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# Need For More Effective Audits And Examinations Of Military Pay B-125037

Department of the Navy

*UNITED STATES  
GENERAL ACCOUNTING OFFICE*

SEPT. 20, 1971

095517



UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

DEFENSE DIVISION

B-125037

Dear Mr. Secretary:

This is our report on the need for more effective audits and examinations of military pay in the Navy.

Our findings, conclusions and recommendations are summarized in the digest.

This report is subject to the provisions of section 236 of the Legislative Reorganization Act of 1970. We will appreciate receiving copies of the statements you furnish the specified committees in accordance with these provisions.

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of the Navy.

Sincerely yours,

A handwritten signature in cursive script that reads "C. Du. Bailey".

Director, Defense Division

The Honorable  
The Secretary of Defense

D I G E S T

WHY THE REVIEW WAS MADE

The Navy's military pay system is unusually complex and error prone. Each year thousands of servicemen are overpaid or underpaid. In fiscal years 1966 through 1970, Navy examiners found over a quarter of a million errors totaling more than \$16 million. Tests by the General Accounting Office (GAO) in the same period revealed additional errors totaling \$1.8 million. Erroneous payments and other pay system deficiencies have been the subject of many GAO reports.

Concerned that errors continued at a high rate, GAO posed and sought answers to these questions.

- What contribution was being made by Navy auditors and examiners to keep erroneous payments to a minimum and to improve the quality of disbursing?
- How well did the Navy manage its audit and examination activities?

FINDINGS AND CONCLUSIONS

Under the Assistant Secretary of the Navy (Financial Management)--who also is the Comptroller of the Navy--two groups are responsible for pay and allowance audits--the Naval Audit Service and administrative examiners. The Audit Service is responsible for making all internal audits, independently reviewing operations, reporting problems, and recommending improvements. Administrative examiners also have a vital role--checking individual pay and allowance transactions to ensure that they are proper. (See pp. 5 and 6.)

Although the Audit Service is responsible for evaluating the operation of the pay system and the work of the administrative examiners, it has not been instrumental in effecting much-needed improvements in these areas. Until recently the Audit Service had not done sufficient work in either area to be able to recommend changes or other actions for the consideration of the Navy Comptroller and other management officials. (See p. 25.)

The Navy Comptroller has not provided sufficient resources and direction to make the administrative examination an effective management tool. Operating with few examiners, who are able to audit only a small portion of the \$5 billion spent annually for pay and allowances, management has allowed many erroneous payments to go undetected each year. Recent budget and personnel cuts

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indicate that this condition may get worse. Moreover, management has not effectively guided the examiners, since their work is not well coordinated and since certain basic examination methods are not applied uniformly. (See p. 7.)

Examiners do not use statistical-sampling techniques. Usually they concentrate their work in areas where there are known or suspected high error rates. This approach does not provide Navy-wide error data nor tell management how well the pay system is working. This searching for errors does disclose incorrect payments but does little to correct the conditions which caused the errors. Consequently abundant errors continue to be made. (See pp. 15, 16 and 17.)

Confronted with insufficient data and limited personnel to effect needed improvements, management hopes that the Joint Uniform Military Pay System (JUMPS), a computerized system under development, will reduce errors and solve many management problems. Unfortunately JUMPS is far behind schedule and is not expected to be implemented before 1974. (See pp. 15 and 21.)

#### RECOMMENDATIONS OR SUGGESTIONS

To improve the quality and management of Navy audits and examinations, GAO recommends that the Secretary of the Navy:

- Establish staffing criteria and provide the resources needed to make administrative examinations more effective. (See p. 14.)
- Require revision of the administrative examination handbook to provide for coordination of effort among examination groups and for improved examination methods. (See p. 14.)
- Require administrative examiners to use statistical-sampling techniques. (See p. 23.)
- Require installation personnel responsible for maintaining these records to review unexamined records and to correct remaining errors when statistical sampling discloses high error rates. (See p. 23.)
- Require the Military Pay Staff to increase its efforts to identify and correct causes of errors and, as needed, to provide the additional resources to accomplish this. (See p. 24.)

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ABBREVIATIONS

|       |                                    |
|-------|------------------------------------|
| GAO   | General Accounting Office          |
| JUMPS | Joint Uniform Military Pay System  |
| NAFC  | Navy Accounting and Finance Center |
| NAS   | Naval Audit Service                |
| NFC   | Navy Finance Center                |
| NRFC  | Navy Regional Finance Center       |

D I G E S T

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- Require the Military Pay Staff to increase its efforts to identify and correct causes of errors and, as needed, to provide the additional resources to accomplish this. (See p. 24.)

## CHAPTER 1

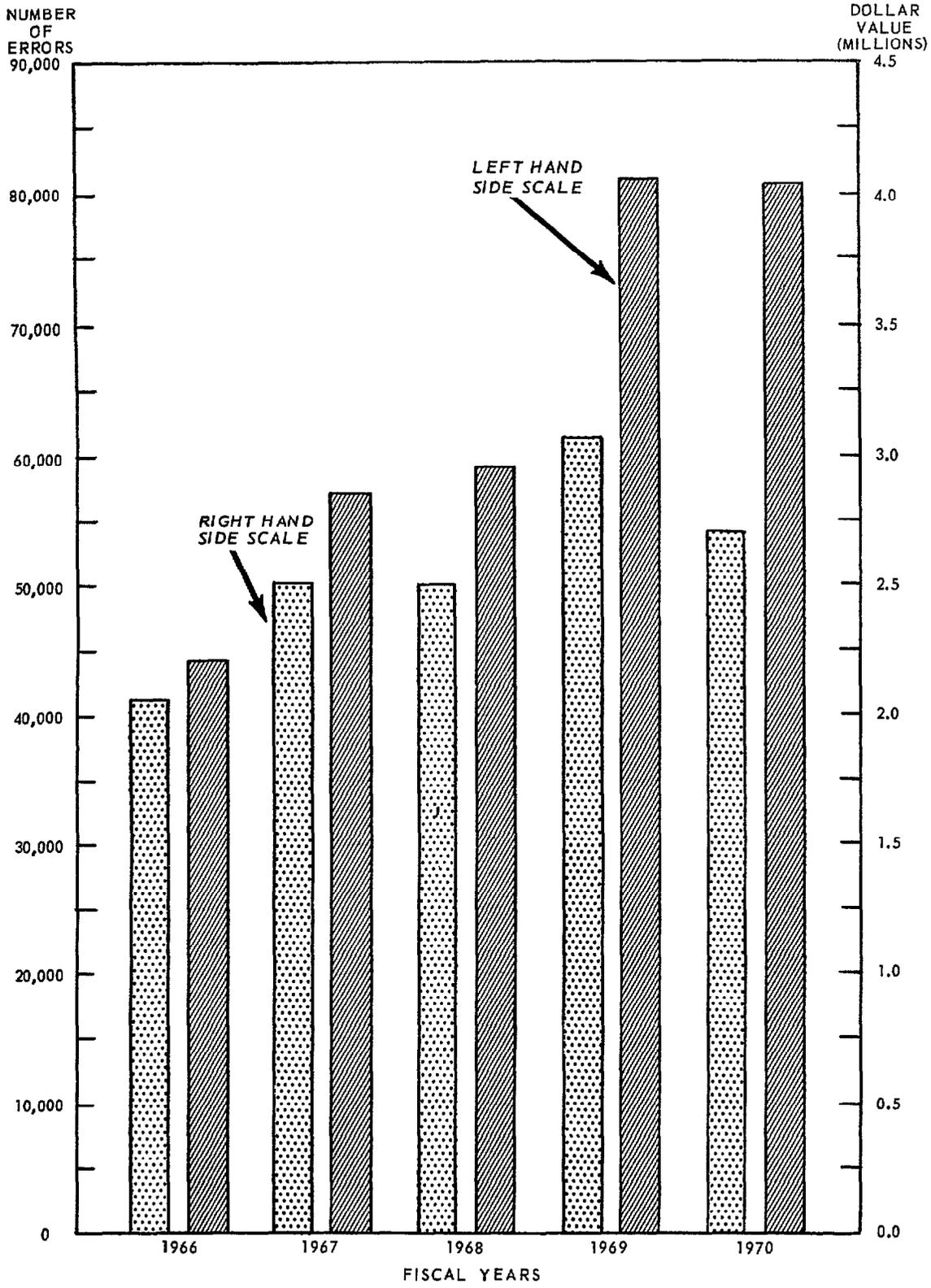
### INTRODUCTION

The Navy's present pay system, established in 1944, provides pay and other allowances to over 600,000 Navy members and their dependents. Annually this involves many millions of payments by over 600 disbursing officers on ships and at shore installations in the United States and overseas. Expenditures in fiscal year 1970 totaled \$5 billion, about one fourth of the Navy's total budget.

Because of the continuing introduction of new entitlements, the Navy's pay system has become increasingly complex. In addition to receiving basic pay, servicemen are entitled to receive numerous allowances that depend on marital status, number of dependents, length of service, types of jobs, availability of housing, and other circumstances. These have resulted in many regulations, legal decisions, manuals, and forms, which are difficult to interpret and apply when making payments.

The complex system presents an imposing challenge to management. As could be expected, many incorrect payments are made. Reviewing only a small portion of the payments, Navy administrative examiners detected over a quarter of a million errors totaling \$16 million in fiscal years 1966 through 1970. The following graph shows that the examiners have consistently identified tens of thousands of errors each year which have increased in value from \$2.2 million in fiscal year 1966 to \$4 million in fiscal year 1970.

# ERRORS FOUND BY ADMINISTRATIVE EXAMINERS



Our tests during the same period revealed 13,000 additional errors totaling \$1.8 million. Over the years we have identified many pay and allowance errors and problems, some of which have been subjects of reports to the Congress. A partial list of these reports is included as the appendix.

RESPONSIBILITY FOR MANAGEMENT  
OF THE MILITARY PAY SYSTEM

Under the Accounting and Auditing Act of 1950 (31 U.S.C. 66a), agency heads are responsible for establishing and maintaining sound financial management systems, including internal audits, to effectively control and account for public funds. The Comptroller General reminded all Federal agencies on August 1, 1969, that control systems should include adequate administrative procedures for systematic examinations of financial transactions for verifying their legality, propriety, and correctness. These examinations should be made prior to payment or shortly thereafter.

The Assistant Secretary of the Navy (Financial Management)--who is also the Comptroller of the Navy--is responsible for managing the Navy's military pay system. It is his job to (1) establish appropriate regulations and procedures, (2) determine how well the system is working, and (3) make needed improvements. Various officials assist him.

Director, Naval Audit Service (NAS)

The Director is responsible for making all internal audits in the Navy. The NAS mission is to independently appraise Navy activities, including the operation of the pay system and the work of administrative examiners.

Commander, Navy Accounting and Finance Center (NAFC)

The Commander manages the administrative examination program--monitors manpower requirements and utilization, establishes and evaluates examination policies and procedures, and provides guidance and assistance to examiners.

## Director, Military Pay System

The Director develops policies and procedures for military pay operations, evaluates the results of audits and administrative examinations, and provides technical guidance and assistance to disbursing officers.

### ROLE OF INTERNAL AUDITORS AND ADMINISTRATIVE EXAMINERS

An internal auditor is expected to be a dynamic force in any effective financial management system. He should make independent and objective reviews, analyses, and evaluations of operations and activities; report on conditions found; and, whenever necessary, recommend changes or other actions to management. NAS, the Navy's internal auditor, is intended to be the eyes and ears of management, constantly striving to help the Navy do a more effective job.

In contrast to the broad role of NAS auditors, administrative examiners specialize in auditing military pay and allowances. Their examinations are designed to detect and correct errors and to assist disbursing officers in improving their operations. Examinations are made centrally by resident examiners at the Navy Finance Center (NFC), Cleveland, Ohio, and at various Navy Regional Finance Centers (NRFCs). Onsite examiners, assigned to NRFCs, make examinations on ships and at shore installations. In fiscal year 1970 the Navy had a total of 115 administrative examiners checking on military pay and allowances.

Our review was made to find out how the Navy managed internal audits and administrative examinations and to determine how effective these had been in bringing about improvements in the Navy's military pay system.

## CHAPTER 2

### NEED FOR IMPROVED MANAGEMENT OF

#### ADMINISTRATIVE EXAMINATIONS

The Navy Comptroller has not provided sufficient resources and direction to make the administrative examination an effective management tool. Operating with few examiners, who are able to audit only a small portion of the \$5 billion spent annually for pay and allowances, management has allowed many erroneous payments to go undetected each year. Recent budget and personnel cuts indicate that this condition may get worse. Moreover, management has not effectively guided the examiners, since their work is not well coordinated and since certain basic examination methods are not applied uniformly.

#### REQUIRED EXAMINATIONS NOT MADE

The Navy Comptroller's administrative examination handbook contains schedules and guidelines for examination of military pay and allowances. The handbook, consistent with legal and Comptroller General requirements, specifies that examinations be made on a continuing basis to (1) ensure quality, (2) strengthen the system of internal control, and (3) provide assistance to disbursing officers.

When the Comptroller General reminded all Federal agencies of their fiscal responsibilities on August 1, 1969, Navy onsite and resident examiners were auditing, in detail, less than 5 percent of the pay records. On July 1, 1970, revised fiscal procedures were included in GAO's guidance manual for Federal agencies. These procedures provided that examinations be in balance in terms of their cost and effectiveness in preventing or correcting illegal, improper, or incorrect payments and that agencies not dilute the effort considered necessary to validate transactions. When these procedures were issued, less than 3 percent of the Navy's pay records were being examined. There since has been a further reduction of effort.

This sharp downward trend in examinations is illustrated by the following tables.

Onsite Examinations

| <u>Period</u>      | <u>Onsite examinations</u> | <u>Pay records available for examination</u> | <u>Pay records examined in detail</u> | <u>Percent of total pay records examined in detail</u> |
|--------------------|----------------------------|--|---------------------------------------|--|
| 7-1-68 to 12-31-68 | 320                        | 844,100                                      | 26,655                                | 3.15   |
| 1-1-69 to 6-30-69  | 332                        | 824,500                                      | 28,701                                | 3.48   |
| 7-1-69 to 12-31-69 | 297                        | 829,800                                      | 31,250                                | 3.76   |
| 1-1-70 to 6-30-70  | 288                        | 763,600                                      | 20,367                                | 2.67   |
| 7-1-70 to 12-31-70 | 233                        | 741,100                                      | 14,361                                | 1.94   |

Resident Examinations

| <u>Pay record cycle</u> | <u>Pay records available for examination (note a)</u> | <u>Pay records examined by NFC</u> | <u>Pay records examined by NRFCs</u> | <u>Total pay records examined</u> | <u>Percent of total pay records examined</u> |
|-------------------------|---|------------------------------------|--------------------------------------|-----------------------------------|--|
| 1-1-68 to 6-30-68       | 737,600   | 34,248                             | 5,886                                | 40,134                            | 5.44   |
| 7-1-68 to 12-31-68      | 726,200   | 34,166                             | 4,854                                | 39,020                            | 5.37   |
| 1-1-69 to 6-30-69       | 752,100   | 31,790                             | 5,381                                | 37,171                            | 4.94   |
| 7-1-69 to 12-31-69      | 704,700   | 17,764                             | 5,862                                | 23,626                            | 3.35   |
| 1-1-70 to 6-30-70       | 669,400   | 10,607                             | 5,771                                | 16,378                            | 2.44   |

<sup>a</sup>Excludes pay records of personnel released from service during period.

Administrative examiners, although few in number (115 in fiscal year 1970), have compiled an impressive record of error detection--tens of thousands of erroneous payments are identified annually. Unfortunately many errors are not detected since a high percentage of records are never examined. Error detection without an accompanying program for the correction of basic causes is not a solution to the Navy's problems in this area. (See ch. 3.)

Examples illustrating the void in the examiners' work follow.

Example A

NRFC onsite teams are to examine transactions of each ship and large domestic station once a year.

In calendar year 1969 onsite teams made 629 examinations and found errors totaling \$1.4 million; in 1970 they made 521 examinations and found errors totaling \$1.2 million. The teams did not examine the accounts of 126 ships and stations in 1969 and 103 in 1970.

#### Example B

Onsite teams, when they find a high incidence of error, are required to make semiannual examinations on ships. We noted at least 200 cases from July 1969 to December 1970 where such examinations were not made. Usually the examination was made a year later.

#### Example C

NFC is responsible for final examination of pay records of servicemen released from active duty. In 1969 over 189,000 accounts were closed; however, NFC limited its examinations to records of 6,600 servicemen who transferred to the Fleet Reserve.

In August 1970, at our suggestion, NFC began to review records of additional servicemen. Through July 9, 1971, NFC, at a cost of \$7,650, detected 536 errors totaling \$46,300. NFC only scratched the surface, since the examiners reviewed only 3,800 additional pay records during the period.

NAS recently made a review at NFC. In its report, issued in August 1971, NAS estimated that \$1 million in errors might be identified if NFC were to review all pay records.

#### Example D

Each 6-month pay cycle, NFC is required to examine pay records of all ships and overseas stations not visited by an onsite team during the last 3 months of the cycle. NFC has not examined such records with the prescribed frequency, and those it does examine are not examined thoroughly.

As a test we examined the accounts of five ships and six stations that did not receive an onsite examination during the last half of the pay cycle ended December 31, 1969. We found 527 erroneous payments, totaling \$18,100 and 369 leave and tax errors which eventually could lead to losses to the servicemen or to the Government. NFC did not examine the pay records of seven of the 11 accounts. Its limited examination of the remaining four accounts disclosed only one erroneous payment of \$32.

NAFC is responsible for monitoring manpower requirements and utilization but has not established criteria for the number of examiners needed. NAFC controls the number of examiners through the budget review process, but the Commanders of NRFCs and NFC decide what tasks the examiners will perform. Since NRFCs and NFC have a number of other responsibilities, employees are shifted from one job to another, with the examination function's being given low priority.

An NAFC official told us that at least nine more examiners were needed for making required onsite examinations. Twice in fiscal year 1971, NAFC requested funds for additional personnel, informing the Navy Comptroller of the effects of cutbacks in the examination program.

"Personnel retrenchments accomplished during FY 1970 have necessarily resulted in 23% reduction in area of internal review and records examination in order to sustain basic functions, such as meeting pay day schedules. These reductions have resulted in examining a smaller percentage of documents and stretching on-site visit schedules."

"Due to shortage of funds the NRFC's have reduced personnel in the Examination Departments. This has resulted in a severe cutback in the On-site Examination program as well as a reduced examination effort on payments made by Central Disbursing Officers and Associate Disbursing Officers. Failure to receive funds to augment existing Examination Departments of the NRFCs will mean that the capability of early detection or prevention of errors will be impaired with the result that

sizable overpayments to vendors, members or civilian employees could result."

NAFCs attempts to obtain funds for additional examination personnel were unsuccessful.

The Commander, NFC, told us, and later told NAS, that NFC was unable to make required examinations because of the lack of personnel. NAS recommended in its August 1971 report that the Navy Comptroller review the entire area of administrative examination of pay records and accounts to determine how and if resources could be applied to improve the situation.

## LACK OF COORDINATION AMONG EXAMINATION GROUPS

When records of the same activity are examined by resident and onsite examiners at different locations and at different times, their work should be coordinated and the results of prior work should be considered when scheduling and performing examinations. Such coordination, however, has been limited. Although NFC examiners are furnished with listings of onsite examinations made, they do not receive copies of onsite team reports so that they can tailor their work appropriately.

Because NFC examiners are unaware of onsite team findings, they give equal--but limited--coverage to each ship and overseas station account. For example, we selected at random 10 ship accounts--five with high error rates and five with low error rates--examined by onsite teams. NFC examined 72 of 1,600 pay records for high error ship accounts, and 74 of 1,400 pay records of low error ship accounts.

Similarly NFC normally does not advise onsite teams of its findings. Such information obviously would be of value to onsite teams in scheduling their work. NFC examiners cannot always determine why mistakes occur, but onsite teams could zero in on the reasons and could advise disbursing personnel accordingly.

Coordination also is lacking among NFC examination groups. For example, one group examines pay records and another group examines travel vouchers. The two groups, however, do not inform each other of the results of their examinations. Since disbursing personnel who make numerous errors in travel payments probably make errors in pay--and vice versa--the groups would benefit from knowing the results of each other's work.

## BASIC EXAMINATION METHODS NOT UNIFORMLY APPLIED

Some examiners do not use basic examination methods to detect common-type errors. These methods involve verifying payroll payments to pay records and comparing data on pay records to data on travel vouchers. Onsite examiners have successfully used these methods for some time, but NFC

examiners do not make similar tests, apparently because they are not required by the administrative examination handbook.

#### Payroll verifications

Each time a serviceman receives his pay and allowances, they are recorded on a "money list." The payment, in turn is posted to his pay record. If the payment is not posted, he could receive a duplicate payment at a later date.

Onsite examiners are required to verify money-list postings to pay records. This has resulted in identification of numerous errors. During fiscal year 1970 the examiners detected 304 posting errors totaling \$28,090. As onsite examiners usually examine few payroll transactions at an installation in a year and do not visit all installations, NFC should fill this void.

#### Comparison of pay and travel data

When an examiner examines a pay record but not a travel voucher, all transactions may look correct. If the examiner concurrently examines the pay record and travel voucher, however, a number of questions may arise. For example, a pay record may not show that leave was taken, but the voucher may show that the serviceman took several days' leave while en route between stations. Despite potential inconsistencies between pay and travel transactions, NFC and NRFC resident examiners do not compare the two records.

We made such comparisons while reviewing accounts of nine stations and found 222 errors totaling \$7,700. Further, our comparison revealed 64 nonmonetary errors involving leave and tax reporting. A total of 370 days of leave had not been charged to the servicemen whose records were included in our tests; this could result in overpayments at the time of their separation from the service.

#### CONCLUSIONS

Navy management has not provided the necessary resources and direction for effectively implementing the examination program. NFC and NRFCs, with limited resources, have been attempting to satisfy the work schedules and objectives in the administrative examination handbook. Since

they examine only a small portion of the millions of pay and allowance transactions, however, a significant number of errors remain undetected.

With many serious weaknesses in the examination program--overall reduction of effort, gaps in coverage, lack of coordination, and insufficient examination methods--management is unable to appraise the integrity and accuracy of the current pay and allowance system. Management is aware that the examination program is not working as intended but, even though the situation appears to be worsening, has done little to effect needed improvements.

### RECOMMENDATIONS

We recommend that the Secretary of the Navy:

- Establish staffing criteria and provide the resources needed to make administrative examinations more effective.
- Require revision of the administrative examination handbook to provide for coordination of effort among examination groups and for improved examination methods.

## CHAPTER 3

### BETTER DATA AND MORE MANAGEMENT EFFORT NEEDED

#### TO IMPROVE PAY SYSTEM

NAS is responsible for evaluating the operation of the pay system but has done only limited work in this area. (See ch. 4.) Management therefore must look to the examiners for information on how well the system is working, since they do the bulk of the military pay and allowance audits.

By concentrating on error detection and correction, rather than on error prevention, examiners have been finding numerous errors in areas of known or suspected weaknesses. This approach, however, does not provide Navy-wide error data nor tell management how well the pay system is working. This search for errors does disclose incorrect payments, but it does little to correct the conditions which caused the errors. Consequently abundant errors continue to be made.

Confronted with insufficient data and limited personnel to effect needed improvements, management hopes that a new computerized pay system, JUMPS, currently under development, will solve many management problems. Unfortunately this system is not expected to be implemented before 1974.

#### ACCOMPLISHMENTS AND SHORTCOMINGS OF ADMINISTRATIVE EXAMINATIONS

Because the examiners make most military pay and allowance audits, they play a crucial role. By continuously checking disbursements, they could provide vital information to management on how well the pay system is working, what problem areas demand attention, and what corrective action is needed.

Errors detected by both onsite and resident examiners are reported to the Director, Military Pay System, who administers the Navy's Error Detection and Reduction Program. This program, established by the Navy Comptroller in 1955, is intended to reduce, and maintain at a minimum, errors

in pay and allowances. By analyzing statistical and narrative reports from the examiners, the Director is supposed to identify trouble areas so that corrective actions, such as simplification of regulations, can be taken. The material gathered also is to be used for training disbursing personnel and for assisting individual commands by calling attention to weaknesses in local procedures.

Although the administrative examination program has had some success, we believe that its accomplishments have been overshadowed by its shortcomings.

#### Many errors identified

Traditionally examiners have concentrated on known or suspected problem areas and have examined records and transactions most likely to contain errors. By being highly selective they have compiled an impressive record; each year they have identified tens of thousands of erroneous payments which run into millions of dollars. In this respect, the examinations are worthwhile since the amounts recovered more than offset the cost of the examinations.

#### Assistance to disbursing officers

Examiners, particularly onsite examiners, also assist disbursing officers by giving on-the-spot advice when errors are disclosed and by making recommendations in their reports to installation commanders. Hopefully the recommendations and advice are heeded and the same errors are not made again. This, however, is not always the case. For example, in reviewing the results of consecutive onsite examinations of 15 disbursing officers' accounts that were selected at random, we noted eight cases in which more errors were disclosed in the second examination than in the first.

The value of the onsite examiner's work is often short lived due to the Navy's practice of frequently rotating its personnel. Thus, even when examiners help disbursing personnel improve their performance, the personnel are shortly replaced by new personnel and the error-producing process begins anew.

## Use of selective sampling

It is obviously impracticable to examine every one of the millions of pay and allowance transactions made each year. Yet the Director, Military Pay System, must be able to decide whether the overall system is good or bad. Examiners do not provide the answer to this vital question. Because the examiners apply selective-sampling techniques, instead of statistical-sampling techniques, in choosing records to be reviewed, the examiners' work does not present a true picture to management of the types and extent of errors at each installation or, more importantly, Navy-wide.

Examiners' reports showed that errors had been made in various items of pay and that a certain number and dollar value of errors had been found on those records examined. This information, however, could mislead the Director into believing that these conditions were representative of the overall condition of the pay system, whereas, at best, it showed the situation only in the areas and records reviewed.

Further, this information can give the Director and the disbursing officer a false sense of security by implying that the unexamined records are "clean," when, in reality, many more errors undoubtedly are never detected. For example, we examined, for a 6-month period, all transactions of two disbursing officers whose records had been selectively audited also by onsite examiners. We found 351 additional errors--significantly more than those found by the onsite examiners. Moreover, we found several types of errors that had not been reported by the examiners.

By choosing records that they believe are more susceptible to error, examiners do not provide management with data that can be used to answer such basic questions as:

--How well is the pay system working?

--What is the Navy's error rate?

--How do various ships, stations, and commands compare in performance?

--Which activities need the most attention?

--What problem areas are most worthy of management's attention?

--What progress has been made in resolving problem areas?

Good management of the pay system demands that the Director know the answers to these questions so that he can direct his efforts accordingly.

## NEED FOR STATISTICAL SAMPLING

Years ago the Navy Comptroller, being aware of the shortcomings in administrative examination techniques, turned to statistical sampling, a technique widely accepted as a means of obtaining more accurate and meaningful data than those provided by the selective sampling. He realized that reliable Navy-wide statistics were needed to provide him with a true measure of the quality of Navy disbursing. Also the success of the Error Detection and Reduction Program required better data than those provided by selective sampling.

Starting in July 1956, the statistical-sampling concept was tested for about 3 years by onsite examiners. Records for that period show that statistical sampling was superior to selective sampling because it provided a more objective and reliable basis for management action. For the first time management was advised of the full extent and types of errors in all records, including those unexamined, and could accurately assess the activity's military pay operation.

The apparent success of statistical sampling was brought out in a 1959 report to the Navy Comptroller on the test program.

"Prior to the introduction of random [statistical] sampling techniques, examiners selected records which they believed to be most subject to error. This selective technique tended to pick up a disproportionate number of erroneous payments for items where there was a history of such payments but understated the introduction of new types of erroneous payments.

"The difficulty of introducing random sampling resulted largely from the fact that accounting personnel were not familiar with scientific sampling and hesitated to substitute it for methods based on personal judgment. \*\*\* Tests were conducted to determine whether data derived from random sampling differed from judgment sampling and whether information was omitted through the use of one type of sampling.

"Based on results obtained through December 1958, it is now generally accepted that the estimate of the number of erroneous payments is more accurate and that this estimate is obtained at a lower cost because of the smaller sample size. Comparability from year to year is now possible because of the use of random sampling. The results \*\*\* are considered as objective because the personal element has been removed."

Despite its apparent success, the statistical-sampling technique was dropped after the trial period and has not been revived. A sharp reduction in funds influenced the decision to use only the selective approach which was being followed concurrently with the statistical technique. Also responsible for the rejection of statistical sampling was the attitude of NAFC and NRFC personnel that the selective approach, with its emphasis on assisting activities by timely detection and correction of specific errors, was more in tune with the purpose of the onsite program.

#### NEED TO CORRECT BASIC CAUSES OF ERRORS

The Director, Military Pay System, is assisted by a small group of experts known as the Military Pay Staff. This group (1) provides services required to maintain an effective pay system, (2) reviews, evaluates, and takes appropriate action on reports received from various sources, and (3) analyzes the performance of the pay system and develops improvements.

- The staff has devoted much of its efforts to
- rendering advice to disbursing officers upon request;
  - suggesting that administrative examiners increase their efforts in areas where GAO and others have identified problems;
  - developing regulations to implement new legislation;
  - responding to congressional inquiries regarding military pay matters; and

--preparing, as part of the Error Detection and Reduction Program, semiannual reports on the types, numbers, and dollar amounts of errors identified by examiners.

A practice which apparently had helped to improve disbursing operations of installations having poor performance records was curtailed by the staff. This practice, started in 1961, consisted of sending warning letters to individual disbursing officers whose pay records were found to be in poor shape by onsite examiners. It was decided at the outset that from 25 to 30 such letters would be sent each year. Recipients were limited to those disbursing officers who were found to have the most unsatisfactory performance records.

Examinations at activities whose disbursing officers had received such letters during the last 10 years showed that the impact of these warnings had been significant. Of the 130 activities admonished by the staff for poor performance, 98 (75 percent) showed improvement on subsequent examinations. Despite its apparent success, this practice had been deemphasized to the point where the staff sent only five letters in 1970, even though more than 100 activities had been listed in a suspense file as potential recipients.

The staff has devoted little effort to independently researching causes of errors and to making improvements to the system which has become increasingly more cumbersome as additional benefits have been provided to servicemen. Accuracy has not kept pace with complexity, and thousands of errors continue to occur each year.

Military Pay Staff members told us that from 1966 they had concentrated on developing JUMPS--a computerized pay system intended, in part, to reduce errors.

On the basis of our evaluation of JUMPS to date, we agree that JUMPS, if properly implemented, should eventually reduce errors. How significant a reduction this will be, no one knows. Expectations are high, but we envision several problems.

--JUMPS, conceived in 1966, was to be implemented by the Navy in 1969. Its timetable now calls for full implementation no earlier than 1974, but further slippage is possible.

--JUMPS will not include travel payments, a source of abundant errors.

--Many of the current errors result from inaccurate and untimely data used in making disbursements. This problem could continue under JUMPS since the same people will be providing computer input data.

Although JUMPS may help improve the situation to the extent that a computerized system is mathematically more accurate than a manual system, we believe that more effort is urgently needed to identify and correct basic causes of errors.

## CONCLUSIONS

Navy management has been relying on administrative examiners to keep erroneous payments to a minimum, and the examiners have compiled an impressive record. However, the basic question persists: Why doesn't the incidence of error decrease? We believe that the use of selective, rather than statistical, sampling by these examiners and management's limited action to identify and correct causes of errors are two significant factors contributing to the problem.

Selective-sampling techniques used by examiners have not provided answers to some very basic questions about the pay system, not the least of which is: Just how good or bad is the system? We believe that a more scientific approach is needed. Statistical sampling, in our opinion, would give management more meaningful and reliable data on which to base effective corrective measures.

In the past the Navy has confronted system problems on a piecemeal basis--counseling individual disbursing officers when they have problems, suggesting to examiners that they increase their efforts in problem areas, and warning a few officers having poor performance records. This approach for improving the system resulted from the insufficient data and too few people.

The Navy is relying on JUMPS to cure many of the current system's ills. When fully implemented, JUMPS should help reduce many recurring problems. We believe, however, that greater efforts should be made in the interim to simplify the current pay system.

## RECOMMENDATIONS

We recommend that the Secretary of the Navy:

- Require administrative examiners to use statistical-sampling techniques.
- Require installation personnel responsible for maintaining these records to review unexamined records and to correct remaining errors when statistical

sampling discloses high errors rates.

--Require the Military Pay Staff to increase its efforts to identify and correct causes of errors and, as needed, to provide additional resources to accomplish this.

## CHAPTER 4

### LIMITED WORK DONE BY NAVAL AUDIT SERVICE

Although NAS is responsible for evaluating the pay system and the work of administrative examiners, it has not been instrumental in effecting needed improvements. (See chs. 2 and 3.) Until recently NAS had not done sufficient work in either area to be able to recommend changes or other actions for the consideration of the Navy Comptroller and other management officials.

That NAS has placed a low priority on pay and allowance audits is indicated by the little time that it has spent in this area--less than 7 percent of NAS's total audit efforts in fiscal years 1969 and 1970. Our analysis of NAS's index of audit findings for the 3-1/2-year period ended December 31, 1970, revealed few references to pay system deficiencies.

When NAS performs periodic audits of disbursing activities, it is supposed to examine into pay transactions and ascertain whether entitlement regulations are being interpreted and applied correctly. NAS has been relying on administrative examiners to make these verifications. Their reports inform NAS of the many erroneous payments made each year. This information, however, has not triggered any significant action by NAS, namely, recommendations to improve the pay system and the quality of disbursing.

NAS is responsible for reviewing the work of examiners, but its audits have been infrequent and limited in scope. The normal frequency for such audits is every 3 years, but NAS has not always adhered to this schedule. In fact, the intervals between audits ranged from about 3 to 5 years, as shown below.

| <u>Activity</u>        | <u>Prior<br/>audit<br/>report</u> | <u>Latest<br/>audit<br/>report</u> |
|------------------------|-----------------------------------|------------------------------------|
| NFC                    | 8-68                              | 8-71                               |
| NRFC, Brooklyn         | 10-65                             | 11-69                              |
| NRFC, Norfolk          | 1-67                              | (a)                                |
| NRFC, Washington, D.C. | 8-66                              | 1-70                               |
| NRFC, San Francisco    | 11-65                             | 3-70                               |
| NRFC, Pearl Harbor     | 8-66                              | (a)                                |
| NRFC, San Diego        | 7-63                              | 4-66                               |
| NRFC, Great Lakes      | 8-66                              | 5-71                               |
| NRFC, Philadelphia     | 3-68                              | 1-71                               |

<sup>a</sup>Audit in process at the time of our review.

We examined several NAS reports and working papers and noted that the auditors were not checking individual transactions to evaluate the quality of the examiners' work. We noted also that major deficiencies identified were not always reported. For instance, in its 1968 audit at NFC, NAS noted (in its working papers) that the examiners were not checking certain types of transactions, contrary to requirements. The NAS supervisor told us this had not been reported because it was anticipated that the problem would be resolved with the implementation of JUMPS. In another instance NAS was told that onsite examiners were falling behind schedule in their examinations of certain ships' accounts. This was not mentioned in the NAS report.

Being aware of our concern and criticism of the high number of pay errors and of the importance we place on administrative examinations, NAS recently spent considerable effort reviewing the NFC administrative examination function. In its August 1971 report, NAS noted some of the same problems that we identified and recommended that the Navy Comptroller review the examination area to determine if and how resources could be applied to improve the situation.

In a further attempt to provide more meaningful appraisals to management, NAS plans a new approach to its audits of pay and allowances. Instead of being done as part of disbursing and other work at installations, most audits will be done on a regional basis. An audit team at one of

the six NAS area offices will audit pay and allowances, starting with fiscal year 1972, at a number of installations in its area. The team will be required to consider the work of the administrative examiners and to include an appraisal of their performance in its reports. We believe that this new approach may be more responsive to management needs.

#### CONCLUSIONS

NAS is responsible for keeping the Navy Comptroller informed of the condition of the pay system and of the adequacy of administrative examinations but, until recently, has not been doing sufficient work in either area to be able to make meaningful appraisals. NAS has placed low priority on pay and allowance audits and has relied on examiners to do this work; however, it has not satisfactorily evaluated the examiners' work. As a result, NAS's efforts have not produced significant improvements in the error-prone pay system or in the administrative examination program.

Although the new audit approach may be a step in the right direction, it is too early to tell whether desired results will be achieved. We plan to follow up on this effort.

## CHAPTER 5

### SCOPE OF REVIEW

At NAS headquarters and at NAFC, we appraised the management of internal audit and administrative examination activities. While visiting various field offices, we reviewed and tested the application and effectiveness of policies and procedures for examining and auditing pay and allowances. Specifically we:

- Examined audit plans, programs, schedules, and reports at selected NAS Area Audit Offices to evaluate the scope and frequency of audits, methods and procedures, and results.
- Inquired into the NRFC onsite and resident examiners' duties and responsibilities, work loads and staffing levels, error detection and correction methods, and accomplishments.
- Tested transactions, at NFC, in the accounts of various disbursing officers to evaluate the extent and quality of the examiners' work; checked whether all accounts were being examined as required; and inquired into the development of JUMPS. We also inquired into the operations and accomplishments of the Military Pay Staff.

APPENDIX

LIST OF SELECTED GAO REPORTS  
TO THE CONGRESS DEALING WITH  
MILITARY PAY AND ALLOWANCE ERRORS

| <u>Report</u>   | <u>Date<br/>issued</u> |
|---|------------------------|
| Review of Causes of Overpayments of Military Pay and Allowances (B-125037)  | Apr. 16, 1963          |
| Illegal Per Diem Payments to Military Personnel of the Navy and Marine Corps Serving as Military Inspection Representatives in Tokyo, and Osaka, Japan (B-146822) | Oct. 31, 1963          |
| Improper or Unnecessary Payments of Pay, Travel and Other Allowances to Crew Members of the U.S.S. KITTY HAWK (B-146889)  | May 19, 1964           |
| Unnecessary Payments of Basic Allowance for Quarters to Military Personnel (B-125037)   | July 28, 1964          |
| Unnecessary Payments for Temporary Lodging Allowances to Military Personnel in Naples, Italy (B-146912)   | July 7, 1964           |
| Illegal Payments of Hazardous Duty Submarine Pay to Military Personnel Assigned to Submarine Force Command Staffs (B-154092)                                      | Dec. 22, 1964          |
| Follow-up Review of Causes of Erroneous Payments of Military Pay and Allowances (B-125037)  | Apr. 2, 1968           |
| Cessation of Unauthorized Payments of Proficiency Pay and Variable Reenlistment Bonuses to Candidates in Officer Training Programs (B-160096)                     | Aug. 6, 1969           |