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OFFICE OF INSPECTOR GENERAL
for the Millennium Challenge Corporation

AUDIT OF THE MILLENNIUM CHALLENGE CORPORATION'S RETIREMENT, HEALTH BENEFITS, AND LIFE INSURANCE WITHHOLDINGS/CONTRIBUTIONS AND THE SUPPLEMENTAL SEMIANNUAL HEADCOUNT REPORT SUBMITTED TO THE OFFICE OF PERSONNEL MANAGEMENT FOR THE PERIOD ENDING FEBRUARY 19, 2005.

AUDIT REPORT NO. M-000-06-002-F
February 28, 2006

WASHINGTON, DC



*Office of Inspector General
for the
Millennium Challenge Corporation*

February 28, 2006

MEMORANDUM

TO: John J. Danilovich, Chief Executive Officer, Millennium Challenge Corporation

FROM: John M. Phee, AIG/MCC /s/

SUBJECT: Agreed Upon Procedures for Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and the Supplemental Semiannual Headcount Report submitted to the Office of Personnel Management (OPM) for the period ended February 19, 2005. (Report No. M-000-06-002-F)

Enclosed is the final report on the subject audit. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Williams, Adley and Company, LLP (WA & Co.) to perform Agreed Upon Procedures of the Millennium Challenge Corporation's (MCC) Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and the Supplemental Semiannual Headcount Report submitted by MCC to OPM for the period ended February 19, 2005. The contract required that the audit be performed in accordance with generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin 01-02, Audit Requirements for Federal Financial Statements as amended by M-04-22 on July 27, 2004.

In its report on the Agreed Upon Procedures of MCC's Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and the Supplemental Semiannual Headcount Report submitted to OPM by MCC for the period ended February 19, 2005, the WA & Co. auditors found that the information appeared reasonable based on the sample selected and the Agreed Upon Procedures performed.

The procedures that were conducted by the auditors are included as an attachment to this report. Based upon the sample reviewed by the auditors and the Agreed Upon Procedures performed, the Retirement, Health Benefits, and Life Insurance withholdings /contributions as well as enrollment information submitted via the Semiannual Headcount Report appeared reasonable. Therefore, the audit report contains no findings or recommendations.

In carrying out its oversight responsibilities, the OIG reviewed WA & Co.'s report and related audit documentation. This review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable the OIG to express, and we do not express, opinions on MCC's Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and the Supplemental Semiannual Headcount Report submitted to OPM. WA & Co. is responsible for the attached auditors' report, dated August 27, 2005, and the conclusions expressed in the report. However, our review disclosed no instances where WA & Co. did not comply with the generally accepted government auditing standards.

In finalizing the report, we considered your comments on our discussion draft and included those comments, in their entirety in Appendix I of this report. MCC officials expressed their appreciation for the work performed which provided some assurance that the payroll personnel data in its system was reasonably accurate.

The OIG appreciates the cooperation and courtesies extended to our staff and to the staff of WA & Co. during the audit.

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INDEPENDENT ACCOUNTANT'S REPORT
ON THE APPLICATION OF AGREED-UPON PROCEDURES

United States Agency for International Development
Office of Inspector General
Assistant Inspector General for the Millennium Challenge Corporation

We have performed the procedure described in the attachment, which were agreed to by the Inspector General, Controller, and the Acting Vice President for Administration and Finance, solely to assist with respect to 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 11, 2004, February 19, 2005 and April 16, 2005 and the Semi-Annual Headcount Report as of February 19, 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 Inspector General, Controller, and the Acting Vice President for Administration and Finance. 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.

The procedures are included as an attachment to this report. Based upon the sample selected for the pay periods indicated above and the agreed upon procedures performed the Retirement, Health Benefits, and Life Insurance withholdings and/contributions as well as enrollment information submitted via the Semiannual Headcount Report appeared reasonable. Therefore, no findings and recommendations are included herein.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the withholdings and contributions for Health Benefits, Life Insurance, and Retirement, and the Headcount Report of the Millennium Challenge Corporation. 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 use of the Inspector General, Controller, and the Acting Vice President for Administration and Finance 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.

Williams, Adley & Company, LLP

August 27, 2005
Washington, DC

Background

In March 2002 in Monterrey, Mexico, President Bush called for a “new compact for global development,” which links greater contributions from developed nations to greater responsibility from developing nations. The President proposed a concrete mechanism to implement this compact—the Millennium Challenge Account (MCA)—through which development assistance would be provided to those countries that rule justly, invest in their people, and encourage economic freedom. On January 23, 2004, with the passage of Public Law 108-199 (The Consolidated Appropriations Act of 2004) the Millennium Challenge Corporation (MCC) was established. The Act provided \$1 billion in initial funding for fiscal year 2004, and President Bush has pledged to increase funding for the MCA to \$5 billion a year in the future.

The MCC contracted with the Department of Interior, National Business Center (NBC) to provide accounting and IT services including usage of its Oracle Federal Financials System application. The Department of Interior also handles MCC’s Human Resources and Payroll services to the Corporation.

The OIG reported in a management letter that accompanied the FY 2004 Financial Statements that the MCC’s process for personnel and payroll was inefficient and provides opportunities for errors. We noted during our testing of personnel documentation that NBC made errors in payroll processing primarily because the appropriate forms on transferring employees were not provided. These errors were corrected during the year but the process was not corrected to reduce future errors. As a result of these concerns the MCC requested that we conduct a review of its personnel documentation. After listening to the MCC official’s concerns we agreed that a review that embodied the Agreed-Upon Procedures issued by the Office of Personnel Management (OPM) for larger agencies would be appropriate.

Objective

The objective of this task is to assess the reasonableness of Retirement, Health Benefits, and Life Insurance withholdings and/contributions as well as enrollment information submitted via the Semiannual Headcount Report. The work was coordinated with USAID OIG auditors within the Assistant Inspector General for the Millennium Challenge Corporation (AIG/MCC). Where it is determined that the information is not reasonable, the deficiency and the control weakness(es) that gave rise to the deficiency, as well as, the extent of the deficiency shall be reported.

Scope

In general, the scope of these Agreed-Upon Procedures (AUPs) relates to the submission to OPM of withholdings/contributions for Retirement, Health Benefits, and Life Insurance related to the use of the Retirement and Insurance Transfer System (RITS). RITS is the authorized method of submission of withholding and contribution information to OPM. Agency payroll offices (APOs) that are technically unable to transmit benefit information to OPM via RITS may continue to submit withholdings and contributions via the hard copy SF 2812 (and SF 2812-A), “Report of Withholdings and Contributions for Health Benefits, Life Insurance and Retirement to OPM.” The AUPs to be applied to those APOs submitting withholdings and contributions to OPM via the hard copy SF 2812 forms are similar to those for RITS.

Criteria

Our examination was based on the requirements of Office of Personnel Management for Agency Payroll Offices. In addition, we relied upon the laws and regulations related to withholdings/contributions for retirement, health benefits, and life insurance.

Methodology

We visited the headquarters office of MCC and the payroll offices of NBC between June 15 and August 12, 2005 to gather information and conduct our examination of official personnel files, RITS reports and the Semi-Annual Headcount report. During our site visits and testing activities, we:

- Tested MCC personnel based upon the sampling outlined in the agreed upon procedures, except in the instance of step 4 for which the population was smaller than the 10 indicate. All personnel fitting this category were tested;
- Interviewed human resources and payroll personnel and reviewed policies and procedures to identify any material weaknesses and their causes; and
- Reviewed official personnel files, performed recalculations, and verified withholdings and contributions with the general ledger and official OPM reports.

We conducted our work in accordance with GAGAS (2003 revision, issued by the U.S. Government Accountability Office), executed tests, conducted interviews, made observations and performed examinations in accordance with the AUPs outlined in Appendix II.

**Management
Comments and
Our Evaluation**

We consider the management comments to be responsive to the recommendations made in this report. We have included these comments in their entirety in Appendix I.



Millennium Challenge Corporation

Reducing Poverty Through Growth

MEMORANDUM

September 22, 2005

TO: Alvin Brown, Office of Inspector General
United States Agency for International Development

FROM: Douglas Fehrer, Director of Human Resources /s/
Millennium Challenge Corporation

SUBJECT: Management Response to Draft Independent Accountant's Report on the
Application of Agreed-Upon Procedures

The Millennium Challenge Corporation (MCC) is pleased to note that the subject audit report found that the human resource functions reviewed for the random sample group are functioning in accordance with Office of Personnel Management standards. We wish to recognize the Office of Inspector General's dedication and cooperation with MCC in identifying and working to improve our overall internal control structures, including the human resource and payroll functions. We greatly appreciate the counsel and support that your office has provided to us during the past year.

AGREED UPON PROCEDURES

Gain an understanding of the APO's procedures for reconciling payroll information to RITS submissions. Obtain the APO's most recent Semiannual Headcount Report submitted to OPM and a summary of RITS submissions for the current fiscal year. Randomly select three RITS submissions for the current fiscal year, one of which coincides with the most recent Semiannual Headcount Report. Obtain payroll information for the periods covered by the RITS submissions selected.

Note that, as used in these AUPs, the term payroll information refers to all payroll information, whether it is a payroll register, payroll data file, or other payroll support data.

1. Compare RITS submission data with payroll information by performing the following procedures:
 - 1.a. Foot the payroll information. If the auditor chooses to use a subset of payroll information, the subset must be representative of all payroll information and be subject to the same control procedures over payroll information associated with the three RITS submissions selected.
 - 1.b. Trace employee withholding information shown on the payroll information footed 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.
 - 1.c. Obtain support for differences between amounts shown on the source of payroll information (e.g., payroll register, payroll data, etc.) or derived from files footed in step 1.a. and amounts shown on the RITS submission selected.
 - 1.d. Trace reconciling items to supporting documentation and verify agreement.
 - 1.e. Foot each RITS submission selected.

Report any differences or exceptions that are unsupported or unsubstantiated, or represent an error.

2. Review or perform a reconciliation of payroll information, including RITS data, to the agency's general ledger. For the three pay periods selected, review the agency's reconciliation of payroll transactions to its general ledger expense and cash disbursement accounts or, if such reconciliation does not exist, perform the reconciliation. Agencies should post Retirement, Health Benefits, and Life Insurance employer contributions to

Standard General Ledger (SGL) account 6400—Benefits Expense. Report when the APO did not prepare the reconciliation. Also report any unsupported or unsubstantiated differences (i.e., gross rather than net) in the total payroll paid for the selected pay period and the amount recorded in the general ledger that exceeds 5 percent of total payroll. Report any differences (i.e., gross rather than net) between the withholding and contributions reported on the RITS submissions and the amounts posted to the SGL accounts greater than 1 percent. Employee contributions should be reported to 6400N and employer contributions to 6400G. Report postings of employer contributions for Retirement, Health Benefits, and Life Insurance to any SGL account other than account 6400G.

3. Agree employee salary and contributions to the SF 50 (“Notification of Personnel Action”), authorized withholding/contributions, and benefit program elections. Randomly select a total of 25 individuals who were on the payroll system for all three of the RITS submissions selected for testing above. The 25 employees must be selected from a pool of employees who meet each of the following characteristics: covered by 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 FEGLI optional coverage (Option A, B, or C). Obtain the Official Personnel File (OPF) for each individual selected, and perform the following procedures:
 - 3.a. Verify that the base salary used for payroll purposes and upon which withholdings and contributions generally are based agrees with the base salary reflected on the employees’ SF 50s.
 - 3.b. For Retirement, verify that amounts withheld and contributed for participants in the CSRS and the FERS are correct, based upon the official withholdings and contribution rates required by law. [See Payroll Office Letters P-98-13 and P-99-27.]
 - 3.c. For Health Benefits, verify that employee withholdings and agency contributions agree 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’ OPFs. [See Payroll Office Letters P-98-10 and P-99-24 for FY 2000 rates.]

If an employee elected his/her current health plan via Employee Express, there likely will not be documentation in the OPF. Employee Express is an automated system that allows employees to process health benefits enrollment changes, without having to submit a hard-copy enrollment form (SF 2809); further information may be obtained at www.EmployeeExpress.gov. In addition, some agency payroll systems also afford the ability to effect health benefits enrollment changes without use of SF 2809. The auditor must obtain documentation from Employee Express, which maintains a history of all FEHB transactions entered by

employees, or from the payroll systems that afford the capability of end-user update. Rather than requesting documentation directly from Employee Express, auditors should work through each agency's personnel office. Employee Express key representatives have been apprised of this potential requirement.

- 3.d. For Life Insurance, verify that Basic Life Insurance was elected by the employees, as documented by a Life Insurance Election Form (SF 2817), in his/her OPF and that withholdings and contributions are correct.
 - i For employee withholdings: Round the employee's annual base salary to the nearest thousand dollars and add \$2,000.
 - ii For agency contributions: Divide the employee withholdings derived in step 3.d.i. by two.
- 3.e. Also, for Life Insurance, verify Optional coverage was elected, as documented by an SF 2817 in the employees' OPFs, and that withholdings are correct. The withholding rates for Options A, B, and C are based upon the age of the employee and the amount of coverage elected. [See the April 1999 revised "FEGLI Program Booklet" RI 76-21 available at www.opm.gov/insure/life/index.htm.] Report any differences or exceptions that are unsupported or unsubstantiated, or represent an error.

Note: For step 3. e. only, randomly select additional individuals as necessary so that 10 individuals are selected for each Life Insurance option (i.e., Options A, B, and C).

4. Randomly select a total of 10 employees, who have no Health Benefits withholdings, from the payroll information corresponding to the three RITS submissions selected for testing above. Verify from a review of the OPF that the employees did not elect Health Benefits coverage - this may be proven by the absence of an election form SF 2809 in the OPF, if the employee never elected coverage. Alternatively, for an employee who canceled enrollment after having been enrolled in the Health Benefits program, look for an SF 2809 with Section E checked, indicating election of coverage cancellation. Report any exceptions that are unsupported or unsubstantiated, or represent an error.

To conclude with finality that there was no election of Health Benefits, the auditor must first confirm with Employee Express, via the agency's personnel office, that no election was made or coverage canceled by this means.

5. Randomly select a total of 10 employees who have no Life Insurance withholdings from the payroll information corresponding to the three RITS submissions selected for testing above. Verify that the employees either waived or canceled Life Insurance coverage. This will be proven by the presence in the OPF of an SF 2817, by which an employee waives or cancels Basic Life Insurance coverage. Report any exceptions.

6. Calculate the headcount reflected on the Semiannual Headcount Report selected for testing above, as follows.
 - 6.a. Obtain existing payroll information supporting the selected Supplemental Semiannual Headcount Report. If existing payroll data is not available, have a payroll system query performed that summarizes detailed payroll data supporting the Supplemental Semiannual Headcount Report, 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.
 - Aggregate Base Salary.

It may be that the payroll information needed to recalculate the selected Headcount Report is no longer available on the payroll system. If such is the case, query the payroll information currently residing on the payroll system and compare it to the selected Headcount Report. Account for any significant personnel changes that may affect withholdings, contributions, and numbers of employees enrolled.
 - 6.b. Recalculate the Headcount reflected on the Semiannual Headcount Report. 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.
 - 6.c. Compare the results of payroll information from step 6.a with the calculated Headcount from step 6.b to the information shown on the Semiannual Headcount Report.
 - 6.d. Report any differences (i.e., gross rather than net) greater than 2 percent between the Headcount reporting on the agency's Semiannual Headcount Report and payroll information from step 6.a and the calculated Headcount from step 6.b.
7. Calculate employer and employee contributions for Retirement, Health Benefits, and Life Insurance.
 - 7.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 RITS submissions. Report any variances (i.e., gross rather than net) between the calculated amounts and the amounts reported on the RITS submissions greater than 5 percent.
- 7.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 Benefit plan and plan option by the employee withholdings and employer contributions for the plan and option.
 - ii Sum the totals in step 7.b.i. and compare the result with the Health Benefit withholding and contribution amounts shown on the RITS submissions. Report any variances (i.e., gross rather than net) between the calculated amounts and the amounts reported on the RITS submissions greater than 5 percent.
- 7.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 Program coverage. [See the CSRS/FERS Handbook, Section 30A1.1-2 for definition of basic pay.]
 - 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.
 - iii Compare the result in step 7.c.ii. to the withholdings for Basic Life Insurance coverage reported on the RITS submission. Report any difference (i.e., gross rather than net) between the estimate and the amount of withholdings reported on the RITS submission greater than 5 percent.
 - iv For agency contributions: Divide the results of step 7.c.ii. by two -- this approximates agency contributions, which are one-half of employee withholdings. Compare this result to the amount reported on the RITS submission, and report any differences (i.e., gross rather than net) between

the estimate and the amount reported on the RITS submission greater than 5 percent.

- 7.d. Calculate the Option A and Option C Life Insurance coverage withholdings for the three pay periods selected by using the results of payroll system queries from step 6.a or have the APO personnel perform a payroll system query that summarizes the number of employees, by age group, who elected Options A and C during the pay periods selected.
 - i Multiply the number of employees in each age group by the appropriate rate for Option A or Option C, in accordance with the rates for age groups provided in the FEGLI Program Booklet for pay periods beginning on or after 4/24/99. Report any differences (i.e., gross rather than net) greater than 2 percent for Option A and/or Option C.
 - ii Contributions for Option B cannot be tested for reasonableness by these methods because of the number of variables involved in electing this option.