Audit Report

OFFICE OF THE INSPECTOR GENERAL

PAYMENT ERRORS RELATED TO OPERATIONS DESERT STORM AND DESERT SHIELD

Report No. 94-023 December 23, 1993

Department of Defense

AFO	Accounting and Finance Office
BAQ	Basic Allowance for Quarters
BAS	Basic Allowance for Subsistence
CZTE	Combat Zone Tax Exclusion
DFAS	Defense Finance and Accounting Service
FSA	Family Separation Allowance
HFP	Hostile Fire Pay
IDP	Imminent Danger Pay
IG	Inspector General
OHA	Overseas Housing Allowance
SWA	Southwest Asia

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December 23, 1993

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit Report on Payment Errors Related to Operations Desert Shield and Desert Storm (Report No. 94-023)

We are providing this final report for your review and comments. It discusses the improper canceling of debts by the Defense Finance and Accounting Service Centers because of overpayments to Service members during Operations Desert Shield and Desert Storm, and the inequitable treatment of eligible participants. Comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, the Director, Defense Finance and Accounting Service, must provide final comments on the unresolved recommendations and monetary benefits by February 22, 1994. See the "Response Requirements for Each Recommendation" section at the end of each finding for the recommendations you must comment on and the specific requirements for your comments. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Richard B. Bird, Program Director, at (317) 542-3859 (DSN 699-3859), or Mr. Terrence P. Piket, Project Manager, at (317) 542-3846 (DSN 699-3846). The planned distribution of this report is listed in Appendix F. The audit team members are listed inside the back cover.

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Report No. 94-023
Project No. 2FI-0037

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PAYMENT ERRORS RELATED TO OPERATIONS DESERT SHIELD AND DESERT STORM

EXECUTIVE SUMMARY

Introduction. The DoD Appropriations Act for Fiscal Year 1992, Public Law 102-172, section 8138, states that the Secretary of Defense may cancel any part of an indebtedness, up to $2,500, that is or was owed to the United States by a member or former member of the uniformed services if such indebtedness was incurred in connection with Operations Desert Shield and Desert Storm. In the conference report that accompanied the Public Law, the Inspector General, DoD, was asked to monitor the Defense Finance and Accounting Service's actions to cancel the debts. The Defense Finance and Accounting Service Centers (the Centers) developed computer programs to identify and cancel debts incurred as a result of overpayments made during the Persian Gulf conflict. The Centers expended a great deal of effort to cancel debts in a timely manner.

Objectives. The objectives of the audit were to evaluate the proposed changes to military pay systems to prevent incorrect payments of military pay and allowances; to evaluate the initiatives taken by the Defense Finance and Accounting Service (DFAS) as a result of the overpayments made during Operations Desert Shield and Desert Storm; to evaluate the actions taken to cancel debts that resulted from overpayments to reservists and active duty members during Operations Desert Shield and Desert Storm; and to determine whether internal controls regarding military pay were adequate.

Audit Results. The Centers, when canceling debts, used specially-designed computer programs that did not follow the policy issued by DFAS Headquarters. As a result, we concluded that at 3 Centers, 31 percent of 127,000 debts were canceled contrary to the intent of Public Law 102-172, section 8138, as interpreted by DFAS Headquarters. At one Center, $15.0 million out of $19.9 million in cancellations was not authorized for active duty personnel. The computer programs also did not identify debts that were eligible for cancellation. Although the use of specially-designed computer programs had merit, it was unrealistic for the Centers to cancel identified debts without ensuring that the debts were eligible for cancellation (Finding A).

DFAS did not request an end to the debt cancellation program. As a result, Service members who continue to incur debts in connection with their Persian Gulf service can still have their debts canceled. DFAS Headquarters did not ensure that the cancellation program was administered uniformly at each Center. The Centers interpreted the policy differently, and treated debts of active duty personnel and reservists differently.

Also, debts that resulted from actions taken by Service members were inappropriately canceled (Finding B).

The proposed changes to the military pay systems will help reduce incorrect payments. However, several changes will not be made for a year or more, so interim actions are needed. In order to ensure that corrective actions were taken, DFAS assigned an action officer to track the initiatives taken as a result of overpayments made during Operations Desert Shield and Desert Storm.

Internal Controls. Controls to prevent cancellations from exceeding $2,500 were usually effective. Controls to ensure that identified debts were eligible for cancellation either did not exist or were ineffective. Except at the DFAS-Kansas City Center, controls did not exist to ensure that the specially-designed computer programs were operationally tested before making cancellations (see Finding A.) We consider the lack of testing to be a material internal control weakness as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. See Part I for internal controls reviewed and Part II for additional details on the weaknesses.

Potential Benefits of Audit. Implementation of the recommendations will improve compliance with the special guidance, will correct the cancellations that the Centers were not authorized to make, and will identify additional debts that should be canceled. We identified about $15.0 million of unauthorized debt cancellations that should be recovered. Other recommendations address problems with the pay systems; their implementation will help prevent overpayments in the future, and will make future applications of debt cancellation policies more equitable to Service members (see Appendix D.)

Summary of Recommendations. We recommended that the DFAS Centers correct significant unauthorized cancellations, identify and cancel additional eligible debts, and modify the computer software to make it a more effective method of solving problems. We also recommended that the Director, DFAS, request an end to the debt cancellation program, monitor policies more closely, and change policies so that Service members are treated more equitably.

Management Comments. The Director, DFAS, partially concurred with our statement that some valid debts were canceled in error; he nonconcurred with our recommendations to identify and correct erroneous cancellations and payments, stating that those actions would be labor-intensive and costly. The Director agreed to seek an end to the debt cancellation program and to revise computer programs and procedures for debt cancellation. We believe it is still cost-effective to attempt collection of valid debts. Furthermore, Service members who participated in operations Desert Storm and Desert Shield and whose valid debts were canceled will not be adversely affected. A full discussion of management's comments and audit responses is in Part II, and the complete text of management's comments is in Part IV of this report. We request that the Director, DFAS, reconsider his partial concurrence and respond to the final report by February 22, 1994.

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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

Part I - Introduction

Background

In October 1991, the collection of the debts of Service members who were overpaid and who participated in Operations Desert Shield and Desert Storm received media attention and congressional interest. On October 18, 1991, Headquarters, Defense Finance and Accounting Service (DFAS Headquarters), responded by suspending collection actions on debts related to Operations Desert Shield and Desert Storm. In November 1991, representatives from DFAS Headquarters visited five field offices to determine the nature of the overpayments. They concluded that in most cases, the debts were not the fault of Service members, but were created as a result of rapid deployment. At the same time, Congress took action.

The DoD Appropriations Act for Fiscal Year 1992 (Public Law 102-172, section 8138), passed in November 1991, states that the Secretary of Defense may cancel any part of an indebtedness, up to $2,500, that is or was owed to the United States by a member or former member of the Services if such indebtedness was incurred in connection with Operations Desert Shield or Desert Storm. The authority to cancel debts was delegated through the Comptroller of the Department of Defense and DFAS Headquarters to the Defense Finance and Accounting Service Centers (the Centers). Congress expected DoD to ensure fair and uniform treatment of all Service members who had been overpaid after participating in support of the Persian Gulf conflict.

In response to Title VI, "Compensation and Other Personnel Benefits," of Conference Report No. 102-311 (Appendix A), the Deputy Secretary of Defense issued a report on February 28, 1992, on measures taken regarding overpayments to Service members who had served in support of the Persian Gulf conflict. The report stated that DFAS Headquarters was taking several actions to prevent similar problems in the future. These actions were to:

- standardize and consolidate the pay systems,
- establish a more versatile input system,
- enhance the pay systems to handle pay for individual members or entire units,
- standardize pay policy, and
- include DFAS Headquarters in crisis coordination.

The February 1992 report was coordinated with the Inspector General (IG), DoD. Also in response to Conference Report No. 102-311, the IG, DoD, began an audit in April 1992. We provided an interim status report on our audit in December 1992. This final report contains the results of our audit.

DFAS Headquarters decided to use specially-designed computer programs to identify debts incurred in connection with the Persian Gulf conflict and to cancel debts or issue refunds as appropriate. DFAS Headquarters set the criteria for the Centers to use in determining which debts were eligible or ineligible for cancellation. Each Center was to develop unique software for its military pay or debt management systems; the software would include the eligibility criteria and would identify and cancel the debts automatically. The use of software programs would eliminate the need for a manual review of individual pay files and would allow the project to be completed in a timely manner. DFAS Headquarters planned to monitor the Centers to ensure that the criteria for debt cancellation were applied consistently.

Objectives

The objectives of the audit were to:

o evaluate the proposed changes to military pay systems to prevent incorrect payments of military pay and allowances,

o evaluate the initiatives taken by DFAS as a result of the overpayments made during Operations Desert Shield and Desert Storm,

o evaluate the actions taken to cancel debts that resulted from overpayments to reservists and active duty members during Operations Desert Shield and Desert Storm, and

o determine whether internal controls regarding military pay were adequate.

Scope and Methodology

Analysis of Debt Cancellation Project and Initiatives. We visited DFAS Headquarters and four DFAS Centers (DFAS-Cleveland Center, DFAS-Denver Center, DFAS-Indianapolis Center, and DFAS-Kansas City Center) that have military pay functions (Appendix E).

According to a June 1992 report from DFAS Headquarters that was published during the audit, the final results of the effort to cancel debts that resulted from overpayments made during Operations Desert Shield and Desert Storm were:

Out-of-Service Debts and Amounts Canceled

Center	Number of Cases	Amount of Debt	Amount Canceled
Cleveland	47,592	$10,586,218	$ 4,817,861
Denver	11,800	7,045,996	5,592,302
Indianapolis	116,500	42,222,183	35,568,330
Kansas City	8,983	4,723,544	4,656,439
Subtotals	184,875	$64,577,941	$50,634,932

Active Duty Debts and Amount Canceled

Center	Number of Cases	Amount of Debt	Amount Canceled
Cleveland	19,718	$ 18,175,218	$ 6,598,283
Denver	5,309	2,730,706	1,841,710
Indianapolis	33,074	31,118,581	20,185,587
Kansas City	4,500	1,357,613	1,357,613
Subtotals	62,601	$ 53,382,118	$29,983,193
Totals	247,476	$117,960,059	$80,618,125

Statistical Sampling. We statistically selected for review debts that the Centers had identified as related to the Persian Gulf conflict. We selected four samples: debts identified for active Army personnel, out-of-service Air Force personnel, Marine Corps personnel, and out-of-service Army and active duty and out-of-service Air Force and Navy personnel, from a total universe of 182,500 debt cases. Because our sampling was done before the Centers had completed all their debt cancellations, our universe of completed cases audited differs from

the total of 247,000 cases reported. Sampling to project the dollar value of erroneous cancellations across the entire universe was cost-prohibitive. Therefore, we limited dollar projections to two universes, and we projected error rates for the other two universes. Appendix C gives the details of our sampling plans and projections.

Audit Period, Standards, and Locations. This program audit was performed from April 1992 through January 1993. The audit was made in accordance with auditing standards issued by the Comptroller of the United States as implemented by the IG, DoD, and accordingly included such tests of the internal controls as were considered necessary. Except as stated in this report, we did not assess the reliability of DFAS's computer-based systems.

Internal Controls

We assessed the internal controls used to identify and cancel debts related to the Persian Gulf conflict. Controls to prevent cancellations in excess of $2,500 were usually effective. However, we identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls to ensure that identified debts were eligible for cancellation either did not exist or were ineffective. Except at the DFAS-Kansas City Center (DFAS-Kansas City), controls did not exist to ensure that the specially-designed computer programs were operationally tested before making cancellations. Recommendations A. 1., A. 2., and A. 3. in this report, if implemented, will assist in correcting the internal control weaknesses. We did not evaluate the implementation of the Federal Managers' Financial Integrity Act, except to note that the indebtedness problem and the cancellation of debts were not reported by DFAS Headquarters or any Center. The internal control weaknesses are discussed in Finding A; Appendix D describes the monetary benefits that can be realized by implementing the recommendations on internal controls. A copy of the final report will be provided to the senior official responsible for internal controls at DFAS Headquarters.

Prior Audits and Other Reviews

This audit was the first audit of DoD's implementation of Public Law 102-172, section 8138, which authorized the Secretary of Defense to cancel debts that were the result of overpayments during Operations Desert Shield and Desert Storm.

Part II - Findings and Recommendations

Finding A. Application of Policy

Service members' debts incurred in connection with Operations Desert Shield and Desert Storm were not canceled properly or, if repaid, were not refunded properly, as authorized by P.L. 102-172 and policies set by DFAS Headquarters. Inappropriate refunds and debt cancellations were made for:

- o debts not related to Operations Desert Shield and Desert Storm,
- o routine pay adjustments,
- o offsetting entries to the pay records, and
- o other disqualified items.

In other instances, Service members did not receive the refunds or cancellations to which they were entitled. This occurred because computer programs that generated the refunds or debt cancellations were not adequately analyzed and tested, and debt management systems did not contain the information needed to identify items that qualified for refund or cancellation. Further, most DFAS actions were not validated before cancellations were made and refunds were paid to individuals. At one Center, $15.0 million out of $19.9 million in refunds and cancellations was not authorized for active duty personnel. In an additional sample of 127,000 debt refunds or cancellations, 31 percent was unauthorized. Also, some Service members incurred debts because of the separation process, but DFAS had not identified the separation process as a problem.

Background

To implement Public Law 102-172, section 8138, DFAS representatives interviewed personnel from active duty and Reserve units to determine the types of debts that occurred and the causes. In a report sent to Congress on February 28, 1992, the Deputy Secretary of Defense stated that Reserve, National Guard, and retired personnel activated in support of Operations Desert Shield and Desert Storm were overpaid while on active duty. The report stated that when the Service members were released from active duty, they owed the Government for the overpayments. Most of the overpayments occurred because Reserve, National Guard, and retired personnel were given advance payments to meet their financial needs. Many Reserve, National Guard, and retired

personnel were released from active duty before their pay records could be updated. The interviews conducted by DFAS Headquarters personnel showed that the debts were not the fault of the Service members, but were the result of decentralized payroll and personnel services that could not provide real-time data. Active duty personnel were also overpaid while serving in support of Operations Desert Shield and Desert Storm.

On December 30, 1991, DFAS Headquarters, after consulting with personnel from the Centers, provided guidance by listing pay items to be considered for cancellation. The items included: advance pay, separation pay, allotments, basic allowance for quarters (BAQ), hostile fire pay (HFP), basic allowance for subsistence (BAS), family separation allowance (FSA), partial payments, and travel advances. Debts that should not be canceled were those resulting from dishonored checks, fines, forfeitures, and overpayments caused by fraud or misrepresentation. The guidance also stated that debts eligible for refund or cancellation included those that had been entirely or partially repaid. If the debt had not been completely repaid, the debt was canceled, and the portion repaid was refunded. In January 1992, DFAS Headquarters used electronic mail to issue additional guidance on routine pay adjustments, directing that by March 1992, the Centers should identify and make the refunds and cancellations to affected personnel. To meet the March 1992 deadline, the Centers used computer programs for most refunds and cancellations.

Since each Center handled pay differently, they operated separate payroll and debt management systems. Qualifying debts were identified by computer programs that the Centers had developed for use with automatic data processing systems for payroll and debt management.

Identification of Debts

The computer programs used by the Centers identified ineligible debts for refund or cancellation. Our sample of debts of active duty Army personnel showed that about $15.0 million was improperly refunded or canceled (see Appendix C). Specifically, refunds and cancellations were issued for debts unrelated to Operations Desert Shield and Desert Storm or disqualified debts, and for nondebts such as routine pay adjustments or offsetting entries. The DFAS-Indianapolis Center (DFAS-Indianapolis) reported that as of June 1992, it had issued 33,000 refunds and cancellations, totaling $19.9 million, to active duty personnel.

Our preliminary sample of refunds and canceled debts showed that the computer program used at DFAS-Indianapolis to cancel or refund debts contained significant programming errors. As a result, when DFAS-Indianapolis used the

computer program on March 17, 1992, nearly all of the debts canceled or refunded for active duty personnel were unauthorized. On April 28, 1992, we discussed this matter with the Director, DFAS-Indianapolis, and his staff. However, DFAS-Indianapolis did not take action to correct the unauthorized computer refunds and cancellations, and manual refunds and cancellations continued to be based on the same criteria. We subsequently reviewed 39 manual refunds or cancellations and found that 23 were unauthorized. Also, before the criteria were changed, some transactions that had been rejected during the computer cancellations in March 1992 were reentered later in calendar year 1992. Additional sampling confirmed the preliminary sample; nearly all debts refunded or canceled by DFAS-Indianapolis for active duty personnel were not authorized.

Other Centers also used computer programs to identify and make refunds and cancellations. We statistically sampled the refunds and cancellations issued to active duty personnel by the DFAS-Cleveland Center (DFAS-Cleveland) and the DFAS-Denver Center (DFAS-Denver), to Reserve personnel by DFAS-Denver, and to out-of-service personnel by DFAS-Cleveland and DFAS-Indianapolis. We also included in this sample the small number of refunds or cancellations that DFAS-Indianapolis had manually made for active duty personnel. Collectively, the Centers issued about 127,000 refunds and cancellations, valued at $47.0 million, to the 6 groups of active duty and out-of-service personnel. The results of our sample of the refunds and cancellations indicated that about 39,000, or 31 percent, were unauthorized (Appendix C).

Unrelated Debts. Personnel received refunds or had debts canceled for reasons that were unrelated to service in Operations Desert Shield and Desert Storm. For active duty personnel to receive refunds or cancellations of debts, they must have served in Southwest Asia (SWA), and the overpayment that caused the debt must have occurred while they were in SWA. For Reserve members to qualify, they must have been called to active duty to serve in Operations Desert Shield and Desert Storm. However, our sample showed that about 18,500, or 14.5 percent, of the universe of 127,000 refunds and cancellations were made for debts unrelated to Operations Desert Shield and Desert Storm (Appendix C). In many cases, DFAS-Indianapolis made improper refunds or cancellations for active duty personnel for transactions that occurred several months before or after the individual served in SWA. See Appendix B, section 1, for examples. Other Centers also made unauthorized refunds or cancellations for active duty personnel. Examples of those unauthorized cancellations are in Appendix B, section 2.

Out-of-Service Personnel. Problems occurred with debts canceled for personnel who had separated from the Services. DFAS-Denver reported that, in April 1992, its automated program for separated personnel had issued 511 cancellations totaling $242,409. Our sample of the 221 cancellations that exceeded $250 indicated that about $157,000 was improper and should be

corrected (Appendix C). In general, DFAS-Denver canceled any amount the individual owed the Government at the time of separation. However, many individuals had returned from SWA several months before separating from Service. For the debts of active duty personnel to be canceled, the debts had to be related to Operations Desert Shield and Desert Storm. Appendix B, section 3, includes examples of the types of cancellations made by DFAS-Denver that did not qualify because the debts were unrelated to Operations Desert Shield and Desert Storm.

At other Centers, similar problems occurred to a lesser degree for out-of-service personnel who had debts that were unrelated to Operations Desert Shield and Desert Storm. We included some examples in Appendix B, section 4.

Routine Pay Adjustments. Refunds were erroneously awarded for routine pay adjustments, although the January 1992 guidance issued by DFAS Headquarters stated that those adjustments were exempt from consideration for refunds. The guidance defined a routine pay adjustment as a transaction made to the pay record within a 2-month period. However, none of the Centers ensured that their computer programs properly eliminated routine pay adjustments. As a result, the Centers made erroneous refunds for adjustments posted to pay accounts within 2 months. Of the 127,000 accounts, about 13,800 refunds, or 10.8 percent, were made for routine pay adjustments, such as unauthorized HFP, collections for field rations, and routine casual payments that did not qualify for refunds (Appendix C). See Appendix B, section 5, for examples of the unauthorized refunds.

Offsetting Entries. The computer programs at DFAS-Denver, DFAS-Indianapolis, and DFAS-Kansas City erroneously awarded refunds without considering offsetting entries that would have reduced or eliminated the need for a refund. In general, offsetting entries are made in order to correct pay accounts and do not affect net pay. The computer programs considered some offsetting entries as single transactions without considering the related transactions. When both transactions were considered together, there was no debt. By considering only the offsetting transactions, the computer program concluded that debts had been incurred. See Appendix B, section 6, for examples of refunds awarded for offsetting entries.

Disqualified Debts. Debt cancellations or refunds were awarded for items that were specifically excluded by DFAS Headquarters. One DFAS Center awarded refunds for deductions from pay for dishonored checks, although the December 1991 guidance specifically stated that dishonored checks should not be considered for refunds. In addition, unauthorized refunds or cancellations were made for recoupment of unearned reenlistment bonuses for personnel who separated prematurely, as well as forfeitures of pay and allowances. See Appendix B, section 7, for examples of disqualified debts for which refunds and cancellations were made.

Qualifying Items Not Refunded. The computer programs at DFAS-Cleveland, DFAS-Denver, and DFAS-Indianapolis did not identify the untimely collection of overpayments for items such as Imminent Danger Pay (IDP) that met the criteria. In our sample of active Army pay accounts, we estimated that the computer programs did not identify about $600,000 in debts. Also, when overpayments and collections were identified, refunds were often improperly computed. Consequently, individuals who were entitled to refunds did not receive them or received less than they were entitled to. In each Service, if a member felt he or she was entitled to have a debt canceled or to receive a refund, procedures were available to make a claim. We audited some of these claims as part of our sample of the universe of 127,000 pay accounts. For examples of omissions and errors in computing refunds, see Appendix B, section 8.

Causes of Debts

Separation Process. Many of the canceled debts or refunds were created when the final payments were determined for separating individuals. DFAS Headquarters did not identify this problem while evaluating the causes of debts associated with Operations Desert Shield and Desert Storm. Therefore, DFAS did not review the separation process to find ways to avoid similar problems in the future. We analyzed 479 debts and determined that 3 factors caused 259 of the debts owed by individuals who had separated from the Services. Those factors were overpayments of pay and allowances, failures to stop midmonth and end-of-month payments, and computation errors made when determining separation payments. Appendix B, section 9, gives examples of debts that were caused by faulty separation practices. Correspondence from DFAS Headquarters indicated that most of the debts were caused by overpayments upon activation and transactions that were not posted to pay records before individuals separated from the Service. However, many of the debts were created during the separation process. We did not determine the causes of the problems or make recommendations because the IG, DoD, is covering this area in another audit, entitled "Audit of the Process to Separate Military Personnel from Active Duty," which began on March 15, 1993.

Debt Programs

Feasibility Studies. Many of the problems discussed in this finding could have been avoided if DFAS had properly studied the feasibility of using computer programs for payroll and debt management systems. Some of the debt

management systems were not conducive to identifying debts that qualified for cancellation. The debt management systems showed the amounts of debts owed to the Government, but not the causes and dates of the debts. The computer programs used data contained in the debt management systems. Those computer programs were meant to identify whether active duty members had served in SWA and whether reservists had been activated for Operations Desert Shield and Desert Storm. However, since the causes of debts were not recorded in the debt management system, debts qualifying for cancellation could not be identified, and unauthorized debts were canceled.

Review and Testing. The computer programs were not tested to ensure that they followed DFAS guidance issued in December 1991 and January 1992. As a result, refunds and cancellations were made for unauthorized items, such as debts occurring before and after Operations Desert Shield and Desert Storm, routine pay adjustments, and offsetting entries. Personnel at DFAS-Cleveland, DFAS-Denver, and DFAS-Indianapolis told us that deadlines established by DFAS Headquarters prevented them from performing the necessary operational testing. As a result, many refunds and cancellations were issued to ineligible personnel, while other debts were not identified for refunds and cancellations.

Approach by DFAS-Kansas City. The computer program at DFAS-Kansas City was successful because the list it produced was used as a list of candidates for potential refunds. While the computer program was being developed, personnel at DFAS-Kansas City ran it against the active duty payroll system. Then they reviewed a sample of the Service members that the computer program had identified as eligible for refunds. DFAS-Kansas City personnel found several items that were identified improperly and corrected the computer program. After the corrections, the program issued refunds for 4,040 of the 13,079 debts identified that had been previously collected. The names of the remaining 9,039 active duty Reserve members were sent to Marine Corps accounting and finance offices (AFOs), which were to manually review them and send refunds to eligible personnel. Our sample showed that for 92 percent of the universe of 22,000 active duty and out-of-service accounts, the refunds identified by the computer program or manual refunds agreed with the guidance issued by DFAS Headquarters in December 1991 and January 1992 (Appendix C). Considering the deadline established by DFAS Headquarters, this accuracy rate was acceptable.

In the future, computer programs should be centrally coordinated and thoroughly tested at each Center to ensure that established policy is followed before funds are disbursed for refunds or the master pay files are adjusted for debt cancellations.

Revision of Specially-Designed Computer Programs. The computer programs should be expanded to identify debts that should not have been refunded or canceled and qualifying debts that were missed. Most of the

unauthorized refunds or cancellations could have been identified by more advanced computer programs. Improved programs could identify debts that were unrelated to Operations Desert Shield and Desert Storm, routine pay adjustments, offsetting entries, and debts excluded by policy. The unauthorized refund payments should be recovered, and unauthorized cancellations should be corrected.

Lack of Uniform Debt Collection Ceilings. DFAS Headquarters should establish a uniform ceiling for refunds and cancellations of indebtedness, and should collect erroneous refunds and reverse erroneous cancellations that exceed $250. Each Center used a different ceiling above which debts were collected, and $250 was the highest ceiling. If an individual separated from the Service and owed a debt, the amount of the debt had to exceed the ceiling established by the Center before collection action was taken. DFAS-Cleveland used $250 as a ceiling, DFAS-Denver used $25, and DFAS-Indianapolis and DFAS-Kansas City used $100. Based on the large number of erroneous refunds and cancellations, the Centers should reevaluate the data produced by the computer programs and determine the number of erroneous refunds and cancellations that exceeded $250. Reimbursement should then be sought for unauthorized refunds and cancellations higher than $250. Using a uniform policy would allow equitable treatment of active duty personnel and out-of-service individuals.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Finance and Accounting Service:

1. Require that computer programs be revised to identify unauthorized refunds and cancellations of debts made by the Defense Finance and Accounting Service Centers. The Defense Finance and Accounting Service Centers should recover unauthorized refunds and reverse unauthorized cancellations that exceed $250.

2. Revise the computer programs to identify debts that qualify for refunds or cancellations according to Defense Finance and Accounting Service policies issued in December 1991 and January 1992, and make additional payments or cancellations as necessary.

3. Require feasibility studies for computer programs, and require thorough operational testing before the computer programs are used to make payments or cancellations.

Management Comments

The Director, DFAS, concurred in part with Finding A. and stated that considering the Congressional interest in a speedy solution and the Services' unique systems, it was inevitable that some unexpected problems would be found.

The Director, DFAS, nonconcurred with Recommendations A. 1. and A. 2., stating that any effort to reconstruct debt cancellations at this time would not be practical. He believed that the costs, both tangible and intangible, to rebuild the necessary data base would far exceed the proposed savings. Further, any attempt to recover erroneous refunds would compound the "insensitive and mechanical collection" cited in the public law. Also, any member who continues to believe that he or she is entitled to a refund is encouraged to apply for one.

The Director, DFAS, concurred with Recommendation A. 3. See Part IV for the full text of management's comments.

Audit Response

The "Response Requirements for Each Recommendation" chart at the end of this section lists the requirements for further comments.

The Director, DFAS, has misinterpreted Finding A. We did not discuss isolated problems, but significant systemic problems in applying the debt cancellation policy. As the finding pointed out, $15.0 million out of $19.9 million in debts canceled for active duty Army personnel did not meet DFAS's eligibility criteria. Further, in a sample of 127,000 other debt cancellations at 3 Centers, 31 percent did not meet DFAS's eligibility criteria. There was a breakdown in application of policy, and the program logic was not adequately tested. There was merit to the concept of using specially-designed computer programs, supposedly written in accordance with policies, to identify and cancel eligible debts. But it was not realistic for the DFAS Centers to cancel identified debts without ensuring that these debts were eligible for cancellation.

We do not agree that further action to correct past mistakes, as described in Recommendations A. 1. and A. 2., is inappropriate. We agree that the amount of effort DFAS expends to recoup unauthorized refunds or to correct unauthorized cancellations should depend on the proposed savings to the Government. The size of the refund or cancellation is a factor that should be

considered. Our projections for the active Army included amounts of $250 or more. DFAS should also establish a minimum amount to pursue. Since many debts were less than $250, manually correcting erroneous cancellations or refunds would affect substantially fewer accounts than the original debt correction effort. With one universe containing $15.0 million in unauthorized cancellations and refunds and an error rate of 31 percent for another universe, it should be cost-effective to rectify these erroneous accounts. If the minimum amount is $250, the benefit to the Government should exceed the cost to correct accounts on an individual basis.

As the Director, DFAS, stated, any attempt to recover erroneous refunds should be handled with sensitivity. However, we are discussing noneligible refunds or cancellations. The recovery of erroneous refunds or the reversal of erroneous cancellations would affect Service members who did not participate in Operations Desert Shield or Desert Storm, or Service members who did participate and were not overpaid, but were given refunds in error. Therefore, Service members who participated in Operations Desert Shield and Desert Storm, and whose debts were eligible for cancellation or refund, would not be affected.

We request that DFAS reconsider its nonconcurrences and state the corrective actions that will be taken.

Response Requirements for Each Recommendation

Responses to the final report are required from the Director, DFAS, for the items indicated with an "X" in the chart below.

	Response Should Cover:			
Number	Concur/ Nonconcur	Proposed Actions	Completion Date	Related Issues*
A.1.	X	X	X	M, IC
A.2.	X	X	X	IC

* M = monetary benefits; IC = material internal control weakness

Finding B. Inequitable Treatment of Service Members

DFAS's guidance for the debt cancellation program for Operations Desert Shield and Desert Storm and monitoring of the program did not ensure equitable treatment for participants. Although there have been major changes in the conditions that necessitated the debt cancellation program, DFAS did not take action to end it. Also, the DFAS guidance did not include policy on canceling debts for several types of transactions. Further, DFAS did not monitor the Centers' actions to ensure fair and equitable treatment for all Service members. The guidance also allowed cancellation of debts that were caused by Service members, not by DFAS. These problems occurred because DFAS Headquarters published incomplete guidance in December 1991 and January 1992 and did not effectively manage the debt collection program for Operations Desert Shield and Desert Storm. As a result, the risk of fraud or abuse is greater because Service members and payroll personnel know that debts can be canceled.

Background

Public Law 102-172, section 8138, gives the Secretary of Defense authority, when he or she considers it to be in the best interest of the Government, to cancel indebtedness up to $2,500 that is or was owed to the United States by a Service member or former Service member who participated in support of the Persian Gulf conflict. Public Law 102-172 did not specify a cutoff date after which debts were ineligible for cancellation. DFAS guidance dated December 30, 1991, also did not establish a date to end the debt cancellation program.

According to House Report No. 102-311, DoD was to ensure fair and uniform treatment of all personnel who were overpaid during Operations Desert Shield and Desert Storm. DFAS guidance instructed debt management personnel at each Center to work together to ensure that all members were treated fairly and equitably. DFAS Headquarters held workshops before issuing its debt cancellation guidance to define the debt categories and finalize guidance. After the guidance was issued, DFAS Headquarters also held a workshop to discuss procedures for implementing it. Each Center discussed its procedures with DFAS Headquarters or sent DFAS Headquarters a copy of its procedures.

Debt Cancellation Policy

Program Deadline. Service members who continue to incur debts in connection with Persian Gulf service can still have their debts canceled. The debt cancellation program has not been terminated.

At all activities that DFAS Headquarters visited, managers stated that the rapid deployment and recall of Service members for the Persian Gulf conflict and the limited support for finance offices caused delays in posting entitlements and deductions to the pay records. The delays resulted in overpayments to Service members. Although those conditions no longer exist, the risk of fraud or abuse is greater now because Service members and payroll personnel know that debts can be canceled.

Service members can still incur debts in connection with the Persian Gulf conflict. For example, a Service member could be deployed to SWA for 60 days and receive BAS, although he or she is not entitled to BAS while in SWA. The AFO may not have corrected the member's pay record until a week after the member returned to the United States. Under the terms of the debt cancellation program, if the overpayment was not identified within 2 months of the start of the overpayment, the member would be eligible for cancellation of the debt created by the overpayment canceled. If the overpayment was identified within a 2-month period, it was considered a routine adjustment and was not eligible for cancellation. DFAS-Denver recognized that overpayments could occur, and instructed all Air Force AFOs to implement procedures to prevent such situations.

If the debt cancellation program does not end, costs to the Government may increase, although the conditions that justified the public law no longer exist. The Government's best interests are no longer served by canceling these debts. If a date is established for ending the program, the Centers will not need to implement additional controls.

Debt Policy Issued. DFAS Headquarters issued a policy for canceling debts that were incurred as a result of Operations Desert Shield and Desert Storm. The policy authorized the cancellation of debts due to advance payments, but did not address the large number of casual payment debts that had also been incurred.

DFAS Headquarters did not monitor the Centers' implementation of the guidance for the debt cancellation program, and the Centers made their own decisions in areas that the guidance did not address. Therefore, the Centers' computer programs had different methods of identifying and canceling advance payment debts and casual payment debts. There were also differences between cancellations for active duty and out-of-service personnel. Service members

were treated inequitably because advance payment and casual payment debts were canceled at some Centers but not at others. The differences in procedures are shown in Tables 1. and 2.

Table 1. Advance Payments Canceled

	DFAS-Cleveland	DFAS-Denver	DFAS-Indianapolis	DFAS-Kansas City
Active Duty	Yes	No	Yes	No
Out-of-Service	Yes	Yes	Yes	Yes

Table 2. Casual Payments Canceled

	DFAS-Cleveland	DFAS-Denver	DFAS-Indianapolis	DFAS-Kansas City
Active Duty	No	No	Yes	No
Out-of-Service	No	Yes	Yes	Yes

The "DoD Report on Service Members Overpayment," which was sent to the House and Senate Committees on Armed Services, stated that most overpayments resulted from casual payments and liberal advances of pay and allowances. When Service members were demobilized, there was insufficient time to recoup the advance payments. Also, the transactions for many of the casual payments were mailed to AFOs in the United States and were not promptly recorded. As a result, some casual payments were not entered in the pay records before Service members were demobilized. The report to Congress discussed casual payment debts; however, DFAS Headquarters guidance, issued in December 1991, did not cover casual payment debts. We analyzed 479 debts for out-of-service personnel and determined that 28 were for advance payments and 62 were for casual payments. The analysis showed that 259 out-of-service debts were caused by miscalculation of separation payments; midmonth or end-of-month payments issued after separation; and changes in allowances, such as a change in the number of days a member was entitled to BAS. Another analysis of the debts of 598 active duty members showed that 122 were caused by advance and casual payments. For 476 debts of active duty members, we found other causes.

Policy Interpretation by the Centers

The Centers did not have uniform procedures for canceling the debts of active duty and out-of-service personnel. DFAS Headquarters did not monitor the Centers to ensure that comparable procedures were used. The Centers had major differences in the processing of routine pay adjustments, gross and net debts, travel debts, and allotments.

Routine Pay Adjustments. The Centers did not use the same criteria for routine pay adjustments. The "DoD Military Pay and Allowances Entitlements Manual," March 9, 1987, defines a routine adjustment as:

> an overpayment resulting from clerical or administrative errors or delays in processing pay documents which is discovered and corrected in the next or a few pay periods, not over an extended period of time.

Because the definition was vague, DFAS Headquarters issued supplemental guidance in January 1992, stating that for purposes of canceling debts related to Operations Desert Shield and Desert Storm, routine pay adjustments were those that were made to the pay records within a 2-month period. Routine pay adjustments did not qualify for debt cancellation. However, the Centers had different time frames for routine pay adjustments and did not compute the time period on the same basis. Table 3. shows the criteria used by the Centers.

Table 3. Routine Pay Adjustments

	DFAS-Cleveland	DFAS-Denver	DFAS-Indianapolis	DFAS-Kansas City
Time Frame (in days)	60	45	30	60
Computation Based on:	Debt repayment period	Time needed to identify	Debt repayment period	Time needed to identify

Time Frames. The Centers used different time frames for determining which pay adjustments were routine. DFAS-Indianapolis defined a routine pay adjustment as an overpayment that was repaid within 30 or fewer days, while DFAS-Cleveland normally gave the Service member a notice of overpayment 30 days before the collection action was to take place. However, for

overpayments that were related to Operations Desert Shield and Desert Storm, Service members received a 60-day notice and were allowed to repay their debts over a 3-month period. DFAS-Denver defined a routine pay adjustment as an overpayment that had existed for 45 or fewer days, while DFAS-Kansas City used a 60-day criterion. For example, an individual received an overpayment of HFP beginning on August 1, 1991. The member's pay record was corrected on September 19, 1991. DFAS-Denver did not consider the correction a routine pay adjustment because more than 45 days had elapsed from the date the overpayment began until the date it was posted to the member's pay record. DFAS-Kansas City would have considered the correction a routine pay adjustment, since the member's pay record was corrected within 2 months of the date the overpayment began. DFAS Headquarters did not ensure that the Centers used the same time frames for routine pay adjustments.

Computation Based on Elapsed Time. DFAS-Cleveland and DFAS-Indianapolis interpreted DFAS Headquarters policy to mean that determination of routine pay adjustments would be based on the length of time that elapsed before a Service member repaid an overpayment. DFAS-Denver and DFAS-Kansas City interpreted the policy to mean that the length of time required to identify the overpayment should be the criteria for whether the pay adjustment was routine. For example, at DFAS-Cleveland, an individual was overpaid BAQ from November 13 to November 30, 1990. The member's pay record was corrected on December 5, 1990, and the overpayment was repaid between March and May 1991. Since the indebtedness had been owed for over 60 days and was scheduled for collection, DFAS-Cleveland did not consider the correction a routine pay adjustment and refunded the amount repaid. DFAS-Indianapolis would also have considered this debt cancelable, since more than 30 days had passed before the debt was repaid. However, DFAS-Denver and DFAS-Kansas City would not have canceled this debt. Because the member's pay record was corrected in fewer than 45 days, or 2 pay periods from the start of the overpayment, the debt correction would have been considered a routine pay adjustment at both Centers. DFAS Headquarters either did not notice this difference among the Centers or allowed it.

Gross and Net Debts. The Centers used different methods to cancel debts of active duty members. Also, two Centers used different methods for accounts of active duty members and out-of-service personnel. Those differences are shown in Table 4.

Table 4. Gross Versus Net Debts

	DFAS-Cleveland	DFAS-Denver	DFAS-Indianapolis	DFAS-Kansas City
Active Duty	Net	Net	Gross	Gross
Out-of-Service	Net	Net	Net	Net

DFAS-Cleveland and DFAS-Denver used an active duty member's entitlements to offset the overpayment when canceling the debt. For example, an individual was overpaid $901 for separate rations from October 2, 1990, to February 28, 1991. The overpayment was posted to the member's pay record on March 6, 1991. The member had other entitlements for March 1991 that were used to offset the debt. After the offset, $422 of the debt was canceled. DFAS-Indianapolis and DFAS-Kansas City would have canceled the entire debt of $901 (up to $2,500) for an active duty member, but would have canceled only $422 for out-of-service personnel. As a result, the amount of the refund would depend on the member's branch of Service and duty status (active duty or out-of-service).

Travel Debts. Some Centers considered travel debts incurred for Operations Desert Shield and Desert Storm to be cancelable, while others did not. Table 5. shows the Centers' actions on travel debts.

Table 5. Travel Debts Canceled

DFAS-Cleveland	DFAS-Denver	DFAS-Indianapolis	DFAS-Kansas City
No	Considered*	Yes	No

*DFAS-Denver tasked each AFO to research potential cases for travel debts and to submit eligible debts for cancellation.

DFAS-Indianapolis included cancellation of travel debts in its computer program. DFAS-Denver sent the AFOs the lists of travel debts that may have been related to Operations Desert Shield and Desert Storm. The AFOs reviewed the lists to determine whether debts could be canceled. DFAS-Denver canceled approximately $295,000 in travel debts. DFAS-Cleveland and DFAS-Kansas City did not consider travel debts for cancellation. These differences in policy interpretation created inequitable cancellations of travel debts.

Allotments. DFAS-Indianapolis did not use the same criteria for allotments as other Centers did. Because of the order in which debts were classified, allotment debts were canceled for active duty personnel, but not for out-of-service personnel. DFAS Headquarters considered allotments to be cancelable debts because pay systems could make an erroneous allotment payment on a member's behalf. The member could be paid more than he or she had instructed, or the payment could be continued after the member had directed that the allotment be discontinued. In these cases, the member would not be at fault, and the debt should be canceled.

The computer program at DFAS-Indianapolis erroneously canceled a debt identified as an allotment debt. A Service member had a debt of $312 that the computer program listed as an allotment. The debt had been caused by four casual payments that had been posted to the pay record; each debt had been collected within 1 month of the payment. These routine pay adjustments should not have been eligible for cancellation. The computer program classified debts in assigned sequence. However, because allotments were classified lower than casual payments in the assigned sequence, the specially-designed computer program identified the debt as being caused by an allotment, changed the pay account for this individual, and canceled the debt.

Of 23 debts classified as allotments in our sample of 293 at DFAS-Indianapolis, only 1 was actually caused by the payment of an allotment. DFAS-Indianapolis erroneously changed the pay accounts and canceled the other 22 debts. DFAS-Cleveland, DFAS-Denver, and DFAS-Kansas City did not use the same method to identify allotment debts, and those Centers canceled relatively few allotments.

We found no documentation at DFAS Headquarters to indicate that officials were aware of the Centers' various policy interpretations. Since DFAS Headquarters issued policy, it should have ensured that the policy was carried out consistently. Some workshops were held, but additional workshops probably would have disclosed differences among the Centers. The workshops could have ensured that procedures used by the Centers to implement guidance were equitable before the Centers canceled members' debts.

Actions by Service Members

Some Centers canceled tax debts that resulted from actions taken by Service members, such as retroactive and additional withholding of taxes. DFAS Headquarters policy did not include withheld taxes in its list of cancelable debts. DFAS Headquarters also did not ensure that all Centers uniformly canceled

debts caused by Service members' actions. Therefore, some Service members' debts for withheld taxes were canceled, and others were not. Table 6. shows the Centers' actions to cancel tax debts.

Table 6. Tax Debts Canceled

	DFAS-Cleveland	DFAS-Denver	DFAS-Indianapolis	DFAS-Kansas City
Active Duty	Yes[1]	No	No	No
Out-of-Service	Yes[1]	No	No	Yes[2]

[1] If the member was entitled to a tax exclusion for service in a combat zone.

[2] According to procedures at DFAS-Kansas City, taxes were not cancelable; however, some taxes were canceled for two out-of-service personnel in our statistical sample.

DFAS-Cleveland held that a debt caused by taxes was cancelable if the Service member was entitled to a combat zone tax exclusion (CZTE). While an officer is serving in a combat zone, $500 of his or her monthly pay is nontaxable. However, when the pay system was changed to implement CZTE for officers participating in Operations Desert Shield and Desert Storm, Federal and state income taxes were not withheld for any income. Officers' income exceeded the CZTE limit each month, which created tax liabilities for the officers. DFAS-Cleveland issued guidance to cover this situation if the officers changed their withholding status. The guidance gave the following example of a sequence of events that would result in an overpayment.

> An officer had normal taxes withheld for the month of July 1991. In August, a retroactive CZTE entitlement for July 1991 posts to the pay record thereby crediting taxes withheld for July. In September the field submits, in accordance with the officer's instructions, additional withholding for the month of July. The added withholding creates an overpayment in September.

DFAS-Cleveland guidance stated that the debt was cancelable under Operations Desert Shield and Desert Storm. However, this overpayment was created by the officer when he or she requested that additional taxes be withheld. The withholding of additional tax was not required by law and was not an error made by finance personnel. This overpayment should not be cancelable.

DFAS-Denver held that tax debts were not cancelable. For example, during the manual review of debt cancellation requests for active duty personnel, DFAS-

Denver found that a Service member had requested a debt cancellation totaling $1,041. The request was partially denied because $396 of the amount was Federal taxes. The reason for the denial was that taxes were not eligible for cancellation or refund.

Our sample of military pay records in DFAS-Indianapolis did not indicate that tax debts were canceled for either active duty or out-of-service personnel.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Finance and Accounting Service:

1. Request that the Office of the Secretary of Defense end the debt cancellation program for Operations Desert Shield and Desert Storm.

2. Require that Defense Finance and Accounting Service policy implementing special programs for resolving military pay problems discuss each identified problem.

3. For debt management of military pay:

a. Revise the definition of "routine adjustment" in the "DoD Military Pay and Allowances Entitlements Manual" to give specific time criteria and define a basis for calculation of debts.

b. Establish a policy on debt collection that is fair and equitable for all military personnel.

4. Hold workshops on the implementation of policy before making changes to the Master Military Pay Account.

5. Revise the guidance issued on December 30, 1991, so that debt cancellation programs used after events such as Operations Desert Shield and Desert Storm will exclude debts resulting from actions taken by Service members.

Management Comments

The Director, DFAS, concurred with the finding and recommendations and stated that DFAS was in the process of taking corrective actions. See Part IV for the full text of management's comments.

Audit Response

The "Response Requirements for Each Recommendation" chart at the end of this section lists the requirements for further comments.

Comments from the Director, DFAS, are responsive, except for Recommendations B.4. and B.5. The comments on Recommendation B.4. do not include a completion date. The comments on Recommendation B. 5. cover only the actions taken to prevent fraud and misrepresentation. We take no exception to those policies. However, DFAS policy should also cover actions taken by Service members that result in debts (as opposed to debts caused by finance officials). In responding to the final report, DFAS should describe corrective actions that will be taken and give completion dates.

Response Requirements for Each Recommendation

Responses to the final report are required from the Director, DFAS, for the items indicated with an "X" in the chart below.

	Response Should Cover:		
Number	Concur/ Nonconcur	Proposed Actions	Completion Date
B.4.			X
B.5.		X	X

Part III - Additional Information

Appendix A. Legislation in Support of Persian Gulf Participants, National Defense Authorization Act for Fiscal Year 1992

LEGISLATIVE HISTORY
HOUSE CONF. REP. NO. 102-311
[page 558]

Overpayment of certain members who served in support of the Persian Gulf conflict

The conferees understand that a large number of military personnel, especially National Guardsmen and Reservists, who served in support of the Persian Gulf conflict have been erroneously overpaid. According to preliminary estimates, over 120,000 service members have been overpaid, and the amount of the erroneous overpayments is in excess of $80 million. This sum represents a substantial potential liability for taxpayers.

The conferees are very disappointed that insensitive and mechanical collection letters were initially sent to many service members who served in Operations Desert Shield and Desert Storm. The conferees understand that the Department of Defense has now temporarily suspended all collection activity while a complete review of all categories of debts is conducted. The conferees are dismayed that so many individuals could be overpaid by such a large aggregate amount. The conferees note that Department of Defense is now committed to a thorough review before resuming standard debt collection procedures. The Department has tentatively attributed the indebtness to a variety of sources that normally accompany the turmoil characteristic of a contingency like Operation Desert Storm. However, the conferees note that Department of Defense finance officials, and not service members, appear to be responsible for the overwhelming majority of the overpayments.

The conferees expect the Department of Defense to take steps now to ensure fair and uniform treatment of all personnel who have been overpaid. The conferees expect the Secretary of Defense to waive any interest charges, penalties, or administrative fees for debts to the government incurred by service members as result of service in connection with the Persian Gulf conflict.

The conferees also expect the Inspector General of the Department of Defense to investigate this matter and to recommend appropriate action to the Secretary of Defense. In this regard, the conferees direct the Secretary of Defense to provide the Committees on Armed Services of the Senate and the House of Representatives a report of the recommendations of the Inspector General, as well as a report of any remedial measures he has undertaken. The report shall be submitted no later than February 1, 1992.

Appendix B. Inappropriate Refunds and Cancellations Made by Defense Finance and Accounting Service Centers

Section 1. Unrelated Debts Canceled or Refunded by DFAS-Indianapolis

The following are examples of unauthorized refunds made to active duty personnel by DFAS-Indianapolis for debts unrelated to service in Operations Desert Shield and Desert Storm.

o A member served in SWA from September 10, 1990, until March 27, 1991. On November 17, 1989, the member received an advance housing allowance of $1,100. In March 1992, the member received a refund for the advance.

o A member returned from serving in SWA in May 1991. He subsequently received advance pay of $1,500 on August 12, 1991. In March 1992, the member received a refund for part of this debt and cancellation for the remainder of the debt incurred when he received this advance.

o In January 1991, a member elected to have his pay accrued instead of receiving monthly payments. The member served in SWA from January 27, 1991, until October 10, 1991. On October 15, 1991, he received $5,832, which represented all pay and allowances accrued to his pay account. In March 1992, the member received $2,500 for accrual pay, the maximum refund for which personnel who served in Operations Desert Shield and Desert Storm were eligible.

o In March 1992, an active duty soldier received a refund of $2,394 for advance pay. When we reviewed the soldier's pay record for the period August 1990 through March 1992, we found no indication of service in SWA.

o A member returned from SWA in April 1991. Our review of the pay record showed that a collection was posted for BAQ that had been erroneously paid for the period August 21 to October 31, 1991. In March 1992, the member received a refund of $1,454 for BAQ.

o A refund of $977 was paid to a reservist in March 1992. The computer program showed that the refund was based on a collection for an overpayment that had been paid from Reserve Personnel, Army funds. The

collection for the overpayment was posted to the reservist's pay record while the individual was serving in SWA; however, the overpayment occurred in FY 1989, over 12 months before the reservist entered active duty for Operations Desert Shield and Desert Storm, and the overpayment was for $950. The computer program forgave the overpayment and the amount the reservist had repaid as of June 1991.

Section 2. Unrelated Debts Canceled by Other Centers

The following are examples of active duty personnel who received unauthorized refunds from Centers other than DFAS-Indianapolis for debts unrelated to service in Operations Desert Shield and Desert Storm.

o A member was in SWA from January through May 1991. In June, a collection was posted to the pay record for Federal taxes not withheld, which created a debt on the pay record. In April 1992, the debt for Federal taxes of $966 was canceled. DFAS Headquarters policy did not include withheld taxes on its list of cancelable debts.

o In March 1992, DFAS canceled a member's debt for overpayment of Reserve base pay and for a collection that had been posted to the pay record because the member had lost or damaged Government property. The debt cancellation was made for actions that occurred before the member was activated for Operations Desert Shield and Desert Storm.

Section 3. Unauthorized Cancellations Made by DFAS-Denver for Out-of-Service Personnel

The following are examples of unauthorized cancellations made by DFAS-Denver for members separated from the Air Force.

o A member who was on active duty before Operations Desert Shield and Desert Storm returned from SWA in March 1991. The member separated from the Air Force on January 24, 1992, owing the Government $2,147. This debt was canceled, although it occurred more than 9 months after the member returned from SWA.

o Another member separated from the Air Force on August 26, 1991, owing the Government $14,008. The member served in Operations Desert Shield and Desert Storm, but returned from SWA on March 25, 1991. The debt occurred 5 months after the member returned from SWA. DFAS-Denver canceled $2,500 of the debt (the maximum amount allowable).

Section 4. Unauthorized Cancellations Made by Other Centers for Out-of-Service Personnel

The following are examples of unauthorized cancellations made by Centers other than DFAS-Denver for out-of-service members:

o A member who was on active duty before Operations Desert Shield and Desert Storm returned from SWA on April 28, 1991. The member separated from the Service on September 24, 1991, and was overpaid pay and allowances for September 25 to September 30, 1991, resulting in a debt of $766. This debt was canceled, although it was not associated with Operations Desert Shield and Desert Storm.

o Another member separated from the Service on October 26, 1990, owing the Government $2,053. The member had been on active duty prior to Operations Desert Shield and Desert Storm and did not serve in SWA, but the debt was canceled.

o A reservist was placed on active duty from October 3, 1990, until February 22, 1991, to attend basic training and specialty school. Upon completion of training, the reservist separated, owing $360 to the Government. The debt was canceled, although it was apparently unrelated to service in Operations Desert Shield and Desert Storm.

Section 5. Refunds for Routine Pay Adjustments

The following are examples of unauthorized refunds made for routine pay adjustments that were excluded by DFAS policy.

o A member received $75 in HFP for the first half of July 1991, although the member was not entitled to it. The appropriate collection for this overpayment was posted to the individual's pay account on July 13, 1991. In addition, $48 was collected from the member's pay for Federal taxes for the first half of July 1991. However, the member received a refund of $123 for the HFP and taxes.

o An officer received a refund of $539, based on a collection for field rations for January through April 1991. The officer was in SWA during that time. An officer is not entitled to receive both BAS and field rations. When an officer receives field rations, a collection is made from the pay account to recoup the cost of the field rations. For this officer, the appropriate collections were posted to the pay account during the month to which they applied. For example, the collection of January rations was posted in January. The computer program identified the collections as being posted late because of an incorrect

document number. But additional data (recorded within the same transaction) identified the time period for which the collection was made. For this officer, the collections for field rations were posted in a timely manner.

o On December 10, 1990, a member received a casual payment for $1,400 that was posted to the pay account in the same month. The casual payment was repaid in 2 months. Since the repayment transactions were posted to the pay account within 2 months, these were routine pay adjustments; therefore, the casual payment should not have been refunded.

Section 6. Refunds for Offsetting Entries

The following are examples of unauthorized refunds made for debts that had offsetting entries.

o A soldier filed a travel voucher for travel that occurred in October and November 1990, before the soldier was deployed to SWA on December 20, 1990. The soldier returned from SWA in March 1991. The AFO's review showed that the travel advance was too large and the soldier owed the Government $758. This amount was collected from the soldier's pay account three times (in August, September, and October 1991). Attempts to correct the pay account were made in September, October, and November 1991, when $758 was returned to the soldier each month. However, in March 1992, the soldier received a refund of over $2,000 because the computer program considered only the collection actions. Our review also showed that the soldier did not repay the $758.

o A member received taxable HFP in April and May 1991. In June 1991, it was determined that the HFP should have been nontaxable. Two entries were made to correct the HFP for April and May 1991. The first entry collected the taxable HFP for April and May, causing an apparent overpayment of $300. The second entry paid nontaxable HFP for April and May for $300. The computer program recognized the entry that created the overpayment, but did not recognize the entry that paid the entitlement a second time. The apparent overpayment of $300 was considered a debt, but because of other entitlements accrued during the month, the debt was reduced to $55 and refunded.

Section 7. Refunds and Cancellations for Disqualified Debts

The following are examples of disqualified debts for which the Centers made unauthorized refunds and cancellations.

o A member's pay grade was reduced effective November 20, 1991, and a collection for overpayment of entitlements was posted to the pay record in December 1991. The member separated from the Service on December 30, 1991, owing the Government $298. The cause of the debt was the fact that the member did not forfeit pay for November 20 through December 30, 1991, as he should have. The debt was erroneously canceled in April 1992.

o A member had a debt consisting of a travel advance, a dishonored check for $75, and indebtedness to an Air Force Base. The entire debt was canceled in April 1992. According to DFAS Headquarters guidance, neither the dishonored check nor the indebtedness should have been canceled.

o The computer program refunded $2,500 to a member in March 1992, based on a collection posted to the pay account for a dual-negotiated check. A check is dual-negotiated when it has been reported lost or stolen but is subsequently cashed, and a replacement check is also cashed. The amount of the check was collected from the member twice and returned to the member twice, so the member should not have received a refund.

Section 8. Qualifying Items Not Refunded

The following are examples of items that met the qualifications for refunds or cancellations, but the computer programs did not identify them.

o The computer program at DFAS-Indianapolis identified a collection for an overpayment of overseas housing allowance (OHA) and accrual pay as being refundable. The member received a refund of $1,165 for the OHA and $200 for the accrual pay. However, a total of $1,646 was collected for the overpayment of OHA, which met the criteria for refunds in the DFAS Headquarters guidance. The $200 refund for accrual pay did not meet the criteria. In addition, the computer program did not identify a collection of $378 for an overpayment of the cost-of-living allowance. The member received $1,365, but the refund should have been $2,024.

o The computer program used by DFAS-Indianapolis correctly identified a member who had been overpaid IDP after returning from SWA on March 19, 1991. The IDP was subsequently collected from the member's pay account. A refund of $450 was paid to the member for the period of April

through June 1991. However, the member had overpayments and collections of $900 for the period April through September 1991. The refund should have been $900 instead of $450.

o A member returned from SWA on April 27, 1991, but continued to receive IDP and FSA through the end of August 1991. The overpayments were subsequently collected. The computer program at DFAS-Indianapolis correctly identified and refunded the overpayment of $310 for FSA. However, the overpayment of $450 for IDP was not identified and refunded.

o After returning from SWA on April 18, 1991, a member continued to receive IDP, FSA, and overseas pay through the end of August 1991. Each of the overpayments was subsequently collected. The computer program used by DFAS-Indianapolis identified and refunded the overpayment of $600 for IDP. The program did not identify the overpayments of $340 in FSA or $58 in overseas pay.

Section 9. Debts Created During the Separation Process

The following are examples of canceled debts that were incurred during or after the separation process.

o A member separated from the Army on July 5, 1991. In determining separation pay, a collection of $204 was made for an overpayment of pay and allowances. Specifically, the member had been overpaid variable housing allowance for April, May, and June 1991.

o A member who served in SWA separated from the Air Force on April 15, 1991, but continued to receive midmonth and end-of-month payments. The member received seven payments after separation. The member's gross entitlements were $3,536, and deductions were $1,073 for lump-sum leave, clothing allowance, taxes, and insurance. DFAS-Denver canceled $2,463 (the entire amount of the resulting debt).

o A member who separated from the Army on December 10, 1990, received a separation payment of $532 on December 4, 1990. The member had entitlements of $362. After deductions were made for taxes and insurance, the member was overpaid $226 because of an incorrect computation.

Appendix C. Statistical Sampling Plan and Results

Sampling Plan

We made statistical projections of the total dollar amounts of inappropriate refunds and debt cancellations that should be recouped separately for Army personnel on active duty and Air Force out-of-service personnel. We also projected statistically the rates of occurrence of all inappropriate refunds and debt cancellations for the Marine Corps and for six other groups combined.

The audit universe originally consisted of all debts of Army, Navy, Air Force, and Marine Corps personnel (active duty and out-of-service) that were reported by the Centers as canceled during specified time periods on the basis of Public Law 102-172. This universe was divided into 4 populations for sampling purposes: debts canceled for Army active duty personnel, 32,774 cases; debts canceled for Air Force out-of-service members, 511 cases (see below); debts canceled for Marine Corps personnel, both active duty and out-of-service, 21,978 cases; and debts canceled for 6 other groups combined, 127,429 cases. The six groups were: Army out-of-service personnel, Army active duty personnel subject to manual review, Navy active duty personnel, Navy out-of-service personnel, Air Force active duty personnel, and Air Force reservists.

Because we considered debts of less than $250 uneconomical to recoup, those small canceled debts were excluded from the Air Force out-of-service population, reducing it to 221 canceled debt cases. It was not possible to exclude debts of less than $250 from the Army active duty population before sampling. Therefore, this population was oversampled by a factor intended to produce an adequate sample size after the selected small debts were dropped. Projected rates of occurrence were based on two populations, the Marine Corps and the six combined groups. Those populations included all canceled debts, regardless of the dollar amount.

Due to varying availability and access times at the four Centers, the time periods covered for active duty and out-of-service personnel differed slightly. Table C.1. shows the time periods covered.

Table C.1. Time Periods Covered

	DFAS-Indianapolis[1]	DFAS-Cleveland	DFAS-Denver	DFAS-Kansas City
Starting date	Aug. 2, 1990	Aug. 2, 1990	Aug. 2, 1990	Aug. 2, 1990
Ending date	Dec. 31, 1991[2]	May 1, 1992	Apr. 29, 1992	Apr. 30, 1992

[1] Period for Army active duty personnel was calendar year 1991.

[2] The ending date of the Army manual review was June 18, 1992.

For the two statistical projections of dollar amounts of inappropriate debt cancellations, the error measure was defined as the difference between the audit calculation of the appropriate cancelable dollar amount for an individual debt, and the dollar amount of the debt actually canceled (as reported by one of the Centers). We considered differences of less than $250 uneconomical to recoup and treated them as "no error." We projected only those overpayments for which the reported amount of the canceled debt exceeded the amount we calculated as appropriate. In the relatively few cases where our calculation indicated that more debt was eligible for cancellation than was reported as actually canceled, we also treated these cases as "no error."

For the two statistical projections of rates of occurrence of inappropriate debt cancellations, the error measure was defined as a reported cancellation of an individual debt where not all of the criteria for cancellation had been met. All such incorrect cancellations identified in the statistical samples were used in these projections, including those where the canceled debt was less than $250. Also, the rates of occurrence for two subcategories of these errors in policy application were projected for the six combined groups. The two subcategories of errors were: debts due to routine pay adjustments, and debts not related to Operations Desert Shield and Desert Storm. Those subcategories were treated as mutually exclusive; each inappropriately canceled debt was counted only once, in the subset that had the larger dollar impact for that case. Therefore, the projected rates of occurrence for those subcategories are conservative.

We used stratified random sampling as the design for all four statistical samples used in this audit. In all four samples, results from preliminary samples were used as a census, or self-representing, stratum. For the sample of out-of-service

Air Force personnel, the remaining cases in the population were divided into two strata by the dollar amount of reported debts canceled: $250 to $1,000 and $1,000 to $2,500. A total of 60 cases was selected for this sample. For each of the other three populations, all cases not in the preliminary samples were included in a single additional stratum. For the sample of active duty Army personnel, a total of 495 cases was selected. The total sample size for the Marine Corps was 152 cases. For the 6 combined groups, the total sample size was 554 cases. In all four samples, cases were selected randomly within strata.

Sampling Results

Statistical projections of the sample data are shown in Tables C.2. and C.3.

Table C.2. Projected Dollar Amounts of Inappropriate Debt Cancellations

	90-Percent Confidence Intervals			
	Lower Bound	Point Estimate	Upper Bound	Relative Precision
	($ in Thousands)			
Army Active Duty *	$13,281	$14,993	$16,705	+/- 11.4 percent
Air Force Out-of-Service	134	157	180	+/- 14.4 percent

* Thirteen cases in the census stratum of the active duty Army sample could not be evaluated. Those cases were treated conservatively as "no error."

We are 90-percent confident that between $13.281 million and $16.705 million in inappropriate debt cancellations was reported for Army active duty personnel from January 1, 1991, to December 31, 1991, and that these overpayments should be recouped. The unbiased point estimate, $14.993 million, is the most likely single dollar value for inappropriate debt cancellations in this population.

Likewise, we are 90-percent confident that between $134,000 and $180,000 of the canceled debts reported for Air Force out-of-service personnel from August 2, 1990, to April 29, 1992, was inappropriate and should be recouped. The most likely single dollar value of inappropriate debt cancellations in this population is $157,000.

Table C.3. Projected Rates of Occurrence of Inappropriate Debt Cancellations Due to Errors in Policy Application

	90-Percent Confidence Intervals			
	Lower Bound	Point Estimate	Upper Bound	Absolute Precision
Marine Corps:				
Number of Cases [1]	348	1,689	3,030	+/- 6.1 percent
Percentage	1.6	7.7	13.8	
All Errors in Policy Application for Six Groups Combined:				
Number of Cases [2]	33,571	39,466	45,362	+/- 4.6 percent
Percentage	26.3	31.0	35.6	
Errors in Policy Application for Routine Pay Adjustments				
Number of Cases	9,833	13,803	17,772	+/- 3.1 percent
Percentage	7.7	10.8	13.9	
Errors in Policy Application for Debts Unrelated to Operations Desert Shield and Desert Storm				
Number of Cases	14,039	18,510	22,980	+/- 3.5 percent
Percentage	11.0	14.5	18.0	

[1] Three cases in the larger stratum of the Marine Corps sample could not be evaluated. These cases were treated conservatively as "no error."

[2] We found duplicate records for 2,763 cases in 1 of the 6 combined groups after the statistical sample was drawn. The duplicates were eliminated from the population and the sample. The original 2,763 cases were isolated in an additional stratum, with the appropriate adjusted probability weights, to preserve the unbiased statistical projections. The population size given above was reduced by the number of duplicate records found.

We are 90-percent confident that between 348 (1.6 percent) and 3,030 (13.8 percent) of inappropriate debt cancellations due to errors in policy were reported for Marine Corps personnel from August 2, 1990, to April 30, 1992.

The unbiased point estimate, 1,689 cases (7.7 percent), is the most likely single number of inappropriate debt cancellations due to all policy application errors for this population.

Also, we are 90-percent confident that between 33,571 (26.3 percent) and 45,362 (35.6 percent) of inappropriate debt cancellations due to all policy application errors were reported for the 6 combined groups. The unbiased point estimate, 39,466 cases (31.0 percent), is the most likely single number of inappropriate debt cancellations due to all policy application errors for this population.

Of the projected policy application errors for the 6 combined groups, we are 90-percent confident that between 9,833 (7.7 percent) and 17,772 (13.9 percent) occurred because of routine pay adjustments. The unbiased point estimate, 13,803 cases (10.8 percent), is the most likely single number of inappropriate debt cancellations that occurred because of routine pay adjustment errors in this population.

Also, we are 90-percent confident that between 14,039 (11.0 percent) and 22,980 (18.0 percent) of inappropriate debt cancellations occurred for reasons unrelated to Operations Desert Shield and Desert Storm. The unbiased point estimate, 18,510 cases (14.5 percent), is the most likely single number of inappropriate debt cancellations that occurred for reasons unrelated to Operations Desert Shield and Desert Storm.

Appendix D. Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
A.1.	Compliance with public law and Defense Finance and Accounting Service guidance. Implementation would ensure that refunds and cancellations are made in accordance with public law and guidance, and funds are put to better use.	Funds put to better use. Collection of overpayments will result in $15.0 million returned to the Army, $157,000 to the Air Force, and other undeterminable amounts to the Services.
A.2.	Compliance with public law and Defense Finance and Accounting Service guidance. Implementation would ensure that refunds and cancellations are paid to eligible personnel.	The perception of more equitable treatment will benefit those who incurred debts while participating in support of Operations Desert Shield and Desert Storm.
A.3.	Internal controls. Implementation would ensure that specially-designed computer programs are used only when they are feasible and in accordance with policy, and that programs are operationally tested before making mass refunds and cancellations.	Undeterminable. We know of no basis on which to compute the monetary benefit.
B.1.	Economy and efficiency. Implementation would reduce the number of potential debts to be canceled under public law.	Undeterminable. We know of no basis on which to compute the monetary benefit.

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
B.2.	Economy and efficiency. Implementation would ensure that DFAS policy covers all issues, and would result in standardized procedures at the Centers.	Nonmonetary.
B.3. and B.4.	Economy and efficiency. Implementation would ensure that all Service members are treated equitably.	Nonmonetary.
B.5.	Economy and efficiency. Implementation would ensure that refunds and cancellations are not based on actions taken by Service members.	Undeterminable. We know of no basis on which to compute the monetary benefit.

Appendix E. Organizations Visited or Contacted

Office of the Secretary of Defense

Defense Manpower Data Center, Washington, DC

Department of the Air Force

Bolling Air Force Base, Washington, DC
Tyndall Air Force Base, Pensacola, FL

Defense Organizations

Defense Finance and Accounting Service Headquarters, Arlington, VA
- Defense Finance and Accounting Service, Cleveland Center, Cleveland, OH
- Defense Finance and Accounting Service, Denver Center, Denver, CO
- Defense Finance and Accounting Service, Indianapolis Center, Indianapolis, IN
- Defense Finance and Accounting Service, Kansas City Center, Kansas City, MO

Appendix F. Report Distribution

Office of the Secretary of Defense

Assistant Secretary of Defense (Personnel and Readiness)
Comptroller of the Department of Defense

Defense Organizations

Director, Defense Finance and Accounting Service
Defense Finance and Accounting Service, Cleveland Center
Defense Finance and Accounting Service, Denver Center
Defense Finance and Accounting Service, Indianapolis Center
Defense Finance and Accounting Service, Kansas City Center

Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office, National Security and International Affairs Division, Technical Information Center

Chairman and Ranking Minority Member of each of the following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Subcommittee on Manpower and Personnel, Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Subcommittee on Military Forces and Personnel, Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations

Part IV - Management Comments

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE
1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

OCT 0 4 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Draft Audit Report on Payment Errors Related to Operations Desert Shield and Desert Storm (Project No. 2FI-0037)

In response to your memorandum dated August 11, 1993, please find attached our comments on the findings and recommendations contained in the subject report.

Thank you for giving me the opportunity to comment on the draft report. I look forward to reviewing the final report.

/John P. Springett
Director

Attachment

DFAS Comments to DoDIG Draft Audit Report
on the Payment Errors Related to
Operation Desert Shield/Desert Storm (DS/DS)
Project No. 2FI-0037

FINDING A. APPLICATION OF POLICY:
Service members' debts incurred in connection with Operation DS/DS were not canceled properly, as authorized by Public Law 102-172 and policies set by the Defense Finance and Accounting Service (DFAS) Headquarters. Most refunds were determined by computer programs that were applied against payroll and debt management systems. However, the debt management systems did not contain the information needed to identify items that qualified for refund or cancellation. As a result, we found that refunds were made for debts not related to Operation DS/DS, routine pay adjustments, offsetting entries to the pay records, and disqualified items. In other instances, Service members did not receive the refunds or cancellations to which they were entitled. Most of the computer programs were not adequately analyzed before corrections were made and refunds were paid to individuals. At one Center, $15 million out of $19.9 million in refunds and cancellations was not authorized for active duty personnel. In an additional sample of 127,000 debt refunds or cancellations, we found that 31 percent were unauthorized. We were told that the deadlines imposed by DFAS Headquarters did not allow for proper analysis before refunds and cancellations were made. We also found some Service members incurred debts because of the separation process, but DFAS had not identified the separation process as a problem.

Comments on Finding A. Concur in part. DFAS held workshops and issued policy guidelines which were approved by the Office of the Secretary of Defense (OSD) and the Services. Considering the Congressional interest in a speedy solution, the Services' unique active duty pay systems, and out-of-service debt management systems which were utilized, it was inevitable that some isolated problems would subsequently be identified that were not anticipated. Where problems came or come to our attention that were not covered by our programs or resulted from such programs, they were and continue to be reviewed and settled on an individual basis. Because of the enormous cost and the time that would be required to reconstruct the database, DFAS is not in a position to refute the amount of refunds and cancellations the IG identified as unauthorized.
(See comments on Recommendation A.1)

Recommendation A.1. Require that computer programs be revised to identify unauthorized refunds and cancellations of debts. The DFAS Centers should recover unauthorized refunds and reverse unauthorized cancellations that exceed $250.

Comments on Recommendation A.1. Nonconcur. Any effort to reconstruct the retroactive debt cancellation systematically would be labor intensive and costly. Under the retroactive requirement, it is not practical to reconstruct/compute month to

month as the debts incurred. To do so would necessitate costly manual intervention. Numerous cancellations have been approved for which it would not be feasible to systematically attempt to reconcile for possible recoupment. Any attempt to recover erroneous refunds to separated members or active duty personnel would compound the "insensitive and mechanical collection" cited by the conferees as justification for Section 8138 of Public Law 102-172 and reopen the financial burdens the legislation was designed to correct. Revisiting this issue seems counterproductive to the legislative intent and undoubtedly have a serious adverse affect on the morale of active duty and reserve members, as well as those former members still recovering from the disruption of their civilian careers. While we cannot address the accuracy of the IG's findings, the costs for each Center to rebuild the Operation DS/DS database would be prohibitive in addition to being unfunded. Furthermore, it is believed that the costs, both tangible and intangible, to rebuild the necessary data base would far exceed the proposed savings.

Recommendation A.2. Revise the computer programs to identify debts that qualify for refunds according to DFAS policy and make additional payments as necessary.

Comments on Recommendation A.2. Nonconcur. In addition to the reasons provided in A-1, DFAS also issued instructions to the Centers which were approved by OSD and the Military Services on the procedures for submission of claims for DS/DS debt cancellation consideration. Active, Reserve, and former Service members who continue to believe they are entitled to a refund are encouraged to apply and have their request reviewed on a case-by-case basis. In fact, DFAS recently requested the legislation authorizing DS/DS debt cancellation be extended for FY 1994 precisely to preserve that option for personnel who feel entitled to a refund.

Recommendation A.3. Require feasibility studies for computer programs and require thorough operational testing before the computer programs are used to make payments, refunds, or cancellations.

Comments on Recommendation A.3. Concur. All specially designed computer programs will be thoroughly developed and tested before execution. This will be facilitated by DFAS initiatives to standardize pay systems. Currently underway is an effort to merge the Services' eight active and reserve pay systems by December 1996.

FINDING B. INEQUITABLE TREATMENT OF SERVICE MEMBERS:
Policy for the debt cancellation program for Operation DS/DS and monitoring of the program did not ensure equitable treatment for participants. An end to the debt cancellation program was not

established, policy on canceling debts for several types of transactions was not issued, and the Centers' actions were not monitored to ensure fair and equitable treatment for all Service members. The policy also allowed cancellation of debts that were caused by Service members, not by the Services. These problems occurred because DFAS Headquarters did not publish complete guidance or effectively manage the debt collection program for Operation DS/DS. Although there have been major changes in the conditions that necessitated the debt cancellation program, action has not been taken to end it. As a result, the risk of fraud or abuse is greater because Service members and payroll personnel know that debts can be canceled.

Comments on Finding B. Concur. It is crucial to understand the urgency associated when drafting the implementation instructions to execute Section 8138. This was further complicated by the continued operation of Services' unique pay systems. Although the guidance may not have adequately addressed every eventuality, the policy did take into account all the situations contemplated at the time. Based on this, on December 30, 1991, each DFAS Center was provided guidelines, agreed to by OSD and the Military Services, for canceling DS/DS debts and issuing refunds for debt repayment. The cancellation program for each Center was monitored through written weekly updates to DFAS Headquarters. The bulk of the debts was canceled automatically based on computer programs written in accordance with the guidelines. Accounting and Finance Offices were notified to submit claims not covered by the programmatic cancellation directly to the appropriate DFAS Center for consideration on a case-by-case basis. Therefore, members who believed they were entitled to debt cancellation had an avenue for review. Notwithstanding the above, situations subsequently came to light that revealed inconsistent application of the policy and cases being handled differently by the different Centers. Although no action has been taken to end the debt cancellation programs with regards to new debts, DFAS issued a memorandum on May 28, 1993, to each DFAS Center directing the Centers to cease the "systematic" cancellation of DS/DS debts as of June 1, 1993.

Recommendation B.1. Request that the Office of the Secretary of Defense end the debt cancellation program for Operation DS/DS.

Comments on Recommendation B.1. Concur. OSD will take immediate steps to pursue a cut-off date for debt cancellation under Public Law 102-172, Section 8138.

Recommendation B.2. Ensure that for policy that implements special programs for resolving military pay problems, each identified problem is addressed.

Comments on Recommendation B.2. Concur. Certainly that is our intent. In fact, as indicated earlier, in developing our guidelines for implementing the DS/DS debt cancellation program, we discussed every conceivable problem envisioned with the OSD, our Centers and the Military Services prior to finalizing our instructions. Obviously, we encountered some situations that were not anticipated or planned. Those problems which are subsequently identified will be addressed in any forthcoming policy related to special programs, as well as lessons learned from the DS/DS exercise.

Recommendation B.3. For debt management of military pay for all members of the Services:

a. Revise the definition of "routine adjustment" in the "DoD Military Pay and Allowances Entitlement Manual" to state more specific time criteria and define a basis for calculation of debts.

Comments on Recommendation B.3.(a). Concur. The Defense Finance and Accounting Service Headquarters, Military Pay Division, is revising the definition of "routine adjustment" in the Department of Defense Financial Management Regulation 7000.14-R, Volume 7A, to include a specific time criteria as well as a basis for calculation of debts. The proposed completion date is October 1993.

b. Establish a policy on debt collection that is fair and equitable for all military personnel.

Comments on Recommendation B.3.(b). Concur. For active and reserve members, DFAS has initiated action to standardize pay policies by October 1995, and to standardize/consolidate pay systems by December 1996. The standardization of pay policies and pay systems will ensure that all active/reserve military personnel are treated in a fair and equitable manner. For separated/discharged members, DFAS is in the process of implementing the Defense Debt Management System. This system will standardize debt collection, thereby ensuring equitable treatment for all military including former personnel; the proposed completion date is October 1993.

Recommendation B.4. Require DFAS Headquarters, Finance Deputate, to hold workshops on the implementation of policy before making changes to the Master Military Pay Account.

Comments on Recommendation B.4. Concur. DFAS will hold workshops on the implementation of policy before making major changes to the Master Military Pay Account.

Recommendation B.5. Revise existing policy so debt cancellation programs used after events such as Operation DS/DS will exclude debts resulting from actions taken by Service members.

Comments on Recommendation B.5. Concur. Initial guidance for the Operation DS/DS program included instructions to prevent cancellation of debts for Service members arising from fraud, misrepresentation, dishonored checks, and dual negotiation of Government checks. All Finance Officers and Commanding Officers have been instructed to review individual applications to determine if fraud or misrepresentation was indicated.

Internal Controls:
We assessed the internal controls used to identify and cancel debts related to the Persian Gulf conflict. Controls to prevent cancellations in excess of $2,500 were usually effective. Controls to ensure that identified debts were eligible for cancellation either did not exist or were ineffective. Except at the DFAS - Kansas City Center, controls did not exist to ensure that the specially-designed computer programs were operationally tested before making cancellations. We did not evaluate the implementation of the Federal Managers' Financial Integrity Act, except to note that the indebtedness problem was not reported by DFAS Headquarters or any Center. The internal control weaknesses are discussed in Finding A.

Comments on Internal Controls. Concur. Consolidation and standardization will correct many of the problems identified in the audit. For example, several of the systems audited will be eliminated by standardization while many inconsistencies will be eliminated by standardizing practices inherent in the consolidation effort. Also, efforts to improve the interface between personnel systems and finance and accounting systems will help ensure real-time entries and reduce the number of debts due to delayed and inaccurate posting.

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