



UNITED STATES GENERAL ACCOUNTING OFFICE
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FEB 27 1975

Colonel Edward B. Finch, Jr.
 Comptroller
 U.S. Army Military District of Washington *D. 244*
 Department of the Army
 Building 48
 Fort Leslie J. McNair
 Washington, D.C. 20319

Dear Colonel Finch:

We have examined the civilian payroll system of the U.S. Army Military District of Washington (MDW) as part of a General Accounting Office (GAO) review of selected civilian pay and allowance systems in the Department of Defense. Our examination, which covered payroll and leave procedures and internal controls in effect during calendar years 1973 and 1974, included tests and evaluations of procedures and controls in both the manually operated and the automated parts of the system.

This report contains information on four matters noted in our examination: a need for more effective training and supervision of timekeepers; a need to insure correct insurance deductions for transferring employees; an opportunity for cost savings by issuing composite checks; and an opportunity to reduce costs by making fewer computer printouts of employees' master records. Our findings, conclusions, and recommendations on other system improvements we believe are needed will be included in a separate, more comprehensive report.

TIMEKEEPERS SHOULD BE GIVEN MORE
 EFFECTIVE TRAINING AND SUPERVISION

Timekeepers in organizations served by MDW have not always followed procedures necessary for insuring accurate processing of pay and leave data and reducing opportunities for irregular acts. We believe these deviations from good timekeeping practices can be attributed largely to timekeepers' failure to clearly understand and correctly apply pay and leave regulations. Experience has shown a high degree of correlation between the extent of training and supervision given timekeepers and the number of payroll and leave errors.

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Under Army Regulations (AR 37-105), Army civilian payroll offices are responsible for supervising time and attendance reporting as it pertains to timekeepers' technical functions.

MDW conducts timekeeper training sessions only upon request by the organizations it serves and does not uniformly provide timekeeping instructions to all timekeepers. Our survey of timekeeping operations showed that 11 of 16 timekeepers we contacted in various organizations had not been given any training by MDW and that 3 of the timekeepers did not have any timekeeping manual to consult.

We believe MDW's technical supervision of timekeeping functions has not been intensive enough to insure compliance with pertinent regulations and the correctness of information on time and attendance reports. The need for more effective control over timekeeping operations is illustrated by the following examples of timekeeping errors.

Incorrect payment for overtime

An incorrect salary payment was made because a timekeeper did not correctly apply overtime regulations. Although overtime can be paid only for time worked in excess of 8 hours in a day or 40 hours in a week, a part-time employee with a 55-hour biweekly tour of duty (5-1/2 hours a day) was overpaid \$127.77 for "overtime" in 6 of 10 pay periods from November 5, 1972, to March 24, 1973, for simply working more than her normal tour of duty.

Errors in night-differential pay

We scanned time and attendance reports for three payroll organizations for one pay period and found five underpayments and one overpayment of night-differential pay. These errors apparently were made because timekeepers were not familiar with rules on night-differential entitlements for General Schedule employees.

Duplicate payment

When payroll processing responsibility for an organization served by MDW was transferred to a payroll office in St. Louis, time and attendance reports for one employee were received by both payroll offices. As a result of this timekeeping error, a paycheck for 80 hours was issued by the St. Louis office and a duplicate payment for 16 of these hours (first 2 days of the pay period) was made by MDW.

Timekeepers' lack of contact
with employees

The GAO Policy and Procedures Manual for Guidance of Federal Agencies (6 GAO 16.2) provides that persons responsible for time and attendance reports should have positive knowledge of employees' presence or absence before marking the reports. He noted the following situations in which timekeepers' lack of knowledge of employees' whereabouts caused payroll problems.

One timekeeper submitted an 80-hour time and attendance report for a high-level official who had transferred to another Government department at the end of the previous pay period. The timekeeper did not have close enough contact with the employee to know about the transfer. The error came to light when the employee reported receipt of an unearned and illegal 80-hour paycheck.

Another timekeeper explained the problem of keeping time for intermittent, part-time consultants whose work often is not done at the time-keeping location. He noted instances in which back payments were made to a consultant several months after consulting services were rendered because timekeepers did not know consultation work had been performed. MDW has not furnished timekeepers any guidance on procedures to be followed in situations of this kind.

A timekeeper for summer student typists did not keep a daily record of these employees' time and attendance. A supplemental, retro-active payment for 40 hours was made to one employee who claimed she had worked during a period for which a "zero" time and attendance report was submitted.

Nonrecording of compensatory leave

A timekeeper, on the advice of her supervisor, kept informal records of compensatory leave earned and taken by employees but did not report this leave on time and attendance reports. Army Regulations (AR 37-105) require that the exact time of all absences from duty be reported daily on official time and attendance reports.

Recommendations

We recommend that, to increase the effectiveness of MDW's technical supervision over timekeeping operations, you direct responsible MDW officials to

- provide classroom training in timekeeping procedures to all timekeepers, alternates, and supervisors,

- provide timekeeping manuals to all timekeepers, and
- establish a monitoring system to make sure prescribed time-keeping procedures are followed and identify timekeeping operations needing special attention.

Agency action

Payroll office personnel agreed to correct the errors noted above. The Finance and Accounting Officer agreed there is a need for better MDW supervision of timekeeping activities and said timekeepers will be given increased training and supervision as recommended above. We believe this proposed action, if effectively carried out, will strengthen MDW's control over timekeeping operations.

NEED TO INSURE CORRECT INSURANCE DEDUCTIONS FOR TRANSFERRING EMPLOYEES

Excess deductions for life and health insurance premiums were made from the pay of transferring employees because MDW did not follow prescribed procedures in making these deductions.

The Federal Personnel Manual (supplement 890-1) instructs "losing" payroll offices (offices from which employees transfer) to make all adjustments to insurance deductions up to the dates of transfers and "gaining" payroll offices (offices to which employees transfer) to make all adjustments after those dates.

MDW, instead of following these instructions, made insurance deductions for entire pay periods from the pay of employees who transferred during pay periods to other payroll offices. When gaining offices made deductions for parts of these periods, excess deductions resulted. For example, we noted five instances during one pay period in which transferred employees were overcharged a total of \$32.22 because both MDW and gaining payroll offices deducted insurance premiums for the same days.

Because dates through which MDW made deductions were shown on transmittal forms sent to gaining offices, MDW assumed those offices would make appropriate adjustments to avoid overcharges. This assumption, however, was not consistent with Federal Personnel Manual instructions nor with assumptions made by gaining offices following these instructions.

Although the overcharges in these instances were relatively small, they illustrate the recurring nature of errors caused by MDW's failure to follow prescribed procedures. We could not measure the magnitude of errors of this type because overcharges could not be readily identified from MDW records.

We suggested and payroll office officials agreed to prorate insurance deductions for transferring employees as required by the Federal Personnel Manual. We understand such a procedure has since been put in effect. We believe this procedure, if clearly understood and uniformly followed by all payroll clerks, will help to prevent insurance overcharges.

OPPORTUNITY FOR COST SAVINGS
BY ISSUING COMPOSITE CHECKS

Federal employees can have their paychecks sent directly to banks or other financial institutions. When several employees have accounts with the same institution, a Federal agency can reduce paperwork by issuing a single check, referred to as a "composite" check, to the institution. Although employees on the MDW payroll often have accounts with the same financial institutions, MDW does not issue composite checks. Instead, it issues a separate check to each employee and separately mails these checks to the institutions.

The benefits of composite checks are pointed out in a Department of the Treasury letter dated September 28, 1970, to heads of departments and agencies and others concerned. This letter explains that composite checks not only are more economical than separate checks but also are less susceptible to theft and forgery, thus providing benefits to the employee and the agency.

In the absence of complete information at MDW, the amount of money MDW could save through composite checks could not be precisely estimated. However, on the basis of (1) a Defense Audit Agency report dated May 3, 1973, on the number of individual paychecks the Defense Intelligence Agency could eliminate by issuing composite checks and (2) information provided us by the Department of the Treasury on the average cost of each paycheck eliminated by other Army civilian payroll offices using composite check procedures, we estimate MDW could save at least \$15,000 and possibly as much as \$23,000 a year by issuing composite checks.

According to MDW officials, MDW has recognized the advantages of composite checks but has not adopted them because timely delivery of checks to financial institutions could not be guaranteed under the payroll system as currently operated. The officials agreed this problem could be overcome by making appropriate changes to the system. In our discussion of this matter, you assured us that the necessary system changes will be made. We believe this action, if effectively carried out, will result in substantial cost savings and increased control.

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OPPORTUNITY TO REDUCE COSTS BY
MAKING FEWER COMPUTER PRINTOUTS

A computer's ability to rapidly process large volumes of data sometimes results in more computer output than is needed. We believe financial managers should periodically review computer products to make sure they satisfy valid needs. To the degree that unneeded products are generated, inefficiency exists and unnecessary costs are incurred.

We believe MDW has an opportunity to reduce its operating costs, without adversely affecting payroll and leave operations, by making fewer computer printouts of master record change documents (MRCO's). These documents, which contain information from employees' master records, are provided by the computer center to the payroll office each pay period for each active employee.

MDW officials estimated that about 696,000 MRCO's are printed annually. As indicated below, it appears that less than one-third of these documents are needed. According to MDW officials, the payroll office uses about 190,000 MRCO's a year, as follows: (1) about 92,000 as reference documents for preparing quarterly reports of withholding taxes and social security and retirement deductions, (2) about 75,000 as computer input documents in making permanent changes to employees' master records, and (3) about 25,000 as a permanent file of all employees' master records.

The remaining 506,000 MRCO's, according to MDW officials, are used to verify separating employees' leave and savings bond balances and to answer pay and leave questions that arise from time to time. We believe these MRCO's are not needed because, according to MDW officials, (1) information to answer questions and to verify bond balances is on file in the payroll office in other forms and (2) leave information on separating employees (estimated at 5,700 a year) can easily be added to an existing computer listing (Extract from Personal Services) provided to the payroll office each pay period. The cost of making this change, according to an MDW official, would be about \$750 (one computer programmer's salary for 2 weeks). Additional computer printing costs were estimated at about \$370 a year.

On the basis of information provided by MDW officials, we estimate that limiting the production of MRCO's to 190,000 a year could save as much as \$15,000 a year in computer time, printed forms, and personnel costs. This estimate recognizes offsetting costs that would be incurred in providing leave information on separating employees in the alternative form discussed above.

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Recommendation

We recommend that, for increased efficiency and economy in MDW operations, you reduce the production of MRCO's to those needed by the payroll office in preparing quarterly reports, maintaining a permanent file of employees' master records, and making permanent changes to these records.

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We wish to express our appreciation for the splendid cooperation extended to our representatives by members of your staff during our review. You may be sure it is our desire to continue the constructive relationship developed during the review and to assist you in any way we can in making desirable payroll system improvements.

We shall appreciate your comments on any action taken or planned by you on the matters discussed in this report. We shall be happy to meet with you or members of your staff to discuss these matters further if you desire.

A copy of this report is being sent to the District Manager, East Central District, U.S. Army Audit Agency.

Sincerely yours,

H. L. Krieger

H. L. Krieger
Regional Manager

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
FIFTH FLOOR
803 WEST BROAD STREET
FALLS CHURCH, VIRGINIA 22046

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Mr. M. R. Di Fulgo
District Manager
East Central District
U.S. Army Audit Agency
Department of the Army
6701 Eldridge Landing Road
Linthicum Heights, Maryland 21090

Dear Mr. Di Fulgo:

Enclosed for your information is a copy of our report to the Comptroller, U.S. Army Military District of Washington, on certain needed improvements and opportunities for cost savings in the operation of the District's civilian payroll system.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "H. L. Krieger".

H. L. Krieger
Regional Manager

Enclosure

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