UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

August 21, 1980

B-199709

The Honorable Gladys Noon Spellman
Chair, Subcommittee on Compensation
and Employee Benefits
House Committee on Post Office
and Civil Service

Dear Madam Chair:

SUBJECT: Delays in Investing Employee Withholdings and Government Contributions to the Retirement, Life Insurance, and Health Insurance Trust Funds (FGMSD-80-79)

On June 28, 1979, you asked us to review allegations in a "Federal Times" article of poor accounting controls over checks from Federal agencies to the Office of Personnel Management (OPM) for deposit in trust funds that OPM manages primarily for the benefit of Federal employees. The article alleged that the deficient controls related to checks transmitting employee withholdings and agency contributions for retirement, life insurance, and health insurance trust funds. It concluded that millions of dollars in interest income had been lost by the trust funds because checks were missing so deposits were delayed while the checks were recovered. In accordance with the governing statutes, money in the trust funds is invested in interest-bearing securities and the resulting interest income becomes part of the trust funds. Delaying deposits to the trust funds delays investments and thus reduces the amount of interest the funds earn.

In reviewing the allegations, we found that the article dealt with conditions that existed at a time when checks were used exclusively to transmit deposits to the trust funds. As discussed below, the procedures that existed could have resulted in the conditions alleged in the article. However, since January 1978, funds have been transmitted under more efficient procedures that should eliminate, to the maximum extent practical, the possibility of lost interest income.

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PROCEDURES DURING THE PERIOD OF ALLEGED LOSSES

The article cited losses that were alleged to have occurred between 1972 and 1976. During that period and up to January 1978, all Federal agencies transmitted checks to OPM containing their contributions to the trust funds along with employees' withholdings. The checks they sent had to be issued and controlled through elaborate and expensive procedures that provided opportunities for interest losses due to control deficiencies described in the article.

Under procedures that existed when the alleged losses occurred, about 1,000 payroll offices sent checks and supporting documentation to OPM (then the Civil Service Commission) on various pay period cycles: bi-weekly, weekly, monthly, or semimonthly. The required reports broke the total amount of the check into component amounts withheld for and contributed to each program. OPM examined the check for the required identifying information and verified the amount on the report with that on the check. From the reports, OPM determined the aggregate amount of receipts from the various agencies to be invested on any given day for the health benefits, group life insurance, and retirement trust funds.

Processing problems occurred because agencies violated procedures. For example, OPM received checks that could not be identified by payroll office or payroll paid date. Also, checks were received without reports and vice versa or the amounts of the checks and reports would not agree. These problems had to be resolved before OPM could process the payments for deposit and investment. Because the procedures required that agency and OPM records be reconciled only once a year, it could take a year or more to discover situations where checks were sent but not received, checks were received but not processed, or supplemental payroll payments were late or not sent at all.

Due to delays inherent in issuing and depositing a large volume of checks and because of procedural violations by agencies, processing and, ultimately, investment of the funds was delayed. However, we did not attempt to verify the specific losses cited in the article because they occurred under procedures that are no longer used.

CURRENT PROCEDURES FOR TRANSMITTING MONEY

Since January 1978, all agencies who are serviced by the Department of the Treasury's regional disbursing offices have been required to transmit withholdings and contributions to OPM through bookkeeping entries rather than by check. Because of the high cost to the Federal Government of issuing and depositing intra-Government checks, Treasury instituted a "no-check" or journal voucher system for all types of payments from one Government agency to another. Besides the cost savings, the system provides more timely verification and reconciliation processes since payments and credits between agencies are reported to Treasury's Government-wide accounting system by the paying agency.

During calendar 1979, about 875 of the approximately 1,000 payroll offices in the Government transferred payments to OPM on journal vouchers. This accounted for about 97.6 percent of the approximate $10.55 billion paid to the various trust funds in calendar 1979; the remaining 2.4 percent, or $0.25 billion, paid by about 125 payroll offices was remitted by check.

The current system for transmitting money to the various trust funds provides for an interagency charge and credit on Treasury's books to move funds between an agency appropriation or fund symbol and an OPM receipt account. Treasury becomes aware of these transactions when agencies report a summation of all their monthly transactions, including these payments to the trust funds. OPM becomes aware of these transactions when it receives agencies' reports which are required on or before each payroll date.

Under current procedures, OPM reconciles its records of credits to the receipt account with the amount reported to Treasury by paying agencies for this account. When differences occur, OPM notifies the paying agency which should immediately adjust the difference; the agency then informs OPM of the action taken. The regulations require that the differences should exist no longer than 3 months after OPM notifies agencies of their existence.

The reports sent to OPM by agencies on or before the payroll date also provide information OPM needs to determine how much is to be invested for each program. The agencies break the total amount credited to the OPM receipt account into component amounts for each program. These credits to the receipt account are immediately available to OPM for investment as of the payroll date. For the most part, if OPM receives an agency's report on or before the payroll date, the money is invested as of that date; this is the earliest time these monies are available for investment.

As stated above, about 125 payroll offices still send their remittances to OPM by check since Treasury does not disburse funds for them through its regional disbursing offices.

However, this accounts for less than 3 percent of the total receipts and represents a drastic reduction in the volume of checks that must be processed. Procedures for handling the checks are generally the same as when all agencies paid by check, as discussed above.

MONITORING AND ESTIMATING PROCEDURES DECREASE DELAYS

Delays in investing withholdings and contributions still occur because not all payroll offices submit the required reports to OPM on or before the payroll date. Since OPM has no authority to enforce timely submission of these reports, it can only monitor agency performance and urge delinquent agencies to be timely. In this regard, OPM has developed a method for monitoring the delays and the resulting interest losses by using a computer-generated report.

The report shows, by payroll office, the number of days of delay (less a 5-day grace period) and the amount of interest that would have been earned at 6 percent if the money had been invested for those days. According to the report, about $3.8 million of interest was lost in calendar 1978, or much less than 1 percent of that year's withholdings and contributions. OPM recognizes that the loss is actually greater than this because the 5-day grace period and 6-percent interest rate cause the total loss to be understated. However, the purpose of the analysis is not so much to precisely quantify lost interest as it is to measure delays, identify agencies which experience delays, and to show interest loss trends.

The analysis shows that the relationship of the percentage of interest lost to total receipts has been declining over the past 5 years. This decline can be partly attributed to a procedure developed by OPM, with Treasury's agreement, for investing receipts of certain payroll offices on the basis of their estimates. Under this procedure, OPM can receive telephone estimates of withholdings and contributions of selected payroll offices. OPM invests these estimated amounts before receiving the reports of the actual figures. When OPM receives the actual figures, the estimates are reversed and the actual amounts are recorded. OPM uses this procedure when required reports are not received on or before the payroll date. Under this system, interest is lost only on the difference between estimated and actual amounts. Generally, estimates are relatively close to the actual amounts.

As of September 1979, OPM used the estimation procedures for nine payroll offices when their reports were not received on time. Withholdings and contributions from these offices accounted for about 48 percent of the total receipts for the months of April to September 1979. OPM expanded the use of these procedures and currently makes estimates for 24 payroll offices.

Theoretically, all routine receipts could be estimated when actual figures are not available on the payroll date. However, such a program requires close monitoring to ensure that investments are made on time and that estimated investments are reversed and actual figures are properly recorded. Currently, OPM does not have sufficient staff or computer resources to institute such a program. It has, therefore, taken the approach of using the procedures for the larger dollar volume or the most tardy payroll offices.

The change in payment mechanism from check to journal voucher and the procedures for monitoring delays and estimating receipts and investments have and should continue to reduce interest losses. However, it is doubtful, for several reasons, that delay problems and resulting interest losses will ever be totally eliminated. For example, OPM cannot anticipate when a payroll office will run a supplemental payroll, so these payments cannot be monitored or estimated. In addition, mail delays and reporting differences can cause lost interest. For example, if the amount transferred from an agency account to the OPM receipt account at Treasury is larger than what is reported to OPM, the difference remains uninvested until it is detected and resolved through the reconciliation process.

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We discussed this letter with OPM officials who agreed with its contents. As arranged with your office, we are sending a copy of this letter to the Director of the Office of Personnel Management. Copies will also be available to other interested parties who request them.

Sincerely yours,

D L Scantlebury

D. L. Scantlebury
Director