



August 21, 2008

CAROL A. REICH
MANAGER, PAYROLL

MIA HAN
MANAGER, COMPENSATION

SUBJECT: Audit Report – Federal Employees’ Retirement System Contribution Rates
(Report Number FT-AR-08-011)

This report presents an issue regarding Federal Employees’ Retirement System (FERS) contribution rates. We identified this issue during our audit of the fiscal year (FY) 2008 Postal Service Financial Statements – Eagan Information Technology and Accounting Service Center (IT/ASC) (Project Number 08BM003FT001). Click [here](#) to go to Appendix A for additional information about this audit.

Conclusion

The U.S. Postal Service did not use the correct FY 2008 FERS contribution rate for law enforcement employees. Specifically, it did not implement a rate increase required by federal regulations.

FERS Contributions for Law Enforcement Employees

Condition

- The Postal Service did not increase the FERS agency contribution rate from 23.8 percent to 24.9 percent for law enforcement employees.

Cause

- Because the Postal Service does not have a formal policy or procedure to identify, evaluate, and implement FERS rate changes, employees unintentionally overlooked this rate change.

Criteria

- Office of Personnel Management (OPM), *Benefits Administrative Letter*, Number 07-304, dated June 2007.

- Federal Register, *Office of Personnel Management Federal Employees' Retirement System; Normal Cost Percentages*, Volume 72, Number 109, June 7, 2007.

Effect

- The Postal Service underpaid its agency contributions for 1,863 FERS law enforcement employees by approximately \$1.4 million from October 2007 through May 2008.
- When formal policy and procedures do not exist, future rate changes may be undetected.
- If this issue had remained undetected, we project that the Postal Service would underpay over \$4.5 million during the next 2 years. Click [here](#) to go to Appendix B for our calculation of total underpayments.

Auditors' Comments

Management stated they plan to implement a software change request by August 30, 2008, and forward the underpaid contributions to the OPM by September 30, 2008.

Recommendations

We recommend the Manager, Payroll:

1. Revise the Postal Service contribution rate for law enforcement employees covered by the Federal Employees' Retirement System in the retirement categories of 9 and B from 23.8 percent to 24.9 percent.
2. Calculate the underpaid contributions from October 2007 to the present and forward the additional funds to the Office of Personnel Management.

We recommend the Manager, Payroll, and the Manager, Compensation:

3. Develop formal policies and procedures to identify, evaluate, and implement future increases or decreases in the contribution rate for employees covered by the Federal Employees' Retirement System.

Management's Comments

Management agreed with the finding and recommendations and will implement the rate change by August 30, 2008. Management also calculated underpaid contributions and will notify the OPM and submit payment by September 30, 2008. Finally, the Postal Service developed formal procedures to implement future rate changes and confirmed,

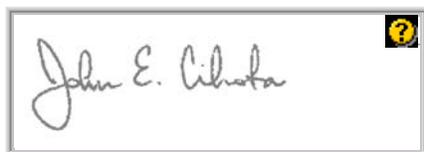
in separate correspondence, that the new procedures were effective July 16, 2008. Click [here](#) to go to Appendix C for management's comments, in their entirety.

Evaluation of Management's Comments

The U.S. Postal Service Office of Inspector General (OIG) considers management's comments responsive to the recommendations in the report, and the corrective actions should resolve the issues identified in the report.

The OIG considers all recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, Director, Financial Reporting, or me at (703) 248-2100.

A rectangular box containing a handwritten signature in cursive that reads "John E. Cihota". In the top right corner of the box, there is a small yellow square icon with a black question mark.

John E. Cihota
Deputy Assistant Inspector General
for Financial Accountability

Attachments

cc: Anthony J. Vegliante
H. Glen Walker
Vincent H. DeVito, Jr.
Jo Ann E. Mitchell
Stephen J. Nickerson
Ronald D. Langevin, Jr.
Katherine S. Banks

APPENDIX A: ADDITIONAL INFORMATION

BACKGROUND

The OPM administers the FERS benefit. The Postal Service's IT/ASC in Eagan, Minnesota, is responsible for the calculation, disbursement, and reporting of Postal Service contributions under FERS. The Postal Service has four categories of FERS employees: two categories are for regular employees and two are for employees eligible for law enforcement pay. Employees eligible for law enforcement pay are categorized as:

- 9 – FERS law enforcement employees hired after December 31, 1983.
- B – Regular Civil Service Retirement System employees who elected to convert to FERS between July 1 and December 31, 1987.

OPM increased the agency contribution rate for FERS law enforcement employees from 23.8 percent to 24.9 percent effective the first pay period beginning on or after October 1, 2007 (which was pay period 22, 2007, beginning on October 13, 2007).¹ The rate increase was published in the Federal Register² and allowed for appeals to be filed by December 7, 2007. We confirmed that the Postal Service did not file an appeal.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this portion of our audit of the FY 2008 Postal Service Financial Statements – Eagan IT/ASC was to verify the FY 2008 FERS contribution rate.

To accomplish our objective, we obtained the most recent OPM retirement contribution rates and determined that the only applicable revision was for FERS law enforcement employees. For pay period 22, 2007, through pay period 11, 2008, we obtained information on basic salary, law enforcement pay, and locality pay for law enforcement employees with retirement categories 9 and B. We independently calculated Postal Service contributions using the most recent FERS law enforcement employee contribution rate and compared the results to actual Postal Service contributions submitted to OPM to determine whether differences existed.

We conducted this performance audit from May through August 2008 in accordance with generally accepted government auditing standards and included such tests of internal controls as we considered necessary under the circumstances. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for

¹ Office of Personnel Management, *Benefits Administrative Letter*, Number 07-304, June 2007.

² Federal Register, *Office of Personnel Management Federal Employees' Retirement System; Normal Cost Percentages*, Volume 72, Number 109, June 7, 2007.

our finding and conclusions based on our audit objective. We discussed our observations and conclusions with management officials on July 16, 2008, and included their comments where appropriate.

We relied on computer-generated data from the Postal Service's Payroll System. To validate the data, we traced the basic pay for selected employees from this system to supporting documentation. Also, for all employees, we manually recalculated the FERS contributions (at 23.8 percent) and compared the results to the computer-generated data.

PRIOR AUDIT COVERAGE

Report Title	Report Number	Final Report Date	Monetary Impact	Report Results
<i>Independent Report on Withholdings and Contributions for Health Benefits, Life Insurance, Retirement, and Employee Headcount Data</i>	FT-AR-07-013	September 20, 2007	\$0	Aggregate base salaries for the Civil Service Retirement Offset employees on the <i>Supplemental Semiannual Headcount Report</i> did not accurately reflect the actual salaries paid for the reporting period. The OIG made no recommendations.
<i>Independent Report on Withholdings and Contributions for Health Benefits, Life Insurance, Retirement, and Employee Headcount Data</i>	FT-AR-06-017	September 26, 2006	\$0	Aggregate base salaries for the Civil Service Retirement Offset employees on the <i>Supplemental Semiannual Headcount Report</i> did not accurately reflect the actual salaries paid for the reporting period. The OIG made no recommendations.

APPENDIX B: ACTUAL AND PROJECTED UNDERPAYMENTS

Actual Underpayments	
For pay period 22, 2007, through pay period 11, 2008:	
(Basic Pay ³ × 24.9%) – (Basic Pay × 23.8%)	\$1,391,592
Projected Underpayments	
Average actual underpayment: \$1,391,592 ÷ 16 pay periods = \$86,974.50	
Projected underpayment for 2 years: \$86,974.50 × 52 pay periods	\$4,522,674
Total Actual and Projected Underpayments	\$5,914,266

³ Basic pay includes basic salary, law enforcement pay, and locality pay; all basic pay is subject to retirement contributions.

APPENDIX C: MANAGEMENT'S COMMENTS

HUMAN RESOURCES



August 13, 2008

Lucine Willis
Director, Audit Operations

SUBJECT: Federal Employees' Retirement System Contribution Rates (Report Number FT-AR-08-DRAFT)

Management agrees that the Postal Service did not increase the Federal Employees' Retirement System (FERS) agency contribution rate from 23.8 percent to 24.9 percent for law enforcement employees covered by Retirement Codes 9 and B in a timely manner.

Recommendation 1:

We recommend the Manager, Payroll revise the Postal Service contribution rate for law enforcement employees covered by the Federal Employees' Retirement System in the retirement categories of 9 and B from 23.8 percent to 24.9 percent.

Response 1:

Management agrees with your recommendation. System Change Request E110-1341 was written and approved by Manager, Payroll to increase USPS contribution rates from 23.8 percent to 24.9 percent for retirement categories 9 and B. Implementation of this system change request will take effect in pay period 19, which begins on August 30, 2008.

Recommendation 2:

We recommend the Manager, Payroll calculate the underpaid contributions from October 2007 to the present and forward the additional funds to the Office of Personnel Management (OPM).

Response 2:

Management agrees with your recommendation. HQ Payroll Staff has calculated the underpaid amounts due to OPM for each pay period with the incorrect contribution rate. At time of implementation of the new rates in pay period 19-2008, the underpaid amount will be paid via a Supplemental Form 2812 process. Notification to appropriate OPM staff will be given prior to payment and payment will be made prior to September 30, 2008.

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Recommendation 3:

We recommend the Manager, Payroll and the Manager, Compensation develop formal policies and procedures to identify, evaluate, and implement future increases or decreases in the contribution rate for employees covered by the Federal Employees' Retirement System.

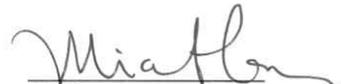
Response 3:

Management agrees with your recommendation. Compensation and HQ Payroll will work together to ensure that all information and necessary statutory or regulatory changes in payroll or retirement related issues are addressed timely, accurately, and effectively. The Compensation retirement staff, the insurance officer, the Manager, Benefits Programs, and the HQ Manager, Payroll, and selected staff, have also subscribed to the Payroll and Financial Management Guidance Online Mailing List distributed by OPM. Automatic messaging is distributed via email by OPM to all subscribers for all Payroll and Financial Management series Benefit Administration letters to provide early-release advisories for such informational or change updates, providing the information that will lead to timely implementation of any changes.

Freedom of Information Act (FOIA)

We've identified nothing that should be exempt from disclosure under FOIA.


Carol A. Reich
Manager, Payroll


Mia Han
Manager, Compensation

cc: Kathy Banks, Manager CARM