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UNITED STATES GENERAL ACCOUNTING OFFICE
INTERNATIONAL DIVISION
FAR EAST BRANCH
1833 KALAKAUA AVENUE
HONOLULU, HAWAII 96815

MAY 6 1971

Captain G. G. Dunn
Commanding Officer
Naval Supply Center
Box 300
FPO San Francisco 96610



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Dear Captain Dunn:

We have completed our audit of civilian pay matters at the Naval Supply Center, Pearl Harbor. Our audit included a review of personnel actions prepared by the Consolidated Civilian Personnel Office which has responsibility for processing such actions for 4,797 of the 4,995 personnel included in the payroll of the Naval Supply Center. A random sample of 100 employees was selected for review, with particular attention being given to those accounts with permanent pay changes during the period March 22, 1970 to March 20, 1971.

We found that the selected transactions were generally handled in a satisfactory manner. The procedures and controls over within-grade increases, conversion to the Coordinated Federal Wage System, severance payments, and the retroactive payments resulting from the Federal Employees Salary Act of 1970 were adequate.

We noted the following matters which were discussed with members of your staff at the conclusion of the audit.

1. For two employees the Payroll Branch had W-4 forms on file which did not agree with the deductions being made on the payroll. New forms were executed by these two employees which agreed with the payroll.
2. One employee was overpaid \$10.16 for overtime work which was erroneously reported on his time card but which he did not actually perform. This matter was known to the Payroll Branch from its own post audit of the payroll. Corrective action was taken and the overpayment was collected.

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3. An employee of the Automatic Data Processing Department was authorized to pick up checks and bonds and also authorized to approve and certify the correctness of entries on time cards. Corrective action was taken to cancel the employee's authorization to approve and certify the correctness of entries on time cards.

The errors noted were of a relatively minor nature. We attribute this in large part to the effective internal control procedures that have been established by the Payroll Branch to assure the validity of the data entering the payroll computations.

Despite this situation, we are still concerned by the absence of an internal review of these activities. There has been no internal review of civilian pay by the Navy Supply Center since May 1969. The Internal Review Branch was abolished in October 1969, and although its functions were assumed by the Quality Assurance Branch, the reduction in staffing prevented the performance of payroll reviews.

This appears contrary to SECNAV Instruction 7540.1, which provides that primary support agencies will direct the utilization of internal review staffs or other personnel as appropriate in the absence of formally organized review staff, to perform reviews, at least annually, of civilian timekeeping and payroll functions.

We were informed by officials of the Quality Assurance Division that negotiations were being conducted with officials of the Navy Audit Office to obtain their services for the internal review of civilian pay on a reimbursable basis. A representative of the Navy Audit Office advised us that his organization's workload would preclude such an arrangement.

We believe that the Navy Supply Center's internal control of the payroll function is adequate; however as pointed out in OPNAVINST 7540.2, the objectives of internal review of civilian timekeeping and payroll include not only appraising the effectiveness of internal control, but also

- determining compliance with law, directives, and policies,
- determining whether regulations governing pay entitlements are correctly interpreted and applied, and
- determining whether records are reasonably accurate and complete.

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The payroll function is so sensitive, and so volatile because of changing regulations, pay rates, etc., that there is a need for regularly scheduled periodic reviews of the activities related thereto.

Accordingly, although we found no significant weaknesses at the time of our review, we are still of the opinion that the Navy Supply Center should provide for internal reviews of the payroll function. We therefore recommend that the Navy Supply Center take action to comply with SECNAV Instruction 7540.1 by providing the Quality Assurance Division with the resources required to perform internal reviews of civilian timekeeping and payroll operations, or otherwise providing for the performance of this function.

Copies of this report are being sent to the Commander, Navy Accounting and Finance Center, Washington, D.C., and to the Director, Naval Area Audit Service for his information. An additional copy of this report is furnished for enclosure with the audited records when they are shipped to the Federal Records Center for permanent filing. By receipt of this letter, you are authorized to move your pay records through March 31, 1971, to permanent storage.

We wish to acknowledge the courtesies and cooperation extended to our representatives during the review.

Your comments on the matters discussed in this report will be appreciated.

Sincerely yours,


C. Roman
Director

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