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BY THE U.S. GENERAL ACCOUNTING OFFICE
Report To The Secretary Of Defense

When One Military Service Pays Another's Members, Overpayments May Result

Military services often pay members of other military services and report such payments to the parent services. These payments amount to over \$90 million each year.

The procedures and controls to ensure proper accounting for and posting of military pay cross disbursements were not adequately implemented or consistently followed by the military services. As a result, not all payments to military members were charged to their central pay accounts. If GAO had not informed the services of these errors, overpayments may have resulted. Also, unless procedures and controls are improved, fraud could go undetected.

GAO recommends that the military services take a number of actions to comply with procedures and controls for military pay cross disbursements and payroll reconciliations.



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

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-202354

The Honorable Caspar W. Weinberger
The Secretary of Defense

AGC 000005

Dear Mr. Secretary:

We have reviewed the military services' systems for controlling and reporting payments made to members of other military services. Such payments amount to over \$90 million each year.

We found that procedures and controls to ensure proper accounting for and posting of military pay cross disbursements were not adequately implemented or consistently followed by the military services. As a result, not all payments to military members were charged to their central pay accounts. If we had not informed the services of these errors, overpayments might have resulted. In addition, unless procedures and controls are improved, fraud could go undetected.

In our test of almost 3,000 cross disbursement cases, we found 160 payments totaling \$43,904 had not been charged to the members' pay accounts and represented potential overpayments. (However, we cannot project our findings due to our method of sample selection. See p. 4.) There were weaknesses in reporting to the finance centers payments made by disbursing officers, and there were ineffective controls at the finance centers to ensure receipt of payment documents. Further, we found a need for periodic internal reviews to identify problem areas.

We are making several recommendations to you which are designed to improve internal controls over cross disbursements. Our findings were discussed with Defense and military service officials. Where appropriate, their comments were considered in preparing this report.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations. You must send the statement to the House Committee on Government Operations and the Senate Committee on Governmental Affairs within 60 days of the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of the report. We would appreciate receiving copies of these statements.

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AGC 00098

We are sending copies of this report to the Director of the Office of Management and Budget; the Secretaries of the military services; and the chairmen of the House Committee on Government Operations, the Senate Committee on Governmental Affairs, and the House and Senate Committees on Appropriations and Armed Services.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "D. L. Scantlebury".

D. L. Scantlebury
Division Director and
Chief Accountant of GAO

GENERAL ACCOUNTING OFFICE
REPORT TO THE SECRETARY
OF DEFENSE

WHEN ONE MILITARY SERVICE
PAYS ANOTHER'S MEMBERS,
OVERPAYMENTS MAY RESULT

D I G E S T

Each year more than \$90 million is paid to military members by disbursing officers of a military service other than the members'. GAO found that military finance centers and disbursing offices lack effective internal controls to ensure that all of these payments (known as cross disbursements) are charged to members' central pay accounts maintained at the finance centers. Failure to charge a cross disbursement to a member's pay account will result in an overpayment to the member by the amount of the cross disbursement not posted. In a test of almost 3,000 cross disbursement cases totaling \$676,943, GAO found 160 payments totaling \$43,904 had not been charged to the members' pay accounts and represented potential overpayments.

The cross disbursements not posted were from several months to over a year old. At least 15 of the payments were to members who subsequently were discharged or who took absence without leave. The chance of recovering most of the overpayment from these individuals is remote. After GAO completed its review, Defense posted the 160 payments to members' pay records.

Because GAO was unable to select a sample representing the universe of cross disbursement transactions (see p. 4), the findings cannot be projected. Based on the number of errors found in the limited test of cross disbursements, GAO believes that this matter warrants management attention.

When a disbursing officer pays a member of another service, the disbursing officer is required to report the payment to the member's central finance center the same day. At the finance center, effective controls, based on a voucher numbering system, are required to ensure that notifications of all cross disbursements made to that service's members are received. GAO

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found (1) weaknesses in the reporting of payments by disbursing officers to finance centers, (2) ineffective controls at the finance centers to insure receipt of payment documents, and (3) a need for periodic internal reviews to identify problem areas.

WEAKNESSES IN REPORTING
BY DISBURSING OFFICERS

Disbursing officers in many instances did not adhere to prescribed procedures in reporting cross disbursements. For example, they failed to

- prepare complete, legible, and accurate pay documents;
- use the prescribed voucher numbering system needed for proper control of documents;
- submit the payment documents to the applicable finance center for posting to the members' pay accounts; and
- establish or properly maintain a required suspense file to ensure that the finance centers acknowledge receipt of each payment voucher mailed to them.

INEFFECTIVE CONTROLS
AT FINANCE CENTERS

The military finance centers failed to establish or carry out required controls that were designed to ensure the prompt receipt of all military pay cross disbursement data. For example, the Army had not established a procedure for identifying missing cross disbursement vouchers. Such a procedure would have helped the Army in detecting the 102 cross disbursements GAO found had not been charged to Army members' pay accounts. (See pp. 8-9.)

GAO also found that an important basic control, applicable to both pay disbursements within the services (which amounted to about \$26.3 billion in fiscal 1980) and cross disbursement payrolls, was not used by the Army and Marine Corps and was not effectively used by the Navy and Air Force.

The control consisted of a reconciliation which compares the charges made by disbursing officers to military pay appropriations to amounts charged to members' pay accounts.

Although the Navy and the Air Force reconciliations could be more effective, those services were identifying and correcting some errors. For example, through the reconciliation process, the Navy had identified seven cases of fraud, including one case involving seven fraudulent cross disbursements totaling \$38,439. Considering the results achieved by the Navy and the Air Force it is highly probable that the Army and Marine Corps have missed opportunities to identify similar errors and pay irregularities by not using the reconciliation process.

NEED FOR PERIODIC INTERNAL REVIEWS

Although internal controls were noticeably lacking at both the disbursing office and finance center levels, Defense and internal auditors, generally, have made no recommendations to strengthen the controls in recent years.

The one exception is a recommendation made by Air Force auditors which stated that controls should be established to ensure timely followup when discrepancies are discovered in the reconciliation processes. The Air Force, however, had not implemented this recommendation at the time of GAO's review.

After GAO informed the services of the general lack of internal controls over cross disbursements, Army, Air Force, and Marine Corps officials requested that audits be initiated.

RECOMMENDATIONS

GAO recommends that the Secretary of Defense direct the Secretaries of the Army, Navy, and Air Force to review cross disbursement records at the military services' finance centers and disbursing offices to ensure that all cross disbursements have been charged to members' pay accounts.

GAO is also making several recommendations which are designed to improve internal controls over cross disbursements. (See pp. 12-13.)

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CHAPTER 1

INTRODUCTION

Department of Defense policy provides that, wherever necessary, military service disbursing officers will pay members of other military services and report such payments (known as military pay cross disbursements) to the members' parent service finance centers 1/ according to mutually acceptable procedures. Department of Defense Accounting Guidance Handbook 7220.9-H provides that payments for pay and allowances may be made by one military service to members of another military service who are in need of funds for temporary lodging, emergencies, evacuation of dependents, or transportation to duty stations. Generally, the disbursing officer determines the amount of payment by reviewing the personal financial record being hand-carried by the member, or by calling the member's disbursing officer or finance center.

There are several hundred military disbursement officers located worldwide who are authorized to make cross disbursements. Based on data applicable to the 6-month period ending January 31, 1980, we estimate that military pay cross disbursements for 1 year amounted to about \$91.5 million.

ACCOUNTING FOR MILITARY PAY CROSS DISBURSEMENTS

Department of Defense Directive 7330.3, Instruction 7330.4, and Handbook 7220.9-H provide guidance for military pay cross disbursing. The directive, instruction, and handbook stipulate policies, standards, requirements, and system specifications that are designed to assure that cross disbursements are promptly and accurately recorded on members' military pay records which are maintained at the four finance centers. Further, the services have issued memorandums of agreement to enable each service to comply with Defense requirements for a standard system of reporting transactions for other services.

Responsibilities for reporting and controlling cross disbursements

The responsibilities of the disbursing officers and finance centers are discussed below.

Disbursing officer

Disbursing officers are responsible for (1) determining amount of pay for members, (2) preparing pay documents using a

1/Military finance centers are listed on p. 4.

prescribed numbering system, (3) submitting pay documents daily to the members' finance centers, and (4) maintaining a suspense file to assure acknowledgement of receipt of pay documents from the members' finance centers. In addition, the disbursing officers are required to include the cross disbursement pay documents in their financial returns which are submitted to their respective finance centers at the end of each accounting period. The finance centers use these pay documents to support charges made against other services' military pay appropriations.

Disbursing officer's finance center

The disbursing officer's finance center must account to the Treasury Department for all funds expended for cross disbursements, as well as regular payrolls. The finance center receives the financial returns and supporting documents from its various disbursing offices and processes the returns to the Treasury. In addition, the finance center is required to send to other military services' finance centers (1) a copy of those portions of the monthly report to the Treasury which reflect transactions for other services and (2) supporting payroll documents.

Payee's finance center

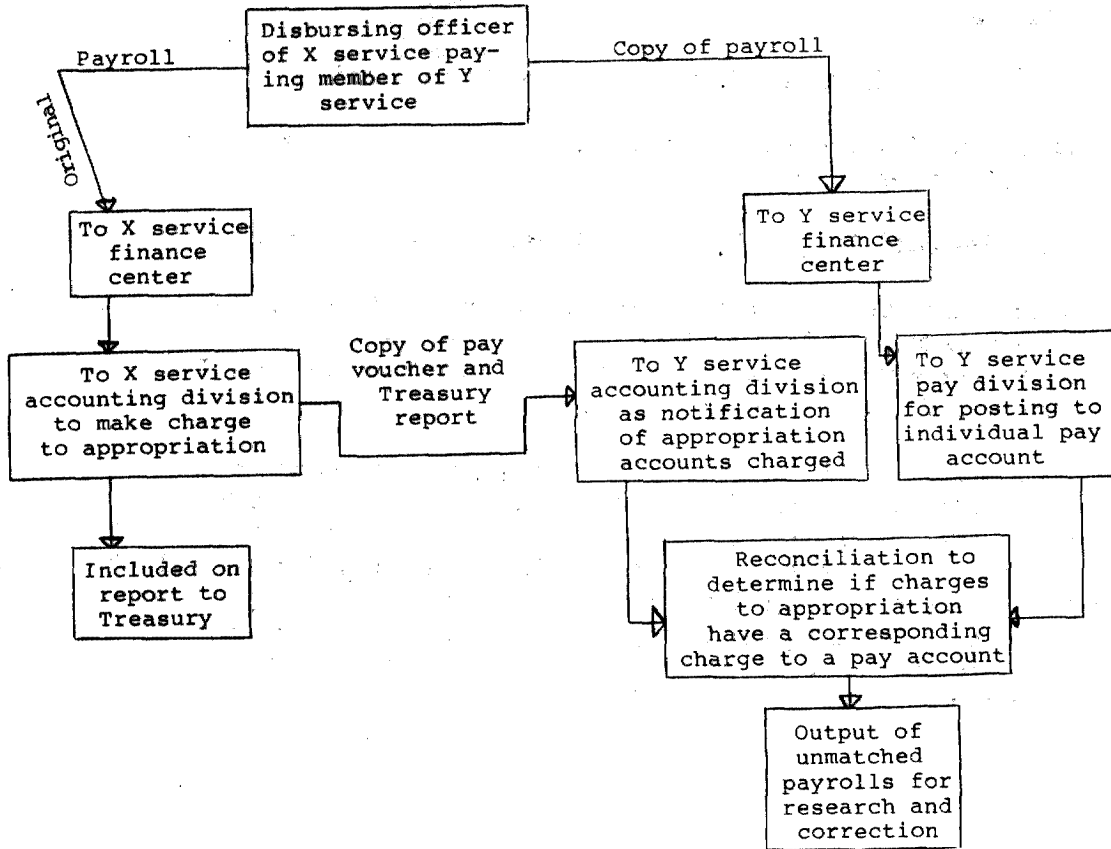
The four military finance centers maintaining the centralized pay accounts are responsible for (1) ensuring that all cross disbursement documents have been received directly from the disbursing officers by using an authorized numbering system, (2) recording the cross disbursements to members' military pay accounts, and (3) reconciling charges to the appropriation fund with corresponding charges to the pay accounts. To carry out these responsibilities and implement Department of Defense guidance and interservice agreements, the finance centers were required to establish various internal controls and processing procedures.

* * * * *

A simplified chart showing the major steps in reporting cross disbursements follows.

MAJOR STEPS IN REPORTING

CROSS DISBURSEMENTS



OBJECTIVES, SCOPE, AND METHODOLOGY

We reviewed the procedures and controls relating to military pay cross disbursements and the reconciliation of accounting data to pay data at the finance centers of all military services. We wanted to determine if the military services were following the applicable guidance in reporting and controlling cross disbursements and if the services' systems were effective in preventing or detecting pay errors and irregularities, including fraud.

Our review included an examination of regulations, policies, procedures, document flow, and management reports. We tested cross disbursement transactions to determine the accuracy and timeliness of postings to individual pay accounts. We interviewed responsible officials to discuss policies, procedures, and the results of our examination.

We made our review at the following military activities:

- U.S. Army Finance and Accounting Center, Indianapolis, Indiana;
- U.S. Navy Finance Center, Cleveland, Ohio;
- U.S. Air Force Accounting and Finance Center, Denver, Colorado; and
- U.S. Marine Corps Finance Center, Kansas City, Missouri.

We also visited military disbursing offices located at Fort Benjamin Harrison, Indiana; the Navy Finance Center, Cleveland, Ohio; Lowry Air Force Base, Colorado; and the Marine Corps Finance Center, Kansas City, Missouri.

We reviewed 2,972 cross disbursement payments that we judgmentally selected. They included many disbursement transactions for which there were indications that the payment might not have been recorded in military pay records. We could not select the cases for review on a random sample basis because the services were unable to identify and provide information on the entire universe of cross disbursement payments. Consequently, we cannot project our findings.

CHAPTER 2

NOT ALL CROSS DISBURSEMENTS ARE CHARGED TO PAY ACCOUNTS

Of the 2,972 selected cases of military pay cross disbursements examined, 160 totaling \$43,904 were not charged to the members' pay accounts. Failure to record a cross disbursement in a member's pay account will, if not detected later, result in a duplicate payment to the member. Most of the payments we identified would have probably never been charged against the members' payroll if we had not informed the military services of them.

Failure to record the payments occurred because disbursing officers did not adhere to prescribed procedures in reporting cross disbursements, and finance centers did not establish or follow internal controls to ensure receipt and posting of all cross disbursement vouchers. Periodic internal reviews are needed to ensure that all cross disbursements are properly recorded.

FAILURE TO CHARGE CROSS DISBURSEMENTS TO SERVICE MEMBERS' PAY ACCOUNTS

The military services have failed to charge a number of cross disbursements to members' accounts. In tests of 2,972 cross disbursements amounting to \$676,943, we found 160, or about 1 out of every 20, were not posted to pay accounts. These nonposted payments totaled \$43,904, and represent potential overpayments to military personnel. Although our findings cannot be projected as representative of the universe of cross disbursement transactions, the number of errors found in our limited test indicate that payments are being made but are not being charged to members' pay accounts and that this matter warrants management's attention.

The table on the following page shows the results of our tests.

We reported to the commanders of the finance centers, those cases in which cross disbursements were not posted to individual pay accounts. After we completed our field work, Defense officials indicated that action was taken to post the 160 payments to members' pay records.

There is a good chance that cross disbursements not charged to members' records will eventually become overpayments. All of the 160 unposted payments were several months old--in many cases over a year old--and the payments would probably not have been charged to the members' pay accounts had we not told the services of the errors. At least 15 of the payments not charged were to military members who were absent without leave or no longer in the service at the time of the audit. The likelihood of collecting from these individuals is minimal.

Results of GAO Tests of
Military Pay Cross Disbursements (note a)

<u>Payees members of</u>	<u>Payments reviewed</u>		<u>Payments not posted</u>		<u>Total payments in 1 year</u>
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	
Army	407	\$103,727	102	\$ 28,096	\$ 8,731,277
Navy	878	219,689	27	9,043	40,692,625
Air Force	747	154,699	12	2,364	4,015,636
Marines	<u>904</u>	<u>198,828</u>	<u>19</u>	<u>4,401</u>	<u>38,020,295</u>
Total	<u>2,972</u>	<u>\$676,943</u>	<u>160</u>	<u>\$ 43,904</u>	<u>\$91,459,833</u>

a/A more detailed table showing the amount of payment by each service to members of each of the other services and the number of disbursing officers involved is in app. I.

DISBURSING OFFICERS DID NOT
FOLLOW RULES IN REPORTING
CROSS DISBURSEMENTS

Disbursing officers were remiss in adhering to regulations on preparing, submitting, and controlling the documentation that begins the process of properly accounting for cross disbursements. We found instances where disbursing officers failed to

- submit the payment documents to the applicable finance center for posting to the members' pay accounts;
- establish or properly maintain a required suspense file designed to assure proper and timely disposition of payment documents; and
- prepare complete, legible, and accurate pay documents using the voucher numbering system prescribed for proper control of cross disbursements.

Failure to submit cross
disbursement documents and
properly maintain suspense file

Our review of various cross disbursement receipt logs maintained by the finance centers showed that many cross disbursement vouchers apparently had not been sent by disbursing officers. Later, in our limited inquiry at disbursing offices, one Marine Corps and two Air Force disbursing officers told us that they or their predecessors had failed to submit 77 payment documents

valued at \$21,581. We also identified 47 other disbursing officers who made payments for which the respective finance centers had no record of receiving the vouchers involved.

In addition we found that an Air Force disbursing officer was not maintaining a suspense file (as required by Defense instructions) which would remain open until the members' finance centers acknowledged receipt of the cross disbursement vouchers. Consequently, this disbursing officer had no assurance that the cross disbursement documents were received by the members' finance centers. Further, we found that an Army disbursing officer was maintaining a suspense file but not reviewing it to ensure he was receiving notices of receipt from the appropriate finance center.

Failure to prepare adequate cross disbursing documents

Disbursing officers are not consistently preparing adequate cross disbursement documents. Payment documents are often incorrect, incomplete, or illegible. As a result, finance centers receiving the documents encountered delays in processing the payments for posting to pay accounts. Also, improper numbering on the vouchers made it difficult for the centers to make sure all cross disbursements had been received.

Defense Handbook 7220.9-H includes instructions for filling out cross disbursement documents. The instructions require the disbursing officers to number the vouchers consecutively to enable the member's service to spot any missing payment documents.

Officials at all of the military finance centers expressed concern that, many times, cross disbursement documents are incorrect, incomplete, or illegible. A Navy Finance Center official said that he sends four or five messages a month to other services about incorrect cross disbursement documents. A Marine Corps official told us that cross disbursement payments are being rejected by the Corps' computerized system because of wrong social security numbers and because, on occasion, members of another service are included on the vouchers.

In some cases, disbursing officers were not numbering vouchers consecutively. We reviewed the Marine Corps cross disbursement log book and found several examples where the numbering system used by disbursing officers from the other services was not the one prescribed by the handbook. The Marine Corps, therefore, could not use the consecutive numbering system to help assure receipt of all cross disbursement vouchers. A similar problem was occurring at the Army center.

BREAKDOWN IN INTERNAL CONTROLS FOR
RECORDING CROSS DISBURSEMENTS
AT MILITARY FINANCE CENTERS

Although disbursing officers were not doing their jobs properly, the primary reason for payments not being posted to the members' pay accounts is the military services' failure to establish or use at the finance centers required controls designed to insure the timely receipt and posting of all military pay cross disbursement vouchers.

The military finance centers are not ensuring that they receive all cross disbursement pay vouchers. Defense Handbook 7220.9-H spells out a specific voucher numbering system to be used by each disbursing officer so the finance centers can spot any missing vouchers or transmittals. The handbook states that it is the responsibility of the parent service to ensure that all military pay cross disbursement vouchers have been received directly from the disbursing officers and promptly posted to the pay accounts. The handbook also states that, in the event of missing vouchers, the disbursing officer's finance center should be notified and requested to investigate. These controls were not properly established or followed at the finance centers.

The Defense handbook also requires the parent service to ensure that all military pay cross disbursement vouchers which charge an accounting appropriation have a corresponding charge to a member's pay account. (Defense Instruction 7330.4 requires the same for inhouse payrolls. Actual outlays of the four services in fiscal 1979 for military personnel salaries totaled \$26.3 billion.) Neither the Army nor the Marine Corps Centers had instituted procedures to accomplish this reconciliation. The Navy and the Air Force Centers had established a reconciliation process, but they needed to use it more effectively.

Finally, we found that cross disbursements which are sent to the wrong finance centers are not handled in compliance with interservice agreements, and have resulted in payments not getting posted to the members' pay accounts.

Failure to assure receipt
of cross disbursements

The weaknesses noted and discussed below indicate that each of the military services needs to improve its internal controls to assure that all cross disbursements are received.

Army

The Army Finance and Accounting Center has not established and implemented controls to detect missing cross disbursement payment vouchers. Although vouchers are being recorded in a log, as required, no one has reviewed the log to ensure that all voucher numbers were accounted for.

In our test of 407 payments, we found 102--or 1 in 4 payments--amounting to \$28,096 not posted to the Army members' pay accounts. Had the Army Finance and Accounting Center established adequate procedures for identifying missing payment vouchers, most of these nonposted payments would have been detected and copies of vouchers requested, so that payments could be posted.

Navy

The Navy Finance Center is not using controls required by the Department of Defense to identify missing cross disbursing payments to Navy members. Instead, the Navy Finance Center is relying on an automated reconciliation process which takes up to a year.

Although the Navy Finance Center does log the receipt of cross disbursements, technicians were not required to monitor the logs for missing payment vouchers. In our test of 878 payments, we found that 27 payments amounting to \$9,043 were not posted to Navy members' pay accounts.

Air Force

The Air Force has established local procedures to ensure the receipt of all cross disbursement payment vouchers. Yet, the Air Force Accounting and Finance Center is not consistently following them, and as a result, we found payments to Air Force members that had not been posted to their pay accounts.

When a payment voucher is received by the Center from another service, technicians are required to ensure that all preceding vouchers have been filed in the folder. (The vouchers are supposed to be numbered consecutively.) If any voucher is missing, the technician is required to contact the disbursing officer from the other service to determine reasons for the missing voucher.

We found that this procedure was not consistently followed. In our test of 747 payments, 12 payments amounting to \$2,364 were not posted to Air Force members' pay accounts. Our review disclosed that the technicians responsible for detecting missing payment vouchers had failed to note the missing vouchers on disbursing officers' folders as required.

After we discussed this matter with a Center official, the official had his staff identify and research missing vouchers. The Air Force told us that this resulted in the identification of 30 more vouchers with payments not posted to Air Force members' pay accounts, and that the vouchers have now been posted.

Marine Corps

The Marine Corps has established procedures designed to ensure the receipt of all cross disbursement payment vouchers. However, Marine Corps Finance Center personnel were not following them.

Control clerks are required to log each cross disbursement payment voucher separately and monitor the log sheets to detect any missing vouchers. If any vouchers are missing, the clerks are to contact the disbursing officer to initiate corrective action. Our review of log sheets disclosed that some payment vouchers were missing or not logged in. Control clerks told us that they have not contacted disbursing officers when payment vouchers are missing. They said that one reason for this inaction was that some disbursing officers do not number their vouchers consecutively as required by the Defense handbook, and therefore, a missing number may not indicate a missing voucher.

In our test of 940 payments, we found 19 payments amounting to \$4,401 not posted to the Marine Corps members' pay accounts. Nine of these payments could have been detected by reviewing the log sheets for missing voucher numbers.

Required reconciliation
not performed

The Army and Marine Corps do not perform a reconciliation as required to make sure that the payments charged to appropriations in disbursing officers' financial returns are also charged to individuals' pay accounts. Although the Navy and Air Force perform the reconciliation, both of the services need to be more effective in their use of it.

Department of Defense Handbook 7220.9-H, February 1, 1978, section 243, requires that services adopt procedures to assure themselves that cross disbursements charged to appropriations are also posted to individual pay accounts. (See p. 3 for a chart depicting the flow of data and the point of reconciliation.) Also, Department of Defense Instruction 7330.4, July 1, 1971, section II, paragraph H4, requires the same comparison or reconciliation for inhouse payrolls.

The reconciliation ensures that disbursing officers input the same data into both the accounting and the pay systems for both cross disbursement and inhouse payrolls. Such a reconciliation should detect missing cross disbursement payments not identified by controls over receipt of vouchers. Further, the reconciliation is an important tool to deter and detect fraud.

We found that the Navy and the Air Force, by reconciliation, have identified and corrected many pay errors over the years, including cases of payments made that had not been posted to members' pay accounts. The Navy has also identified many cases of fraud including one case involving seven fraudulent cross disbursement payments. For example, the Navy found instances in which a disbursing officer changed amounts on the copies of the voucher submitted to support the dollars for which he was accountable, but he did not change amounts on the copies used to post amounts to the members' pay accounts. The reconciliation revealed this fact, and followup action proved that fraud had occurred.

The fraud discovered by the Navy and other errors discovered by both the Navy and Air Force were found in both cross disbursement and inhouse payrolls. Potential benefits of reconciliation in the form of errors disclosed and corrected, and potential or actual fraud exposed and investigated, are lost to the Army and Marine Corps, which do not perform such a reconciliation.

Both Navy and Air Force should improve their reconciliation processes. It takes the Navy from 9 months to 1 year after the cross disbursement is made before the reconciliation is completed. As of August 1980, a backlog of over \$5.6 million in unreconciled cross disbursement payrolls had not been investigated. Navy officials told us that they have developed a new automated cross disbursement system which will drastically reduce the timelag between date of payment and completion of the reconciliation.

Unlike the Navy, the Air Force performed the reconciliations promptly. However, Air Force personnel did not investigate the differences shown on the reconciliation reports. Consequently, we found 11 cases in which, even though the reconciliation showed payments charged to the appropriation without a corresponding charge to a pay account, no action was taken. These payments ranged from 6 months to over 1 year old, and were not posted to pay accounts until we brought them to the Air Force's attention. An Air Force official said that in the future, supervisors will ensure that appropriate attention is given to the results of the reconciliation.

Failure to adhere to cross service agreements

The Navy did not follow the interservice agreement regarding the handling of cross disbursements erroneously sent to it. The agreements provide that when cross disbursement vouchers are sent to the wrong finance center, that center should notify the payers' finance center.

We found 10 instances in which Army and Air Force disbursing officers erroneously included Marine Corps members on Navy vouchers and sent the vouchers to the Navy Finance Center. The Navy system correctly rejected the payments as not belonging to the Navy. However, the established procedures to notify the Army and Air Force Centers of the misdirected payments were not followed. Instead the Navy notified no one, and the payments were not posted to the Marine Corps members' pay accounts. Navy officials did not know who should control the flow of documentation between the Navy Finance Center and other services when the Navy received misdirected vouchers. After we informed the Marine Corps of this situation, action was initiated to charge the central pay records for the 10 misdirected payments.

We also noted that the other services were not complying with the interservice agreements as to disposition of misdirected cross

disbursement vouchers. However, we did not find any evidence that cross disbursements were not charged as a result of the noncompliance.

NEED FOR PERIODIC REVIEW OF CONTROLS OVER CROSS DISBURSEMENTS

Generally, Defense internal reviews have not resulted in recommendations to improve internal controls over military pay cross disbursements. Consequently, the internal control deficiencies mentioned in this report were not disclosed to top management for corrective action.

Internal auditors from the Navy and Air Force Centers and from the Defense Audit Service had issued reports within the past several years regarding audit of cross disbursements. The Air Force report, dated August 2, 1978, recommended that controls be established to ensure timely followup when discrepancies are discovered in a reconciliation. The Air Force, however, had not implemented this recommendation at the time of our review. (See p. 11.) No other recommendations in the three audit reports related to needed improvements in controls to ensure timely receipt and proper recording of military pay cross disbursements. Auditors of the Centers, the military departments, and the Department of Defense planned no significant audit work in the area of military pay cross disbursements.

After we informed the services of the obvious lack of effective internal controls over cross disbursements, managers in the Army and Air Force Centers requested a complete review by internal auditors of cross disbursement controls, procedures, and activities to assist them in making needed changes. The Marine Corps Finance Center added reviews of cross disbursement procedures and controls to its internal audit workload.

CONCLUSIONS

Failure to follow or adequately implement required procedures and controls relating to military pay cross disbursements resulted in a number of payments that were not charged to service members' pay accounts. Because of the general lack of effective internal controls, we believe there may be many more cross disbursement payments than those we identified that have not been posted to pay accounts. We also believe fraud could go undetected unless the procedures and controls are improved.

RECOMMENDATIONS

We recommend that the Secretary of Defense require the Secretaries of the Army, Navy, and Air Force to:

- Make a special review of available documentation at all disbursing offices and finance centers to ensure that

- disbursing officers submitted all cross disbursement documents to appropriate finance centers, and the related confirmations were received, and
 - finance centers received all cross disbursement documents, and related payments were posted to pay accounts.
- Collect any overpayments, identified by the special review, that resulted from failure to charge pay records for cross disbursements.
- Establish and/or improve military finance center procedures to ensure adequate control over receipt of all military pay cross disbursement vouchers in accord with Defense Handbook 7220.9-H.
- Institute a reconciliation process in the Army and Marine Corps Centers to ensure that charges to military pay appropriations have a corresponding charge to pay accounts. (This should apply to inhouse as well as cross disbursing payrolls.)
- Issue instructions to all disbursing officers stressing the importance of well-prepared, complete, and legible financial documents, in compliance with applicable guidance, including the proper numbering of cross disbursement payment vouchers and the proper maintenance of cross disbursement suspense files.
- Require internal audit and administrative examination efforts at disbursing office and finance center locations to periodically review the effectiveness of procedures and internal controls used to ensure that pay cross disbursements are properly processed and recorded.

SCHEDULE OF MILITARY PAY CROSS DISBURSEMENT PAYMENTSREVIEWED BY GAO

Members	<u>Numbers of payments</u>		<u>Value of payments</u>		<u>Estimated value of payments for 12 months</u>	<u>Number of disbursing officers with payments not posted</u>
	<u>Reviewed</u>	<u>Not posted</u>	<u>Reviewed</u>	<u>Not posted</u>		
Air Force members paid by:						
Army	418	-	\$ 93,387	\$ -	-	-
Marine Corps	36	10	7,262	2,004	-	5
Navy	<u>293</u>	<u>2</u>	<u>54,050</u>	<u>360</u>	-	<u>1</u>
Total	747	12	\$154,699	\$ 2,364	\$ <u>4,015,636</u>	6
Marine Corp members paid by:						
Army	703	12	\$146,071	\$ 2,372	-	10
Air Force	185	6	42,058	1,671	-	5
Navy	<u>52</u>	<u>1</u>	<u>10,699</u>	<u>358</u>	-	<u>1</u>
Total	940	19	\$198,828	\$ 4,401	\$ <u>38,020,295</u>	16
Navy members paid by:						
Army	272	11	\$ 68,426	\$ 3,602	-	7
Air Force	480	14	111,669	4,855	-	7
Marine Corps	<u>126</u>	<u>2</u>	<u>39,594</u>	<u>586</u>	-	<u>1</u>
Total	878	27	\$219,689	\$ 9,043	\$ <u>40,692,625</u>	15
Army members paid by:						
Air Force	56	5	\$ 13,004	\$ 1,534	-	2
Marine Corps	298	94	76,499	25,615	-	9
Navy	<u>53</u>	<u>3</u>	<u>14,224</u>	<u>947</u>	-	<u>2</u>
Total	<u>407</u>	<u>102</u>	<u>\$103,727</u>	<u>\$28,096</u>	\$ <u>8,731,277</u>	<u>13</u>
Total	<u>2,972</u>	<u>160</u>	<u>\$676,943</u>	<u>\$43,904</u>	\$ <u>91,459,833</u>	<u>50</u>

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