Final Audit Report

Subject:

AUDIT OF THE PAYROLL DEBT MANAGEMENT PROCESS FOR ACTIVE AND SEPARATED EMPLOYEES

Report No. 4A-CF-00-10-043

Date: March 4, 2011

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AUDIT REPORT

AUDIT OF THE PAYROLL DEBT MANAGEMENT PROCESS
FOR ACTIVE AND SEPARATED EMPLOYEES

Report No. 4A-CF-00-10-043  Date: 3/4/2011

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for Audits
EXECUTIVE SUMMARY

AUDIT OF THE PAYROLL DEBT MANAGEMENT PROCESS FOR ACTIVE AND SEPARATED EMPLOYEES

Report No. 4A-CF-00-10-043 Date: 3/4/2011

The Office of the Inspector General has completed a performance audit of the Payroll Debt Management Process for Active and Separated Employees. Our main objective was to determine if the Office of Personnel Management (OPM) is effectively managing payroll debts owed by active and separated employees.

Our audit was conducted from July 12, 2010 through September 23, 2010 at OPM headquarters in Washington, D.C. Our audit identified five areas requiring improvement.

A. Payroll Debt Management Process

1. Establishment of Payroll Debts

OPM does not have controls in place to ensure that active and separated employees’ payroll debt is set up for collection in a timely manner.

2. Employee Notification of Debt Incurred

OPM does not have controls in place to ensure that the General Services Administration (GSA) is notifying active and separated employees of payroll debt incurred.
3. **Payroll Debt Collections for Separated Employees**

   OPM does not have effective controls in place to ensure that debts from separated employees are repaid, or that they are written off once all collection efforts have been exhausted.

4. **Debt Write-off Process**

   OPM does not have effective controls in place to ensure that GSA is reviewing payroll debt for accounts that can be written off.

5. **Unpaid Health Benefits Insurance Premiums**

   OPM lacks controls to mitigate the accrual of debt from intermittent employees with insufficient pay to cover health benefits premiums.
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APPENDIX  (Chief Financial Officer and Human Resource Offices’ response,
dated December 14, 2010, to our draft report)
I. INTRODUCTION AND BACKGROUND

Introduction

This final audit report details the findings, conclusions, and recommendations resulting from our performance audit of the Payroll Debt Management Process for Active and Separated Employees. The audit was performed by OPM's Office of the Inspector General (OIG) as authorized by the Inspector General Act of 1978, as amended.

Background

OPM contracts with the General Services Administration (GSA) to process OPM payroll actions for active and separated employees, manage the collection of payroll debts owed by active employees, and review outstanding debt balances for possible write-off actions. GSA's policies and procedures state that the client agency [OPM] is responsible for managing collections of debt owed by separated employees.

The Chief Financial Officer (CFO) is responsible for the agency's daily financial management function. Chapter 6 of OPM's Financial Management Manual (FMM) states that the CFO is responsible for managing OPM's financial systems, which account for the agency's financial operations and resources, and ensuring that all OPM accounts receivable transactions are properly accounted for, including inputting the receivables into the system.

OPM employees' payroll debts result from the processing of personnel actions through GSA's Comprehensive Human Resources Integrated System\(^1\) due to events such as:

- Federal Employee Health Benefits premiums paid on an employee's behalf during periods of leave without pay (LWOP) or when pay is insufficient to cover those premiums;
- Promotion adjustments due to excessive LWOP; and,
- Amended Time and Attendance due to timekeeper errors.

In November 2000, the Office of Management and Budget wrote in Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables, that Federal agencies must service and collect debts in a manner that best protects the value of the assets, and mechanisms must be in place to collect and record payments and provide accounting and management information for effective stewardship.

\(^1\) GSA's Comprehensive Human Resources Integrated System is the automated tool used by GSA, and its client agencies, including OPM, to document employment history, such as changes in your salary, position or benefits.
II. OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine if OPM is effectively managing payroll debts owed by active and separated employees. The recommendations included in this final report address this objective.

Scope and Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards as established by the Comptroller General of the United States. Those standards required 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our audit covered payroll debt balances for active and separated employees, totaling $596,529, as of April 10, 2010, as well as external laws and regulations, and internal policies and procedures used to manage payroll debts.

We performed this audit from July 12 through September 23, 2010 at OPM headquarters in Washington, D.C.

To accomplish the audit objective noted above, we:

- Sampled and tested active and separated employee debt files for compliance with OPM and GSA’s procedures for debt management; and
- Interviewed OPM program office and GSA representatives, as necessary.

In planning our work and gaining an understanding of the internal controls over payroll debts owed by active and separated employees, we considered the internal control structure to the extent necessary to develop our audit procedures. These procedures were mainly substantive in nature, although we did gain an understanding of management procedures and controls to the extent necessary to achieve our audit objectives. The purpose of our audit was not to provide an opinion on internal controls but merely to evaluate controls over the processes included in the scope of our audit. Our audit included such tests and analysis of OPM’s active and separated employee debt files and supporting documentation, OPM personnel files as they pertained to establishment of debt (personnel actions), and other procedures as we considered necessary under the circumstances. The results of our tests indicate that with respect to the items tested, OPM has ineffective controls over its payroll debt management process.

In conducting our audit, we sampled documentation for review and testing on a random basis. Using the payroll debt file as of April 10, 2010, we randomly selected a sample of 50 out of 414 active and separated debts for testing against OPM and GSA’s debt management procedures.
The sample of 50 included 25 active and 25 separated employee debts, with a total balance due of $65,362. The results from our samples were not projected to the population.
III. AUDIT FINDINGS AND RECOMMENDATIONS

Payroll Debt Management Process

1. Establishment of Payroll Debts

OPM does not have controls in place to ensure that active and separated employees' payroll debt is set up for collection by GSA in a timely manner. In addition, OPM has weak controls over its record keeping process for the management of employee debts. Specifically:

- GSA took over 6 months to establish 16 active employee debt cases.
- GSA took over one year to establish eight separated employee debt cases.
- OPM could not support the date the debt occurred, the debt establishment date, or both for the remaining 9 active and 17 separated employee debt cases we reviewed.
- OPM could not support that the debt information was entered into its core financial system for all 50 active and separated employee cases we reviewed.

GSA's procedures for processing client debts state that a payroll debt is normally established automatically through its Payroll Accounting and Reporting system as the result of payroll or personnel actions, including overpayments due to retroactive personnel actions, amended Time and Attendance cards, Federal Employee Health Benefits premium underpayments, payroll actions and other similar actions, and manually as the result of actions not part of the normal payroll or personnel cycles.

Chapter 6 of OPM's Financial Management Manual (FMM) states that the Chief Financial Officer is responsible for ensuring that all OPM accounts receivable transactions are properly accounted for in the core financial system and are reported in accordance with Federal laws, regulations, and standards.

By not establishing payroll debts for collection in a timely manner, the risk of OPM not collecting and resolving receivables is increased.

**Recommendation 1**

We recommend that OPM implement controls to ensure that debt establishment documentation is maintained.

**Recommendation 2**

We recommend that OPM establish controls to ensure that active and separated employee debts are set up for collection, including recording the debt in its core financial system, within a reasonable timeframe after the debt has occurred.
OPM’s Response:

The Agency concurs with the finding, and will develop work instructions to ensure that controls are in place and files maintained for active and separated employee debt. In addition, the Agency will ensure that work instructions include standard processing timeframes and debts are established in CBIS. The Agency will also request that, for active employees, GSA provide electronic files of debt notices sent to employees in addition to standard mail.

2. Employee Notification of Debt Incurred

OPM does not have internal controls in place to ensure that GSA is notifying active and separated employees of payroll debts. Our review of outstanding debts owed to OPM showed that only 11 out of 50 active and separated employees received notification of a debt incurred. In addition, OPM did not notify 13 active and separated employees who had repaid their debts in full that their debts had been satisfied.

GSA’s procedures for processing client debts state that GSA is responsible for sending a indebtedness letter to active and separated employees. In addition, GSA’s procedures state that copies of the employee indebtedness letter and supporting documents will be retained.

By not effectively managing the debt notification process, employees may not be notified of a debt incurred within a reasonable amount of time resulting in an increased risk of OPM not collecting debts owed by active and separated employees.

Recommendation 3

We recommend that OPM establish and implement oversight controls to ensure that the debt notification process, including final payment receipt notification, is effectively managed.

Recommendation 4

We recommend that OPM work with GSA to establish and implement controls to maintain debt notification documentation for its payroll debts.

OPM’s Response:

The Agency concurs with this finding. The Agency will develop work instructions to ensure that controls are in place and files maintained for active and separated employee debts. OPM will work with GSA on the new work instructions, which will include reasonable timeframes for establishing debts. In addition, the Agency believes that the Image Now system implemented by GSA in July 2009 has significantly improved controls over employee debt documentation.
**OIG Comment:**

While OPM states they concur with this finding, their response is essentially the same as for finding number one, which concerns OPM’s recognition of an employee debt. This finding is related to OPM notifying the employee that a debt is owed. These are separate and distinct actions in the debt management process. For example, several employees’ debts were set up late by OPM, including some over one year after the debt occurred, and no debt notification was provided.

3. **Payroll Debt Collections for Separated Employees**

OPM does not have effective controls in place to ensure that debts from separated employees are repaid, or that they are written off once all collection efforts have been exhausted. Specifically, we found that from the sample of 25 separated employees reviewed, totaling $32,955, no collection action has been conducted for 11 cases, and the remaining 14 cases show limited collection action.

Chapter 6 of OPM’s FMM states that the CFO is responsible for ensuring that a receivable is entered into OPM’s core financial system for amounts to be paid, and setting up a schedule of payments for inactive or former employees. In addition, as part of its collection strategies, the CFO is responsible for preparing an aging schedule and evaluating debt collection strategies on an ongoing basis.

GSA’s debt collection processes include a procedure for referral of the outstanding debt for collection through the Department of the Treasury (Treasury). The procedures state the following:

a. For separated employees, GSA will send delinquent nonfederal accounts to the U.S. Treasury Financial Management Service for cross-servicing collection action and participation in the Treasury Offset Program.

b. Any debt delinquent for more than 180 days will be transferred to Treasury for collection.

By not having effective controls in place to maximize the collection of payroll debts from separated employees, OPM’s risk of not collecting the debts is increased and uncollectible debts continue to be carried on OPM’s financial statements.

**Recommendation 5**

We recommend that OPM establish controls to ensure that the debt collection process is effectively managed.
Recommendation 6

We recommend that OPM review all outstanding separated employee debts, including our sample totaling $32,955, to ensure that collection efforts are current. If the debts are deemed uncollectible, then OPM’s write-off policy should be followed.

OPM’s Response:

“The Agency concurs with this finding.

The Agency notes that collecting debts from former employees is much more complicated than with active employees, and the Agency needs to balance the cost of collection with potential recoveries. Financial Systems (FS) staff will review its procedures as part of establishing debt collection work instructions and will review the cases selected by OIG to ensure that adequate collection efforts have been taken and to determine if the debts should be written off.”

OIG Comment:

The difficulties in collecting debt from former employees do not relieve OPM of its obligation to attempt to recover its debts. If the cost of debt collection efforts exceeds the benefits, then OPM’s write-off policy should be followed.

4. Debt Write-off Process

OPM does not have effective controls in place to ensure that GSA is reviewing payroll debt for accounts that can be written off. Specifically, 4 of the 25 separated employee debt cases reviewed had balances under $100, were eligible for write-off, and were not written off.

GSA’s procedures state that for balances due under $100, the Payroll Debt Team will review the separated employee debt list and prepare a write-off authorization form for OPM’s review and approval. Once approved, GSA processes the write-off action.

OPM’s FMM, Chapter 6, states that accounts receivable are to be reduced, and a corresponding entry made, when authorization to write-off a debt is completed.

By not having controls in place to ensure that the payroll debt write-off process is managed, OPM’s risk of overstating accounts receivables owed by separated employees is increased.

Recommendation 7

We recommend that OPM establish controls to ensure that the debt write-off process is effectively managed.
OPM’s Response:

The Agency concurs with this finding, and will review its procedures, as part of establishing debt collection work instructions, and the debts for separated employees to identify all debts, including those that are under $100 and eligible for write-off. In addition, the Agency will contact GSA to initiate the write-off process.

5. Unpaid Health Benefits Insurance Premiums

OPM lacks controls to mitigate the accrual of debt from intermittent employees with insufficient pay to cover health benefits premiums. Specifically, we identified three debts from our sample in which the employees’ work schedules changed to intermittent leaving OPM with the responsibility to pay the employees’ portions of health benefits insurance premiums due to insufficient wages.

OPM occasionally hires employees on an intermittent basis to meet its hiring needs. As an example, OPM hires test administrators (TAs) on an as needed basis, to administer civil service exams. The majority of TAs work an intermittent schedule; however, TAs can work full and part-time schedules depending on the needs of their duty location. Full and part-time TAs work a standard schedule, while intermittent TAs have no standard number of work hours.

Under 5 CFR 890.102(c)(3), intermittent employees are not eligible for enrollment in the Federal Employees Health Benefits Program. However, 5 CFR 890.303(b) allows employees hired with eligibility for health benefits, who later change their work status resulting in an exclusion from eligibility for health benefits, as provided under 5 CFR 890.102(c)(3), to continue health benefits coverage.

Eligible intermittent employees who elect to continue coverage and who do not earn sufficient income to cover their health benefits premiums may incur a debt. 5 CFR 890.502(a) states that an employee incurs a debt to the United States in the amount of the employee withholding required for each pay period during which they are enrolled if the premium payments are not made.

Without controls in place to provide oversight of the occurrence of health benefits premium debt, intermittent employees will continue to incur this debt, and the debt is likely to increase.

Recommendation 8

We recommend that OPM establish and implement policies and procedures to review intermittent employee debts accruing from health benefits insurance premiums.
**OPM’s Response:**

“The Agency partially concurs with this finding.

Based on discussions with OPM Government wide policy experts, GSA Payroll and staff within the HR office, the Agency has concluded that all procedural actions required by existing regulations are currently being taken in situations where employees have insufficient pay to cover their health insurance premiums...

Regulations at 5 CFR Part 890 specify the conditions under which employees may elect health insurance coverage. Based on the Agency’s review, it concluded that based on the conditions of their employment, these individuals are indeed eligible under the regulations to elect health benefit coverage, and there is no authority for the Agency to impose requirements beyond the regulations that would exclude them from coverage. ...

As described above, current regulations limit our ability to fully address this issue. However, the Agency has nonetheless taken the following actions:

- The HR office met with the Governmentwide Retirement and Benefits insurance policy officials, and obtained their concurrence that a change in existing regulation, would be needed to correct this problem. They indicated that they understand the situation, and will explore future modifications to the regulations that may help mitigate this situation. Until such time as the regulation changes, the Agency cannot correct this problem.
- Since some of these cases pre-dated the selection of GSA as the payroll service provider, HR has verified that all OPM Test Examiners who currently owe a FEHB debt, were indeed provided a written notice. If HR found no record that a notice was sent, they sent the notice out return receipt requested. In cases where a timely reply is not received, HR will terminate their coverage as authorized by regulations.
- Since the work schedule determines whether a Test Examiner is entitled to elect health insurance, on an ongoing basis, HR works with hiring managers in the Nationwide Testing Program to ensure that work schedules for Test Examiners are consistent with definitions of ‘part time’ or ‘intermittent’ as specified in 5 CFR 340.
- Prior to retirement, HR is strongly encouraging all Test Examiners who have an outstanding FEHB debt to pay it before leaving the Agency. Otherwise, it will be collected from their retirement checks and any other sources available within law and regulation.”

**OIG Comment:**

The Agency states that it has taken corrective actions to address our recommendation. However, no documentation was provided to support the Agency’s response and close this finding.
IV. MAJOR CONTRIBUTORS TO THIS REPORT

Internal Audits Group

- Auditor-In-Charge
- Lead Auditor
- Auditor
- Senior Team Leader
- Jr., Chief
MEMORANDUM FOR

Chief, Internal Audits Group
Office of the Inspector General

FROM: STEPHEN AGOSTINI
Chief Financial Officer

MARK REINHOLD
Deputy Associate Director, Human Resources
Employee Services

SUBJECT: Agency Comments regarding the OIG Draft Report – Audit of the Payroll Debt Management Process for Active and Separated Employees Report No. 4A-CF-00-10-043


The Agency reviewed the draft report, and offers the following comments to the findings and recommendations for improvement outlined in the draft report.

Finding 1: Establishment of Payroll Debt
OIG stated that OPM does not have controls in place to ensure that active and separated employees' payroll debt is set up for collection in a timely manner. OIG recommended that:

1. OPM implement controls to ensure that debt establishment documentation is maintained.
2. OPM establish controls to ensure that active and separated employee debts are set up for collection, including recording the debt in its core financial system, within a reasonable timeframe after the debt has occurred.

Agency Comment:
The Agency concurs with the finding.

The Agency will develop work instructions to ensure that controls are in place and files maintained for active and separated employee debt. In addition, the Agency will ensure that the work instructions include standard processing timeframes and that debts are established in CBIS. The Agency will also request that, for active employees, GSA provide electronic files of debt notices sent to employees in addition to standard mail.
The Agency points out that, in July 2009, General Service Administration (GSA), OPM’s Payroll Service Provider, implemented its Image Now system where all documents are scanned and electronic files maintained—that will assist significantly with recordkeeping for both GSA and OPM. This is a significant improvement in the employee debt collection process that was not recognized in the draft report. If OIG had focused its review on active employee cases established since the Image Now system was implemented, the documentation found would be timely and much more complete.

**Finding 2: Employee Notification of Debt Incurred**
OIG stated that OPM does not have controls in place to ensure that GSA is notifying active and separated employees of payroll debt incurred. OIG recommended that:
1. OPM establish and implement oversight controls to ensure that the debt notification process, including final payment receipt notification, is effectively managed.
2. OPM work with GSA to establish and implement controls to maintain debt notification for its payroll debts.

**Agency Comment:**
The Agency concurs with the finding.

As stated under Finding 1., the Agency will develop work instructions to ensure that controls are in place and files maintained for active and separated employee debt. The work instructions will include reasonable timeframes for establishing debts and OPM will work with GSA to improve procedures. The Agency believes that the Image Now system that GSA has implemented in 2009 significantly improved controls over the employee debt documentation.

**Finding 3: Payroll Debt for Separated Employees**
OIG stated that OPM does not have effective controls in place to ensure that debts from separated employees are repaid or written off once all collection efforts have been exhausted. OIG recommended that:
1. OPM establish controls to ensure that the debt collection process is effectively managed.
2. OPM review the outstanding separated employee debts from our sample totaling $65,362 to ensure that collection efforts are current. If debt is deemed uncollectible, then OPM’s write-off policy should be followed.

**Agency Comment:**
The Agency concurs with the finding.

The Agency notes that collecting debts from separated employees is much more complicated than with active employees, and the Agency needs to balance the cost of collection with potential recoveries. Financial Systems (FS) staff will review its procedures as part of establishing debt collection work instructions and will review the cases selected by OIG to ensure that adequate collection efforts have been taken and to determine if the debts should be written off.
Finding 4: Debt-Write-off Process
OIG stated that OPM does not have effective controls in place to ensure that GSA is reviewing payroll debt for accounts that can be written-off. OIG recommended that OPM establish controls to ensure that the debt write-off process is effectively managed.

Agency Comment:
The Agency concurs with the finding.

The Agency will review its procedures as part of establishing debt collection work instructions and will review the debts for separated employees to identify all debts, including those that are under $100, that are eligible for write off. The Agency will contact GSA to initiate the write off process.

Finding 5: Unpaid Health Benefits Insurance Premiums
OIG stated that OPM lacks controls to mitigate the accrual of debt from intermittent employees with insufficient pay to cover health insurance premiums. OIG recommended that OPM establish and implement policies and procedures to prevent health benefits insurance premium debt from continuing to accrue for intermittent employees.

Agency Comment:
The Agency partially concurs with the finding.

Based on discussions with OPM Government wide policy experts, GSA Payroll and staff within the HR office, the Agency has concluded that all procedural actions required by regulations are currently being taken in situations where employees have insufficient pay to cover their health insurance premiums, as detailed below.

Regulations at 5CFR Part 890 specify the conditions under which employees may elect health insurance coverage. Based on the Agency's review, it concluded that based on the conditions of their employment, these individuals are indeed eligible under the regulations to elect health benefit coverage, and there is no authority for the Agency to impose requirements beyond the regulations that would exclude them from coverage.

The HR office verified the current process with GSA payroll that procedures are being followed. Specifically, when employees have insufficient pay to cover the health insurance premium, GSA sends them a debt notice. In accordance with 5 CFR 890.502(b), GSA payroll office provides these employees written notice in the mail, with the following choices authorized in regulation: (1) terminate FEHB coverage; (2) continue FEHB coverage and pay the FEHB premium directly; or (3) continue FEHB coverage and pay the debt upon return to sufficient pay status. The employee's election must be in writing and must be received by GSA payroll within 31 days of receipt.

5 CFR 890.502(b)(3) states "If the employee does not return the signed form within the time period prescribed, the employing office will terminate the enrollment and notify the employee in writing of the termination." Based on the HR office review, there were no cases where the employee failed to return the form within the prescribed time period.
Some employees elect to direct pay the premium, and others elect to satisfy the debt through future payroll deduction – in accordance with the choices they are provided under regulation.

The Agency notes that the problem is occurring when some of the Test Examiners are returning the notice, stating they want to continue FEHB coverage and will pay the debt when pay becomes sufficient. HR is following the guidance in 5 CFR 890.502(b)(2)(ii), which states “if the employee does not wish to pay the premium directly to the agency and keep payments current, he or she may agree that upon pay becoming sufficient to cover the premiums, the employing office will deduct, in addition to the current pay period’s premium, an amount equal to the premiums during which pay was not sufficient to cover the premiums.” HR is finding that in some of these cases, the pay never rises to a level of sufficiency to cover the premium, and therefore a debt is accumulating. The regulations further state that if the employing office cannot recover the debt in full from salary, the employing office may recover the debt from whatever other sources it normally has available for recovery of a debt – i.e., through established regulatory debt collection procedures. The Agency has confirmed that GSA Payroll is following authorized debt collection procedures in an attempt to recover the debt; these permissible actions include:

1. Upon retirement, GSA Payroll is noting the FEHB debt on the payroll records that are sent to OPM, Retirement so that the debt is noted in the retirement record. This allows the Agency to recover funds if the employee ever attempts to get a refund of the retirement deductions, or if the employee ever receives an annuity.

2. GSA Payroll is collecting any/all debt from the Test Examiner’s paycheck, in accordance with current debt collection regulations, as well as from lump-sum annual leave balances in cases where employees separate with an available leave balance.

As described above, current regulations limit our ability to fully address this issue. However, the Agency has nonetheless taken the following actions:

- The HR office met with the Governmentwide Retirement and Benefits insurance policy officials, and obtained their concurrence that a change in existing regulation, would be needed to correct this problem. They indicated that they understand the situation, and will explore future modifications to the regulations that may help mitigate this situation. Until such time as the regulation changes, the Agency cannot correct this problem.

- Since some of these cases pre-dated the selection of GSA as the payroll service provider, HR has verified that all OPM Test Examiners who currently owe a FEHB debt, were indeed provided a written notice. If HR found no record that a notice was sent, they sent the notice out return receipt requested. In cases where a timely reply is not received, HR will terminate their coverage as authorized by regulations.
Since the work schedule determines whether a Test Examiner is entitled to elect health insurance, on an ongoing basis, HR works with hiring managers in the Nationwide Testing Program to ensure that work schedules for Test Examiners are consistent with definitions of “part time” or “intermittent” as specified in 5 CFR 340.

Prior to retirement, HR is strongly encouraging all Test Examiners who have an outstanding FEHB debt to pay it before leaving the Agency. Otherwise, it will be collected from their retirement checks and any other sources available within law and regulation.

If you have any questions or require additional information on Findings 1-4, please contact [redacted] Associate CFO, Financial Services at [redacted]. If you have any questions or require additional information on Finding 5, please contact Mark Reinhold, Deputy Associate Director for OPM Human Resources at [redacted].

cc:
[redacted] Chief, Boyers Human Resources Services
[redacted] Chief, GSA Payroll Office
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