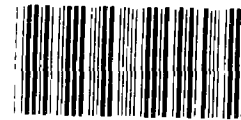


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August 1987

ADP SYSTEMS

Army and Air Force Military Retired Pay Systems Can Be Improved



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Information Management and
Technology Division

B-225901

August 28, 1987

The Honorable Caspar W. Weinberger
The Secretary of Defense

Dear Mr. Secretary:

We have completed our review of selected automated and manual control procedures within the Army and the Air Force retired pay automated systems. These systems pay over \$12 billion each year to more than one million retirees and annuitants. According to federal laws, the military services must monetarily offset, that is, reduce, retirees' pay when retirees are concurrently paid disability compensation by the Veterans Administration, wages for employment by certain federal agencies or the military, or allowances received for post-retirement military reserve duty.

We found that these systems were accurately processing retired and annuitant pay for the large majority of transactions we reviewed. However, we identified incorrect payments totaling over \$1.2 million. Further, on the basis of our work, the Army has estimated additional overpayments totaling between \$2.1 and \$9.7 million. Identified discrepancies were caused primarily by manual errors and underutilization of available computer matching controls, which resulted in pay offsets not being applied by the military finance centers. The military finance centers have initiated pay adjustments (collection or credit) for all retirees and annuitants found to be over- or underpaid.

Objective, Scope, and Methodology

Our objective was to determine whether management and technical control procedures currently used in the Army and Air Force retired pay systems ensure that correct payments are being made to Army and Air Force retirees and annuitants. We recognized that due to the large dollar amounts disbursed and the number of transactions processed each year, the military finance centers would inevitably experience some payment errors. Therefore, we focused our review on determining whether the various errors occurring and any corresponding incorrect payments being made could be eliminated through minimal and cost-effective efforts. We reviewed documents, examined manual and automated files, and interviewed responsible officials at the U. S. Army Finance and Accounting Center in Indianapolis, Indiana; the Air Force Finance Center in Denver, Colorado; the Veterans Administration in Washington, D.C.; the Defense Manpower Data Center in Monterey, California; and

the Offices of the Assistant Secretary of Defense, Comptroller, and the Assistant Secretary of Defense, Force Management and Personnel, in Washington, D.C. We performed our work from June 1985 through April 1987. Our review was conducted in accordance with generally accepted government auditing standards. The Department of Defense was provided the opportunity to comment on a draft of this report. The agency generally agreed with the report and provided us with additional information concerning both their planned actions and those already underway to correct the problems identified in this report.

Manual Errors and Underutilization of Available Automated Controls Caused Some Pay Offset Errors

Our work indicated that overall the Army and Air Force automated systems for retired pay are working well considering the large volume of transactions being processed. However, we also found that required offsets to military retirees' pay were in some cases not being made or were being made incorrectly by the Army and Air Force military finance centers. The specific errors we identified, their causes, and the corresponding monetary effects are summarized as follows:

- Manual errors, such as misplaced correspondence by Veterans Administration regional office personnel, allowed 65 retired and annuitant pay accounts to go without required offsets for more than 1 year. Federal laws require that most payments received from the military services be reduced by the amount of veterans benefits received. Overpayments for these accounts totaled over \$1.2 million.
- Because the Department did not match all available personnel files from other government agencies to its retired and annuitant pay files, some overpayments occurred. The Department uses a consolidated personnel file from the Office of Personnel Management that does not contain all federal agencies' employment records. These matches are useful in detecting the post-retirement employment information necessary to properly offset a retiree's or annuitant's pay for work performed at other government agencies. By matching one such agency's file with the Army and Air Force retired pay files, we identified 39 retirees whose pay was not offset. At the close of our audit work, the Army and Air Force were still investigating the total amount of overpayments to be recovered on these accounts. However, for 32 of the 39 accounts, the Army and Air Force finance centers had begun deducting over \$13,000 per month to properly offset the accounts of those retirees who are employed by the federal government. Although these offsets will continue for the duration of the retiree's federal employment, additional adjustments will be required to reconcile the overpayments.

- Semi-annual matches of Army and Air Force retired and annuitant files with the Social Security Administration's deceased persons files have allowed ineligible payments to deceased persons' accounts totaling over \$47,000. Without prompt identification, these ineligible payments would have continued until the next match (6 months later), possibly resulting in a more expensive reconciliation effort. On the other hand, more frequent matches could reduce the number of continuing ineligible payments. Our audit work revealed that quarterly files are available and that it would cost the Department about \$2,500 for each file match.
- Within the Army, the use of two different "cut-off" dates for processing payments from the active duty and retired pay systems contributed to concurrent payments from both systems during retirees' first month of retirement. On the basis of an Army sample and projection, these overpayments were found to have been occurring for at least 10 years. The overpayments involved between 3.5 and 10.5 percent of retirees, and were estimated by the Army to amount to between \$2.1 and \$9.7 million.

Department of Defense Has Initiated Corrective Actions

During this review we met with agency officials responsible for the particular functional areas relating to the problems listed above. Additionally, we met with responsible Department level managers from the Army and Air Force, and managers from the Veterans Administration to discuss these problems. During these meetings, officials within the Department as well as the Veterans Administration acknowledged the above listed problems, and following these meetings, initiated corrective plans and actions.

We have verified that corrective actions either have been taken or are underway for all of the problems reported; we are encouraged by these corrective actions. However, we could not evaluate their effectiveness because they were not fully implemented when we concluded our review. Due in part to the problems discussed in this report, the Department has designated the Army and Air Force accounting systems for retired pay as systems containing material weaknesses in its fiscal year 1986 report under the Federal Managers Financial Integrity Act. In our opinion, this designation should help to ensure that corrective actions are completed by the Army and Air Force.

We are sending copies of this report to the Secretaries of the Army and the Air Force, the Administrator of the Veterans Administration, and to other interested parties upon request.

Sincerely yours,

for Daniel C. White
Ralph V. Carlone
Director

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