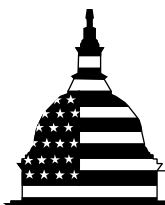


December 2012

DOD FINANCIAL MANAGEMENT

Actions Needed to Address Deficiencies in Controls over Army Active Duty Military Payroll



G A O

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Why GAO Did This Study

In March 2012, GAO reported on challenges that DOD and the Army face in achieving audit readiness with respect to the over \$45 billion in reported fiscal year 2010 Army active duty military payroll disbursements. In performing that work, GAO identified indications of possible weaknesses in selected processes, systems, and controls relied on to reasonably assure the validity and accuracy of reported Army active duty military payroll that were beyond the scope of that audit. GAO subsequently completed work on those issues and is presenting the results in this report. GAO

(1) assessed the design of key controls for payroll accuracy and (2) determined the extent to which the Army and DFAS-IN have monitoring controls to identify and address any systemic weaknesses. GAO compared selected Army and DFAS-IN processes, systems, and controls for assuring payroll accuracy to applicable internal control standards and to applicable provisions of law, regulations, and policies and procedures. GAO also interviewed officials and examined related data and information.

What GAO Recommends

GAO made five recommendations to strengthen Army and DFAS monitoring and reporting controls over Army active duty military payroll accuracy. DOD partially concurred with all five recommendations, stating that it concurs fully with the goal of improving military pay but additional testing is needed to identify any cost-effective corrective actions. GAO continues to believe that its recommendations for corrective action are appropriate, as discussed more fully in the report.

View [GAO-13-28](#). For more information, contact Asif Khan at (202) 512-9869 or khana@gao.gov.

DOD FINANCIAL MANAGEMENT

Actions Needed to Address Deficiencies in Controls over Army Active Duty Military Payroll

What GAO Found

GAO identified deficiencies in the design of key control procedures relied on by the Army and the Defense Finance and Accounting Service-Indianapolis (DFAS-IN) to detect errors in payroll disbursements to active duty Army military personnel. Specifically, GAO found that the Army's procedures for reviewing Unit Commander Finance Reports (UCFR) do not (1) provide for monitoring of required UCFR reviews to better assure detection of payroll errors, (2) require reporting on completed UCFR reviews in all cases, and (3) clearly establish time frames for completing and reporting on UCFR reviews. GAO's analysis of DFAS data on military pay debts and Army investigations of potential fraud completed over the past 2 years identified numerous instances of the effect of errors or irregularities in Army active duty payroll disbursements that went undetected for lengthy periods of time, including some that were not detected for up to 2 years or until the soldier left the Army. For example:

- A soldier who separated from the Army in 2009 continued to receive active duty pay totaling about \$185,000 until 2011.
- A soldier who was absent without leave from January 2010 to September 2011 received military pay of \$33,268 to which she was not entitled.
- A soldier under investigation for possible fraud allegedly received over \$34,000 in paratrooper and language proficiency pay but did not have a documented record of jumps performed or up-to-date proficiency certifications.

GAO's analysis determined that the Army could reduce its risk of lengthy delays in detecting and correcting pay errors with more stringent UCFR monitoring and reporting requirements.

GAO also found that DFAS and the Army have procedures and metrics in place that focus on the timeliness of manual processing and payroll adjustments for error corrections. However, they do not have procedures and metrics to enable them to gather data on active duty pay errors that were related to causes other than timeliness, such as over- and underpayments, data entry errors, and unauthorized payments. Further, the design of existing Defense Joint Military Pay System-Active Component and DFAS-IN Case Management System procedures for transaction processing and error correction did not provide for monitoring to capture data on all types of pay errors and their causes that would be useful in identifying the extent to which there are any additional systemic payroll control weaknesses. For example, an Army National Guard colonel deployed on active duty to Afghanistan reported that he experienced financial hardship when his military pay was stopped for 1-1/2 months. The absence of data on the extent and causes of all types of Army active duty military payroll errors impairs the Army's ability to identify and address any adverse trends that may indicate the existence of other systemic control weaknesses. Overall, the control deficiencies that GAO identified increase the risk that the nearly \$47 billion in reported fiscal year 2011 Army active duty military payroll includes Army servicemembers who received pay to which they were not entitled and others who did not receive the full pay they were due. Further, to the extent that errors in Army active duty pay are not identified and addressed in a timely manner, they can have a negative effect on soldier welfare and, ultimately, could erode soldiers' focus on their Army mission.

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Abbreviations

AR	Army Regulation
AWOL	Absent Without Leave
CID	Criminal Investigation Division
CMS	Case Management System
DDMS	Defense Debt Management System
DFAS	Defense Finance and Accounting Service
DFAS-IN	Defense Finance and Accounting Service – Indianapolis
DJMS–AC	Defense Joint Military Pay System–Active Component
DMPO	Defense Military Pay Office
DOD	Department of Defense
FMR	Financial Management Regulation
GAAP	Generally Accepted Accounting Principles
iPERMS	Interactive Personnel Electronic Records Management System
IPPS-A	Integrated Personnel and Payroll System–Army
Mil Pay Ops	Military Pay Operations
SRD-1	Standard Financial System (STANFINS) Redesign Subsystem-1
STANFINS	Standard Financial System
TOP	Treasury Offset Program
UCFR	Unit Commander Finance Report
UCMJ	Uniform Code of Military Justice

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United States Government Accountability Office
Washington, DC 20548

December 12, 2012

Congressional Committees

On March 22, 2012, we issued a report on challenges in achieving audit readiness for the U.S. Army's military pay.¹ In performing the work that led to our March 2012 report, we identified preliminary indications of weaknesses in the design of processes, systems, and controls used to detect and correct errors in Army military payroll disbursements that were beyond the scope of that audit. These concerns, if not addressed, increase the risk that the nearly \$47 billion in reported fiscal year 2011 military payroll includes active duty Army servicemembers who received pay to which they were not entitled or did not receive the full pay they were due.

As discussed in our March report, although the Army had established the Interactive Personnel Electronic Records Management System (iPERMS) as the Army's Official Military Personnel File in 2007, it had not consistently or completely populated iPERMS with personnel records. Consequently, we determined that the Army did not have a central repository of official military personnel records and other documents affecting pay that was maintained, updated, and validated. Such a repository would have provided support for the accuracy and validity of the Army's active duty payroll transactions. The lack of such a repository of official records necessitates having effective compensating and monitoring controls to provide assurance over the accuracy and validity of active duty Army payroll data. Because of the lack of such a repository and the preliminary indications of weaknesses in processes, systems, and controls used to detect and correct errors in military payroll disbursements that we identified, we initiated this review.

Our objectives for this report were to (1) assess the effectiveness of the design of the process for unit commander review of monthly payroll as a compensating control for assuring the accuracy of the Army's active duty military payroll data and (2) determine the extent to which the Army and the Defense Finance and Accounting Service-Indianapolis (DFAS-IN)

¹GAO, *DOD Financial Management: The Army Faces Significant Challenges in Achieving Audit Readiness for Its Military Pay*, [GAO-12-406](#) (Washington, D.C.: Mar. 22, 2012).

have monitoring controls in place to accumulate and analyze military payroll errors to identify and address any systemic weaknesses. To address our first objective, we focused our work on the design of compensating controls over the accuracy of monthly payroll data using the Unit Commander's Finance Report (UCFR). To address our second objective, we analyzed the design of DFAS-IN's processes for accumulating and analyzing data related to adjusting payroll amounts in the Defense Joint Military Pay System-Active Component (DJMS-AC) for active Army servicemembers who received over- and underpayments. We also analyzed DFAS-IN's Case Management System (CMS) processes for accumulating data on the correction of Army military pay errors and processing of pay transactions outside of DJMS-AC.² We compared Army and DFAS-IN processes, systems, and related controls for assuring the reliability of Army active duty military payroll transactions to *Standards for Internal Control in the Federal Government*,³ as well as applicable provisions of laws and regulations, including the Department of Defense (DOD), Army, and DFAS policies and procedures. Further details are discussed in the scope and methodology section. We conducted this performance audit from March 2012 to December 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The U.S. Army is responsible for land-based military operations and is the largest and oldest established branch of the U.S. military. For fiscal year 2011, Congress appropriated \$52.5 billion to the "Military Personnel, Army" appropriation, which is a 1-year appropriation available for the pay, benefits, incentives, allowances, housing, subsistence, travel, and training

²The Army and DFAS-IN developed CMS to track and measure timeliness of manual work-arounds to calculate military pay where DJMS-AC had limited functionality. CMS also tracks cases for correcting pay errors identified by soldiers, local military pay offices, and other sources.

³GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

primarily for active duty servicemembers.⁴ DFAS-IN, within the Office of the Under Secretary of Defense Comptroller/Chief Financial Officer (DOD Comptroller), provides accounting, disbursing, and financial reporting services to the Army. According to DFAS-IN, of the \$52.5 billion in fiscal year 2011 military personnel appropriations, nearly 800,000 active duty Army servicemembers received nearly \$47 billion in pay and allowances.

DOD Organizations,
Processes, and Systems
Involved in Supporting the
Army's Active Duty
Military Pay

The DOD Comptroller's Office sets DOD financial management policy, including policy on military pay, which is included in DOD's *Financial Management Regulation* (FMR), Volume 7A, Military Pay Policy and Procedures – Active Duty and Reserve Pay. FMR, Volume 7A provides guidance on basic pay calculations; special pays, including pay of medical and dental officers, pay for hostile fire or imminent danger, and pay for foreign language proficiency; bonuses; allowances; allotments; tax withholding; and leave. FMR, Volume 7A also sets the policy on the effect of court-martial sentences on pay and allowances. The Office of the Assistant Secretary of the Army for Manpower and Reserve Affairs is responsible for setting the strategic direction and providing overall supervision for manpower, personnel, and Reserve Component affairs of the Army and also is responsible for the Army's manpower policy and human resources, among other things. In order to fulfill these responsibilities, Manpower and Reserve Affairs relies on the Deputy Chief of Staff, Army G-1, for advice and assistance.⁵

The Army G-1 Resources Division's Compensation and Entitlement Branch is responsible for active, reserve, and retired military compensation. The branch develops legislative proposals and policy directives for all forms of pay and allowances and represents the Army on the Per Diem, Travel and Transportation Allowance Committee of the Military Advisory Panel as well as numerous DOD working groups, including Basic Allowance for Subsistence, Basic Allowance for Housing, Special and Incentive Pays, Travel Reengineering, and Debt Avoidance.

The Army Human Resources Command supports Army G-1 in the management of all military personnel by serving as the functional

⁴Department of Defense Appropriations Act, 2011, Pub. L. No. 112-10, div. A, 125 Stat. 38, 38, 85 (Apr. 15, 2011).

⁵The Deputy Chief of Staff, Army G-1, function also is referred to as Army Personnel.

proponent for military personnel management and personnel systems. The Army Human Resources Command is responsible for providing DFAS-IN with accurate and timely information regarding changes in individual military member status necessary to maintain military payroll accounts. DFAS-IN is responsible for processing the Army's military payroll using DJMS-AC. DFAS-IN and its Military Pay Operations (Mil Pay Ops) staff rely on numerous Army military personnel records generated by the Army Reception Battalion installation personnel offices, Defense Military Pay Offices (DMPO), Army Finance Offices, Army Human Resources Command, and unit commanders to establish and update active duty military pay accounts in DJMS-AC. The Army Financial Management Command under the Assistant Secretary of the Army for Financial Management and Comptroller provides finance support and liaison to Army commands, installations, and tactical units and to DFAS on matters pertaining to the adequacy of finance policies, systems, and reporting requirements.

DFAS-IN Army Military Pay Process

To provide payroll support to the vast number of active Army servicemembers, DFAS-IN has 38 DMPOs within the United States,⁶ and the Army has finance offices overseas that provide pay services to military personnel in designated geographical areas. Military pay starts once a master military payroll account is established in DJMS-AC. Army active duty military personnel are to receive pay and allowances based on their grade and time in service; location; and whether they are married, have dependents, or are performing special duties. The Army's active duty servicemembers may elect to be paid once a month—at the end of the month—or twice a month—at midmonth and at the end of the month. DJMS-AC consolidates servicemember pay information into one monthly Leave and Earnings Statement for each member's pay account. In addition to basic pay, military members may also be eligible for cash recruitment or retention incentives (that is, bonuses). Any necessary pay change after the pay account is set up is to be initiated by the appropriate officials throughout the Army. These changes generally relate to promotions, special duty pay, incentive pay, Permanent Change of Station assignments, Temporary Change of Station assignments, and changes in dependents. DFAS-IN makes payments of basic pay and allowances to Army active duty servicemembers using electronic funds

⁶DFAS-IN also has 14 satellite offices in the United States.

transfer from DJMS-AC.⁷ DFAS-IN's Disbursing Office uses the Army's disbursing system⁸ to send electronic payments to the Federal Reserve Banks, which in turn distribute payments to each servicemember's bank account.

DFAS-IN and its DMPOs are to update Army active duty military pay records in DJMS-AC based on changes in the soldier's status. These updates generally correct over- and underpayments caused by delay of document submissions and transaction errors.⁹ For active duty soldiers, underpayments are generally adjusted in the next pay check, while overpayments result in a deduction to the soldier's pay.¹⁰ For Army soldiers who have left the service, DFAS establishes an out-of-service debt and uses the Defense Debt Management System (DDMS) to manage the debt collection process.^{11,12} DFAS is responsible for collecting debts related to military pay issues as well as debts related to lost or damaged property and other unpaid obligations and fees. Federal statutes governing claims of the U.S. government authorize DOD to use certain debt collection tools, such as interest charges, offset, and private

⁷Although most payments are electronic fund transfers to the servicemember, some payments may be made manually. For example, casual pay (an advance payment) may be made using a U.S. Treasury check, cash, or a stored value card (that is, a debit card).

⁸The Army's disbursing system, Standard Financial System (STANFINS) Redesign Subsystem-1, also referred to by the Army as SRD-1, is an online, interactive accounting and finance system that incorporates military pay, accounts payable, civilian pay, accounting, and disbursing into the online finance and accounting system.

⁹Other updates that do not affect the monthly pay amount include name change and expiration of term of service.

¹⁰According to the DOD FMR, Volume 7A, Chapter 50, dated February 2012, an overpayment of pay or allowances determined to be caused by fault of the member will be recovered in monthly installments not to exceed two-thirds of the member's monthly disposable pay. An overpayment of pay or allowances determined to be through no fault of the member will be recovered in monthly installments not to exceed 15 percent of the member's monthly disposable pay.

¹¹DDMS is a DOD-wide system used by DFAS to track and collect unpaid debts of civilian and military employees who have left DOD.

¹²DFAS debt collection action can involve assessing a penalty and an administrative fee, arranging for installment payments and, if necessary, placing the debt with a private collection contractor and referring the debt to the Treasury Offset Program (TOP). Under TOP, Treasury's Financial Management Service also may place debts with debt collection contractors, offset debts against federal tax refunds or other federal payments, and refer cases to the Department of Justice for litigation in federal court.

collection contractors.¹³ Thus, if debts are not paid before the soldier separates from military service, DFAS can refer these debts to private collection contractors.

Establishing, Monitoring, and Investigating Military Pay Statuses

Army Regulation (AR) 37-104-4, *Military Pay and Allowances Policy*, dated June 8, 2005, provides detailed policy provisions on specific pay and allowances as well as guidance on pay stoppages, adjustments, debt collection action, and use of the UCFRs. The Compensation and Entitlement Branch works with DFAS-IN to research and resolve soldier pay issues, process adjustments to pay, and take debt collection action. The DMPOs and Army Finance Offices provide UCFRs containing monthly military payroll data generated by DJMS-AC to unit commanders as a compensating control for verifying payroll accuracy. The UCFR provides the unit commander a summary of a soldier's monthly pay account status. AR 37-104-4 requires unit commanders to review the UCFR on a monthly basis and promptly report any discrepancies to their local DMPO. In addition, when the Army Financial Management Command, the Compensation and Entitlement Branch, DMPOs, or DFAS-IN's Mil Pay Ops suspect irregularities in pay or potential fraud, they research the details and document the specifics of the pay issue and may refer the matter to the Army's Criminal Investigation Division (CID) for further investigation.¹⁴

CID is the Army's primary criminal investigative organization. Army CID's primary mission is to investigate serious crime, as defined in AR 195-2, *Criminal Investigation Activities*. Commensurate with authorities in AR 195-2, CID special agents collect, analyze, and disseminate criminal intelligence; conduct protective service operations; provide forensic laboratory support; and maintain Army criminal records. CID also investigates less serious crimes, such as military pay-related and travel

¹³See, generally, 31 U.S.C. chapter 37, Claims of the U.S. Government; see 10 U.S.C. § 2780, Armed Forces: Debt Collection; see also, generally, the Federal Claims Collection Standards regulations, which are codified, as amended, in 31 C.F.R. parts 900-904, and include government-wide debt collection standards that are prescribed by the U.S. Attorney General and the Secretary of the Treasury.

¹⁴CID was established in 1863 as the first criminal investigation division of the U.S. Army. On September 17, 1971, CID was designated as a major Army command, but kept its original name.

reimbursement irregularities, as needed, to enforce Army law or regulations.

Scope and Methodology

To assess the effectiveness of the design of the process for unit commander review of monthly payroll disbursements as a compensating control for assuring active duty Army payroll accuracy, we compared related processes and systems to applicable internal control standards,¹⁵ as well as applicable laws and regulations, and DOD, DFAS, and Army policies and procedures. Specifically, we reviewed the design of Army and DFAS-IN processes for reviewing and correcting military payroll data based on requirements in AR 37-104-4, *Military Pay and Allowances Policy*, and related guidance and DFAS-IN's *Standard Operating Procedures for the Unit Commander Finance Report* (May 4, 2009). We also reviewed DFAS-IN's Field Services Division procedures for ensuring the accuracy of data on UCFR submissions. For October 2011 to March 2012, we obtained the monthly summary of unit commander UCFR submissions to DMPOs that are forwarded to DFAS-IN and used DFAS-IN's criteria of no later than the 10th of the month for review and submission of UCFRs to determine the number of UCFRs that were submitted on time, submitted late, or not submitted at all. In addition, we interviewed DFAS Debt and Claims Management, DFAS-IN Mil Pay Ops, and DMPO officials and Army Financial Management Command, Army G-1, and Army CID officials to gain an understanding of their systems, processes, and controls. To determine ways in which UCFR information, if properly designed, could act as a compensating control for assuring payroll accuracy, we analyzed payroll errors that led to out-of-service debt, over- and underpayments, unauthorized payments, and Army CID fraud investigations.

We reviewed debt information maintained by DFAS on former military servicemembers (referred to as out-of-service debts by DFAS) to identify military pay-related debts and determine the types of pay and allowances that resulted in these debts to identify the underlying causes. Specifically, we analyzed summary and detailed data on Army out-of-service debts related to military pay for fiscal year 2011 and the first 7 months of fiscal year 2012 to identify debts by category and determine whether the pay problems that resulted in these debts could have been detected and

¹⁵[GAO/AIMD-00-21.3.1](#).

corrected with effective review of the UCFRs. We analyzed selected detailed data for fiscal year 2011 and the month of March 2012 to identify illustrative examples of payroll errors that resulted in the out-of-service debts and identified the controls that if properly designed, could have prevented the debts from occurring. To determine the reliability of these data for the purpose of our work, we reviewed procedural guidance on DFAS's systems and processes for collecting out-of-service military payroll debt and questioned DFAS officials about any additional procedures they perform related to the reliability of DDMS data. We determined that these data were sufficiently reliable for the purpose of our work.

In addition, we reviewed report summaries on investigations of potential military pay-related fraud to identify weaknesses in related processes, systems, and controls and whether effective review of the UCFR would have detected these issues. Specifically, we analyzed Army CID military pay-related fraud investigations for fiscal years 2010 and 2011—a total of 285 investigations—and obtained and reviewed selected investigation reports for additional details. Of these 285 investigations, 64 pertained to travel reimbursements. Therefore, we focused our analysis on the remaining 221 investigations consisting of 190 investigations that related only to potential military pay fraud and 31 that involved potential fraud associated with both military pay and travel reimbursements. We met with Army CID, Army Financial Management Command, and Army G-1 officials to discuss what triggers investigations of potential military payroll fraud and the breakdowns in controls that allowed various types of potential military payroll fraud to occur.

To determine the extent to which DFAS-IN had monitoring controls in place for identifying the extent of any active Army military payroll errors and identifying systemic weaknesses and appropriate corrective actions, we interviewed DFAS-IN officials to gain an understanding of their processes and performed walk-throughs, where appropriate. We analyzed military payroll data processed by DJMS-AC and CMS, which DFAS-IN uses to manually process pay transactions that cannot be processed by DJMS-AC. We assessed DFAS procedures for assuring the reliability of data generated by CMS and DJMS-AC. We also reviewed DFAS-IN performance metrics related to Army military payroll timeliness and accuracy to assess trends and management oversight.

Deficiencies in Design of Unit Commander Finance Report Monitoring and Reporting Procedures

Our analysis of payroll errors that resulted in out-of-service debts and pay irregularities investigated by Army CID found numerous examples of pay problems that could have been but were not promptly detected, reported, and corrected through the UCFR review. Specifically, we found that the design of Army and DFAS-IN procedures for using the UCFR to assist in detecting and correcting military payroll errors is not an effective compensating control for assuring the accuracy of the Army's active duty military payroll because they do not (1) provide for monitoring of required UCFR reviews to better assure detection of payroll errors, (2) require reporting of completed UCFR reviews in all cases, and (3) clearly establish time frames for completing and reporting on UCFR reviews.¹⁶ *Standards for Internal Control in the Federal Government* states that internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations.¹⁷ The standards also states that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. Also, DFAS-IN UCFR procedural guidance states that the unit commander's review of the UCFR is essential for establishing combat readiness; reducing fraud, waste, and abuse; and ensuring that soldiers' pay is accurate.

Undetected Payroll Errors Resulted in Overpayments and Debts Owed to the Government by Soldiers No Longer in the Army

Our review of DFAS Debt and Claims Management data and Army CID reports on investigations of potential military pay-related fraud identified numerous instances of military pay errors and irregularities that the Army and DFAS-IN did not detect and correct for several months, or only after soldiers had left the service. The following examples from our analysis of DDMS data illustrate the types of pay errors that went undetected for lengthy periods of time.

- A reserve soldier assigned to active duty was overpaid approximately \$185,000 over a 2-year period from May 2009 to May 2011 because the DMPO did not enter into DJMS-AC the end-of-tour date from the order mobilizing the Army Reserve soldier to active duty. The soldier continued to receive pay and allowances after separation from the service in May 2009 until the local DMPO processed the separation

¹⁶AR 37-104-4, *Military Pay and Allowances Policy*, dated June 8, 2005 and DFAS-IN, *Standard Operating Procedures for the Unit Commander Finance Report* (May 4, 2009).

¹⁷[GAO/AIMD-00-21.3.1](#).

transaction in DJMS-AC in May 2011. Effective review of the UCFR could have determined that this soldier, who had left active duty, was continuing to receive active duty pay.

- A soldier who was absent without leave (AWOL) from January 2010 to September 2011 received military pay of \$33,268 to which she was not entitled. Her unit notified the finance office to suspend her pay in September 2011. However, an effective UCFR review process could have detected this issue earlier and reduced the accumulated debt for this soldier.
- Another soldier who was later determined to be AWOL received \$13,208 in pay and allowances to which he was not entitled from October 15, 2008, to January 30, 2009. In February 2009, the installation where the soldier was stationed initiated a CMS case, and in March 2012, DFAS-IN recorded the soldier's expired term of service in DJMS-AC effective on June 10, 2011. An additional \$12,571 of debt for unearned enlistment bonus, travel advance, Army emergency relief payment, and government property loss and damage resulted in a total debt amount of \$25,779. Effective review of the UCFR would have detected that the AWOL soldier was still receiving active duty pay.

Table 1 shows, by category, the amount of fiscal year 2011 Army military pay-related debt that was owed by soldiers who had left the Army. At that time, DFAS was pursuing over \$50 million of these debts. According to unaudited DFAS data, military pay-related debts accounted for over 90 percent of the Army's out-of-service debts in fiscal year 2011.

Table 1: Fiscal Year 2011 Active Army Military Pay-Related Out-of-Service Debt

Out-of-service debt category	Number of soldier debts	Percentage of debt amount	Original dollar amount of debt
Unearned bonus ^a	7,248	53.82	\$29,937,382
Overpayment of pay and allowance - no entitlement ^b	6,001	11.07	6,157,416
Partial pay received that was not considered in the final pay computation	1,329	5.54	3,080,305
Appellate review leave status ^c	457	4.84	2,691,413
Overpayment of leave	1,904	3.73	2,075,951
Overpayment of basic allowance for housing	935	2.81	1,564,688
Payment received while in a nonpay status	205	2.69	1,497,491
Overpayment of a military pay or allowance entitlement	359	2.32	1,291,639
Overpayment while absent without leave	348	2.20	1,226,404
Tuition assistance received prior to separation	1,965	1.41	783,320
Total, active Army military pay-related out-of-service debts	20,751	90.44	\$50,306,009
All other Army debts	3,546	9.56	\$5,316,341
Total, all active Army out-of-service debts	24,297	100.00	\$55,622,350

Source: GAO analysis of unaudited Defense Debt Management System data.

^aA bonus is earned as the term of service is fulfilled. An unearned bonus occurs when a servicemember does not fulfill the service contract, causing all or a portion of the bonus to be unearned.

^bFor an overpayment of pay and allowances, no entitlement occurs when a servicemember is paid for a period in which he or she was not entitled to pay and allowance.

^cAccording to DFAS officials, appellate review leave status occurs when a servicemember is undergoing a court-martial. In this situation, the member has been separated as far as the pay account is concerned but has not been separated from the military.

In addition, our analysis of 221 fiscal year 2010 and 2011 Army CID investigations of potential military pay-related fraud identified the following examples of adverse effects of lingering undetected Army payroll errors.

- A lieutenant colonel allegedly received active duty pay to which she was not entitled after she was discharged from active duty on December 17, 2008. The estimated loss to the government was approximately \$188,700. An effective review of the UCFR could have detected this type of pay issue because the unit commanders or

battalion personnel sergeants (or S-1) would have been in a position to know whether a servicemember had separated from the service and thus no longer should be receiving active duty pay.

- A colonel allegedly collected foreign language proficiency pay even though he had not recertified his language proficiency since 1999. The investigative report stated that the colonel also allegedly received jump pay from January 1999 through March 2008 that he was not authorized to receive.¹⁸ Army CID estimated the total loss to the government for this case at \$34,455. A CID review of jump records revealed that the colonel had made no documented jumps since 1999. According to the Army Financial Management Command, once jump pay is initially authorized by the unit, jump pay is automatically paid to an individual assigned to a unit-level position requiring jumps. If the unit was not performing jumps, then the soldier would not be entitled to this pay. In addition, foreign language proficiency pay is governed by AR 11-6, Chapter 6, which gives the unit commander or the battalion S-1 the primary responsibility for monitoring this pay, including monitoring language proficiency, preparing a monthly report on who is entitled to and is receiving foreign language pay, and verifying the UCFR.¹⁹ Because the unit commander and S-1 were in a position to know whether their unit was required to perform jumps and would have a record of a soldier's foreign language certifications and applicable dates, an effective review of the UCFR could have detected these pay issues.
- A private first class allegedly continued to receive his military pay and allowances and utilized his TRICARE benefits while AWOL from assigned duty. The estimated loss to the government was \$24,194. Effective review of the UCFR could have identified this kind of pay issue because unit commanders and S-1s would have knowledge of

¹⁸In accordance with AR 37-104-4, June 8 2005, Chapter 10 on other hazardous duty incentive pays as well as DOD FMR Volume 7A, Chapter 24, March 2011, a servicemember qualifies for a hazardous duty incentive pay for parachute duty, or "jump pay" when the individual is assigned to a unit-level position requiring parachute jumps that are authorized by the unit.

¹⁹Under AR 11-6, *Army Foreign Language Program*, Aug. 31, 2009, Chapter 6 on foreign language proficiency bonus, the unit commander has primary responsibility for monitoring foreign language proficiency bonuses and is required to prepare a monthly report on who is entitled to receive and is receiving this special pay.

whether their soldiers are reporting for duty and whether any absences are for authorized reasons.

- Another soldier allegedly received family separation allowance for 31 months, an allowance to which he was not entitled as his family resided with him in Columbus, Georgia. The estimated loss to the government was approximately \$7,750. Effective review of the UCFR could have detected this type of pay issue because family separation allowance applies to soldiers who are away from their dependents for more than 30 days, and unit commanders are in a position to know where soldiers are stationed in relation to their family residences.

To the extent that any overpayments or frauds involving Army active duty military pay are not timely and effectively identified and corrected, they become more difficult to collect after individuals have left the service because rather than processing payroll offsets, formal debt collection action must be taken. Such collections are likely to be increasingly difficult to make with the passage of time.

Army CID investigators stated that they uncovered sufficient evidence of potential fraud to meet the Army's standards for referring the investigations for additional DOD action.²⁰ Our analysis included 190 investigations that identified 320 incidences of potential fraud with a total estimated loss to the government of a little over \$6 million related only to potential military pay fraud and 31 investigations totaling nearly \$1 million that involved potential fraud associated with both military pay and travel reimbursements. Table 2 shows the results of our analysis of the 190 CID investigations involving only military pay. Many of these investigations involved more than one incidence of potential fraud. For example, of the 138 incidences of potential fraud related to basic allowance for housing, 21 also involved incidences of potential fraud related to family separation allowance.

²⁰For the purposes of this report, we focused on report summaries of Army CID investigations of allegations of fraud. We did not review documentation on the ultimate outcome of each referral for additional DOD action and whether the referrals resulted in the investigated individual being subject to adverse outcomes, which may include administrative action (for example, a requirement to take corrective training), nonjudicial punishments under Article 15 of the Uniform Code of Military Justice (UCMJ), or a court-martial.

Table 2: Incidences of Potential Military Pay-Related Fraud for Fiscal Years 2010 and 2011 from U.S. Army CID Reports

Military pay fraud type	Number of incidents of potential military pay fraud	Percentage of potential amount	Potential amount
Basic allowance for housing	138	45.19	\$2,727,081
Multiple allowances ^a	34	21.46	1,295,004
Active duty, incentive, and special pay	9	9.09	548,414
Other ^b	30	7.24	437,070
Living quarters allowance and temporary quarters subsistence allowance	13	5.73	345,527
Overseas housing allowance	14	4.82	290,788
Entitlements ^c	37	4.25	256,227
Promotion and enlistment	12	1.76	106,282
Family separation allowance	33	0.47	28,442
Total	320^d	100.00	\$6,034,834

Source: GAO analysis of unaudited U.S. Army CID reports on investigations of potential military pay-related frauds from fiscal years 2010 and 2011.

Note: Numbers may not add because of rounding.

^aGenerally, multiple allowances include a combination of basic allowance for housing and other allowances, such as family separation allowance where amount of the potential fraud was not broken out by allowance.

^bOther includes potential fraud related to time card charges, GI Bill (education) benefits, and leased housing.

^cThis category includes TRICARE benefits as well as cost-of-living adjustment, and other entitlements not included in other categories, such as post allowance, and entitlements not otherwise specifically identified. TRICARE is the health care program for uniformed service members, retirees, and their families worldwide.

^dThese 320 incidences were drawn from a total of 190 investigations.

Current UCFR Monitoring and Reporting Requirement Provides Limited Assurance of Active Duty Military Payroll Accuracy

We identified the following deficiencies in the Army's procedures that impaired the effectiveness of the UCFR reviews. First, Army procedures do not provide for monitoring to assure effective UCFR reviews. Second, AR 37-104-4, *Military Pay and Allowances Policy*, only requires unit commanders to submit their UCFRs to their designated finance offices or DMPOs if corrections are needed. When unit commanders do not return their UCFRs, the local finance offices and DMPOs do not receive

documented evidence that the UCFRs have been reviewed and thus have no timely, positive assurance of the accuracy of the UCFR.²¹ Third, AR 37-104-4 does not clearly define the time frame for “immediately” reporting any needed corrections, such as no later than the 10th of the month, specified in DFAS-IN guidance. The UCFR could serve as an effective compensating control for confirming pay status and allowances if reviews were monitored to help assure that they were appropriately performed, were required to be reported in all cases, and were required to be submitted within a clearly prescribed time frame, such as the 10th of the month specified in DFAS-IN guidance.

AR 37-104-4 establishes procedures for assuring accurate and timely processing of military payroll and requires battalion S-1s to verify their UCFRs’ accuracy with respect to personnel- and pay-related information monthly. Specifically, as prescribed by AR 37-104-4, S-1s are to ensure the verification of data in monthly UCFRs to the Unit Personnel Accountability Report to determine whether data on pay account status is consistent with soldier duty status in the personnel records, including servicemember’s name, grade, net pay, allotments, housing allowance, subsistence allowance, leave balance, court-martial/Article 15,²² AWOL, debt owed the government, and expiration of term of service, as well as authorizations to receive special pays and incentive pays, such as jump pay and foreign language proficiency bonus. Further, AR 37-104-4 requires S-1s to prepare pay-related documents, respond to soldier pay inquiries, forward pay-related documents to the finance office or DMPO daily, and process certain pay grade advancements and all reductions, and it requires unit commanders to ensure that documents affecting pay are accurate and are promptly forwarded to the finance office or DMPO. Consequently, S-1s and unit commanders are in a position to identify

²¹Positive assurance is a level of assurance one has that something is good or bad, or effective or ineffective, based on evidence or experience. For example, an opinion that the financial statements are presented fairly in conformity with U.S. generally accepted accounting principles (GAAP) must be based on sufficient audit evidence to support such a positive assurance opinion. Negative assurance is a statement of the level of confidence based on what is not known. For example, the statement that the auditor was not aware of material modifications that should be made to financial statements for them to conform to U.S. GAAP is negative assurance.

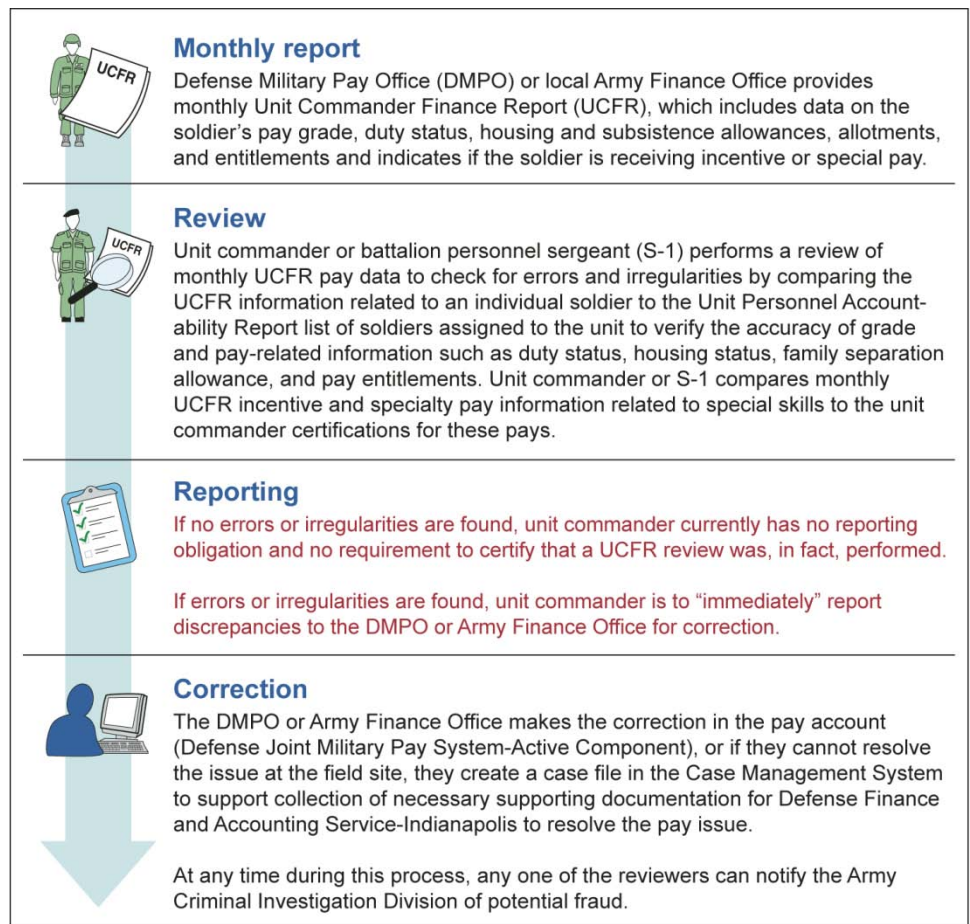
²²A court-martial is a military court convened under military authority to try members of the U.S. armed forces who are accused of violating the UCMJ. Article 15 of the UCMJ, which is codified, as amended, at 10 U.S.C. § 815, provides for nonjudicial punishment imposed by a commander and accepted by the military member.

discrepancies, such as any soldiers who are AWOL but continue to receive pay and allowances and any soldiers who receive an overseas housing allowance while living on post. Additionally, because S-1s review and unit commanders certify soldier eligibility for special pays based on soldiers meeting the requisite training and certification requirements, they also are in a position to know what special pays their soldiers are entitled to receive.

Consistent with AR 37-104-4, Army Vice Chief of Staff guidance²³ requires UCFRs to be immediately reviewed and, if discrepancies are identified, submitted timely, so that any needed corrections and updates can be made before the next monthly payroll. However, as shown in figure 1, because AR 37-104-4 and Army Vice Chief of Staff guidance only require UCFRs to be submitted if corrections or updates are needed, the Army and DFAS-IN do not have positive assurance that all UCFRs were appropriately reviewed. However, current Army regulations do not include any requirements to monitor the effectiveness of required UCFR reviews. Further, the lack of a mandatory requirement to submit UCFRs impairs the ability of the Army and DFAS-IN to obtain a population of UCFRs that could be used to periodically monitor and test the effectiveness of UCFR reviews for assuring the accuracy of active duty Army military payroll transactions. DFAS-IN and Army officials acknowledged that UCFR review and submission could be a useful compensating control if submission of the reports was a mandatory requirement whether or not corrections or updates are needed. Further, monitoring to better ensure that appropriate review of monthly UCFRs in concert with a requirement for mandatory UCFR submission within a certain number of days could provide a useful compensating control for assuring active duty Army military payroll accuracy by providing early detection of the types of payroll errors and irregularities that we identified.

²³Vice Chief of Staff, U.S. Army to All Army Activities - ALARACT168/2010: Commanders' Obligations Regarding the Unit Commander's Finance Report (UCFR) and Soldier Options for Debt Suspension and Mitigation, para. 4 (June 3, 2010).

Figure 1: Current Process for Review and Submission of UCFRs



Source: GAO analysis of Army and DFAS-IN UCFR processes.

The current reporting requirement also limits the effectiveness of the requirement for monthly UCFR reviews. The requirement to only submit UCFRs if discrepancies are noted does not provide positive assurance that the required review was performed. Further, although AR 37-104-4 and Army Vice Chief of Staff guidance do not define "immediately" related to the requirement to submit UCFRs that identify discrepancies, DFAS-IN guidance defines timely submission of UCFRs as no later than the 10th of the following month. Based on DFAS-IN's timeliness criteria, our analysis of unaudited data on unit commander UCFR submissions from October 2011 through March 2012 showed that 26 percent of the UCFRs were submitted late or were not submitted at all. Our analysis also determined

that although 19 of the 38 DMPOs had high average rates (90 percent or greater) for timely receipt of Army unit commander UCFR submissions, 5 of the remaining 19 DMPOs—Indianapolis, Fort Hood, Fort Lewis McChord, Fort Bliss, and Redstone Arsenal—had an average rate for unsubmitted UCFRs of 40 percent or greater during the first 6 months of fiscal year 2012. Without positive assurance that UCFRs were appropriately reviewed and that no military pay corrections or updates were needed, DFAS-IN and the Army cannot rely on UCFR review as an effective control to detect payroll issues and ensure that errors or irregularities are identified and submitted for correction in a timely manner.

Ineffective Procedures for Capturing Information on Payroll Errors to Identify and Correct Systemic Weaknesses

Existing monitoring processes and controls for resolving Army active duty payroll errors were not designed to serve as effective compensating controls to provide for monitoring to capture data on the extent and causes of any over- and underpayments, unauthorized payments, and other pay errors. Effectively designed monitoring could be used to help identify and address any systemic internal control weaknesses, determine appropriate corrective actions, and monitor trends in the payroll data to determine the effectiveness of corrective actions. *Standards for Internal Control in the Federal Government* states that internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations.²⁴ Such monitoring should assess the quality of internal control performance over time and includes regular management activities, such as comparisons, reconciliations, and other reviews.

DFAS-IN and the Army Do Not Have a Comprehensive Metric for Monitoring the Army's Active Duty Military Payroll Accuracy

DFAS-IN and the Army have not established a comprehensive metric for monitoring the accuracy of active duty Army military payroll. The Army Financial Management Command Director and DFAS-IN's Mil Pay Ops Director stated that DOD-wide military payroll metrics, including the Army's military payroll metric, are designed to track timeliness but not accuracy and emphasized that they believe transaction timeliness is the best primary metric for monitoring the accuracy of soldier pay. However, all pay errors are not a result of timeliness issues as discussed later in this report; errors also occurred as a result of certain overpayments, data

²⁴[GAO/AIMD-00-21.3.1](#).

entry errors, unauthorized payments, and fraud. DFAS-IN and the Army do not have monitoring procedures in place to accumulate and analyze pay problems that are not related to timeliness. Consequently, DFAS-IN and the Army do not accumulate data and do not have a corresponding metric to track pay accuracy for all types of military pay and entitlements. If not corrected, this condition could impede the Army's ability to respond to a financial audit because to the extent that auditors cannot rely on controls, they will need to increase transaction testing. Moreover, to the extent that errors in Army active duty pay are not identified and addressed in a timely manner, they can have a negative effect on soldier welfare and, ultimately, could erode the focus on Army mission readiness.

The Directors of DFAS-IN and the Army Financial Management Command stated that DFAS and the Army monitor and follow up on late submissions of pay-affecting documents. The Directors stated that not all late submissions of pay changes indicate pay errors. For example, the Directors explained that if a commander approves and military orders are issued for retroactive promotions, they recognize that the pay amounts could be viewed as inaccurate until the retroactive promotions are processed. However, the retroactive nature of the adjustment does not indicate that there was an error. While timeliness is the issue in these cases, the retroactive effective date of the promotion indicates both timeliness and accuracy are issues of concern because servicemembers were paid an incorrect amount for a period of time. According to the DFAS-IN Mil Pay Ops Director, the Office of the Secretary of Defense Personnel/Pay Council's Pay Performance Metrics include such retroactive payments in the timeliness "metric" for processing of military pay transactions within 30 days of the effective date. However, the 20-day CMS metric for timeliness does not consider the period of time during which a pay amount was incorrect.

Our analysis determined that if DFAS-IN wanted to accumulate separate information on types of active duty Army military pay errors, it would need to establish criteria and perform a labor-intensive review of the details of approximately 300,000 CMS cases annually,²⁵ survey DMPOs for information on active Army military pay errors they correct locally but are not required to document and report, and consider the extent to which

²⁵CMS includes pay cases involving manual work-arounds necessitated by limited DJMS-AC programming updates related to long-term plans for DJMS-AC's replacement.

other processes identify error corrections in order to extract information on errors by pay category and the causes of those errors.

**Data on Payroll
Adjustments for
Underpayment or
Overpayment of Active
Duty Military Pay Are Not
Used to Help Identify
Potential Systemic Control
Weaknesses**

The system that DFAS-IN uses to pay Army active duty soldiers (DJMS-AC) does not have the capability to identify and report the extent and causes of under- and overpayments and other types of payroll errors related to active duty Army soldier pay. As a result, DFAS-IN is not able to analyze the extent to which there may be any systemic control weaknesses that need corrective action. Without the ability to detect and correct systemic weaknesses, over- and underpayments are likely to continue, creating a financial burden for soldiers who did not receive all the pay they were due and soldiers who received more than their entitled amounts and were subjected to collection action. Either problem may pose financial hardship for the soldiers and detract from their focus on mission.

Underpayments occur when the events that increase basic pay and allowances are not reflected in a military pay transaction at the time they occur. Underpayments also occur when a soldier is not paid in a timely manner for special pays when the related certification training is completed.²⁶ When underpayments are identified and confirmed, DFAS-IN pays them to the soldier in the next paycheck. Underpayments affect soldiers' personal finances, especially when they are not resolved in a timely fashion. For example, a colonel in the Army National Guard reported experiencing numerous underpayments throughout his 28 years of service, including suffering financial hardship when he was on active duty in 2003 to Afghanistan and his active duty pay was stopped for 1-1/2 months. He also stated he did not receive hardship duty pay and hostile fire pay while on a deployment to Southeast Asia, which took approximately 1-1/2 years to correct. Further, he reported that his pay problems have persisted, with the most recent being in January 2012.

²⁶An underpayment could occur when a soldier gets married and does not notify the DMPO of the related change in dependency status in a timely manner. Dependency status entitles a soldier to a higher rate of pay for certain entitlements. Thus, if a soldier did not notify the DMPO of a marriage, he or she would have an underpayment of basic allowance for housing. Further, if the soldier was assigned to duty away from dependents for more than 30 days, the lack of timely notice of this change could result in underpayment of family separation allowance.

Overpayments may occur when a servicemember returns from a combat zone deployment to a duty station in the United States and the Army personnel system fails to notify the pay system. Overpayments are recovered through withholding from the soldier's subsequent pay.²⁷ If soldiers' entitlements are not adjusted in a timely manner as their duty status changes, and they spend the extra pay received, collection action can pose a financial hardship.²⁸

DFAS-IN procedures for DJMS-AC do not include steps to identify and report the dollar amounts of and reasons for adjustments it made to correct active duty soldiers' military pay accounts for under- and overpayments on its nearly \$47 billion in reported Army military pay for fiscal year 2011. DFAS-IN officials explained that DJMS-AC does not have unique transaction codes that identify adjustments to active duty Army soldiers' pay. As a result, adjustments for underpayments of military pay are entered with the same codes as those used for original military pay transactions. Therefore, although DFAS-IN can identify the total number of transactions by type of pay and allowance, it cannot separately identify the number or causes of underpayments made to active duty servicemembers. Further, DFAS-IN cannot provide a detailed breakdown of the reasons for and dollar amounts of overpayments because DJMS-AC is not configured to capture information on the detailed causes of overpayments of pay and allowances. Instead, debt reason codes in DJMS-AC relate generally to the type of pay and allowance debt that is being assessed against a soldier's pay account, such as basic allowance of housing or hostile fire pay. The DFAS-IN Mil Pay Ops Director said it would be too costly to change the current system to include transaction codes related to correction of under- and overpayments. The Director of the Army Financial Management Command and Army G-1 officials told us that user requirements for the Integrated Personnel and Pay System-Army (IPPS-A), which is intended to replace the Army's DJMS, include

²⁷According to the DOD FMR, Volume 7A, Chapter 50, dated February 2012, an overpayment of pay or allowance determined to be caused by fault of the member will be recovered in monthly installments not to exceed two-thirds of the member's disposable monthly pay. An overpayment of pay or allowances determined to be through no fault of the member will be recovered in monthly installments not to exceed 15 percent of the member's disposable monthly pay.

²⁸For example, in situations involving overpayments, a soldier who returns from combat zone deployment would continue to receive entitlements linked to the combat zone location, such as hardship duty pay, hostile fire pay, and combat zone tax exclusion.

this type of functionality. However, IPPS-A full functionality for military payroll is not targeted for implementation until the third quarter of 2016. Consequently, without establishing an interim process for capturing data on payroll errors and identifying their causes, both DFAS-IN and the Army will be limited in their ability to reasonably assure the effectiveness of any corrective actions until comparable IPPS-A functionality is implemented.

CMS Processing of Corrections to Active Duty Military Pay Is Not Designed to Capture Information on the Extent of Errors to Identify Systemic Weaknesses

We found that the DFAS-IN's CMS process used to process Army military pay transactions and error corrections that are handled outside of DJMS-AC was not designed to identify military payroll errors and monitor trends in the occurrence of these errors. As a result, the Army and its Financial Management Command cannot use CMS to help monitor the number of errors by pay category and their causes. Further, CMS does not capture and accumulate data on the types and causes of pay errors that are corrected by DMPOs and finance offices. Without a CMS monitoring capability, the Army is limited in its ability to identify and address any additional systemic military payroll control weaknesses.

Our analysis of Mil Pay Ops processes determined that CMS serves as an electronic file folder that accumulates documents needed to resolve military pay issues with the capability to identify information on types of cases, such as separations, and their status to ensure that they are processed or corrected within DFAS timeliness metrics. Our analysis of unaudited CMS data showed that the CMS process adopted for Army payroll cases has processed an average of 310,000 DJMS-AC system-generated cases and manual cases annually since fiscal year 2008,^{29,30} many of which involved problems with multiple types of pay transactions. For the first 11 months of fiscal year 2012, approximately half of the cases processed were manual cases. We determined that both the manual and the system-generated case categories contain cases that relate to error corrections. However, CMS processes do not require the identification of the types of cases or the extent to which they relate to error corrections. Because CMS does not capture and accumulate data on all corrections of military payroll errors, it does not serve as an

²⁹DJMS-AC system-generated cases relate to military personnel and pay transactions that cannot be processed in DJMS-AC and transactions that DJMS-AC processing controls reject.

³⁰Sources of manual cases include soldier inquiries, deficiencies identified in UCFR submissions, and pay issues identified in Army CID investigations.

effective monitoring control for providing DFAS-IN and the Army the ability to determine the extent and nature of active duty Army military pay errors and identify systemic weaknesses and their causes in order to design appropriate corrective actions, leaving the Army at risk of continuing errors.

For example, our analysis and discussions with DFAS-IN officials regarding pay system rejects—DJMS-AC system-generated transactions that were not allowed to process in DJMS-AC—determined that some of these system-generated rejects relate to error corrections. For example, the reject analysis reports contain error codes that identify the type of transactions that DJMS-AC controls did not allow DJMS-AC to process. The reject analysis report breaks out the number of rejects that are to be sent to DMPOs or finance offices for correction and those that must be corrected centrally by DFAS-IN and have a CMS case created for tracking and visibility. DMPO officials told us that upon receiving reject reports, they would contact military units to alert them about any unusually high numbers of errors in a pay category, such as basic allowance for housing. However, information on the extent of those errors, their causes, and any corrective actions taken by the Army units or the DMPOs is not accumulated and reported by the DMPOs.

Conclusions

The Army's weaknesses in the design of processes, systems, and controls for detecting and correcting errors in payroll disbursements to active duty Army military personnel increase the risk that its active duty military payroll includes servicemembers who received pay to which they were not entitled and others who did not receive the full pay they were due. Accordingly, it is important that the Army implement appropriate and effective compensating controls, including monitoring controls to assess the quality of performance over time. Improved procedures for monitoring and reporting on monthly UCFRs—which detail most pay and allowance information for soldiers—could provide an important compensating control for assuring payroll accuracy. In addition, because DFAS-IN and the Army do not have a comprehensive accuracy metric for military payroll and current processes, systems, and controls are not designed to identify and document the extent and cause of payroll errors, irregularities, and corrections, DFAS-IN and the Army are limited in their ability to determine the overall accuracy of Army active duty military pay or whether there are any related unidentified systemic weaknesses that should be corrected. Without immediate action to address these deficiencies, DFAS-IN and the Army will not be able to assure that soldiers are paid timely and accurately. Moreover, these weaknesses can have a negative impact on

soldier welfare and mission readiness because payroll errors can detract from soldiers' focus on their mission.

Recommendations for Executive Action

We are making five recommendations to the Secretary of Defense to strengthen the design of controls over active duty Army military payroll.

To assure the effectiveness of the UCFR process as a compensating control for confirming the accuracy of its military pay, we recommend that the Secretary of Defense direct the Secretary of the Army to revise AR 37-104-4, *Military Pay and Allowances Policy*, to include the following three actions:

- establish a requirement for periodic monitoring of the effectiveness of unit commander UCFR reviews;
- require unit commanders to review and submit documentation showing completion of all monthly UCFR reviews; and
- specify the time frame for submitting UCFRs, such as no later than the 10th of the month.

To provide a means for monitoring the overall accuracy of the Army's military payroll, we recommend that the Secretary of Defense direct the DOD Comptroller to require DFAS-IN to take the following two actions:

- develop criteria and establish a comprehensive metric to capture and measure all types of pay errors affecting accuracy and
- establish an interim mechanism at DFAS-IN for identifying and analyzing the extent and causes of all types of military payroll errors processed by DMPOs, Army Finance Offices, DJMS-AC, and CMS to address any systemic control weaknesses.

Agency Comments and Our Evaluation

We provided a draft of this report to DOD for review and comment. In its comments, DOD expressed concern that the draft does not present the military pay issues discussed in the proper context. DOD stated that the bonus amounts presented in table 1 of this report are not payroll errors, but instead arise when servicemembers leave the service before the end of their service commitments. We disagree. We recognized in the report that an unearned bonus occurs when a servicemember does not fulfill the service contract, causing all or a portion of the bonus to be unearned. We

also pointed out that doing so has resulted in the largest amount of Army military pay-related out-of-service debt.

Further, DOD stated that our audit approach focused solely on the design of the controls without analysis of whether undetected errors exist and whether the recommended additional activities would efficiently detect any missed errors. DOD is correct that the focus of this engagement was on the design of controls, as discussed in detail in the scope and methodology section of this report. However, because we identified flaws in the design of controls, we determined there would be little benefit in testing the implementation of a flawed control. Further, as discussed in our report, because the flawed design of the UCFR process does not provide positive assurance that payroll errors will be detected and corrected, we reviewed the results of other processes, including DFAS's debt and claims management information related to military payroll debt and Army CID's investigations of potential fraud, to determine if those processes identified any errors or irregularities that went undetected for lengthy periods of time.

With regard to our three recommendations to strengthen UCFR controls, DOD partially agreed, stating that it concurred fully with the goal of improving the accuracy of military pay to the extent that cost-effective corrective actions are warranted. However, we continue to believe that the design of the UCFR process is not fully effective in providing positive assurance of military payroll accuracy. Consequently, as discussed in our report, UCFR reviews do not provide an effective compensating control. Accordingly, we believe that our recommendations in this area are appropriate and are intended to help strengthen the design of existing processes and controls to help improve DOD's ability to rely on UCFR reviews as a compensating control. Our first recommendation is directed at establishing a requirement for periodic monitoring of the effectiveness of UCFR reviews. Because the current UCFR control as designed requires reporting only if deficiencies are found, it is not possible to monitor and test the extent to which required reviews were effective in identifying military payroll errors. Our second recommendation to enhance the control design is directed at revising AR 37-104-04, *Military Pay and Allowances Policy*, to require unit commanders to document completion of all monthly UCFR reviews, and our third recommended enhancement calls for the Army to clarify the required time frame for submitting UCFRs. DOD's response to all three recommendations was that by February 28, 2013, the Army, working with DFAS, will complete statistically valid tests to determine to what extent payroll errors occur and whether any identified errors can be efficiently detected and prevented

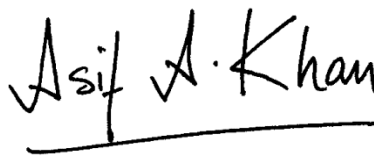
before payment by implementing additional control activities. However, as discussed in our report, Army and DFAS systems and processes do not currently capture data on all errors and their causes. Consequently, it is not clear how DOD will identify a statistically valid universe for testing to support a decision on whether additional actions are warranted to strengthen the UCFR process as a compensating control.

With respect to our two recommendations directed at actions needed to improve monitoring of payroll accuracy, DOD also partially agreed, stating that DFAS believes that it has procedures and metrics to gather comprehensive data for all types of payroll errors, including both timeliness and improper payments. However, as discussed in our report, DOD does not have a comprehensive metric for monitoring the accuracy of soldier pay. Specifically, we found that Army and DFAS payroll processes and systems capture data on pay timeliness but do not capture data on all errors and the causes of the errors. All pay errors are not a result of timeliness issues. Our report discusses pay errors resulting from overpayments, data entry errors, unauthorized payments, and potential fraud. We identified errors that were not detected and corrected for several months or, in some cases, for several years. Further, errors are not captured and reported when detected if they are corrected within 30 days of the effective date. DOD also stated that DFAS would analyze military payroll metrics to determine whether any gaps exist between current timeliness metrics and accuracy and the errors discussed in our report. However, without developing criteria to identify and capture data on all types of payroll errors, a review of current processes and metrics is likely to be ineffective in identifying such gaps. In responding to our recommendation to develop an interim mechanism for identifying and analyzing the extent and causes of all types of errors (until such functionality can be implemented in IPPS-A), DOD stated that if gaps are discovered in its analysis, it would take steps to correct them. However, a onetime DFAS-IN analysis of payroll metrics to identify gaps in timeliness and accuracy would not serve the purpose of establishing an interim mechanism.

DOD's letter is reprinted in its entirety in app. 1. In addition, DOD provided us with technical comments, which we have incorporated as appropriate.

We are sending copies of this report to the Chairmen and Ranking Members of the Senate Committee on Homeland Security and Governmental Affairs, the Senate Committee on Armed Services, the House Committee on Oversight and Government Reform, and the House Committee on Armed Services. We also are sending copies to the Secretary of Defense; the Under Secretary of Defense (Comptroller) and Chief Financial Officer; the Deputy Chief Financial Officer; the Director for Financial Improvement and Audit Readiness; the Assistant Secretary of the Army for Manpower and Reserve Affairs; the Deputy Chief of Staff, Army G-1; the Assistant Secretary of the Army—Financial Management and Comptroller; the Deputy Assistant Secretary of the Army for Financial Operations; the Director of the U.S. Army Financial Management Command; the Commanding General of the U.S. Army Criminal Investigation Command; the Directors of the Defense Finance and Accounting Service and its Indianapolis Center; the Director of the Office of Management and Budget; and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-9869 or khana@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made key contributions to this report are listed in appendix II.

A handwritten signature in black ink that reads "Asif A. Khan". The signature is written in a cursive style with a horizontal line underneath the name.

Asif A. Khan
Director
Financial Management and Assurance

List of Committees

The Honorable Thomas R. Carper
Chairman
The Honorable Scott P. Brown
Ranking Member
Subcommittee on Federal Financial
Management, Government Information,
Federal Services, and International Security
Committee on Homeland Security and
Governmental Affairs
United States Senate

The Honorable Claire McCaskill
Chairman
Subcommittee on Contracting Oversight
Committee on Homeland Security and
Governmental Affairs
United States Senate

The Honorable Tom Coburn
Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and
Governmental Affairs
United States Senate

The Honorable Todd Platts
Chairman
The Honorable Edolphus Towns
Ranking Member
Subcommittee on Government Organization,
Efficiency, and Financial Management
Committee on Oversight and Government Reform
House of Representatives

Appendix I: Comments from the Department of Defense



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

OCT 19 2012

Mr. Asif A. Khan
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Khan:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) draft report, GAO-13-28, "DOD FINANCIAL MANAGEMENT: Actions Needed to Address Deficiencies in Controls over Army Active Duty Military Payroll," dated September 19, 2012 (GAO Code 198712). Our responses to the recommendations and our additional detailed comments are enclosed with this letter.

While I agree that we need to strive to improve payroll accuracy, I believe the report does not put the issues in the proper context. Your report highlights individual instances of payroll errors and in Table 1 presents counts and balances of debts, most of which are not pay errors but rather the result of service members leaving service before the end of commitments that were tied to bonuses or other compensation. In light of over \$45 billion in military pay disbursements, the rate of errors and amount of debt are remarkably low. The DoD strives to continuously improve payroll for service members and will implement improvements as a part of ongoing efforts to eliminate any pay issues under DoD control.

The DoD partially agrees with the recommendations related to Defense Finance and Accounting Service (DFAS) analysis and monitoring of pay issues in your draft report. DFAS believes it has appropriate measures and controls but will be directed to review them to ensure it distinguishes payroll errors from normal retroactive payments, develop new metrics if needed, analyze root causes of any errors, and implement appropriate corrective actions if they are cost effective.

The DoD partially agrees with your recommendations to the Army. The GAO audit approach focused solely on the design of the controls without analysis of whether undetected errors exist and whether the recommended additional activities would efficiently detect any missed errors. The Army will investigate the effectiveness of the current controls using statistical sampling methods and weigh any benefits of further control activities against their costs. If additional control activities are warranted, they will be implemented. Taking action to implement additional and possibly expensive control activities without a rigorous analysis of the extent of the issue and cost of the proposed solution is not sound stewardship of resources.



**Appendix I: Comments from the Department of
Defense**

I appreciate the opportunity to provide comments and trust you will consider them in developing your final report. I look forward to your continued support toward our common goal of improving financial management controls. My point of contact for this effort is Mr. Joseph Quinn. He can be reached at 571-256-2678 or at Joseph.Quinn@osd.mil.

Sincerely,



Robert F. Hale

Enclosure:
As stated

cc:
Assistant Secretary of the Army for Financial Management and Comptroller
Director, Defense Finance and Accounting Service

GOVERNMENT ACCOUNTABILITY OFFICE DRAFT REPORT DATED
SEPTEMBER 19, 2012
GAO-13-28 (GAO CODE 198712)

“DOD FINANCIAL MANAGEMENT: ACTIONS NEEDED TO ADDRESS
DEFICIENCIES IN CONTROLS OVER ARMY ACTIVE DUTY MILITARY PAYROLL”

DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS

RECOMMENDATION 1: To assure the effectiveness of the UCFR process as a compensating control for confirming the accuracy of its military pay, we recommend that the Secretary of Defense direct the Secretary of the Army to revise Army Regulation (AR) 37-104-4, *Military Pay and Allowances Policy*, to establish a requirement for periodic monitoring of the effectiveness of unit commander UCFR reviews.

DoD RESPONSE: Partially concur. We concur fully with the goal of improving the accuracy of military pay, so long as it is done in a manner that minimizes costs to the taxpayer. We are not yet convinced, however, that storing and monitoring large volumes of Unit Commander Financial Reports (UCFR) reviews represents a cost effective approach. Therefore, on behalf of the Secretary of Defense, the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO) will direct the Secretary of the Army to use appropriate and statistically valid testing methods to determine to what extent payroll errors occur and whether those errors can be efficiently detected and prevented before payment by additional control activities. The Army will work with the Defense Finance and Accounting Service (DFAS) to be sure that all aspects of pay processing is considered. This analysis will be completed by February 28, 2013.

RECOMMENDATION 2: To assure the effectiveness of the UCFR process as a compensating control for confirming the accuracy of its military pay, we recommend that the Secretary of Defense direct the Secretary of the Army to revise Army Regulation (AR) 37-104-4, *Military Pay and Allowances Policy*, to require unit commanders to review and submit documentation showing completion of all monthly UCFR reviews.

DoD RESPONSE: Partially concur. On behalf of the Secretary of Defense, the USD(C)/CFO will direct the Secretary of the Army to use appropriate testing methods to determine to what extent payroll errors occur and whether those errors can be efficiently detected and prevented before payment by additional control activities. This analysis will be completed by February 28, 2013.

Enclosure

RECOMMENDATION 3: To assure the effectiveness of the UCFR process as a compensating control for confirming the accuracy of its military pay, we recommend that the Secretary of Defense direct the Secretary of the Army to revise Army Regulation (AR) 37-104-4, *Military Pay and Allowances Policy*, specify the timeframe for submitting UCFRs, such as within 10 days of receiving UCFRs for review.

DoD RESPONSE: Partially concur. On behalf of the Secretary of Defense, the USD(C)/CFO will direct the Secretary of the Army to use appropriate testing methods to determine to what extent payroll errors occur and whether those errors can be efficiently detected and prevented before payment by additional control activities. This analysis will be completed by February 28, 2013.

RECOMMENDATION 4: To provide a means for monitoring the overall accuracy of the Army's military payroll, we recommend that the Secretary of Defense direct the DOD Comptroller to require DFAS-IN to develop criteria and establish a comprehensive metric to capture and measure all types of pay errors impacting accuracy.

DoD RESPONSE: Partially concur. DFAS believes that it has procedures and metrics to gather comprehensive data for all types of payroll errors, including both timeliness and improper payments. We will, however, review these procedures and metrics. On behalf of the Secretary of Defense, the USD(C)/CFO will direct the Director of DFAS to analyze the payroll metrics to determine whether any gaps exist between current metrics capturing timeliness and accuracy and the errors discussed in the GAO report.

RECOMMENDATION 5: To provide a means for monitoring the overall accuracy of the Army's military payroll, we recommend that the Secretary of Defense direct the DOD Comptroller to require DFAS-IN to establish an interim mechanism at DFAS-IN for identifying and analyzing the extent and causes of all types of military payroll errors processed by Defense Military Pay Offices, Army Finance Offices, DJMS-AC [Defense Joint Military Pay System – Active Component], and CMS [Case Management System] to address any systemic control weaknesses.

DoD RESPONSE: Partially concur. If gaps are discovered based on steps taken in response to Recommendation 4, we will take steps to correct them.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

Asif A. Khan, (202) 512-9869 or khana@gao.gov

Staff Acknowledgments

In addition to the contact named above, Gayle L. Fischer (Assistant Director), Lauren S. Fassler, Donald D. Holzinger, Katherine Lenane (Assistant General Counsel), Sheila D. M. Miller, Meg Mills, and Heather L. Rasmussen made key contributions to this report.

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