 25 differences discussed in the paragraph “Comparison of Payroll System Data to Official Personnel Files” on page 2 of this report.

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

**Life Insurance.** Our recalculation of basic life insurance from the payroll data files supported the amounts reported to OPM for all payroll offices with more than 30,000 employees. The overall calculated amount of \$17.485 million was \$0.115 million different from the \$17.6 million DFAS reported to OPM. The difference between the amounts we calculated and the amounts DFAS reported to OPM (0.66 percent) did not exceed the 5-percent reporting threshold for this recalculation.

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**Health Insurance.** Our recalculations of health insurance withholdings from the 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 0.31 and 0.85 percent in total, including employee withholding and agency contributions for each payroll file. This was much lower than the agreed-upon procedures reporting threshold of 5 percent for health insurance variances.

**Comparison of Amounts Transferred.** We compared DFAS records with OPM documentation for the total dollar amounts transferred for the payroll periods sampled. We found that all the amounts reported by the DCPS equaled the amounts reported by the OPM Retirement and Insurance Transfer System (RITS). All of the amounts reported by the DCPS for FY 2003 also equaled the amounts reported by the OPM Retirement and RITS. DFAS maintains a CD-ROM snapshot every month of what they report to OPM, based on prior audit recommendations that we made.

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 DoD. 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.

This report is intended solely for use by the Office of Personnel Management (OPM) Inspector General and Chief Financial Officer. This report is prepared in the format directed by Office of Management and Budget Bulletin No. 01-02, October 16, 2000, to address the results of the agreed-upon procedures. Accordingly, this report should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes. In FY 2002, OMB guidance added an additional requirement that we obtain management comments on this report. The payroll files we analyzed are identified as 100 (Denver), 500 (Pensacola), 600 (Charleston), and 800 (Denver). Appendix A discusses our scope and methodology for accomplishing the agreed-upon procedures.

## **Management Comments on the Finding and Audit Response**

**Department of the Navy Comments.** The Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred and stated that its Human Resources Service Centers and DFAS continue to work together to improve the quality and accuracy of payroll data.

**Department of the Air Force Comments.** The Air Force Assistant Deputy Chief of Staff, Personnel concurred and commented that the Air Force does not use Employee Express; therefore, the discussion of Employee Express does not apply to the Air Force. Additionally, he stated that it had implemented management control recommendations from previous audit reports, as evidenced by the absence of discrepancies in the Air Force portion of the audit sample.

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**Audit Response.** We understand that the Air Force does not use Employee Express. Employee Express was the term used in the text of the agreed-upon procedures. We agree that the absence of discrepancies in the Air Force portion of the audit sample is indicative of improved management controls in official personnel file management.

## **Recommendations, Management Comments, and Audit Response**

**We recommend that the Director, Defense Finance and Accounting Service:**

**1. Reconcile amounts reported on Forms 592, Payroll Certification and Summary, to total payroll before certifying that the payroll is correct and proper for payment.**

**Management Comments.** The Defense Finance and Accounting Service Director of Military and Civilian Pay Services concurred and stated that detailed procedures are in place to provide instructions on balancing payroll prior to certification, and the DCPS Users' Manual provides additional guidance to assist payroll office personnel. Supervisors will be responsible for verifying the technicians' work before certifying the Form 592. In addition, DFAS added a management control to monitor the process quarterly. The estimated completion date was January 31, 2005.

**Audit Response.** Defense Finance and Accounting Service procedures do provide sufficient instructions for balancing and certifying the payroll amounts. These instructions were, however, in effect during all of FY 2004, having been updated in March 2003. If DFAS personnel fully complied with the instructions, the payroll would have been in balance, correct, and properly certified.

**2. Download Forms 592 only once for signature of the payroll certifying officer.**

**Management Comments.** The Defense Finance and Accounting Service Director of Military and Civilian Pay Services concurred and stated that desk procedures provide detailed instructions on balancing payroll prior to certification, including downloading the Form 592 only once.

**Audit Response.** The desk procedures, most recently updated in March 2003, include a requirement to download the Form 592 only once. However, at least one technician downloaded the data twice, and management did not catch the error before certifying the data to be correct. If Defense Finance and Accounting Service personnel fully complied with the instructions, they would have downloaded the data only once and, even if data was erroneously downloaded twice, management would have caught and corrected the error.

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## Agreed-Upon Procedures and Associated Findings

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

**Procedure.** Obtain the Agency Payroll Office's March Semiannual Headcount Report submitted to OPM and a summary of Retirement Insurance Transfer System (RITS) submissions for the current fiscal year. For retirement, health benefits, and life insurance, select any three RITS submissions for the current fiscal year, one of which coincides with the March Semiannual Headcount Report. Obtain Payroll information for the periods covered by the RITS submissions selected.

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

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.** DFAS extracted all four of the payroll data files from the payroll history database and sent them to us by compact disc from its Pensacola, Florida, operating location. We totaled the 16 payroll data files (4 payroll files for 4 pay periods) with about \$5.5 billion in total pay and about 623,000 employees in each payroll period. We totaled the CSRS withholdings, FERS withholdings, health insurance withholdings, and life insurance withholdings. The total withholding amounts we calculated using data DFAS provided were \$125.3 million for CSRS, \$25 million for FERS, \$150 million for health insurance, and \$48.5 million for life insurance.

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

**Auditor Action.** We recalculated the mathematical accuracy of each RITS submission for the payroll information for the payroll periods ended October 4, 2003; December 27, 2003; February 21, 2004; and March 6, 2004. OPM provided copies of the RITS submissions that we used for recalculation of the mathematical accuracy.

**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.** We compared the employee withholding totals to the related amounts shown on the RITS submission for retirement, health benefits, and life insurance, as evidenced by a Form 2812 OPM produced from the RITS database. The payroll data file totals for Civilian Service Retirement System (CSRS) were nearly equal to the related amounts shown on the RITS submission for the corresponding period (only 0.09 percent difference). The payroll data file totals for Federal Employees Retirement System (FERS) resulted in a difference of less

than 0.01 percent, and for health benefits resulted in no difference, and were nearly equal to amounts related to the amounts shown on the RITS submission for the corresponding period. The payroll data file totals for life insurance were also nearly equal to the related amounts shown on the RITS submission for the corresponding period (0.49 percent difference). The total of differences, percentage of differences, and high/low percentage of differences of individual payroll data files are shown in Table 1.

**Table 1. Differences Between Payroll Data Files and RITS Data Submissions**

<u>Type of Withholding</u>	<u>Reported to OPM in RITS</u>	<u>Total of Differences</u>	<u>Percent Difference</u>	<u>High/Low Percent</u>
CSRS	125,188,597	106,915	0.09	0.13/0.07
FERS	24,997,869	4	<0.01	<0.01/0.00
Health	154,025,982	-726	0.00	0.00/0.00
Life	\$ 48,300,658	\$238,147	0.49	5.36/0.00

DFAS provided us with an electronic extract from its database. The differences in FY 2004 are less than those for FY 2003, and are not material with respect to the DoD financial statements. However, the differences represent a significant management control weakness, considering the sensitivity of payroll. One individual comparison for payroll files, by pay period, for life insurance was higher than the reporting threshold, at 5.36 percent.

**Procedure.** 2.a. Randomly select a total of 25 individuals who were on the payroll system for all 3 of the RITS submissions selected and meet all the following criteria:

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

**Auditor Action.** We randomly selected 25 individuals from each of 4 payroll data files in DoD with more than 30,000 employees who were enrolled in Federal retirement, health benefits, and life insurance programs.

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

- all Notifications of Personnel Actions (SF-50) covering the pay periods in the RITS submissions chosen;

- 
- the Health Benefit Registration Form (SF-2809) covering the pay periods in the RITS submissions chosen (note: a new SF-2809 is needed only if an employee is changing health benefit plans; therefore, the form could be many years old); and
  - the Life Insurance Election Form (SF-2817) covering the pay periods in the RITS submission chosen (note: a new SF-2817 is needed only if an employee is changing life insurance coverage; therefore, the form could be many years old).

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

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

**Auditor Action.** We requested copies from the agency personnel office of any automated health benefits elections (SF-2809) that could explain differences between OPFs and DCPS. The Army provided copies of personnel documents from the Army Benefits Center, and we directly accessed the Personnel Automated Records Information System for Air Force personnel documents.

**Procedure.** 2.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 employee's SF-50. Report any differences.

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

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

**Auditor Action.** We compared the plan codes on the employees' SF-50s to the plan codes used in the payroll system. We did not note any differences between the retirement plan codes on the employees' SF-50s and the retirement plan codes used in the payroll system.

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

**Auditor Action.** We calculated the retirement amount to be withheld and contributed for the plan codes from the employees' SF-50s, based on the official withholding and contribution rates required. We compared the retirement amounts we calculated to actual amounts withheld and contributed for Civil Service Retirement System (CSRS) participants and Federal Employee

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Retirement System (FERS) participants. We encountered discrepancies in two CSRS retirement amounts withheld. The discrepancies were the result of one error in the calculation of gross pay and one error in the calculation of retirement withholding. We also found a total of four FERS retirement withholding errors. All four errors were the result of errors in the calculation of gross pay.

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

**Auditor Action.** We obtained the official subscription rates for Health Benefits issued by OPM for all plans and options available to Federal employees. We compared the employee withholdings and agency contributions with the official subscription rates issued by OPM for the plans and options elected by the employees, as documented by Health Benefits Registration Forms (SF-2809) in the employees' OPFs. We found one health withholding error, which was the result of an improper payroll deduction for the given health plan.

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

**Auditor Action.** We reviewed evidence for Life Insurance election by reviewing Life Insurance Election Forms (SF-2817). In all cases basic life insurance elections were properly documented.

**Procedure.** 2.i. Calculate the withholding and contribution amounts for basic life insurance using the following:

- For employee withholdings: Round the employee's annual base salary to the nearest thousand dollars and add \$2,000. Divide this total by 1,000 and multiply by \$0.155 (for Agency Payroll Offices with biweekly pay periods) or \$0.3358 (for Agency Payroll Offices with monthly pay periods).
- For agency contributions: Divide the employee withholdings calculated above by two.

**Auditor Action.** We calculated the withholding and contribution amounts for basic life insurance by rounding the employee's annual base salary to the nearest thousand dollars and adding \$2,000. For Federal Wage System employees we added environmental differential to the base salary in determining wages eligible for life insurance. We identified no discrepancies during our review of basic life insurance withholdings.

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

**Auditor Action.** We obtained SF-2817 documents directly from employees' OPFs and electronic personnel data files. We obtained life insurance optional

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coverage data from DCPS. We compared optional life insurance coverage elected as documented on the SF-2817s with optional life insurance coverage as recorded in the DCPS. We identified one instance where DCPS had optional life insurance coverage but the employee's OPF supported a basic-only election. We also found one instance where DCPS had not recorded optional life insurance coverage for an employee who elected optional coverage. These differences led to monetary errors of \$8.82 and \$16.30, respectively.

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

- For Option A: Determine the employees' age group using the age groups provided for Option A in the FEGLI Program Booklet. The withholding amount is the rate listed in the FEGLI Program Booklet for that age group. Compare to amount withheld. Report any differences.
- For Option B: Inspect the SF-2817 to determine the number of multiples chosen for Option B. Determine the employee's age group using the age groups provided for Option B in the FEGLI Program Booklet. Round the employee's annual rate of basic pay up to the next 1,000, divide by 1,000, and multiply by the rate for the age group. Multiply this amount by the number of multiples chosen. Compare 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 the amount withheld. Report any differences.

**Auditor Action.** We calculated the amounts for optional life insurance. In addition to the errors noted under 2.j., we identified one additional optional life insurance error. The error was for \$.96 and was due to a systematic gross pay error. In total we identified three life insurance errors.

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

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.** We randomly selected 10 employees per payroll data file who had no health benefit withholdings from the payroll information corresponding to the RITS submissions selected for testing. We reviewed the OPFs and electronic personnel databases for SF-2809s. We inspected the documentation to determine if the employee elected health benefit coverage. We found no indication of election of coverage either in OPFs or in electronic files for employees who had no health benefit withholdings.

**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. Request the SF-2817s covering the pay periods in the RITS submissions chosen, either in electronic or hard copy format, from the selected employees' OPFs. Hard copies can be originals or certified copies. Inspect the SF-2817 to determine that the employee waived or canceled Basic Life Insurance coverage. Report any exceptions.

**Auditor Action.** We randomly selected 10 employees per payroll data file who had no life insurance withholdings according to the DCPS corresponding to the three RITS submissions selected for testing. We requested, obtained, and reviewed the SF-2817s covering the pay periods in the RITS submissions chosen. We inspected the SF-2817s in all instances when the coverage was waived. We did not note any discrepancies.

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

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

- Benefit category (see Semiannual Headcount Report),
- Dollar amount of withholdings and contributions,
- Number enrolled (deductions made/no deductions),
- Central personnel data file code, and
- Aggregate base salary.

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.

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

5.d. Report any differences (e.g., gross rather than net) greater than two percent between the headcount reporting on the agency's Semiannual Headcount Report and payroll information from step 5.a. and the calculated headcount from step 5.b.

**Auditor Action.** We obtained the DFAS supplemental Semiannual Headcount Reports (see Table 2) for the pay periods ended March 6, 2003, for Payroll Offices 100, 500, and 600 and February 21, 2004, for Payroll Office 800. We compared those headcount reports to the payroll data files from DFAS-Pensacola for the same period.

**Table 2. Comparison of Employee Headcounts**

<u>Payroll Data File</u>	<u>Report Date</u>	<u>Headcount per Payroll Data Files</u>	<u>Employee Headcount Report</u>	<u>Difference</u>
97380100	3/6/2004	161,037	161,037	0
97380500	3/6/2004	88,956	88,957	1
97380600	3/6/2004	150,814	150,814	0
97380800	2/21/2004	<u>219,805</u>	<u>219,807</u>	<u>2</u>
<b>Totals</b>		<b>620,612</b>	<b>620,615</b>	<b>3</b>

The counts in the payroll data files differed from the headcount reports by three employees, which is under the reporting threshold of 2 percent.

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

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

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

6.a.ii. Compare the calculated totals with related amounts shown on the RITS submissions. Report any variances (e.g., 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.** We calculated the total CSRS and FERS retirement employee withholdings and employer contributions for the pay periods ended March 6, 2004, for the three payroll entities 380100, 380500, and 380600; and February 21, 2004, for the one payroll entity 380800. Employee withholding rates for CSRS and FERS were 7.0 percent and 0.8 percent respectively. Employer contribution rates for CSRS and FERS were 7.0 percent and 10.7 percent respectively. The differences between the calculated total of CSRS and FERS employee retirement withholdings and employer contributions, and the related amounts shown on the RITS submission, are shown in Tables 3 and 4.

**Table 3. Comparison Between CSRS and FERS Employee Withholding As Reported by DFAS and RITS Information**

Data File	RITS CSRS	CSRS DFAS	Percent Difference	RITS FERS	FERS DFAS	Percent Difference
	Calculated Withholding	Employee Withholding		Calculated Withholding	Employee Withholding	
100	\$ 6,890,515	\$ 6,898,848	-0.12%	\$1,266,801	\$1,266,811	0.00%
500	4,796,738	4,802,858	-0.13%	829,155	829,163	0.00%
600	8,668,844	8,677,515	-0.10%	1,616,617	1,616,594	0.00%
800	10,749,298	10,765,986	-0.16%	1,748,155	1,748,106	0.00%
<b>Totals</b>	<b>\$31,105,394</b>	<b>\$31,145,206</b>	<b>-0.13%</b>	<b>\$5,460,727</b>	<b>\$5,460,674</b>	<b>&lt;-0.01%</b>

**Table 4. Comparison Between CSRS and FERS Employer Contribution As Reported by DFAS and RITS Information**

Data File	RITS CSRS	CSRS DFAS	Percent Difference	RITS FERS	FERS DFAS	Percent Difference
	Calculated Contribution	Employer Contribution		Calculated Contribution	Employer Contribution	
100	\$ 7,267,963	\$ 7,265,313	0.04%	\$16,943,463	\$16,943,401	0.00%
500	5,139,873	5,140,549	-0.01%	11,089,941	11,089,949	0.00%
600	9,150,183	9,148,232	0.02%	21,622,246	21,622,111	0.00%
800	11,445,398	11,439,896	0.05%	23,381,570	23,381,558	0.00%
<b>Totals</b>	<b>\$33,003,417</b>	<b>\$32,993,990</b>	<b>0.03%</b>	<b>\$73,037,221</b>	<b>\$73,037,020</b>	<b>0.00%</b>

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

**Auditor Action.** We obtained the number of employees enrolled in each health insurance plan for each payroll data file from data provided by DFAS as RITS submissions. We obtained the official subscription rates for health benefits issued by OPM for all plans and options available to Federal employees from the OPM website. We extended and added totals and compared the results with the health insurance withholdings and contribution amounts shown on the OPM Collection and Deposit System Standard Form 2812. All of the payroll offices had variances below the 5-percent reporting threshold for this comparison.

**Procedure.** 6.c. Calculate the Basic Life Insurance employee withholdings and employer contributions for the three pay periods selected.

**Auditor Action.** We totaled the amount of gross pay eligible for basic life insurance for the employees in each payroll file. We divided this sum by 80 and multiplied by 2,087 to determine annual gross earnings of employees electing basic life insurance coverage. We used data from DCPS to obtain a count of the number of employees electing basic life insurance for each payroll file. We multiplied 2,000 times the number of employees electing basic life and added the result to gross pay eligible for basic life insurance. We multiplied the total times 15.5 cents per thousand to estimate basic life withholding, and compared the result with the withholding amounts shown on the OPM Collection and Deposit

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System Standard Form 2812. All payroll offices' discrepancies are below the 5-percent reporting threshold for this comparison.

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

**Procedure.** 6.d. Calculate the Option A, Option B, and Option C Life Insurance coverage withholdings for the three pay periods selected by using detail payroll reports used to reconcile the RITS reports in Step 1.

**Auditor Action.** We obtained the number of participating employees from DFAS for each payroll data file. We totaled the individual withholding for Option A, Option B, and Option C for each payroll data file and each date. After comparison we determined 15 out of the 16 comparisons to be within the 2 percent withholding threshold. Payroll office 9730800 yielded a difference of \$238,189.12, or 10 percent greater than the amount on the RITS submission for Option B during pay period ended December 27, 2003. This difference is significantly greater than the 2-percent withholding threshold for this comparison.

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## Appendix A. Scope and Methodology

We reviewed data and documentation supporting \$2.3 billion in payroll withholdings reported each year by DFAS to OPM for DoD civilian personnel. The total annual payroll for the 690,000 DoD civilian employees is about \$38 billion. We selected for review the payroll files and supporting documentation for the pay periods that ended October 4, 2003; December 27, 2003; February 21, 2004; and March 6, 2004.

We reviewed data and documentation supporting gross pay and payroll withholdings that DFAS reported to OPM for the four pay periods ended October 4, 2003; February 21, 2003; February 21, 2004; and March 6, 2004. We also reviewed management controls over the reporting process. We compared the payroll data files with employee personnel forms for 180 randomly selected employees for gross pay, retirement, health insurance, and life insurance.

We performed the agreed-upon procedures required by OMB, including verification of the payroll data file totals and recalculations of insurance and retirement withholdings. We performed additional procedures based on generally accepted government auditing standards that we considered necessary in the circumstances.

**Use of Computer-Processed Data.** We did not evaluate the general and application controls of the DCPS that processes payroll data, although we did rely on data produced by that system to conduct the audit. We determined data reliability by totaling the data provided to us from the system and comparing the totals to summary documents previously prepared from the system. DFAS maintains CD-ROMs for support of each transfer of funds to OPM because the DFAS database system cannot provide the snapshot of information needed. DFAS is implementing a data warehouse system that should be able to provide the data in the future. Not evaluating the controls did not affect the results of the application of the agreed-upon procedures.

**Use of Technical Assistance.** A computer specialist from the Information Technology Services Division in the Department of Defense Office of Inspector General provided assistance in converting the DFAS payroll history database into a database capable of performing queries.

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

### Management Control Program Review

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

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

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

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

The inadequate controls did not ensure the:

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

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

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

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## **Appendix B. Prior Coverage**

The Department of Defense Inspector General (DoD IG) and the Air Force Audit Agency (AFAA) have conducted multiple reviews related to civilian payroll information, controls over the payroll process, and payroll expenses. Unrestricted DoD IG reports are on the Internet at [www.dodig.osd.mil/audit/reports](http://www.dodig.osd.mil/audit/reports). Unrestricted Air Force Audit Agency reports are on the Internet at [www.afaa.hq.af.mil](http://www.afaa.hq.af.mil).

### **DoD IG**

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

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

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

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

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

### **Air Force Audit Agency**

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

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

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

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

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

### **Department of the Army**

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

### **Department of the Navy**

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

### **Department of the Air Force**

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

### **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Information Systems Agency  
Director, Defense Logistics Agency  
Director, Defense Commissary Agency  
Director, Defense Contract Management Agency  
Director, Defense Information Systems Agency  
Director, Defense Security Agency  
Director, National Geospatial Intelligence Agency  
Director, DoD Education Activity  
Director, Civilian Personnel Management Services  
Director, Washington Headquarters Service  
Director, Pentagon Force Protection Agency

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## **Non-Defense Federal Organizations**

Office of Management and Budget  
Office of Personnel Management

## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

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



# Department of the Navy Comments



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

DEC 3- 2004

MEMORANDUM FOR INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

Subj: REPORT ON DEPARTMENT OF DEFENSE CIVILIAN PAYROLL  
WITHHOLDING DATA FOR FISCAL YEAR 2004 (PROJECT  
NO. D2004FH-0046)

In response to your letter of October 1, 2004, the Department of Navy concurs with the findings and recommendations of the subject report.

We are encouraged by improvements in payroll accuracy made by Defense Finance and Accounting Service (DFAS) noted in the report. Our Human Resources Service Centers and our servicing DFAS payroll office in Charleston, South Carolina continuously monitor transaction processing for our civilian employee work force.

We will continue to work with DFAS to improve the quality and accuracy of our shared processes. By continuing our collaboration, we can sustain our progress in improving the quality and accuracy of data reported to the Office of Personnel Management and other external agencies.

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

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

# Department of the Air Force Comments



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

06 DEC 2004

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

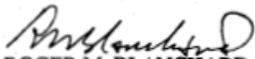
FROM: HQ USAF/DP  
1040 Air Force Pentagon  
Washington DC 20330-1040

SUBJECT: Report on DoD Civilian Payroll Withholding Data for FY 2004  
(Project No. D2004FH-0046) (Your Memo, 1 October 2004)

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

Since all Air Force discrepancies were corrected and/or rectified on the spot we concur with your findings and recommendations. However we have a few minor comments regarding subject draft report. There are references on pages 7, 8, and 10 of subject report to Employee Express. The Air Force and most (if not all) of DoD uses the Employee Benefits Information System (EBIS). The Air Force participated in the "test" of Employee Express in 1996-1997, but the decision to develop our own system resulted in no further participation in Employee Express. Furthermore, there is no interface between Employee Express and EBIS. For agencies using Employee Express, see <http://www.opm.gov/insure/03/html/ee.asp>.

In regard to the "Adequacy of Management Controls" on page 15 of subject report, the Air Force implemented this management control recommendation from previous reports. To this end, the Air Force continues to have no discrepancies. Our point of contact for this review is Ms. Lynda Lake at 703-692-4521.

  
ROGER M. BLANCHARD  
Assistant Deputy Chief of Staff, Personnel

cc:  
SAF/FMPF  
HQ AFPC/DPCB

# Defense Finance and Accounting Service Comments



**DEFENSE FINANCE AND ACCOUNTING SERVICE**  
8899 EAST 56TH STREET  
INDIANAPOLIS, INDIANA 46249

NOV 29 2004

DFAS-P/IN

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

SUBJECT: Requested Comments to Recommendation Nos. 1 and 2 in the DoDIG Draft  
Report, "DoD Civilian Payroll Withholding Data for FY 2004", dated  
October 1, 2004 (Project No. D2004FH-0046).

Per your request, attached are our comments to the subject draft report  
recommendations.

Questions your staff may have concerning these matters may be directed to my point of  
contact, Ms. Sandra Barrineau, DFAS-PC/PE, 850-453-4141, Extension 1562.

A handwritten signature in black ink, appearing to read "Patrick T. Shine".

Patrick T. Shine  
Director, Military and Civilian  
Pay Services

Attachments:  
As stated

cc:  
DFAS-DDI/AR

**DoDIG DRAFT REPORT – DATED OCTOBER 1, 2004  
DoDIG CODE D2004FH-0046**

**DoD CIVILIAN PAYROLL WITHHOLDING DATA FOR FY 2004**

**DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS)  
COMMENTS TO THE RECOMMENDATIONS**

**RECOMMENDATION 1:** Reconcile amounts reported on Forms 592, Payroll Certification and Summary, to total payroll before certifying that the payroll is correct and proper for payment.

**DFAS RESPONSE:** Concur. The attached desk procedures are in place to provide step-by-step instructions on balancing the payroll prior to certification. Additional guidance is contained in the Defense Civilian Pay System Users' Manual to assist the payroll office personnel in performing the balancing and reconciliation of the payroll each pay period. Supervisors will be responsible for verifying the technician's work before the Form 592 is signed.

In addition, the Payroll Offices understand the importance of performing the 592 balancing process and have added an internal management control that will monitor this procedure on a quarterly basis.

Estimated Completion Date: January 31, 2005

**RECOMMENDATION 2.** Download Forms 592 only once for signature of the payroll certifying officer.

**DFAS RESPONSE:** Concur. Per the attached desk procedures, there are specific step-by-step instructions for the balancing of the payroll prior to certification. These procedures include specific reference to downloading the DD592 only one time. Effective with the pay period ending November 27, 2004, each payroll office will have their supervisors conduct a training session on the Form 592 procedures and will continue to monitor personnel actions bi-weekly.

As stated in Recommendation No. 1 above, the Payroll Offices understand the importance of performing the 592 balancing process and have added an internal management control that will monitor this procedure on a quarterly basis.

ECD: January 31, 2005

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**MANAGEMENT CONTROL WEAKNESS:**

The following is provided to respond to the assertion that an identified difference for life insurance reported represents a significant management control weakness, considering the sensitivity of payroll. One individual comparison for payroll files, by pay period, for life insurance was higher than the reporting threshold, at 5.36 percent. (Reference page 6, Auditor Action).

**DFAS RESPONSE:** When DFAS was advised of this difference by the DoDIG audit team, we immediately researched the problem and determined that the file we provided on CD contained the correct information and the details supported the summary control accounts. We contacted the DoDIG and provided them a new file on the off chance that the original file may have contained corrupted data. Even after DoDIG received the new file, the audit team was not able to load the data successfully to their software for review. DFAS believes the data provided is accurate and has offered to work with the audit team to assist in identifying the difference.

## **Team Members**

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

Paul J. Granetto  
Douglas P. Neville  
Thomas J. Winter  
Joseph Powell  
Jonathan Rabben  
Joseph Bilock  
Demetria Trahan  
Daniel Carlquist