

DEPARTMENT OF DEFENSE  
OFFICE OF INSPECTOR GENERAL

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RESULTS OF REVIEW OF THE IMPLEMENTATION  
OF PUBLIC LAW 98-94  
FOR AIR FORCE RETIREES

Report No. 93-085

April 13, 1993



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884



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MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Results of Review of the Implementation of Public Law 98-94 for Air Force  
Retirees (Project No. 3FH-5011)

**Introduction.** We are providing this report for your information and use. Our objective in performing this review was to assess the effectiveness of the implementation of Public Law 98-94 (P.L. 98-94), which required that retired pay entitlements be rounded down to whole dollar amounts.

**Results of Review.** We found that the rounding down provision of P.L. 98-94 was not fully implemented in a timely manner. We also believe there was no intentional disregard of the law by management at the Defense Finance and Accounting Service-Denver Center.

**Scope of Review.** Our review was conducted at the Headquarters, Defense Finance and Accounting Service (DFAS), and the DFAS-Denver Center during January 1993. We interviewed personnel at both locations and examined documentation dated between 1983 and 1992.

**Internal Controls.** We did not assess internal controls over the implementation process. The purpose of our review was to determine why the DFAS-Denver Center did not implement P.L. 98-94 in a timely manner. We did not identify any specific internal controls over the implementation process.

**Background.** This review was requested by the Director, DFAS. The Director provided the Office of the Inspector General, DoD, with a report prepared by the DFAS Headquarters Internal Review Office. The report stated that several management officials at the DFAS-Denver Center were aware of noncompliance with P.L. 98-94 and failed to take timely corrective action.

**Public Law 98-94.** P.L. 98-94, "The DoD Authorization Act," September 24, 1983, affected computations of retiree entitlements. In general, P.L. 98-94 requires that entitlements paid after October 1, 1983, if not a multiple of \$1, shall be rounded down to the next lower multiple of \$1. Any future adjustments to the entitlement must be based on the rounded figure and rounded down also.

**Retired Pay System.** The DFAS-Denver Center's Retired Pay System (RPS) divides retirees into two types of accounts: "pay factor complete - yes" (PFC Y) and "pay factor complete - no" (PFC N). PFC Y accounts contain all information about a retiree's entitlement. PFC N accounts are incomplete accounts but contain enough information to compute retiree entitlements. Since 1986, the PFC N accounts had been rounded down properly, and payments to retirees were in compliance with the law. The PFC Y accounts were computed improperly, with cents remaining in the computation and the resulting amount rounded down to the next lower whole dollar. The cost of living allowance (COLA) was improperly applied to the cents portion of the retirees' gross pay, and eventually caused higher benefit payments to PFC Y accounts. Overpayments to PFC Y accounts began in 1984, when retirees received \$1 to \$2 more than retirees in the PFC N category.

**Prior Audits and Other Reviews.** Except for the internal review conducted by DFAS, described above, there have been no prior audits or reviews of this area during the past 5 years.

**Discussion.** The P.L. 98-94 requirement to round down retiree entitlements was not fully implemented in a timely manner. The Air Force Accounting and Finance Center and its successor, DFAS-Denver Center, did not fully implement the requirements of P.L. 98-94 until November 1992. From December 1984 through November 1992, 201,851 Air Force retirees were overpaid \$1 to \$6 per month; the total overpayment was \$16 million. A discussion of the events that led to this overpayment follows. Enclosure 1 shows a chronology of events, which we constructed by reviewing documentation and interviewing employees who knew why the RPS was not updated in a timely manner. The distribution of this report is shown in Enclosure 2.

**Retired Pay Quality Assurance Division.** An employee in the Quality Assurance Division discovered the overpayment late in 1989. However, the employee did not complete his analysis of the problem until October 1991. On October 22, 1991, the Chief of Quality Assurance sent a memorandum to the Systems Development Support Division explaining the problem and recommending corrective actions. The Systems Development Support Division answered the memorandum on January 31, 1992, stating that corrective action would be taken along with the next COLA update in December 1992.

**Retired Pay Systems Development Support Division.** The Systems Development Support Division was responsible for updating the RPS computer programs to ensure compliance with P.L. 98-94. In 1986, the Chief of the Systems Development Support Division stated that legislative changes were subject to interpretation. If a law could be interpreted in several ways, the Division made system changes that were most favorable to retirees. According to the Chief of the Systems Development Support Division, the DFAS-Denver Center interpreted the law by rounding down the final amount after applying the COLA. The Systems Development Support Division concluded that this method was in compliance with the law. However, the favorable treatment was inconsistently applied to retirees paid at the DFAS-Denver Center, because PFC Y accounts were overpaid and PFC N accounts were correctly rounded down.

In April 1986, the Retired/Annuitant Pay Advisory Council met in Kansas City to discuss retired pay and annuitant issues. The Actuary, DoD, offered as an agenda item the different methods of rounding down used by the Services. The Actuary, DoD, gave examples of how the different methods affect retirees' entitlements. The 1986 agenda shows that managers at the DFAS-Denver Center knew they were paying some retirees more money than other DFAS Centers.

**Retired Pay System Updates.** The RPS at DFAS-Denver Center was automated in 1978. Since that date, upgrades or replacement systems were being planned or developed. The enactment of P.L. 98-94 required a change to the RPS method of computing retired pay. The Systems Development Support Division expected that a new or upgraded system would replace the RPS and correct the overpayment problem. After the enactment of P.L. 98-94, the cost of not rounding down retiree payments was found to be minimal. RPS personnel determined that the effort needed to upgrade the RPS was not justified because a new system would correct the overpayment problem. However, planned upgrades were not carried out, and the RPS remained a noncompliant system.

**DFAS-Denver Center General Counsel.** We asked the General Counsel, DFAS-Denver Center, to provide us with any opinions issued between 1983 and 1992 on the question of rounding down payments to retirees. The General Counsel had no record of receiving any requests for an opinion or providing any opinion on that issue.

**Director of Retired Pay.** About a month after the Quality Assurance memorandum was issued on October 22, 1991, the Director of Retired Pay was informed of the rounding down problem. The Systems Development Support Division advised the Director that the correction should be made along with the next COLA update in December 1992. The Director of Retired Pay later stated that he should have asked for more information from the Systems Development Support Division, because he believed the system could make pay adjustments only during COLA updates. According to the Director of Retired Pay, the division was losing a large number of employees and had a backlog of retiree cases to process. The rounding down issue was not given the priority it deserved.

**Effect of P.L. 98-94 on Retirees.** Several employees at the DFAS-Denver Center were concerned about how a decrease in pay would affect retirees. The employees believed that unless a pay change occurred because of an expected COLA, retirees would write or call the DFAS-Denver Center to determine why their pay changed. Apparently, the implementation of P.L. 98-94 was delayed partly to postpone its negative impact on retirees and to prevent an increase in the call-in workload on Retired Pay employees.

**Denver Center Director.** On December 23, 1991, the Director of Retired Pay briefed the Director, DFAS-Denver Center, on several retired pay issues. The briefing lasted about 1 hour, and 89 briefing charts were presented. This occasion was the first time the Director, DFAS-Denver Center, was informed of the problem with rounding down. Only two briefing charts at the end of the briefing paper discussed the retiree overpayments. The charts summarized the problems and the number of retirees affected. However, the briefing charts did not explain the total cost of the problem or state that corrective action would be taken a year later. The briefing charts on the overpayment issue appeared to be for information purposes only. No options were presented to the Director, and a decision was not requested.

**Conclusion.** Our review confirmed that the rounding down of retired pay entitlements was not implemented in a timely manner. There were no acceptable reasons for delaying corrective action for 9 years. The problem occurred because the Retired Pay Systems Development Support Division failed to update the RPS when the law was passed in 1983, and in subsequent years when the Actuary, DoD, identified the DFAS-Denver Center's use of a computation method different from other DFAS centers. We could not determine why the Retired Pay Division failed to request a legal opinion even though they were aware of the overpayments.

We did not find that the former Director, DFAS-Denver Center, or the former Director of Retired Pay intentionally disregarded P.L. 98-94. The information given to these individuals caused them to conclude that corrective actions were being taken and further management decisions were not needed.

The RPS was corrected in November 1992, and letters were sent to retirees explaining the error. All retiree accounts are now paid in compliance with P.L. 98-94. The DFAS-Denver Center is currently seeking a group waiver so that individuals would not be required to reimburse the Government for the overpayments.

The courtesies extended to the review staff are appreciated. If you have any questions about this review, please contact Mr. Raymond D. Kidd, Program Director, at (703) 614-1682 (DSN 224-1682), or Mr. John M. Seeba, Project Manager, at (703) 693-0653 (DSN 223-0653).



Robert J. Lieberman  
Assistant Inspector General  
for Auditing

Enclosures

cc:  
Comptroller, DoD  
Secretary of the Air Force

## Chronology of Events

- 1983 Public Law 98-94, the "DoD Authorization Act," was enacted on September 24, 1983. This law required the rounding down of retiree entitlements paid after October 1, 1983.
- 1984 In 1984, employees of the Retired Pay Systems Development Support Division knew that the Retired Pay System (RPS) was not in compliance with P.L. 98-94.
- In 1985, the DoD Military Pay and Allowance Committee updated the DoD Military Retired Pay Manual to incorporate the requirements of P.L. 98-94.
- through In 1986, the Retired/Annuitant Pay Advisory Council met to discuss the Services' different methods of rounding down retiree entitlements. The Air Force Accounting and Finance Center (now DFAS-Denver Center) knew that its interpretation of the law was different from the other Services. The Air Force believed that the law could be interpreted in several ways, and selected the option that was favorable to their retirees. DFAS-Denver Center interpreted the law to require rounding down of retired pay after applying the cost of living allowance (COLA), which resulted in overpayments to retirees. A new system was being developed that would correct the overpayment problem. However, the development ceased, and an upgrade of the current system was planned. The planned upgrade was then postponed while the Services evaluated and compared the retired pay systems. The RPS was not replaced or upgraded, and it remained in noncompliance.
- 1988
- 1989 An employee in the Retired Pay Quality Assurance Division discovered the overpayments in late 1989. However, the problem was investigated and reported in 1990 and 1991.
- 1991 On October 22, 1991, the Chief, Quality Assurance Division, sent a memorandum to the Systems Development Support Division explaining the problem and recommending corrective actions.
- In November 1991, the Systems Development Support Division recommended to the Director of Retired Pay that the overpayment be corrected along with the December 1992 COLA.
- 1991 On December 23, 1991, the Director of Retired Pay briefed the Director, DFAS-Denver Center, about the overpayment FV and stated that corrections would be made along with the next COLA update.
- 1992 On January 31, 1992, the Systems Development Support Division responded to the 1991 memorandum from the Quality Assurance Division, stating that the problem would be corrected along with the next COLA update in December 1992.
- The Systems Development Support Division briefed the new Director, DFAS-Denver Center, on the overpayments and plans for corrective action.
- On November 19, 1992, action was taken to implement P.L. 98-94 and recompute the retiree payments due for December 1992.

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