



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

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DEFENSE DIVISION

B-157753

JUL 13 1971



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Dear Mr. Secretary:

The General Accounting Office has made a review of severance payments by selected military installations to separated civilian employees.

In October 1969 and March 1970 you announced actions to consolidate, reduce, realign, or close certain military installations in the United States and Puerto Rico. These actions were expected to result in elimination of about 85,600 civilian positions. Many employees given initial reduction-in-force notices were not involuntarily separated because some positions scheduled for elimination were vacated by the retirement, voluntary resignation, transfer, or reassignment of employees. The installations were responsible for determining whether those who were involuntarily separated were entitled to severance pay as authorized by law, and for making those payments in accordance with regulations of the Civil Service Commission.

In our review of civilian pay and allowances during fiscal year 1970, we made tests of the procedures and controls used in processing severance payments at each military installation visited. More tests are being made in fiscal year 1971. We made a more detailed review of payments to separated employees selected at random at eight Army, Navy and Air Force installations to determine whether the procedures and controls used were adequate to ensure that the payments were in accordance with applicable laws and regulations.

Entitlement of separated employees to severance pay

Section 9 of the Federal Employees Salary Act of 1965, as amended, 5 U.S.C. 5595, and Civil Service Commission regulations, contained in the Federal Personnel Manual (FPM) and FPM Supplements 990-1 and 990-2, prescribe the conditions under which an employee is entitled to severance pay. The law and regulations also prescribe the method for computing the total amount of severance pay to which an employee is entitled, called the severance pay fund, and the manner in which payment is to be made.

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An employee is entitled to be paid severance pay if he

--has been employed currently for a continuous period of at least 12 months prior to his separation, and

--is involuntarily separated from the service, not by removal for cause on charges of misconduct, delinquency, or inefficiency.

The severance pay fund consists of a basic allowance computed for years of service and an age adjustment allowance computed for years of age in excess of 40. The fund may not exceed one year's pay at the rate received by the employee immediately prior to his separation. Payments are to be made by the separating agency at regular pay period intervals until the total fund is paid out.

When an employee is rehired by the Federal Government prior to the end of his period of entitlement, previously authorized severance payments are to be discontinued and the unexpired portion of the period recredited for subsequent use. An employee can receive during his lifetime no more than a total of 52 weeks of severance pay, regardless of the number of separations he has from Government service. If an employee is rehired under a temporary limited appointment, with or without a break in service of three or more days, the payment is to be suspended until the termination of that appointment.

In some instances of involuntary separation, employees are not entitled to severance pay. These include, but are not limited to, those instances where an employee

--is receiving or is entitled to receive an immediate Federal annuity, e.g., retired military personnel, or

--has refused an offer of an equivalent position in his agency within the same commuting area.

Effectiveness of severance
pay procedures and controls

We found no pattern of deficiencies in the procedures used in determining entitlement to severance pay and in computing and paying severance pay at the installations visited, and at some installations we found no errors. At several installations, however, internal controls needed improvement since (1) there was no independent review and verification of the correctness of determinations and computations of entitlements, and (2) the payroll office was not promptly furnished information and documentation required to discontinue severance payments.

Civilian personnel offices at the installations determined whether separated employees were entitled to severance pay. They computed the severance pay fund, processed the personnel actions, and counseled the employee on his entitlements and responsibilities for reporting any re-employment in a Federal position during the period he was entitled to receive severance pay.

Following the receipt of separation personnel actions, civilian payroll offices processed the severance payments on a biweekly pay period basis. Amounts of biweekly payments and periods they were to be paid were determined from information shown on personnel actions. Automatic computer controls or manual controls maintained by payroll clerks were established to prevent payments from continuing beyond periods of entitlement. At most installations, however, the payroll office did not suspend or discontinue severance payments when notified that a separated employee had been rehired in a Federal position, but continued payments until a copy of the personnel document requiring such action was received.

At some installations we found errors in determinations of entitlement to severance pay and in computations of the severance pay funds. Most of these errors resulted from failure to consider or properly apply prescribed statutory and regulatory provisions. Some were clerical errors. These errors, which should have been detected and corrected through independent review and verification of initial determinations and computations, included the following:

- Administrative determination that an employee who had refused an offer of an equivalent position in his agency in the same commuting area was entitled to receive severance pay totaling \$13,367 upon his separation from his position. We questioned the administrative determination since it was contrary to a prohibition prescribed by regulations of the Civil Service Commission. The authorization was canceled before any payment was processed.
- Erroneous authorization of severance pay to an employee who was receiving a Federal annuity as a retired military member.
- Failure to reduce the period of severance pay entitlement by the number of weeks of severance pay received by an employee during a previous period of separation from Federal service.
- Incorrect computation of years of service and age.
- Mathematical errors in computing severance pay funds.

When a former employee of the Federal Government is rehired by a Federal agency after a break in service of less than one year, the re-employing agency is responsible for making certain determinations before processing the employee's appointment. Included among these is the responsibility for determining whether the former employee is receiving or entitled to receive severance pay. This determination should be made by wire, telephone, or review of available personnel documents, or by requesting previous employment data.

When it is determined that a former employee is receiving severance pay, the reemploying agency has additional responsibilities. These include (1) notifying the paying agency, by wire or telephone, of reemployment of the former employee and confirming by a copy of the personnel documents, (2) requesting the former employee's official personnel folder, and (3) noting on the appointment personnel action the number of weeks of severance pay the rehired employee was paid and that severance pay was discontinued.

Where the rehired employee is determined to be receiving severance pay, the paying agency is responsible for discontinuing the severance payments upon receipt of notice of reemployment of the former employee and for releasing his official personnel folder to the reemploying agency.

We found that some installations failed to discontinue severance payments promptly when separated employees were rehired by another installation or Federal agency. Some overpayments, and their basic causes, are described below.

- A separated employee was overpaid \$5,232. In this case the payroll office was not informed of his reemployment by another Federal agency. This failure resulted from a breakdown in communications between the civilian personnel office and the payroll office of the paying agency. The overpayment is being recovered from the rehired employee at the rate of \$50 a pay period.
- Overpayments of \$850 and \$585, respectively, were made to two separated employees. In one case the civilian personnel office of the paying agency did not furnish prompt notice of the reemployment of the former employee to the payroll office. In the other case the reemploying agency did not promptly advise the paying agency that the employee had been rehired. These overpayments have been repaid by the employees.

--A separated employee was overpaid \$447 because payments were not discontinued until about one month after the employee was rehired by another Federal agency. In this case the employee had notified the payroll office of his reemployment and the reemploying agency had promptly processed the necessary personnel actions. The reason for failure to promptly discontinue the payments could not be determined. A portion of this overpayment has been repaid and action to recover the balance has been promised.

If overpayments of severance pay to rehired employees are to be avoided, personnel offices of both the reemploying and paying agencies and the payroll office of the paying agency must coordinate and discharge their responsibilities promptly. This can be accomplished by strict adherence to and prompt compliance with the requirements now prescribed by the Civil Service Commission in FPM Supplement 296-31, Book I, Subchapter S2-23 and Appendix D to FPM Supplement 990-2, Book 550.

Conclusions

To ensure that severance payments to separated civilian employees are made in accordance with applicable laws and regulations, internal controls need to be improved in two areas; independent verification of the correctness of determinations and computations of entitlements, and prompt discontinuance of payments upon reemployment by a Federal agency.

Determining the correctness of an employee's entitlement to severance pay at the installation from which he was separated requires close coordination between civilian personnel and payroll offices and independent verification to ensure that provisions of applicable laws and regulations of the Civil Service Commission are properly applied. To prevent the payment of severance pay to rehired employees also requires close coordination between personnel and payroll offices of the paying installation and the personnel office of the reemploying agency.

Recommendation

We recommend that you require all organizations of the Department involved in the processing of severance pay to institute procedures for (1) coordinating their actions in a timely manner, (2) independent verification of determinations and computations of entitlements prior to processing action documents (3) prompt notification of reemployment of a separated employee by a Defense agency, and (4) suspension of severance payments as soon as informal notification of reemployment has been received.

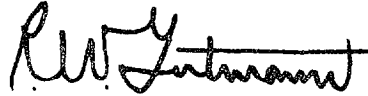
B-157753

Your attention is invited to Section 236 of the Legislative Reorganization Act of 1970 which requires that you submit written statements of the action taken on our recommendations. The statements are to be sent to the House and Senate Committees on Government Operations not later than 60 days after the date of this report, and to the Committees on Appropriations with the first request for appropriations submitted by your agency more than 60 days after the date of this report.

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretaries of the Army, Navy, and Air Force; and the Chairman, United States Civil Service Commission.

We would appreciate receiving your comments on the matters discussed in this report.

Sincerely yours,



/s/ Director, Defense Division

Enclosure

The Honorable
The Secretary of Defense