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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of Defense

Internal Controls Can Be Improved To Help Ensure Proper And Correct Military Retirement Payments

Military services pay 1.4 million retirees and survivors about \$14 billion each year. A GAO audit found that payments could be made to ineligible, fictitious, or dead persons. Important pay systems' controls, designed to ensure proper or correct payments, were inadequate, not followed, or nonexistent. For example, the Navy and Marine Corps lacked adequate separation of duties and internal checks to ensure that payments were made only to those retirees and survivors authorized to receive such payments. After GAO's review, a Navy clerk was indicted for fraud involving payments made to fictitious retirement pay accounts.

This report recommends a number of actions needed to improve the effectiveness of internal controls in the military retirement pay systems. Defense has substantially concurred with these recommendations. Also, Defense, which is required to review its internal controls under provisions of the Federal Managers' Financial Integrity Act of 1982, reported that military pay accounting systems need improvement.



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

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

B-205616

The Honorable Caspar W. Weinberger
The Secretary of Defense

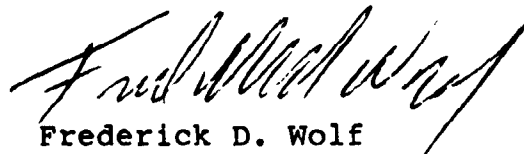
Dear Mr. Secretary:

This report discusses a number of actions needed to improve the effectiveness of internal controls in the military retirement pay systems. Our review was made to determine whether internal controls were in effect to ensure proper and correct payments to retirees and survivors.

This report contains recommendations to you. As you know, 31 U.S.C. 720 requires the head of a federal agency to prepare a written statement on actions taken on our recommendations. You should send the statement to the Senate Committee on Governmental Affairs and the House Committee on Government Operations 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 also are sending copies of this report today to the Director of the Office of Management and Budget; the Chairmen of the Senate and House Committees on Appropriations, the Senate Committee on Governmental Affairs and the House Committee on Government Operations; and the Secretaries of the Air Force, Army, and Navy.

Sincerely yours,


Frederick D. Wolf
Director

D I G E S T

Each year, the military services pay about 1.4 million retirees and survivors about \$14 billion. In an entitlement program of this size it is very important that there are sufficient internal controls in the military services' payment systems to help ensure that only proper and correct payments are made. Recently, the Congress, recognizing the need for better internal controls in the federal government, passed the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255). It calls for an annual statement, signed by the agency head, attesting to the effectiveness of that agency's internal controls.

Internal controls consist of the plan of organization and methods and procedures adopted by management to ensure that resources are used according to laws, regulations, and policies with adequate safeguards against misuse, waste, and loss. Management must also require that reliable data are obtained, maintained, and accurately disclosed in reports. Strong internal controls in pay systems can help ensure that payments are proper and correct. The adequacy of an internal control system can be assessed by examination of its objectives and the effectiveness of the techniques used to accomplish the objectives. GAO conducted this review to find out whether internal controls were in effect to ensure proper and correct payments to retirees and survivors.

GAO's review of retirement pay systems indicated a need for the military services to improve internal control techniques to help ensure that:

- the Navy and Marine Corps place only authorized persons on the payment rolls,
- payments by the military services continue only if recipients retain their eligibility for such payments, and
- payments by the military services are not made to deceased persons.

NEED FOR IMPROVED CONTROLS
TO ENSURE THAT ONLY AUTHORIZED
PERSONS ARE PLACED ON PAYMENT ROLLS

In many cases the Navy and the Marine Corps did not have adequate control techniques to ensure that only authorized persons are placed on the payment rolls. For example, in the Navy, no attempt was made to separate a clerk's duties preparing retirement pay authorization documents from duties establishing new accounts in the retirement pay system. As a result, the same clerk could create fictitious retirement pay authorization documents and then place unauthorized persons on the payment rolls. In the Marine Corps, whenever incorrect retirement authorization data were received by the Corps' Finance Center from the personnel department, pay clerks had unsupervised access to certain system input forms used to correct the error. These forms could also be used to place unauthorized individuals on the retirement payroll system. (See p. 4.)

Navy and Marine Corps officials acknowledged to GAO that their internal control techniques were weak and improvements were needed to prevent unauthorized accounts. After GAO's review, a Navy clerk was indicted for fraud involving \$132,000 paid to fictitious retirement pay accounts.

NEED FOR IMPROVED CONTROLS
TO ENSURE THAT RECIPIENTS ON
THE ROLLS ARE ENTITLED TO PAYMENTS

After examining all the military services, GAO concluded each service needed better internal control techniques to ensure that recipients receive only what they are entitled to. Examples follow:

--Although since 1973 the Department of Defense (DOD) has required the services to obtain annual certification of annuitants' eligibility to receive payments, the Marine Corps had never asked approximately 2,000 survivors to certify their eligibility. Following a GAO request, the Marine Corps put this internal control technique into effect and requested the required certification from survivors. Subsequently, the Marine Corps suspended payments in 11 cases. The other services requested annual certifications but the Army and Navy did not quickly suspend pay accounts when certifications were not received. For example, the Army did not stop payment to survivors for as long as 22 months after the survivors failed to return the certifications. (See p. 6.)

--Certain separation payments, such as disability severance and readjustment payments made to veterans on leaving active duty, must be recouped by the services if the veteran later rejoins the military and subsequently becomes eligible for military retirement pay. The Veterans Administration (VA) must also recover the payments if the veteran later becomes eligible for disability compensation. The services keep a documents file showing separation payments made and notify VA of such payments. Under present procedures it is difficult to ensure that all recoupments are made because recoupment action, in certain cases, may be required long after the separation payments were made and the records of payments often become lost or difficult to find. This was borne out in a limited examination by GAO which disclosed that VA had not recovered, as required, disability severance payments amounting to over \$131,000. GAO concluded that one technique to improve internal controls would be a central computerized file of individuals receiving special payments--a file for use by VA and the services to help ensure that the required recoupment takes place. (See p. 6.)

--The DOD Military Retired Pay Manual requires that deceased retirees' children from 18 to 23 years old must attend school and remain unmarried to be eligible for annuity payments. A school attendance certification, signed by the school's registrar, is required for each school period. All four military services have procedures for obtaining these certifications. However, most of the services (1) do not consistently follow established procedures, (2) use inadequate or incomplete certification forms, (3) do not suspend or terminate accounts quickly, and (4) need to validate the certificates submitted to them. GAO made a limited test of the validity of certificates and found two apparent cases of fraud involving false certifications. These cases were turned over to military officials for appropriate action. (See p. 9.)

NEED FOR IMPROVED CONTROLS
TO ENSURE THAT PAYMENTS
ARE NOT MADE TO DECEASED PERSONS

The internal control techniques of the military services did not prevent payments to deceased persons because the services generally relied on third parties, such as banks and the U.S. Postal Service, to inform the services about these deaths. This system has proved to be ineffective. For example,

Tear Sheet

a match by the services of files on retirement pay and death information disclosed more than \$1.3 million paid to deceased persons. (See p. 10.)

Although the match has disclosed significant overpayments, the military services had not approved plans to (1) materially expand their sources for death information, (2) perform computer matches on a regular periodic basis, and (3) include survivors' pay files in the matching process. The services did not properly share death notices with other agencies and did not adequately follow up on suspected death cases. For example, the Marine Corps' Finance Center sent preprinted verification cards to retirees whose accounts match death records from other sources. The cards request the retirees to write in their social security numbers (which are typed elsewhere on the cards) and return the cards to the finance center. No signature was required. If the card was returned, no further action was usually taken.

The services need to evaluate their existing control techniques and determine the additional techniques necessary to improve internal control. The services also should consider the feasibility of (1) requiring retirees residing in the United States to certify periodically they are still alive and (2) expanding death file matches to be performed on a recurring basis.

Audit reports issued in 1982 and 1983 showed that other internal controls needed to be strengthened. For example, a Defense Audit Service report showed that certain retired officers were overpaid by more than \$3 million because military retirement benefits were not reduced as required by dual compensation and pay cap legislation. (See p. 12.)

Under the Financial Integrity Act, the secretary must report to the Congress on the effectiveness of DOD's internal control systems, whether the systems conform to the Comptroller General's standards for internal control, and if any action is planned to correct the identified weaknesses. In 1983, DOD and each of the military services reported in their Financial Integrity Act statements that the military pay accounting systems, including retirement pay systems, need improvement. They also cited various planned corrective actions. GAO plans to review the corrective actions proposed by the military services, including those recommended in this report, to ensure the services implement them effectively and promptly. (See p. 13.)

RECOMMENDATIONS

GAO recommends that the Secretary of Defense direct the Army, Navy and Air Force to strengthen internal controls over military retirement pay systems, with special emphasis placed on correcting the control deficiencies discussed in the report. (See p. 14.)

AGENCY COMMENTS

DOD substantially concurred in GAO's recommendations. It said it recognizes the need to strengthen internal controls and that it also is committed to periodic evaluation of internal control effectiveness. (See p. 14.)

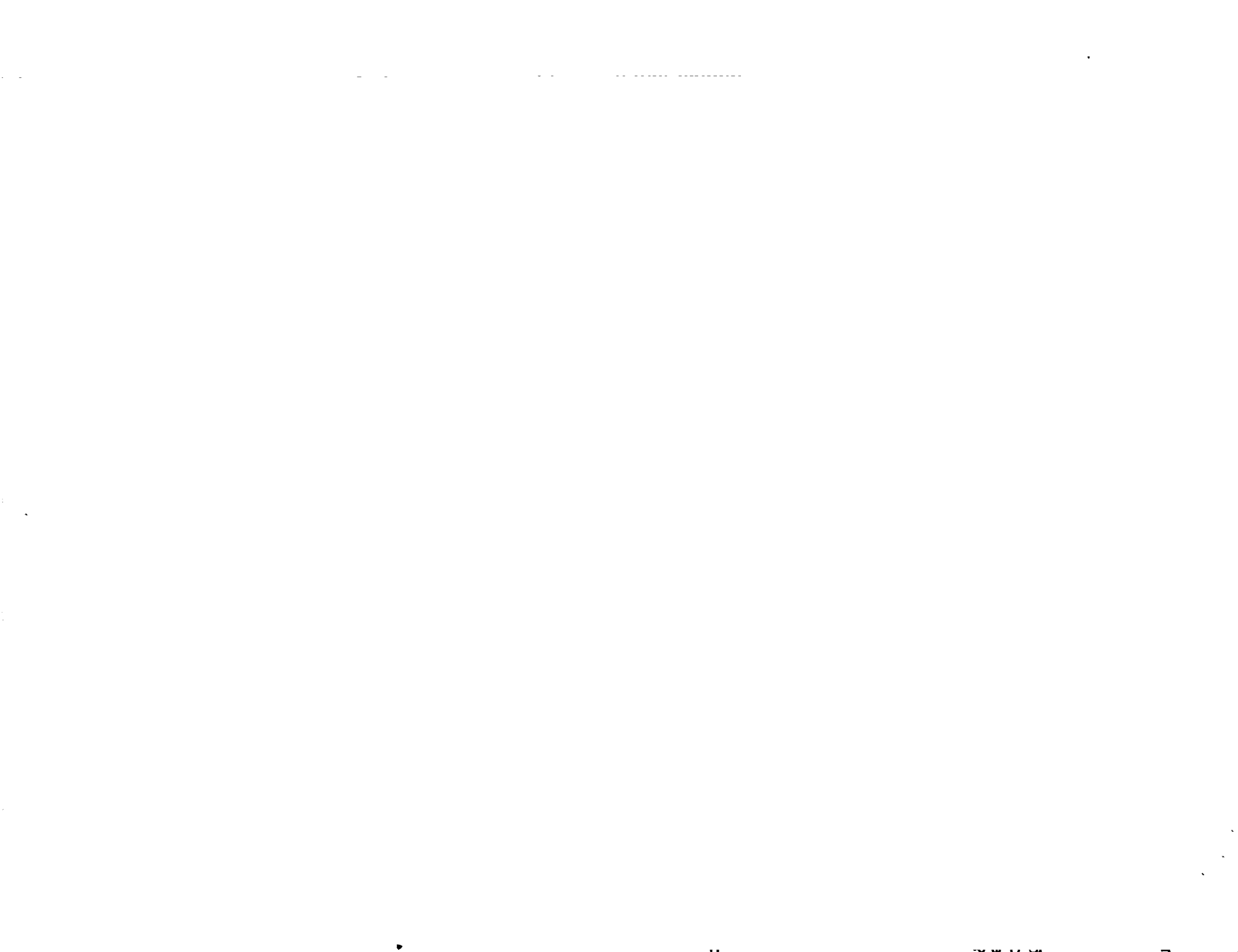


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ABBREVIATIONS

DOD	Department of Defense
GAO	General Accounting Office
VA	Veterans Administration



CHAPTER 1

INTRODUCTION

The military services maintain independent payroll systems to pay and administer benefits to military retirees and annuitants (survivors). Each military finance center has developed and implemented internal controls for its unique payroll system. This report concentrates on internal controls which affect an individual's eligibility for military retirement or annuity payments and on how the finance centers determine whether a payroll system is operating effectively.

Internal controls consist of the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against misuse, waste, and loss; and that reliable data are obtained, maintained, and accurately disclosed in reports. Strong internal control systems help ensure that specific transactions are carried out correctly. Quite simply, internal controls are checks and balances over all activities of an organization. Good systems of internal controls will usually help to prevent or detect fraud, waste, and mismanagement. The adequacy of an internal control system can be assessed by examination of its objectives and the effectiveness of the techniques used to accomplish the objectives.

As of September 30, 1981, the four military services were paying over \$13.5 billion annually to about 1.3 million military retirees. The services also were paying about \$299 million annually to nearly 74,000 survivors of military retirees.

RESPONSIBILITY FOR INTERNAL CONTROLS

Managers at all levels are required to determine if an agency's system of internal accounting and administrative controls is adequate (Office of Management and Budget Circular A-123, Aug. 16, 1983). Under the 1982 federal managers' financial integrity law, the head of each executive agency--beginning December 31, 1983--also must prepare an annual statement on whether the agency's internal control system fully complies with the Comptroller General's standards. In addition, a separate report is required on whether the agency accounting systems conform to the principles, standards and related requirements prescribed by the Comptroller General.

The following background information is pertinent to areas of internal control covered in this report.

Preventing payments to deceased individuals

The Department of Defense (DOD) Military Retired Pay Manual, which implements a 1931 decision by the Comptroller General, requires reports on whether persons who have their checks delivered through foreign postal systems actually are alive. Reports are

also required when a retiree has been declared mentally incompetent and a trustee, guardian, or fiduciary has been appointed to manage the retiree's financial affairs. Within the United States, the U.S. Postal Service is relied on not to deliver checks mailed after the death of the retiree (Comptroller General Decision A-3551, March 9, 1951). The check envelope notifies the postmaster that if the addressee is deceased, the check must be returned to the sender. Also, printed on all retirement pay checks are the words "retired pay payable only during the life of the payee." When composite checks or electronic fund transfer payments are used, Treasury Department regulations require the financial institution to return funds deposited after the member's death.

Annual certification of survivors

All military survivors are required to submit an annual eligibility certification to verify their right to continue to receive annuity pay (Comptroller General Decision A-44004, April 27, 1973). Under the DOD Military Retired Pay Manual, the military services annually must validate each survivor's eligibility to receive annuity benefits. In general, a widow or widower under 60 years old must remain unmarried. Children between the ages of 18 and 23 must be unmarried and enrolled as full-time students in a recognized educational institution or be incapable of self support because of physical or mental disability.

Establishing retirement pay accounts

GAO's Guidance to Federal Agencies on internal management control in pay, leave, and allowance functions state that internal control systems should be based on well-defined policies and clearly stated procedures. It calls for clear assignments of responsibility, delegation of authority, and proper separation of duties involving authorization, performance, records maintenance, and review. The GAO guidance also states that internal controls should provide information on whether or not unauthorized, fraudulent, or irregular transactions are prevented or discovered. The procedures used to establish new retirement pay accounts should include these controls.

Recoupment of readjustment and severance payments

Military personnel may be entitled to certain payments when leaving the service including readjustment, severance (nondisability), separation, or disability severance pay. In general, if these individuals reenter military service and subsequently qualify for a military retirement, they must repay all or part of such payments by offset against retirement pay. Likewise, if these individuals become eligible for a disability compensation from the Veterans Administration (VA), they must repay all or part of such payments by offset against VA compensation.

The laws requiring the military services to recoup readjustment and severance payments from members that qualify for a

military retirement are implemented by the DOD Military Retired Pay Manual . Furthermore, the military services are responsible for preparing a "Certificate of Release or Discharge from Active Duty" (DD Form 214) for each member who leaves the service. This form should provide information on the member's length of service, circumstances relating to the termination of service, and any payment of readjustment, severance, or disability severance pay. One copy of the form is forwarded by the military services to VA for use if the veteran applies for VA benefits.

Validating school attendance for ages 18-23

The DOD manual requires that children of deceased retirees, who are between the ages of 18 and 23 (age 22 for children receiving benefits under the Survivor Benefit Plan enacted in 1972) and are entitled to receive annuity payments, must be unmarried and pursuing a full-time course of study in a recognized educational institution. These individuals are required to return a certificate, signed by the school's registrar, that validates enrollment for each school semester or other school-year period.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to determine if the military services used effective internal controls to help ensure proper and correct payments to retirees and survivors. We reviewed (1) procedures, controls, and the flow of documents relating to establishment, maintenance, and termination of retirement and annuity pay accounts, (2) pertinent legislation, policies, and management reports applicable to military retirement pay functions, and (3) past audit reports on military retirement pay activities. We also interviewed military officials to discuss policies, procedures, and the results of our review.

We examined 66 cases where the Navy paid disability severance. Most review selections were made because, by comparing data in certain DOD files, it appeared a strong potential existed that disability severance pay was not reimbursed as required by law.

We made our review at the following DOD activities:

- Office of Secretary of Defense (Comptroller), Pentagon,
- Army Finance and Accounting Center, Indianapolis,
- Navy Finance Center, Cleveland,
- Air Force Accounting and Finance Center, Denver, and
- Marine Corps Finance Center, Kansas City, Missouri.

As defined and limited by the scope outlined above, this audit was made in accordance with generally accepted government auditing standards.

CHAPTER 2

NEED FOR IMPROVED INTERNAL CONTROLS

TO HELP ENSURE PROPER AND CORRECT PAYMENTS

Military retirement pay systems need strong internal controls to help ensure proper and correct payments. We found there was a need to develop better control techniques to help ensure that

- the Navy and Marine Corps place only authorized persons on the payment rolls,
- payments by the military services continue only if recipients are entitled to receive such payments, and
- payments by the military services are not made to deceased persons.

The Defense Audit Service and GAO have reported on other internal control weaknesses in the military pay systems that resulted in millions of dollars in overpayments.

The military services must spend more time determining whether they have good internal controls. The Congress recognized the need for better internal controls in the entire federal government by passing the Federal Managers' Financial Integrity Act of 1982 which requires an annual statement from each agency head on the effectiveness of that agency's internal controls.

NEED FOR IMPROVED CONTROLS TO ENSURE THAT ONLY AUTHORIZED PERSONS ARE PLACED ON PAYMENT ROLLS

Navy and Marine Corps internal controls over the establishment of retiree and annuitant pay accounts contained weaknesses that could result in the creation of invalid accounts. Most of the weaknesses we found were previously reported by the Defense Audit Service in 1979, and those findings were concurred with by DOD. However, the Navy and Marine Corps did not take adequate corrective action.

The 1979 Defense Audit Service report stated that the military finance centers needed stronger internal controls to ensure that only valid accounts were established. The audit found that the finance centers generally permitted the same clerk to control retirement source documents, process the documents creating a pay account, and verify the accuracy and legality of the new account. This violates an important internal control which requires that duties involving sensitive functions, such as the establishment of pay accounts, be separated.

The Defense Audit Service made several recommendations designed to strengthen controls over the establishment of new retiree accounts. The deputy assistant secretary of defense (management systems) concurred in the recommendations. We found that the Navy

and the Marine Corps did not implement completely the Defense Audit Service recommendations.

We analyzed system and document flow charts and tested transactions used to establish pay accounts in the Navy and Marine Corps finance centers. We found that:

- Both services allowed certain pay accounts to be established manually without proper internal controls to ensure the accounts' validity. For example, Navy clerks, in about a 3-year period ending May 1982, manually set up 3,502 new retiree pay accounts (about 8 percent of all new accounts) which bypassed an important automated control system used to verify the retiree's active duty, rate of pay, and years of service.
- The two services did not separate the duties of controlling source documents and establishing new pay accounts for retiring reservists. The clerks prepared the documents authorizing retirement pay and set up the accounts. As a result, the same clerk could improperly create fictitious retirement pay documents and subsequently place the unauthorized persons on the payroll.
- The Marine Corps and Navy did not adequately supervise the access of clerks to critical forms used to establish pay accounts. For example, if an error was found in retirement authorization data received by the Marine Corps Finance Center from the Corps' personnel department, pay clerks had unsupervised access to certain system input forms used to correct the error. These forms also could be used to place unauthorized individuals on the retirement payroll system.
- Because both services failed to periodically reconcile new retirement pay accounts with independent sources, such as retirement orders or personnel records, fraudulent accounts could go undetected.

Navy and Marine Corps Finance Center officials acknowledged to us that they had weak internal controls over the general procedures to set up retirement accounts and they needed better internal controls to prevent the establishment of unauthorized accounts. Following our review, Navy officials informed us that a Navy clerk was indicted for fraud involving payments of \$132,000 made to fictitious retirement pay accounts.

NEED FOR IMPROVED CONTROLS TO ENSURE THAT
RECIPIENTS ON THE ROLLS ARE ENTITLED TO PAYMENTS

The military services needed better internal control techniques to ensure that recipients received only what they were entitled to. We found that

- the Marine Corps had never asked survivors, as required by DOD, to certify they were eligible to receive payments,

--the services lacked good internal control techniques to make sure that certain separation payments were recovered from retirees and VA beneficiaries, and

--the services had inadequate internal control techniques to determine whether certain survivor recipients between the ages of 18 and 23 were entitled to payments.

Details on our findings follow:

Inadequate certification
of survivors' eligibility

At the military finance centers, procedures for obtaining the required annual certificates of survivors' eligibility to receive annuity payments were inconsistent, inadequate, or nonexistent. About \$300 million is paid annually to 74,000 survivors. DOD requires each service to request from annuitants annual statements certifying they are alive and not married. This information determines eligibility to receive annuity payments. Only the Marine Corps did not follow regulations by requesting the certifications. Although the Army and Navy asked for the certifications, they did not quickly suspend pay accounts if certifications were not received.

Although the certification has been required since 1973, the Marine Corps had never obtained the certificates from annuitants. As a result of requiring the certification, the Army, Navy, and Air Force terminated 318 accounts during the year ending March 31, 1982. At our request, the Marine Corps required certifications from the 1,950 survivors on its rolls and the Corps subsequently identified 11 cases requiring suspension of pay. The Marine Corps began obtaining annual certifications from annuitants in 1982.

Operating procedures of the Army and Navy allowed annuity payments to continue for 3 to 5 months after recipients failed to return the required annual certification. Any action to suspend the payments sometimes occurred many months after these time limits. For example, we found four Army cases in which payments were not suspended from 5 to 22 months after survivors failed to return the certification. In another case, at the Navy Finance Center, a survivor did not return the certificate sent out in March 1980 but the Navy continued to mail checks for April, May, and June 1980.

The Air Force gives survivors 30 days to return the certificate. If the certificate is not received in 30 days, payment to the survivor is stopped. After we completed our field work, Army Finance and Accounting Center officials informed us that they will adopt the 30-day criteria in their procedures. We believe the Navy and Marine Corps also should consider it.

Readjustment and severance
payments not recouped

By law readjustment and severance payments to veterans leaving active duty must be reimbursed to VA if a veteran later becomes

eligible for VA disability compensation or to the services if a veteran subsequently rejoins the military and becomes eligible for military retirement pay. Documents are kept by the services to show payments made and to notify VA of such payments. The problem in trying to recover the money is identifying who has received the readjustment and severance payments at the time VA awards the disability compensation or the members become eligible for military retirement. Many years can elapse between severance payments and VA awards or retirement payments. Some individuals also might receive readjustment and severance payments from one military service and retire from another service. The Army, Navy, Marine Corps, and VA usually asked the recipients to disclose past readjustment or severance payments, or clerks searched files manually for such previous payments. The Air Force has a superior control technique because it maintains a computerized file of the payments and automatically searches it whenever a person enters the retirement pay file.

Inadequate controls over recoupment from VA disability compensation

Although DOD procedures require notification of the appropriate VA regional office when retirees receive disability severance payments, no control or follow-up was done to make sure the action was taken or that the information was received, or acted on, by VA.

In 1978, we reported¹ over \$400,000 in readjustment and disability severance payments made by the Air Force that were not recouped by VA when VA compensation was awarded. We recommended that similar payments made by the other three services be reviewed and, where appropriate, recovered. Subsequently, in 1980, the Defense Audit Service reported over \$1.5 million in readjustment and disability severance payments made by the Army, Navy, and Marine Corps that VA did not recover as required. The overpayments were not recouped by VA primarily because VA regional offices lacked information indicating that readjustment and disability severance payments had been made by the military services.

In this review we examined the records of 66 individuals² to whom the Navy paid disability severance during fiscal years 1978-81. Fifty-four of these individuals received compensation from VA but in 25 cases VA had not recouped the Navy's payments amounting to over \$131,000. In some cases, the military files showed that the VA regional office had been sent a copy of the severance payment document. However, for reasons we could not determine, VA's files did not show that the services had made the payment. In

¹Letter report to director, Office of Management and Budget (FPCD-78-75, Dec. 27, 1978).

²Most of these cases were selected for our review because, by comparing data in certain DOD files, it appeared there was a high potential for nonrecoupment of disability severance pay.

other cases, we could not find any record that the services had notified VA of the severance payments. We provided the 25 cases to Navy Finance Center officials. They said they would act to notify VA of the disability severance payments so the required reimbursements could be made.

Inadequate controls over recoupment
from military retirement pay

After a member of the military receives readjustment or severance pay, the individual later can become eligible for retirement pay by (1) rejoining the same or another military service and serving the required time for retirement or (2) joining a reserve unit and earning the required retirement credits. Inadequate readjustment and severance pay data were gathered to identify the member and recoup from the member readjustment and severance payments from military retirement pay.

The Marine Corps relied completely on retirees at the time of retirement to tell if they had ever received readjustment or severance pay so reimbursements could be made from retirement pay. Under this procedure, Marine Corps officials estimated that one repayment was made each year. Corps officials agreed with us that weak internal controls for identifying and recouping readjustment or severance payments have resulted in the federal government losing an unknown amount of money.

The Army's procedures also did not ensure that all readjustment and severance payments were returned. A manual search of new retirees' files was required to determine if such payments were received. The procedure depends on accurate records and how well each clerk searches through voluminous material to find the required information. Army Finance and Accounting Center officials agreed this method fails to recoup the payments.

Between fiscal years 1978 and 1981, the Navy paid about \$13.2 million in readjustment and severance payments to 920 members. The Navy Finance Center relied on clerks who examined voluminous records manually to identify those retirees who received payments. This time-consuming exercise may have failed to obtain the required information. Furthermore, the records could be incomplete. We identified a Navy retiree who, in 1975, received \$15,000 in severance pay, but the Navy was not reimbursed because it had no record of the payment.

We found the Air Force had adequate controls to recoup its readjustment and severance payments. Since 1975, the Air Force has maintained a computerized file of these payments. The files list 2,888 individuals who received over \$45.2 million in readjustment, severance, or separation pay. Matching the stored names and social security numbers with those of new retirees allows the Air Force to recoup these payments. From July 1978 through March 1982, the Air Force has recovered over \$3.6 million from 350 retirees.

The military services cannot identify individuals who receive readjustment or severance payments from one service, subsequently join another service, and eventually retire. An automated central file that contains the names of the persons receiving the payments would be an excellent control technique to ensure the required reimbursements.

To ensure all recoupments are made, DOD should establish a central automated file containing data on readjustment and severance payments for all the military services. After this file is established, periodic matches can be made by the military services and VA against automated retirement pay and disability payment records. The computer matches will provide the necessary data to identify potential recoupment cases.

Inadequate validation of eligibility for ages 18-23

The DOD Military Retired Pay Manual requires that 18- to 23-year-old children of deceased retirees must attend school and remain unmarried to be eligible for annuity payments. A school-attendance certification, signed by the school's registrar, is required for each school period. All four military services have procedures for obtaining these certifications. However, most of the services (1) did not consistently follow established procedures, (2) used inadequate or incomplete certification forms, (3) did not suspend or terminate accounts promptly, and (4) needed to validate some of the certificates submitted to them.

Need to consistently follow procedures

The Navy and Marine Corps did not consistently follow guidance which requires semiannual verification of the student status for all 18- to 23-year-old survivors. In 15 of 20 Navy cases we reviewed, dating back to 1978, many student certifications were missing from the files. Those responsible for maintaining the Marine Corps' files did not know the number of cases that should be in the files. We also reviewed 13 Marine Corps cases. In one case the finance center had not requested student status verification in over a year and in another case, the survivor received annuity payments for 9 months after his 18th birthday before student verification was requested.

Inadequate certification forms

The Army, Navy, and Marine Corps used certification forms that failed to verify marital status of survivors aged 18 to 23. Married survivors are ineligible for survivor benefit payments. If the annuitants did not volunteer information about their marital status, annuity payments could have been made to ineligible recipients.

Need to promptly suspend accounts

The accounts of 18- to 23-year-old survivors who failed to verify student status were not promptly suspended by the Army,

Navy, and Marine Corps. For example, in a Navy case a survivor who was sent a school certification form on January 30, 1980, never responded but the Navy did not stop sending checks until August 1980. One Marine Corps survivor had been paid for 9 months after the certification forms were sent out before payments were stopped. Another survivor was still receiving benefit payments although no verification of student status had been received in over a year. We examined three Army cases in which we identified overpayments totaling \$4,756. This occurred because the Army did not promptly suspend payments after it knew the recipients were no longer eligible.

Need to validate certificates of eligibility

Certificates of eligibility need to be verified periodically but only the Air Force had taken steps to do this. In February 1981, the Air Force Accounting and Finance Center provided to the Air Force Office of Special Investigation a list of 277 individuals between ages 18 and 22 who were receiving survivor annuities. The Office found nine ineligible survivors including three survivors who were fraudulently overpaid a total of about \$6,900.

In our limited work at the Navy and Army, we found two apparent fraud cases resulting from false certifications. These cases were turned over to military officials.

Military officials agreed that procedures were needed to spot check the validity of school attendance certifications.

NEED FOR IMPROVED CONTROLS TO ENSURE THAT PAYMENTS ARE NOT MADE TO DECEASED PERSONS

A computer match of the names of military retirees with death records from various sources had demonstrated that the military's internal control techniques to identify and terminate payments to deceased individuals do not always work. Also, once information had been received which indicated the pay recipient may be dead, the Army and Marine Corps need improved follow-up procedures to verify the retiree's death. Furthermore, the military services either lacked or did not fully implement procedures for sharing death information with other federal agencies, such as VA, which may also be making payments to the deceased.

Existing control techniques found wanting

The services have generally relied on third parties, such as a relative or bank or post office officials, to notify them of a retiree's or annuitant's death. It is stated on each check that it is payable only during the payee's life. Under Treasury regulations, financial institutions are responsible for returning funds received by electronic funds transfer or composite check after the payee's death. These controls were tested in 1981 when the services made a computer match of the names of military retirees (annuitants were excluded) with death records obtained from Texas, California,

VA, and a private firm. The information disclosed in the match resulted in the services terminating 155 retirees' pay accounts that represented overpayments of more than \$1.3 million. Although third-party death notification is the primary way to prevent payments to deceased recipients, this computer match shows that it has not been completely effective.

About 440,000 retirees over 60 years old receive over \$425 million monthly. Considering this fact and the computer match results, the services need to examine alternatives to strengthen internal controls.

An additional technique for consideration is to require all retirees listed on the rolls who reside in the United States to periodically certify their existence. Certifications are already required for retirees residing in foreign countries and for all annuitants. Another option would consider the feasibility of conducting the computer death matches regularly. In this connection we found that the services had no formal plans to (1) materially expand their source of death statistics such as the records of other states, (2) perform computer matches regularly, and (3) include survivors' records in such matches.

Need to improve follow-up procedures used to verify retirees existence

The Army and Marine Corps need to strengthen internal control procedures to resolve cases of suspected deaths identified by computer matches.

We examined 15 Army cases identified by the computer match as possibly pertaining to deceased retirees. In five cases, insufficient information was contained in the retirees' pay folders or obtained by telephone inquiries made by finance center personnel to conclude the retiree was either dead or alive. For example, one case file contained no correspondence or evidence of contact with the retiree for the past 12 years. To resolve the question an Army Finance Center clerk made a telephone call and decided on that basis the retiree was still alive. Since the clerk could not verify whom he talked to and whether the correct information was obtained, we believe this is an inadequate follow-up procedure.

Marine Corps procedures were also inadequate. The Corps' Finance Center sent preprinted verification cards to suspected deceased retirees, asking the retirees to enter their social security numbers (already typed in another location on the card) and return it to the finance center. No signature was required. Usually no further action was taken.

The Navy and Air Force procedures were better than those used by the Army and Marine Corps. The Navy, for example, sends a letter to each suspected deceased retiree, requesting the return of a notarized eligibility certificate to confirm the individual is entitled to continue receiving retirement pay.

Death information not always
shared with other federal agencies

Military retirees often receive benefits from other federal agencies, such as disability benefits paid by VA and civil service annuities paid by the Office of Personnel Management. However, the military services were not making sure that all the information disclosed by computerized death matches was shared with these federal agencies which may be making payments to deceased individuals.

The Navy and Army had no notification procedures to alert federal agencies about these payments. For example, we found 521 active cases at the Navy Finance Center were identified by the computer match as pertaining to possible dead persons. The Navy did not follow up on these suspected cases because they found that the retirees had elected to receive VA benefits instead of Navy retirement pay. The Navy was not required to notify VA of the cases which, as a result, were not forwarded to VA. However, the Navy promised to take corrective action.

The Air Force and Marine Corps did not always follow their procedures requiring notification of other federal agencies making payments. For example, in five of the nine cases we tested, we found that the Air Force had not notified VA that, according to the computer matches, VA might be paying dead people.

To successfully prevent improper payments to deceased retirees, the services need to share death notice information with other federal agencies.

RECENT REPORTS SHOW OTHER
WEAKNESSES IN INTERNAL CONTROLS

The Defense Audit Service issued a 1982 report³ which said controls had not been established to prevent overpayments to certain military officer retirees when they enter federal civil service. We also have recently issued a report⁴ which points out that in 1981, overpayments of more than \$6.6 million to military retirees and survivors were identified in the DOD and VA interagency system.

The two reports are summarized below.

Failure to make dual compensation
and pay cap offsets

The Defense Audit Service estimates that as of March 31, 1981, military retirees received overpayments exceeding \$3 million because required offsets to military retirement pay were not made when the retirees entered the federal civil service. Civilian

³Defense Audit Service report, Number 82-143, Sept. 30, 1982.

⁴Military Services and the VA Can Reduce Overpayments by Improving Exchange of Pay Data, GAO/AFMD-83-39, July 12, 1983.

personnel officers sometimes fail to notify the services when employing a military retiree, and the services do not have procedures for identifying such cases. Under dual compensation legislation, certain retirees can receive only a portion of their retirement pay if they enter federal civil service. Pay cap legislation provides that the total of military retirement and civil service pay cannot exceed the pay cap. Offsets are supposed to be made against military retirement pay but the military services do not have effective controls to ensure such offsets are made. In many instances, neither the civilian agencies' personnel officers nor the retirees notified the military service when federal civilian employment was begun.

The Defense Audit Service report recommended that the assistant secretary of defense (comptroller) (1) arrange an annual reconciliation of military retirement and federal civilian pay accounts, (2) annually inform military retirees of their legal responsibilities to report federal civilian employment to the services, (3) collect the overpayments with interest, and (4) advise the Office of Personnel Management to emphasize the need for federal civilian personnel officers to promptly report employment of military retirees to military finance centers. DOD concurred with the recommendations and promised to implement them.

Failure to deduct VA compensation

Military retirees and survivors can receive certain benefits from VA if an equal amount is deducted from military retirement or annuity pay. In 1981, overpayments exceeding \$6.6 million were identified in the DOD and VA interagency system for improperly paying military retirees and survivors. The overpayments were primarily caused by the failure to deduct VA compensation from military retirement benefits, as required by law, because VA did not provide adequate VA payment information to the services. No systematic procedure existed to ensure that VA would notify the services about all VA awards of disability compensation, disability pensions, and dependency and indemnity compensation.

DOD RECOGNIZES NEED IN FINANCIAL INTEGRITY LAW STATEMENTS TO IMPROVE MILITARY PAY SYSTEMS

Under the financial integrity law, the Secretary of Defense and the military services reported, as of September 1983, on the adequacy of internal controls and accounting systems. In these statements, they recognized the need to improve military pay accounting systems including retirement pay systems. For example, the Army said that it has developed the means to identify Army retirees and beneficiaries whose deaths have not been reported so it can promptly terminate retirement benefit payments.

We plan to review the corrective actions proposed by the services, including those recommended in this report, to ensure that the services implement them effectively and promptly.

CONCLUSIONS

The military services lacked important internal controls to help ensure proper and correct payments to military retirees and survivors.

Better control techniques are needed so that

- the Navy and Marine Corps place only authorized persons on the payment rolls,
- payments by the military services continue only if recipients are entitled to receive such payments, and
- payments by the military services are not made to deceased persons.

RECOMMENDATIONS

We recommend that the Secretary of Defense direct the services to ensure that

- internal controls over establishing new retirement pay accounts are strengthened,
- annuitants submit certificates of eligibility, and where appropriate, payments to ineligible persons are promptly terminated and overpayments collected,
- controls over payments to 18- to 23-year-old survivors attending school are improved, and
- existing control techniques to identify deceased persons on the payment rolls are improved and to ensure that the feasibility of additional control techniques are considered including (1) requiring certifications of existence from retirees residing in the United States and (2) expanding the computer death matches and performing them on a recurring basis.

We also recommend that the Secretary of Defense ensure that a central computerized data file is developed and used to identify recipients of readjustment and severance pay so that the services and VA can make required offsets to benefits paid.

AGENCY COMMENTS

DOD substantially concurred in our recommendations. It said it recognizes the need to strengthen internal controls and also is committed to periodic evaluation of the effectiveness of internal controls.

DOD told us that

--stronger internal controls have been placed over the establishment of new retirement pay accounts,

--the services will ensure that annuitants submit eligibility certificates and the termination of payments to ineligible persons after a set time period,

--an attempt will be made to incorporate data on readjustment and severance pay recipients into an existing data base maintained by Defense Manpower Data Center, and

--the services will ensure that the controls over payments to 18-23 year-old survivors are improved.

In accordance with our recommendation to consider the feasibility of additional control techniques to identify deceased persons, DOD said that:

--It can make better use of the report of existence to ensure prompt notices that persons are deceased. Specific improvements it can make in using the report are currently under consideration.

--Periodic death matches have been made since our audit. Recent legislation also requires the Social Security Administration to gather death records furnished by states. This will provide a common data base for death record matches.

DOD also informed us that some statements in the draft report needed clarification and, where it was appropriate, we made changes.



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