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UNITED STATES GENERAL ACCOUNTING OFFICE
DALLAS REGIONAL OFFICE
ROOM 500 1512 COMMERCE STREET
DALLAS, TEXAS 75201

OCT 5 1972

Commanding Officer
U. S. Naval Support Activity
Canal Zone
FPO New York 09585

Dear Sir:

We have completed a review of the civilian pay activities at the Naval Support Activity, Canal Zone, for the period July 25, 1971 to July 22, 1972. This review was made pursuant to the Budget and Accounting Act of 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

This review is part of an overall review of civilian pay activities at Department of Defense installations. The objective of the review was to determine the overall adequacy and effectiveness of the civilian pay system by reviewing internal controls and examining selected transactions.

Our review of specific transactions was limited to a random selection of 50 active accounts which showed permanent pay rate changes during our review period and to the severance payments in effect at the time of our review. The pay account transactions examined in detail included within-grade increases, promotions, and premium pay.

An internal audit of selected civilian pay activities was conducted in 1970. However, since the internal audit workpapers were not available in the Canal Zone for our examination, we were not able to utilize this audit to reduce the scope of our review.

Our review disclosed that internal controls are generally adequate. We found, however, that until May 1972 when corrective action was taken, the overtime pay which is affected by night differential pay was not computed correctly. These payments were being computed in accordance with a Navy Civilian Personnel Instruction issued in 1965 while the regulations of the Canal Zone Civilian Personnel Policy Coordinating Board (CPPCB) are applicable in the Canal Zone. We were advised that the discrepancy was discovered when design work was initiated for the proposed automated system.

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Of the 50 pay accounts in our sample, 14 included overtime affected by night differential. An analysis of the accounts showed that eight of these employees were underpaid about \$90.00, four employees were overpaid about \$15 00, and two employees' pay was not affected during our review period. These erroneous payments resulted from the application of the inappropriate regulations and from mathematical errors in computations.

Other types of overtime pay were computed correctly.

We believe that the necessity of adhering to regulations of the CPPCB should be emphasized to all personnel whose work involves civilian pay activities. The responsible officials should ensure that these employees are familiar with the regulations. Also, you may wish to consider recomputing the overtime pay of the employees who were affected by the application of the Navy instruction rather than the applicable Canal Zone regulation.

Although the controls to ensure the accuracy of civilian pay processing were, in our opinion, generally adequate for the manual pay system, our limited review of the proposed automated system indicated that internal control features could be improved in the system. A sound functional internal control system is equally important in either a manual system or an automated system, but some characteristics of internal control will change, or experience a change in emphasis, with the advent of an automated system.

The procedures for the proposed automated system had not been sufficiently developed for us to review in detail. However, we examined certain aspects of the proposed system and found that (1) the system as designed did not include several important control features, i.e., pre-determined control totals for hourly rates and a check listing, and (2) the Naval Support Activity planned to implement the new system when it was ready regardless of whether or not the required approval had been received from the Comptroller of the Navy.

We believe that an independent review and evaluation should be made of the proposed automated system. In the absence of such an evaluation, the computer operation is more vulnerable to undetected error, misuse, and possible fraud. Logically, the internal audit group should make this evaluation.

Your comments on the planned implementation of the proposed automated civilian payroll system will be appreciated.

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An additional copy of this report is furnished for enclosure with the audited records when shipped to the Federal Records Center. We plan to continue site audits of your civilian pay activities, therefore, the pay records for periods subsequent to our audit should be maintained in the Canal Zone. For guidance concerning the disposition of unaudited civilian pay records which have been retained for 3 years, we refer you to Chapter 3, Title 8, General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies.

A copy of this report is also being sent to the Commander-in-Chief, United States Southern Command and the Navy Auditor General

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

Sincerely yours,

W. H. Sheley, Jr.
W. H. Sheley, Jr.
Regional Manager