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UNITED STATES GENERAL ACCOUNTING OFFICE  
REGIONAL OFFICE  
143 FEDERAL OFFICE BUILDING 50 FULTON STREET  
SAN FRANCISCO, CALIFORNIA 94102

GAO 00365

IN REPLY REFER TO  
84825

JAN 12 1971

Commanding Officer  
Naval Supply Center  
Oakland, California 94625

AC 00969

Dear Sir

We have made a review of civilian pay and related matters at Naval Supply Center, Oakland (NSCO), California. This review, which was completed in November 1970, was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

The primary purpose of the review was to provide GAO with information for a Defense-wide study on the administration of civilian pay and allowances. Employee accounts were first selected on a statistical sampling basis. Errors disclosed in this sample will be combined with those of other installations reviewed and the results may be statistically projected for a Defense-wide report. We did not arrive at an error rate, since the sample at any individual installation is too small to project. We did, however, expand our review at your installation by selecting additional records on a judgment sample basis.

The review covered (1) Internal Controls, (2) Severance Pay, (3) Internal Review, (4) Salary Act of 1970, (5) Within-grade Increases, and (6) the Coordinated Federal Wage System.

We found certain deficiencies including the need to improve internal controls. These matters were discussed with officials of the Planning and Comptroller, and Civilian Personnel Departments at an exit conference on November 20, 1970, and are summarized for your information.

Internal Controls

Our review showed there is a need for better compliance with local instructions and improved procedures for processing payroll. Local check and bond distribution instructions are not followed; there is inadequate control over employees' leave records; no dollar criteria has been set for allowable payroll errors; and there has been no periodic rotation of employees' accounts among payroll clerks.

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1. We were told that some payroll checks are being received from the Navy Regional Finance Center (NRFC) by the Payroll Section. NSCOINST 7400.1B provides that checks and bonds are to be delivered to the Accounting Branch and employees handling checks and bonds are not to participate in the preparation, approval, or certification of the payroll.

Officials of the Planning and Comptroller Department (P&CD) said that Payroll Section personnel will be cautioned not to accept delivery of checks. We believe that NRFC should be requested to deliver payroll checks only to designated Accounting Branch personnel.

2. The present system of bond and check distribution is costly and time consuming, not only in the distribution itself, but also in the cost of productive time lost by employees cashing checks during working hours.

P&CD officials said that check and bond distribution methods have been under study for some time. In November 1970 questionnaires were to have been distributed to all employees with their paychecks for the purpose of. (1) pointing out the advantages of mailing paychecks and bonds, and (2) determining employees' wishes regarding delivery of paychecks and bonds. We believe other possible solutions might be distributing paychecks after the banks are closed or at the end of the working day.

3. In March 1970, Navy Area Audit Service reported several errors in leave administration and accounting. Officials told us that posting of leave to service cards is not verified and pre-determined totals are not established for proof of posting. Accordingly, we believe some method of continuous control should be implemented.

P&CD officials agreed that leave could be more adequately controlled. A proposed Bi-Weekly Leave Balance Statement with mechanized service card controls is being considered. As an interim measure, the cost effectiveness of manual controls will be evaluated.

4. We were informed that when 10 or fewer errors are flagged on the pre-payroll (validation) run, the payroll (earnings) cards are released to NRFC, without correction, for printing checks.

Corrections are subsequently made by check cancellation or by deferred adjustment of next pay period earnings. Although 10 or fewer errors may be considered to be a reasonable criteria for deferring corrective action, we believe the criteria should be expanded to include a maximum allowable dollar error. Since overpayments due to administrative errors are usually eligible for waiver under Public Law 90-616 at the request of the employee, and thus generally result in excess costs to the Government, it is necessary that some maximum dollar criteria be established for possible overpayments.

P&CD officials stated that NSCO will attempt to determine a dollar break-even point for correcting the earnings cards before they are sent to the Disbursing Officer for check writing, as opposed to correction by check cancellation. Additionally, definitive dollar criteria will be established for determining whether overpayments will be corrected by check cancellation or by adjustment of the employee's next pay period earnings.

5. We were informed that a payroll clerk could handle the same employee's payroll accounts for a year or more. In our opinion, a periodic switching of accounts between clerks on a 3 or 6 month basis would improve internal controls, and the clerks--knowing that someone else would have the accounts in a short period--would be more alert.

P&CD officials stated that the turnover in clerical personnel and periodic vacations provide the generally accepted degree of internal control.

#### Severance Pay

Although not included in our sample, we reviewed 17 cases of employees receiving severance pay for the pay period ending October 17, 1970, and 10 cases of employees who had received severance pay as the result of the 1970 mid-year reduction in force. Our review of procedures and internal controls indicates control and review of documents, computations, etc., to assure timely and proper payment are inadequate.

In the Civilian Personnel Department:

1. We were told that SF 50's authorizing severance payments are reviewed for only obvious errors by supervisory personnel authorizing payment.

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2. Employees received their first severance payment one pay period late in four of ten cases we reviewed, because the Personnel Department was late in forwarding entitlement information. Officials of Personnel said that the Severance Pay Computation Notice (SPCN) will be annotated to show amount of service by type and forwarded to Payroll Branch. We were told that supervisory personnel will verify the noncreditable military service and service computation dates, using the personnel file, prior to signing the severance pay authorization.

Officials stated that additional attention will be directed toward more timely processing of severance pay actions.

In the Time, Leave and Payroll Section of the Planning and Comptroller Department:

1. In 13 of 17 service data cards we reviewed there was no evidence that the payroll clerk had verified the severance pay computations as required in the payroll instruction.
2. We were told that payroll clerks did not have information available to verify the service computation dates and military service dates.
3. A severance pay overpayment of \$250 was recovered from a rehired employee before the check was cashed. Providing payroll clerks with a summary list of personnel receiving severance pay for checking before acting on a new hire could prevent severance payments to rehired employees.
4. We were told that Personnel was receiving, from Payroll, memoranda of severance payments up to two months after the final payment. Such memoranda should be submitted on a more timely basis, to keep employees personnel files current and to prevent overpayments.

Since overpayments due to administrative errors are usually eligible for waiver under Public Law 90-616 at the request of the employee, and thus result in excess payroll costs to the Government, it is necessary the personnel actions, payroll computations and documents be prepared accurately and on a timely basis.

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Officials of P&CD informed us that existing payroll instructions would be re-emphasized, Supervisory Personnel Staff will verify all date computations prior to signing the authorization, a summary list of employees receiving severance pay for cross-checking will be provided, and timely release of information to Personnel will be re-emphasized.

#### Internal Review

The Head of the Internal Review Branch told us that a payroll audit had not been performed by them since 1968. Naval Supply Command Instruction 7540.2 dated August 26, 1969, requires an annual payroll audit to be performed by internal review staffs.

We were told that because of reduced staff and increased workload, Internal Review programs have been limited to situational assignments, cash verifications, liaison with outside auditors, and certain critical annual reviews (special paycheck distribution, etc.). P&CD told us that Internal Review's responsibility for payroll audits will be discussed for clarification with Comptroller of the Navy in December 1970.

In our opinion, the Internal Review Staff should perform the required annual audit on a current basis to assure the Command that improper payments are not made, rather than waiting for unscheduled audits by outside audit agencies.

#### Salary Act of 1970

Our statistical sample of 50 employees included 35 classified employees who were entitled to retroactive pay under the provisions of Salary Act of 1970. Based on the salary rates as authorized by the Act, our review showed that 15 employees were overpaid a total of approximately \$33 and 20 were underpaid a total of approximately \$40.

P&CD officials attributed the apparent over/underpayments to the method used in computing retroactive pay. NSCO used six percent of gross pay received from December 28, 1969, through April 4, 1970, to compute employees' lump sum retroactive pay. They said this method saved the Government approximately \$3,500 in overtime for payroll clerks and computer operations, than alternate methods that could have been used.

Within-grade Increases

Our statistical sample of 50 employees included 24 who had received within-grade increases during the period covered by our audit. We found no discrepancies in our review of these increases.

Coordinated Federal Wage System

In our statistical sample of 50 there were 5 wage board employees who had been converted to the Coordinated Federal Wage System (CFWS) during the period covered by our audit. We found no discrepancies in our review of the above conversions.

Other

In addition to our above review of controls and procedures, we reviewed, on a judgment sample basis, approximately 1,000 Retirement Records (SF-2806) for classified employees to determine whether improper rates of pay had been established as a result of erroneous personnel actions. We found a total of 7 discrepancies amounting to \$434 in overpayments.

Since NSCO does payroll for employees stationed at other installations, these discrepancies were forwarded to the Agency concerned and tentative agreement was reached as to the corrective action required in five cases. The agencies involved and discrepancies are described briefly below:

1. NSCO Civilian Personnel Department:

Promotions were given to two employees after only 52 weeks of service in the lower grade instead of one year as required by the Whitten Amendment. These resulted in overpayments totaling \$122.

2. Consolidated Industrial Relations Office, Treasure Island:

A \$15 overpayment was the result of a quality step increase (QSI) being given prior to completion of 52 weeks of service from the date of the prior QSI, as required by the Federal Personnel Manual (FPM) 990-1.

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3. Military Sealift Command Pacific:

One employee received a within-grade increase prior to eligibility and another employee was promoted prior to completion of one year of service as required by the Whitten Amendment. These resulted in overpayments totaling \$187.

4. Naval Postgraduate School, Monterey.

Two employees received promotions prior to completion of one year of service in the next lower grade as required by the Whitten Amendment. These resulted in overpayments totaling \$109. We are awaiting this installation's reply.

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We would appreciate being advised of the action taken or planned on the matters discussed in this report. We wish to acknowledge the cooperation given our representatives during the review. A copy of this report is being sent to the Commander, Navy Accounting and Finance Center - Washington, D. C., and to the Director, Naval Area Audit Service, San Francisco, California for their information.

Sincerely yours,



A. M. Clavelli  
Regional Manager