

February 10, 2006



Financial Management

Audit of the FY 2004 Marine Corps Entitlements and Withholding (D-2006-049)

Department of Defense
Office of Inspector General

Constitution of
the United States

A Regular Statement of Account of the Receipts and Expenditures of all public Money shall be published from time to time.

Article I, Section 9

Additional Copies

To obtain additional copies of this report, visit the Web site of the Department of Defense Inspector General at <http://www.dodig.mil/audit/reports> or contact the Secondary Reports Distribution Unit, Audit Followup and Technical Support at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact Audit Followup and Technical Support at (703) 604-8940 (DSN 664-8940) or fax (703) 604-8932. Ideas and requests can also be mailed to:

ODIG-AUD (ATTN: AFTS Audit Suggestions)
Department of Defense Inspector General
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704

DEPARTMENT OF DEFENSE

hotline

To report fraud, waste, mismanagement, and abuse of authority.

Send written complaints to: Defense Hotline, The Pentagon, Washington, DC 20301-1900
Phone: 800.424.9098 e-mail: hotline@dodig.osd.mil www.dodig.mil/hotline

Acronyms

BAH	Basic Allowance for Housing
DFAS	Defense Finance and Accounting Service
FMR	Financial Management Regulation
MARADMINS	Marine Administrative Instructions
MCTFS	Marine Corps Total Force System
MMIA	Manpower Management Integration and Administration
OIG	Office of Inspector General
ODIG-AUD	Office of Deputy Inspector General for Auditing
USMC	United States Marine Corps



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

February 10, 2006

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE-KANSAS CITY
NAVAL INSPECTOR GENERAL
DEPUTY COMMANDANT OF THE MARINE CORPS FOR
MANPOWER AND RESERVE AFFAIRS

SUBJECT: Report on FY 2004 Marine Corps Entitlements and Withholding Data
(Report No. D-2006-049)

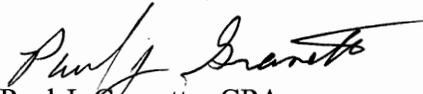
We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all issues be resolved promptly. We request additional comments from the Marine Corps on Recommendations A.1., A.5., and A.6. and Recommendations B.1., B.2., B.3., and B.4., including corrective actions and dates of completion. Recommendation A.5. and A.6. are redirected to the Marine Corps and were previously Recommendation A.2.a. and A.2.b. directed to Defense Finance and Accounting Service. We request management provide comments by April 10, 2006.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Aud-dfs@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Douglas P. Neville at (703) 428-1061 (DSN 328-1061) or Mr. Joseph A. Powell at (703) 428-1052 (DSN 328-1052). The team members are listed inside the back cover. See Appendix D for the report distribution.

By direction of the Deputy Inspector General for Auditing:


Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing
Service

Office of the Inspector General of the Department of Defense

Report No. D-2006-049

February 10, 2006

(Project No. D2004-D000FP-0210.000)

Audit of the FY 2004 Marine Corps Entitlements and Withholding

Executive Summary

Who Should Read This Report and Why? The Deputy Commandant of the Marine Corps for Manpower and Reserve Affairs should read this report because it discusses and recommends improvements to the administration of basic allowance for housing, Servicemembers' Group Life Insurance, the Montgomery GI Bill, and the Veterans Educational Assistance Program. The Director of Defense Finance and Accounting Service in Kansas City should read this report because it discusses transactions processed through the Marine Corps Total Force System.

Background. The Defense Finance and Accounting Service at Kansas City, Missouri, manages the Marine Corps financial accounts for both active and reserve Marines. The Marine Corps processes pay through the Marine Corps Total Force System database, which is controlled and maintained from the Defense Finance and Accounting Service in Kansas City. Marine Personnel Administrative Centers at bases and in the field make personnel entries to update data. Total dollar disbursements charged against the Marine Corps FY 2004 military pay appropriations were \$9.886 billion. Of this total, approximately \$960 million in basic allowance for housing is allocated for about 73,000 Marines.

Results. USMC administrative personnel did not consistently process requests for BAH rate protection as required by the Department of Defense Financial Management Regulation (FMR).^{*} As a result, the Marine Corps is potentially overpaying Marines by more than \$800,000 annually (finding A).

The Marines did not accurately input data and retain documents so that the Marine Corps Total Force System (MCTFS) database reflected documented records of the Marines' requests for Life Insurance and education benefits. As a result, the Marines' life insurance benefits may not be carried out according to their intentions concerning beneficiary, amount, and payroll withholding. Moreover, some Marines may not receive the education benefits they requested and other Marines had amounts they did not authorize withheld for education benefits (finding B). See the Findings section of the report for the detailed recommendations.

Management Comments and Audit Response. The comments from the Commandant of the Marine Corps were responsive concerning administrative center procedures. He nonconcurrented to establishing procedures including a checklist that addresses waiver requirements because it would be unwieldy. Based on the Marine Corps response to the

^{*} Basic Allowance for Housing rate protection requires a waiver that allows a Service member to continue to receive the same amount of housing allowance despite a change of duty station.

draft report, we have removed our recommendation for a checklist. His comments concerning Marine Corps review were responsive. He concurred that Manpower Management Integration and Administration would review errors discussed in this report. He concurred that the Marine Corps Administrative Analysis Team would review the personnel files that were not available for audit, and include in its inspections Basic Allowance for Housing rates.

The Commandant's comments were generally nonresponsive concerning procedures to ensure the accuracy of Marine payroll record books. He nonconcurred with directing personnel staff to specifically point out to Marines how each requested payroll change has been recorded and how the changes will impact their benefits. We identified numerous life insurance and educational benefits errors that could have been prevented by such a discussion with the Service member. He concurred in principle to directing administrative chiefs to validate the forms supporting transactions which post into the database; however, he did not address changes to current practices that would prevent errors in payroll withholding of the same type occurring in the future. He concurred in principle to directing administrative chiefs and certifiers to approve the entries and certify they were accurately recorded in the database before specialists file the forms in personnel files; however, he did not address changes to current practices that would prevent the forms from being filed until they were successfully entered into the database. He nonconcurred with requiring personnel specialists to execute annual audits of the personnel record books because he considers current personnel record audits sufficient. We disagree since we found deficiencies in the personnel records.

The Director of the Defense Finance and Accounting Service Kansas City comments were responsive concerning adjustments to housing payments. The Director nonconcurred with adjusting Basic Allowance for Housing payments to Marines and referred us to Marine Corps officials at Manpower Information Operations. We have redirected this recommendation to the Marine Corps.

We request that the Deputy Commandant of the Marine Corps for Manpower and Reserve Affairs reconsider his unresponsive comments and provide additional comments on this report by April 10, 2006. A discussion of management comments is in the Finding section of the report, and the text of the comments is in the Management Comments section. In addition, Appendix C discusses management comments concerning the report.

Table of Contents

Executive Summary	i
Background	1
Objectives	1
Internal Control Program Review	2
Findings	
A. Housing Allowance	3
B. Comparison of Marine Corps Withholding Data	12
Appendixes	
A. Scope and Methodology	20
B. Prior Coverage	22
C. Audit Response to Management Comments Concerning the Report	23
D. Report Distribution	25
Management Comments	
United States Marine Corps	27
Defense Finance and Accounting Service	33

Background

The United States Marine Corps (USMC) pays active and reserve Marines through the Marine Corps Total Force System (MCTFS) database. Although the Defense Finance and Accounting Service (DFAS) at Kansas City, Missouri, controls and maintains the database, staff at the Marine Personnel Administrative Centers located at bases and in the field enter personnel data into systems feeding the MCTFS database. The data the staff enters determines gross pay (including promotions, rank, duty station posting, and special entitlements) and withholdings (usually elected by the Marine) for every Marine and reservist. Total disbursements charged against the USMC FY 2004 military pay appropriations were \$9.886 billion. Of the total, approximately \$960 million in basic allowance for housing is allocated for about 73,000 Marines.

Marine Corps Total Force System. The USMC has integrated personnel and pay functions into a single database known as MCTFS. The MCTFS database supports pay and entitlements for both Active and Reserve Components of the Marine Corps and manages all personnel data management for retired Marines. The database is jointly sponsored and owned by the Marine Corps and DFAS, and maintains more than 500,000 records.

Personnel Administrative Centers. Marines can make changes to their personnel records by visiting their local Personnel Administration Center or through the Internet. These changes can affect payroll withholding data. USMC has many Personnel Administrative Centers with each being responsible for specific Marine units. The Personnel Administrative Centers maintain the enlisted Marines' Service Record Books and the Marine Officers' Officer Qualification Records. Service Record Books and Officer Qualification Records contain assignment, promotion, military life insurance, and other documentation required of each Marine. Personnel changes made for a Marine at the Personnel Administrative Centers should be documented in the Marine's Service Record Book or Officer Qualification Record after the changes are entered into a "unit diary" transaction, which will be captured by the MCTFS database. Personnel Administrative Centers are allowed to establish local standard operating procedures to implement Marine Corps procedures.

Oversight and Review Responsibility. The Personnel Administrative Centers were manned by Marine enlisted personnel supervised by warrant officers and noncommissioned officers. As leaders and managers, the warrant and noncommissioned officers were responsible for the training of their enlisted personnel as well as review and oversight of all personnel actions and procedures necessary to ensure compliance with the Marine Corps personnel administrative procedures.

Objectives

The overall audit objective was to determine whether the USMC accurately reported the cost of military personnel in the financial statements and properly

withheld amounts for Service members. However, Public Law 108-375, October 28, 2004, was enacted after our audit was announced. Section 352 of the law disallows financial audits as part of the Mid Range Financial Improvement Plan. We interpreted this law as precluding work on unaudited DoD financial statements. Therefore, we limited our focus to reviewing accuracy of USMC payments to Service members, including the Basic Allowance for Housing (BAH) entitlement and withholdings for Servicemembers' Group Life Insurance (Life Insurance), Montgomery GI Bill, and Veterans Education Assistance Program (education benefits).

Internal Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD managers to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Internal Control Program. We reviewed Personnel Administrative Center internal controls over accuracy of data entered into the MCTFS database that determines Marines' BAH entitlement and payroll withholding. We also compared the data in the MCTFS database with payroll withholding data in the Marines' Service Record Books or Officer Qualification Records. We reviewed the USMC annual statement of assurance and determined it did not disclose payroll entitlement and withholding problems. We did not assess the adequacy of management's self-evaluation.

Adequacy of Internal Controls. We identified no material management control weaknesses; however, we did identify an internal control weakness,¹ which, although not material, is worth noting as it affects Marines' pay. Personnel Administrative Center staff did not implement internal controls to ensure BAH, life insurance, and education benefits were accurately administered. The requests were not properly processed because the Deputy Commandant for Manpower and Reserve Affairs had not established effective and efficient procedures, including oversight and review, for administrative personnel to effectively implement the Financial Management Regulation regarding Basic Allowance for Housing. During the audit, we also identified issues concerning the timeliness of transmitting entitlement and payroll withholding data to the MCTFS database, the retention of Marines' payroll entitlement and withholding data in the Service Record Books and Officer Qualification Records, and the accuracy of withholding amounts from military pay.

¹As defined by DoD Instruction 5010.40.

A. Housing Allowance

USMC administrative personnel did not consistently process requests for BAH rate protection as required by the Department of Defense Financial Management Regulation (FMR). The requests were not properly processed because the Deputy Commandant for Manpower and Reserve Affairs had not established effective and efficient procedures for administrative personnel, including oversight and review, to implement the FMR regarding Basic Allowance for Housing. Also, Manpower Management Integration and Administration (MMIA) did not have access to Marines' prior addresses and dates of residence—information MMIA staff needs to implement FMR requirements. As a result, the USMC may be overpaying Marines by more than \$800,000 annually.

Basic Allowance for Housing

The USMC implements section 403, title 37, United States Code, “Basic Allowance for Housing,” (37 U.S.C. 403) to provide Basic Allowance for Housing (BAH) to Service members to defray the cost of quarters not provided by the Government. As such, 37 U.S.C. 403 defines the legal limitations, including adjustments, based on the FY 2001 National Defense Authorization Act (Public Law 106-398, October 30, 2000). The FMR implements the United States Code and provides policy regarding financial management and military pay. The USMC Deputy Commandant for Manpower and Reserve Affairs issues Marine Administrative Instructions (MARADMINS) to provide administrative policy for implementing the FMR. The Marine Corps Administrative Analysis Teams perform reviews and prepare reports on the efficiency of administrative units. Finally, the DFAS Systems Liaison and Procedures Division in Kansas City publishes “Pay Allowance and Advisory Notices” to further clarify policy.

United States Code. As stated in 37 U.S.C. 403, the amount of BAH for a member is determined by the member's pay grade, geographic location, and the dependency status of the member. The Secretary of Defense determines the housing allowance based on the adequate housing rental in military housing areas in the United States.

FY 2001 National Defense Authorization Act. The Committee on Armed Services, United States Senate Report 106-292, “National Defense Authorization Act for Fiscal Year 2001,” May 12, 2000, describes cases in which the BAH for Service members had been reduced although they remained in the same quarters after a change of Permanent Duty Station. The initial BAH legislation was not intended to impose adverse effects on Service members because of a no-cost Permanent Change of Station move when Service members stay in the original quarters. Therefore, Public Law 106-398 gives the Secretary of Defense the authority to determine BAH rates according to the rate at the previous permanent duty station under certain circumstances. For example, when the Service member changes assignment using a low or no-cost move within the United States or when dependents reside separately because of the member's Permanent Change of Station.

Financial Management Regulation. FMR, volume 7A, chapter 26, implements the FY 2001 National Defense Authorization Act. Specifically, the FMR states that the Secretaries of the Army, Navy, and Air Force may determine whether it is inequitable to pay a Service member BAH based on the new permanent duty station rate. However, the FMR requires that Service member to request a waiver (approval letter) from the Service Secretary, or a designated representative, if they wish to draw BAH based on a location other than their permanent duty station. The Office of the Service Secretary or their representative must issue a decision to allow the Service member to retain a higher BAH.

MARADMINS. The Deputy Commandant for Manpower and Reserve Affairs issued three MARADMINS specifically addressing BAH issues. MARADMIN 286/01, “Basic Allowance for Housing,” June 18, 2001, implements the new BAH provisions established in Public Law 106-398. MARADMIN 315/01, “Basic Allowance for Housing,” July 2, 2001, clarifies some of the provisions of MARADMIN 286/01 and implements the waiver requirement established in the FMR. Specifically, Marines must obtain their waivers through the MMIA. All waivers are processed through local Personnel Administrative Centers. Finally, MARADMIN 239/05, “Basic Allowance for Housing at locations other than the member’s permanent duty station,” May 24, 2005, clarifies such issues as:

- returning to a previous permanent duty station,
- unfunded relocation orders from a higher to a lower BAH area, and
- querying members when their BAH zip code is different from their Permanent Duty Station zip code.

Marine Corps Administrative Analysis Teams. The Marine Corps Administrative Analysis Teams perform reviews and prepare reports on the efficiency of administrative units. The Marine Corps has two teams performing reviews; one is the East Coast Team and the other is the West Coast Team. The teams provide commanders and their staffs with training, education, and evaluation concerning Marine Corps policies and procedures affecting administration of personnel, pay, and allowances.

Pay Allowance Advisory Notices. DFAS Systems Liaison and Procedures Division in Kansas City provides entitlement determinations, regulatory interpretations, and procedure clarifications for disbursing military pay and allowances and station allowances for the Marine Corps. Pay Allowance Advisory Notice 29-02, “BAH-Policy Change for BAH at Previous Duty Station,” March 2002, addresses low cost or no-cost moves between permanent duty stations. Although this policy does not authorize the reimbursement of movement expenses, the Marine is allowed to retain the higher BAH rate. In this situation, the Marine is allowed to retain the higher BAH rate because it is not equitable to reduce the rate when the Marine has not made any change in housing.

Implementation of Public Law

The Deputy Commandant for Manpower and Reserve Affairs had not established effective and efficient procedures for administrative personnel to effectively implement the FMR regarding BAH for all Marines. Specifically, the Deputy Commandant did not include oversight and review in procedures for administrative personnel to implement procedural requirements established in the FMR and MARADMINS, and the MMIA did not have the access to Marines' prior addresses and dates of residence. MMIA personnel needed that information to adhere to the requirements in the FMR. As a result, USMC may have made BAH overpayments of more than \$800,000.

Enforcement of Requirements. Local Personnel Administrative Centers were not enforcing the waiver requirement established in the FMR. We compared BAH entitlement records in 888 Marine Service Record Books and Officer Qualification Records from Quantico, Virginia; Camp Pendleton, California; and Camp LeJeune, North Carolina, to Marines' leave and earning statements. The records selected consisted of Marines whose BAH zip code was different than their permanent duty station zip code. During the audit we found the following potential overpayments.

- 86 records reviewed were missing the BAH waiver
- 41 records were not made available for our review

USMC had made the following actual overpayments.

- 79 records showed higher BAH for Marines reassigned to their previous Permanent Duty Station
- 41 records showed the Marines moved their residence to a duty station with lower allowance for housing and were incorrectly paid higher BAH
- 9 records showed the Marines were reassigned to an alert site instead of a new Permanent Duty Station and higher BAH was incorrectly authorized

These errors resulted in \$428,499 in potential overpayments annually and \$380,508 in actual overpayments annually.²

Potential Overpayments. MMIA has the authority to issue higher BAH waivers. For the 888 records reviewed, Marine Personnel Administrative Centers processed 86 transactions to increase BAH without receiving a waiver from MMIA. In addition, 33 of 41 records which were requested but not provided could be potential overpayments.

²These results cannot be statistically projected. Table 1 shows potential overpayments annually of \$291,999 and \$136,500; totaling \$428,499. Table 2 shows actual overpayments annually of \$210,588; \$138,300; and \$31,620; totaling \$380,508.

Missing Waivers. The USMC may have overpaid 86 Marines by \$291,999 because the Personnel Administrative Centers did not obtain the required waivers. MARADMIN 286/01 provides policy concerning the duty station BAH rate when a Marine receives permanent change of station orders. MARADMIN 315/01 requires Marines to request a waiver through the MMIA if they wish to draw BAH for an amount higher than the amount allowable at their permanent duty station. The Personnel Administrative Centers processed transactions authorizing higher BAH for Marines who had not obtained the required waiver from the MMIA. We considered these potential overpayments because there is no waiver on file to ensure the request is valid.

Records Unavailable. At Camp Pendleton, 41 of the Service Record Books or Officer Qualification Records we requested were not provided to us by the Personnel Administrative Centers. The Service Record Books and Officer Qualification Records at Camp Pendleton were retained among the various reporting units throughout the Marine base. Moreover, the Personnel Administrative Centers did not provide an explanation for the absence of the Service Record Books or Officer Qualification Records. We reviewed data available from DFAS Kansas City regarding those 41 Marines. Of the 41 Marines, 33 received BAH at rates in excess of Camp Pendleton’s BAH rate (five had received waivers from MMIA, two others lived in the barracks, and one received a lower housing allowance). The 33 Marines received BAH which equaled \$11,375 in excess of the Camp Pendleton BAH rate per month or \$136,500 annually.

The total potential overpayments are \$428,499 for Service Record Books and Officer Qualification Records that were either missing BAH waivers or were unavailable for review. Table 1 shows potential annual overpayments by location.

Marine Corps Base	<u>Missing Waivers</u>			<u>Records Unavailable</u>	
	<u>Records Reviewed</u>	<u>Personnel Records</u>	<u>Potential Overpayment</u>	<u>Personnel Records</u>	<u>Potential Overpayment</u>
Quantico	314	11	\$ 40,071		
Camp LeJeune	281	19	25,956		
Camp Pendleton	<u>293</u>	<u>56</u>	<u>225,972</u>	<u>33</u>	<u>\$136,500</u>
Totals	888	86	\$291,999	33	\$136,500

* These results cannot be statistically projected.

Actual Overpayments. As shown in Table 2, the Personnel Administrative Centers processed applications for higher BAH that resulted in \$380,508 in actual overpayments annually.

Table 2. Annual Overpayments for Basic Allowance for Housing.*

Marine Corps Base	Marines Reassigned to Previous Permanent Duty Station		Marines Moved in Conjunction with Orders		Marines Assigned to Alert Site		Annualized Total Amount
	Number	Amount	Number	Amount	Number	Amount	Overpaid
Camp Pendleton	64	\$176,184	28	\$108,636			\$284,820
Camp LeJeune	4	3,588	5	1,440			5,028
Quantico	<u>11</u>	<u>30,816</u>	<u>8</u>	<u>\$ 28,224</u>	<u>9</u>	<u>\$31,620</u>	<u>90,660</u>
Totals	79	\$210,588	41	\$138,300	9	\$31,620	\$380,508

*These total dollar amounts do not duplicate those in Table 1.

Marines Reassigned to Their Previous Permanent Duty Station. The BAH rate paid to Marines reassigned from a low BAH area to a high BAH area and back again is a complicated issue. As stated in 37 U.S.C. 403, Marines originally assigned to a low BAH area may receive a higher BAH when they are assigned to a high BAH area even if they have not moved from their low BAH residence. Marines are not allowed to retain the higher BAH when they are reassigned back to the original low BAH duty station. However, MMIA approved requests to retain higher BAH from a previous permanent duty station for 79 Marines even though they were reassigned to their previous low BAH station and continuously lived in the low BAH area. In May 2005, the Deputy Commandant for Manpower and Reserve Affairs published MARADMIN 239/05 to clarify 37 U.S.C. 403. MARADMIN 239/05 was issued after most of our field work was completed. This MARADMIN clarifies that when a member has been initially assigned to a low BAH area, is reassigned to a nearby high BAH area, and then is reassigned again to the low BAH area, BAH rate protection does not apply. The 79 Marines who were approved for the higher BAH rate received a total annual overpayment of \$210,588.

Marines Moved in Conjunction with Orders. According to Pay Allowance Advisory Notice 29-02, the Marines can retain the old Permanent Duty Station rate because it is not equitable to reduce the member's housing allowance when the member has not made any change in housing. However, MMIA approved 41 Marines for higher BAH based on the request from the Marine and from their commander. These 41 Marines moved to a lower BAH rate housing area, and therefore were not eligible to continue to receive the higher BAH rate. The MCTFS database does not display current and past addresses and

dates Marines lived at each address. If MMIA had access to this information, it could make a more informed decision on BAH approvals. The 41 Marines approved for the higher BAH rate received a total annual overpayment of \$138,300.

Marines Assigned to Alert Sites. Nine Marines received higher BAH without moving and without changing their Permanent Duty Station. The Marines received higher BAH because they were posted to an alert site (a place where Marines are vigilantly attentive and responsive) in Washington, D.C. Such postings do not qualify a Marine for higher BAH. The Marine Personnel Administrative Centers processed these nine transactions to increase BAH for the Marines posted to an alert site. The Permanent Duty Station for these Marines did not change; therefore, they did not meet the criteria under the FMR for the higher BAH. The Marine Personnel Administrative Centers did not require approval documentation from the MMIA. The resulting overpayment was \$31,620 annually.

Summary

Since Congress passed the FY 2001 National Defense Authorization Act, the Department of Defense has attempted to address inequities associated with BAH benefits provided to military personnel. Personnel Administrative Centers staff have found it difficult to determine eligibility for higher BAH rates. Additional guidance to the Personnel Administrative Centers, including establishing effective and efficient procedures with oversight and review to implement FMR requirements, will help to ensure accurate execution of the intent of the legislation and reduce chances of errors and unnecessary cost.

Recommendations, Management Comments, and Audit Response

Redirected, Revised, and Renumbered Recommendations. We revised draft recommendation A.1.a. (now A.1.) based on Marine Corps comments that a checklist would be impractical. We revised draft recommendation A.2.a. (now A.5.) from “information provided by the Deputy Commandant for Manpower and Reserve Affairs” to “information provided by review of errors disclosed in this audit report,” based on DFAS comments that data input for Marines’ BAH adjustments and other pay and personnel entries is the Marine Corps’ responsibility. The Marine Corps provided unsolicited comments on draft recommendation A.2.b., stating that MCTFS did not contain previous addresses of Marines. We revised draft recommendation A.2.b. (now A.6.) from “view addresses” to “review current and previous” addresses.

The Director DFAS-Kansas City deferred all comments and responses to draft recommendation A.2.a (now recommendation A.5.) to the USMC for a formal response. Marine Corps policy states data input for its Service members’ BAH adjustments and other pay and personnel entries is the Marine Corps’ responsibility. As a result of management comments, we redirected draft recommendations A.2.a and A.2.b. (now A.5. and A.6.) to the Deputy Commandant for Manpower and Reserve Affairs. We renumbered draft recommendations A.1.a, A.1.b., A.1.c., A.1.d., A.2.a., and A.2.b.; to A.1., A.2, A.3., A.4., A.5., and A.6., respectively.

A. We recommend that the Deputy Commandant for Manpower and Reserve Affairs establish effective and efficient procedures to effectively implement the intent of Public Law 106-398 and the Financial Management Regulation regarding Basic Allowance for Housing rate protection. Specifically:

1. Establish procedures that address waiver requirements for Personnel Administrative Center staff to follow for every Basic Allowance for Housing rate protection request, including oversight and review.

2. Direct Manpower Management Integration and Administration to review the errors discussed in this report and verify the eligibility of Marines to receive the higher Basic Allowance for Housing, discontinuing the higher Basic Allowance for Housing where appropriate.

Marine Corps Comments. The Commandant of the Marine Corps concurred. MARADMIN 239/05 directs all commands to determine if any of their Marines are receiving BAH at other than their PDS rates and, if so, to submit those Marines’ records for a review and re-adjudication. In addition, MMIA is reviewing the BAH rate errors identified in this DoD IG Report. As of November 2005 the Marine Corps was in the process of completing the implementation of these recommendations. The Marine Corps projected a revised completion date of February 28, 2006.

Audit Response. The Marine Corps comments are fully responsive. We commend the Marine Corps for conducting a 100% review of all Marines receiving a higher BAH rate in order to determine if the higher rates are justified.

3. Direct Marine Corps Administrative Analysis Team-West to locate and review the 41 Service Record Books and Officer Qualification Records that were not available for audit, to determine if the Marines were eligible and approved to receive the Basic Allowance for Housing paid in excess of their current Permanent Duty Station rate, and report the results to the Personnel Administrative Centers and Manpower Management Integration and Administration.

Marine Corps Comments. The Commandant of the Marine Corps concurred. The Director of Manpower Information will forward the list of records to Marine Corps Administrative Analysis Team-West for review. Marine Corps Administrative Analysis Team-West will report its findings to the servicing Personnel Administrative Center, Director of Manpower Information, and Manpower Management Integration and Administration. The Marine Corps has estimated February 28, 2006 as the completion date for this review.

4. Direct Marine Corps Administration Analysis Team in its inspections to review all Basic Allowance for Housing rates in excess of the Permanent Duty Station rate.

Marine Corps Comments. The Deputy Commandant for Manpower and Reserve Affairs concurred. The Marine Corps Administrative Analysis Team checklist will be modified to verify correct BAH rates. The Marine Corps has estimated February 28, 2006 as the date for completion.

5. Adjust Basic Allowance for Housing payments to Marines in accordance with information provided by review of errors disclosed in this audit report.

Marine Corps Comments. The Marine Corps did not comment on this recommendation.

6. Identify methods to allow Manpower Management Integration and Administration to review Marines current and prior addresses including periods of residence.

Defense Finance and Accounting Service Comments: Management concurred. Management stated that the Manpower Management Integration and Administration has read-only access to the Marine Corps Total Force System.

Marine Corps Comments: The Commandant of the Marine Corps provided unsolicited comments and stated Manpower Management Integration and Administration has access to Marine Corps Total Force System data. The access enables Manpower Management Integration and Administration to determine Marines' current addresses, but does not provide the ability to determine Marines' previous addresses.

Audit Response: This recommendation was originally addressed to the Director of the Defense Finance and Accounting Service-Kansas City. Because Marine Corps Total Force System does not include previous addresses, we have revised the recommendation.

Management Comments Requested. We request the Marine Corps provide comments on Recommendations A.1., A.5., and A.6.

B. Comparison of Marine Corps Withholding Data

The Marines did not accurately input data and retain documents so that the Marine Corps Total Force System (MCTFS) database reflected documented records of the Marines' requests for Service Members Group Life Insurance (Life Insurance) and education benefits. Marine records and the MCTFS database did not match because the Deputy Commandant for Manpower and Reserve Affairs had not established effective procedures, including oversight and review, to ensure the accurate posting of Marines' requests to the record books and to the MCTFS database. In addition, the Deputy Commandant for Manpower and Reserve Affairs had not implemented effective procedures for verifying the accuracy of payroll records, including Service Record Books and Officer Qualification Records. As a result, the Marines' Life Insurance benefits may not be carried out according to their intentions concerning beneficiary, amount, and payroll withholding. Moreover, some Marines may not receive the education benefits they requested and other Marines had amounts withheld for education benefits they did not authorize.

Service Member Benefits

Public laws were enacted to authorize, enhance, and change life insurance benefits and educational assistance for Service members. The FMR implements the United States Code and provides financial management policy and procedures. In addition, the USMC issued the Marine Corps Total Force System Personnel Reporting Instruction Manual (the Manual) to provide administrative policy for implementing the FMR.

Life Insurance in Public Law. Public Law 89-214, effective September 29, 1965, authorizes Servicemembers' Group Life Insurance coverage. Life Insurance coverage for Service members was available up to a maximum of \$250,000 for a cost of \$16.25 per month. Subsequent to our field work the maximum Life Insurance was increased to \$400,000. Public Law 107-14, effective November 1, 2001, allows for Life Insurance coverage for the Service member's spouse up to \$100,000.

Educational Assistance in the United States Code. The Montgomery GI Bill and the Veterans Educational Assistance Program authorize education financial assistance. The language in 38 U.S.C. 3011 authorizes the withholding of money from Service members' pay for the Montgomery GI Bill. The Post-Vietnam Veterans' Assistance Program (38 U.S.C. 3222) and the Educational Assistance Pilot Program (Section 903 of Public Law 96-342) authorized the Veterans Educational Assistance Program.

Financial Management Regulation. FMR volume 7A, chapter 47, provides policy for implementing the Life Insurance program. The FMR states that the Life Insurance program automatically insures eligible members (those who

receive basic pay for one or more days per month) against death in the amount of \$250,000, unless they waive coverage. In addition to waiving coverage, members may elect coverage for an amount less than \$250,000, in \$10,000 increments. When a member is eligible for full time coverage, the monthly deduction is \$.65 for each \$10,000 of coverage.

Marine Corps Total Force System Personnel Reporting Instruction Manual (The Manual). In The Manual, the USMC established procedures and internal controls for ensuring accurate withholding of voluntary contributions in the MCTFS database. The withholding of voluntary contributions from Marines' pay for education benefits and Life Insurance as recorded in the MCTFS database should be the same as those authorized by Marines in their Service Record Books and Officer Qualification Records. The Manual requires audits of the data entry.

Data Entry Process. The Manual defines the electronic methods of data entry into the MCTFS database as unit diaries. A unit diary clerk (data entry clerk) prepares and reviews the diary (data) to produce the rough diary (draft data). Then the Administrative Chief reviews the diary and either accepts it and forwards it to the Certifying Officer, or rejects the rough diary and returns it to the unit diary clerk for correction. The Manual states that unit diaries will be certified by use of an electronic signature by commissioned or warrant officers, or by a civilian in grades GS-7 or above.

Audit Requirements. In addition to the procedures outlined above, Chapter 12 of The Manual requires that the Personnel Administrative Centers perform triennial audits (once every three years) to ensure accuracy, completeness, currency, and consistency of the MCTFS database in conjunction with signed documents in the Marines' Service Record Books and Officer Qualification Records. In order to reduce the frequency a Marine is required to visit the Personnel Administrative Center, Marines or Administrative personnel are able to declare any visit for routine service as their triennial audit.

Annual Audits versus Triennial Audits. Personnel Administrative Centers that annually audited Marines' Service Record Books and Officer Qualification Records had a lower error rate than Personnel Administrative Centers that audited triennially. At Quantico and Camp LeJeune, the Personnel Administrative Centers perform annual audits of the Service Record Books and Officer Qualification Records; Camp Pendleton Personnel Administrative Centers perform triennial audits. As shown in Table 3, the Life Insurance error rates for bases that performed audits annually were significantly lower than the rates for the base that performed audits triennially. Although the differences in error rates for education benefits were not as dramatic for the bases performing annual audits, the error rates were still lower than those documented in the triennial audit.

Table 3. Annual versus Triennial Error Rates for Life Insurance and Education Benefits by Base*

<u>Marine Corps Base</u>	<u>SRBs and OQRs Reviewed</u>	<u>Life Insurance</u>		<u>Education Benefits</u>	
		<u>Errors</u>	<u>Error Rate</u>	<u>Errors</u>	<u>Error Rate</u>
Quantico (Annual)	314	9	2.9%	21	6.7%
Camp LeJeune (Annual)	281	8	2.9%	29	10.3%
Camp Pendleton (Triennial)	<u>293</u>	<u>24</u>	8.2%	<u>30</u>	10.2%
Totals	888	41	4.6%	80	9.0%

* These results cannot be statistically projected.

Life Insurance

A comparison of Service Record Books and Officer Qualification Records to Marines' leave and earning statements at Quantico Marine Corps Base, Virginia; Camp LeJeune, North Carolina; and Camp Pendleton, California; showed the deductions in the MCTFS database did not always agree with life insurance withholdings and beneficiary information elected by the Marines. Out of 888 records reviewed, we found 41 errors for life insurance. Although the total number of errors³ was relatively small (4.6%), these errors could be devastating to the beneficiary of a Marine. In 16 instances the errors were for life insurance coverage or deductions, with total monthly premium underpayments of \$429 and premium overpayments of \$1,275, and a potential benefit loss of \$550,000. In 19 instances the errors were either caused by incorrect Life Insurance beneficiary information or by unsigned and missing Life Insurance source documents, with Life Insurance coverage totaling \$4,062,500. The final six instances were errors in which the member elected either a payout option of 36 months or one lump sum on the life insurance forms, but the MCTFS database did not reflect these elections. Moreover, 28 of these errors could have been detected by the Personnel Administrative Centers or the Service member when completing election forms. For example, we found the following.

- 23 instances of members not verifying their insurance election form to ensure consistency with their Record of Emergency Data form
- 5 instances of members not signing their life insurance documents

Personnel specialists need to specifically point out to Marines how each requested payroll change has been recorded and how the changes will impact their benefits. This action will not only reduce the number of errors, but will also increase the members' understanding of their benefits.

³ This judgment sample percentage does not project to the population.

Effects of Errors

The errors could have significant consequences for the Marines and their beneficiaries. Life Insurance errors are the most serious and resulted in several different types of discrepancies. For example:

- One Marine was covered for \$100,000 Life Insurance in the MCTFS database after electing the maximum coverage of \$250,000 in the Service Record Book.
- A second Marine was covered for \$200,000 Life Insurance in the MCTFS database after electing coverage of \$250,000 in the Service Record Book.
- A third Marine was underpaid \$16.25 each month (or \$195 annually) after declining the Life Insurance coverage.
- A fourth Marine made a change in beneficiary in the Service Record Book that was not recorded in the MCTFS database. Had the Marine died, the wrong person would have received the insurance money.

GI Bill and Veterans Educational Assistance Program

Our review of Service Record Books and Officer Qualification Records showed the deductions in the MCTFS database did not agree with the education benefit withholdings elected by the Marines. Out of 888 records reviewed, we found 80 education benefits withholding errors.

Education Forms Inconsistent with the MCTFS Database. For the 888 records reviewed, 23 education election forms in the Service Record Books and Officer Qualification Records were inconsistent with data in the MCTFS database. As a result of the Marines' elections not being reflected in the database, 16 had a lower amount withheld totaling \$21,723. Of these 16 Marines, 10 indicated they wanted to participate in the program, but the Personnel Administrative Centers had not made entries in unit diaries to initiate the withholdings. If personnel specialists were instructed to file election forms for educational benefits into Service Record Books or Officer Qualification Records after the administrative chief and certifier had marked them for approval and certified that the entry had taken place, this error could have been prevented. The other six errors could have been prevented by requiring and training administrative chiefs to validate support for education election transactions prior to providing the transactions to certifiers. For two of the six Marines, the Personnel Administrative Centers did not enter the Marines' elections to increase education withholdings. Personnel Administrative Centers began education withholdings on the remaining four Marines more than one pay period after they made their election. For example, one Marine elected education benefits in March but withholding did not start until September, five months later.

As a result of the Marines' elections not being accurately reflected in the database, seven Marines had too much pay withheld for a total of \$11,400. Also, the Personnel Administrative Centers posted information to unit diaries to initiate education withholdings for three Marines who declined to participate. Therefore, \$5,100 was withheld in error. The Personnel Administrative Centers also posted information to unit diaries to initiate education withholdings for four Marines who were not eligible to participate in the programs. Therefore, \$6,300 was withheld in error.

Retaining Forms and Signature. For the 888 records reviewed, 57 of the education election forms were either unsigned or missing. The Service Record Books and Officer Qualification Records of 34 Marines did not contain an education benefits form; however, no amounts were withheld in the MCTFS database. The Service Record Books and Officer Qualification Records of another 19 Marines did not contain an education benefits form or the form was unsigned, but \$22,200 for education benefits had been withheld in the database. The Service Record Books and Officer Qualification Records of the remaining four Marines did not have supplemental education benefit forms to increase educational coverage or the form was unsigned, but had an additional \$2,360 withheld. As a result, \$24,560 was withheld without the Marines' signed education benefit forms being documented in their Service Record Book or Officer Qualification Record.

Audit and Signature. The 34 instances of the missing education forms, without deductions, could have been prevented by annual audits of the Service Record Books and Officer Qualification Records. The audits of the Service Record Books and Officer Qualification Records are normally performed by personnel in the Personnel Administrative Centers. The 23 instances of withholding for education benefits without supporting documents in the Service Record Books and Officer Qualification Records also could have been prevented by personnel specialists, administrative chiefs, and certifiers ensuring that all supporting documentation for transactions being posted into unit diaries is present.

Summary

The Deputy Commandant for Manpower and Reserve Affairs had not established effective procedures, including oversight and review, to ensure the accurate posting of Marines' requests to the record books and to the MCTFS database; consequently, Marine records and the MCTFS database did not match. The Deputy Commandant for Manpower and Reserve Affairs needed to require Marines and personnel specialists to review life insurance and education benefit election forms for consistency and accuracy. In addition, the Deputy Commandant needed to issue guidance to preclude personnel specialists from filing life insurance and education benefit election forms in the Service Record Books or Officer Qualification Records without the elections actually being posted into MCTFS. The Deputy Commandant also needed to issue guidance to require personnel specialists to take the time during the review process to point

out all of the changes made and requested by the Marine. This action would not only reduce the number of errors, but would also increase the member's understanding of their benefits.

Recommendations, Management Comments, and Audit Response

B. The Deputy Commandant for Manpower and Reserve Affairs should establish and implement procedures, including oversight and review, to ensure the accuracy of Marine payroll records including Service Record Books and Officer Qualification Records. At a minimum, the procedures should:

1. Direct Personnel Administrative Center personnel to specifically point out to Marines how each requested payroll change has been recorded and how the change(s) will impact their benefits.

Marine Corps Comments. The Deputy Commandant for Manpower and Reserve Affairs nonconcurred, stating that Marine Corps Orders (MCO) 7220.44A, “Marine Corps Policy for Paying Marines Under the Joint Uniform Military Pay System Manpower Management System (JUMPS/MMS),” June 21, 1989, and MCO 5000.14D, “Marine Corps Administrative Procedures (MCAP),” June 4, 2004, state that individual Marines are responsible for the accuracy of their pay. In addition, DFAS-KC 7220.21-R, August 21, 1998, “Marine Corps Total Force System Automated Pay System Manual,” identifies how Marines will be notified of changes in their pay.

Audit Response. The Marine Corps comments are nonresponsive. We identified numerous deficiencies concerning military insurance and educational benefits. The current procedures and controls are not adequate to assure the accurate recording and withholding of benefits. The complexities and associated errors demonstrate the need for additional procedures to ensure Marines are receiving the benefits they are entitled to. The Marine Corps comments do not describe how such deficiencies will be prevented in the future.

2. Direct administrative chiefs to validate the personnel forms supporting unit diary transactions which will post into the Marine Corps Total Force System database prior to providing the transactions to certifiers.

Marine Corps Comments. The Deputy Commandant for Manpower and Reserve Affairs concurred in principle. The administrative chiefs of the Personnel Administrative Centers are required to review the source documents prior to either approving and forwarding them to the unit diary clerk or rejecting them for more documentation. Administrative chiefs’ responsibilities are documented in the flowcharts at Figure 1-3 of the Marine Corps Total Force System Personnel Reporting Instructions Users Manual.

Audit Response. The Marine Corps comments are not responsive because they did not address changes to current practices or procedures that would prevent future errors. We would like the Marine Corps to concur in practice as well as in principle. We are familiar with the Marine Corps Total Force System Personnel Reporting Instructions Users Manual and the responsibility of the administrative chiefs to review the source documents. However, we identified deficiencies

during our audit that were not detected and corrected by the administrative chiefs as required by the Marine Corps Total Force System Personnel Reporting Instructions Users Manual.

3. Direct administrative chiefs and certifiers to approve the entries and certify they have been accurately recorded before personnel specialists file the election forms in Service Record Books and Officer Qualification Records.

Marine Corps Comments. The Deputy Commandant for Manpower and Reserve Affairs concurred in principle. In accordance with Marine Corps Total Force System Personnel Reporting Instructions Users Manual, figure 1-3, administrative chiefs and certifiers are required to approve or reject draft unit diaries before personnel specialists file the election forms.

Audit Response. The Marine Corps comments are unresponsive because they did not address changes to current practices or procedures that might prevent future errors. The current system permits payroll benefit election documents to be filed in personnel record books without the data necessarily being entered into MCTFS.

4. Require personnel specialists to execute annual audits of the Service Record Books and Officer Qualification Records.

Marine Corps Comments. The Deputy Commandant for Manpower and Reserve Affairs nonconcurred because there are currently sufficient opportunities for Marines to have their Service Record Books or Officer Qualification Records audited for completeness and correctness. MCO P1070.12K, dated July 14, 2000, "The Marine Corps Individual Records Administration Manual," identifies the following three occasions when personnel records are to be audited: the Joint Process Audit, the Triennial Audit, and the Deployment Readiness Audit. In addition, commanders are permitted to direct an audit at any time, and individual Marines are allowed to request an audit of their personnel records at any time.

Audit Response. The Marine Corps comments are unresponsive. We found deficiencies in the personnel records. The rates of error at Quantico and Camp LeJeune, which require annual audits, were much lower than Camp Pendleton, which did not require annual audits. In addition, Quantico and Camp LeJeune operate effectively despite the requirements for annual audits of the Service Record Books and Officers Qualification Records.

Management Comments Requested. We request the Marine Corps provide comments on Recommendations B.1., B.2., B.3., and B.4.

Appendix A. Scope and Methodology

We examined the basic allowance for housing entitlement, Life Insurance, and education benefits. Supporting documents in the Marines' Service Record Books and Officer Qualification Records were audited against data in MCTFS. Supporting documents we examined included the MCTFS database record of emergency data, basic individual record, the 10922 dependency form, the life insurance election form, the spouse life insurance election form, the education benefit election forms, and the chronological record of assignments and permanent duty stations.

We performed this audit from August 2004 through August 2005 in accordance with generally accepted government auditing standards. DFAS and the Marine Corps briefed our team on the MCTFS database, USMC payroll operations, and the preparation of USMC financial statements. We examined Service Record Books and Officer Qualification Records maintained by Personnel Administrative Centers at Quantico Marine Corps Base, Virginia; Camp LeJeune, North Carolina; and Camp Pendleton, California. In addition, MCAAT-East at Camp Johnson briefed us on their responsibilities and their procedures for auditing the Marines.

We compared the BAH zip code against the Marines' Permanent Duty Station zip code using data mining software. Errors we found as a result of random sampling are included with the subpopulation errors, but the individual errors are not included twice. We then examined the documentation in the Service Record Books and Officer Qualification Records for support of the higher BAH rate for those Marines included in the subpopulation. We also used the subpopulation of Service Record Books and Officer Qualification Records for reviewing the withholdings and other information for Life Insurance and education benefits.

Table 4. SRBs and OQRs Examined*

<u>Marine Corps Base</u>	<u>SRBs and OQRs</u>
Quantico	191 (Random Sample)
Quantico	123 (Subpopulation)*
Camp LeJeune	226 (Random Sample)
Camp LeJeune	55 (Subpopulation)*
Camp Pendleton	293 (Subpopulation)*
Total	888

* Results from the subpopulation cannot be statistically projected.

Use of Computer-Processed Data. We did not evaluate the general and application controls of MCTFS, the database that processes payroll data, although we did rely on data produced by that system to conduct the audit. We determined data reliability by comparing the data provided to us from MCTFS to source

documents in the Marines' Service Record Books and Officer Qualification Records. Not evaluating the controls did not affect the results of the audit.

Use of Technical Assistance. The DoD OIG Quantitative Methods Division and the Data Mining Division assisted the audit.

The Quantitative Methods Division provided a random sample of the Marine records at Quantico Marine Corps Base. The Quantitative Methods Division also advised us that the incidence rate for the BAH requests was too low to be efficient for auditing a random sample with statistical projection and recommended that we focus our audit on the hard copy files with BAH.

The Data Mining Division trained our team and provided us with software to compare data and sort information. We used the software to compare BAH zip codes against the Marines' Permanent Duty Station zip codes to determine the subpopulations for review.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of the DoD Financial Management high-risk area.

Appendix B. Prior Coverage

During the last 5 years, the Government Accountability Office (GAO), the Naval Audit Service, and Air Force Audit Agency issued seven reports discussing military payroll or BAH. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>. Unrestricted NAS reports can be accessed at <http://www.hq.navy.mil/navalaudit/>.

GAO

GAO-04-413T, "Army National Guard Personnel Mobilized to Active Duty Experienced Significant Pay Problems," January 2004

Navy

N2005-0021, "Termination of BAH for Personnel Residing in Navy Family Housing at Pacific Activities," January 6, 2005

N2004-0076, "Termination of BAH for Personnel Residing in Navy Housing at Selected Activities in Washington State and California," September 7, 2004

N2004-0060, "Termination of BAH for Navy Personnel Residing in Government Family Housing at Selected District of Columbia and Maryland Activities," June 17, 2004

N2004-0035, "Termination of BAH for Navy Personnel Residing in Government Family Housing in Jacksonville, FL Area," April, 1, 2004

N2004-0025, "Termination of BAH for Navy Personnel Residing in Government Family Housing in the New London, CT, and Newport, RI Areas," February 9, 2004

Air Force

F2002-0004-B05400, "BAH Procedures," March 20, 2002

Appendix C. Audit Response to Management Comments Concerning the Report

In addition to comments on individual recommendations, the Marine Corps also provided general comments on the text of the draft report. We have synopsized the comments below along with our audit response. The complete text of those comments is in the Management Comments section of this report.

Movement of Household Goods. The Marine Corps took exception to our statement on page 4 of our report that PAAN29-02 does not authorize the movement of household goods if the Marine is assigned to a permanent duty station with a lower BAH rate. Instead, the Marine Corps stated that the authorization rate is not based on a duty station's BAH rate, but rather it is based on proximity to the permanent duty station.

Audit Response. We stand by our statement. The PAAN29-02 states, "The fundamental criterion that must be met for a member to be authorized BAH at the old (higher) PDS is that the orders must be low/no cost (i.e., movement of household goods at government expense is not authorized)."

Duplicate Records. The Marine Corps stated that 31 duplicate records fell under more than one category, contrary to the footnote under Table 2, page 7 of the report. The dollar amounts, however, are not duplicates. The Marine Corps recommended that the footnote read, "These total dollar amounts do not duplicate those in Table 1."

Audit Response. We changed this footnote in the final report.

Amount of Overpayment. The Marine Corps disagreed with the \$800,000 potential overpayment identified by the auditors. After the auditors completed their audit field work, the MMIA conducted additional examinations of the auditor findings and determined the potential overpayment was \$445,260, or \$354,740 less than the total identified by the auditors. The Marine Corps stated "some of the discrepancies in the audit are due to the resubmission of waiver requests and the implementation of MARADMIN 239/05." The Marine Corps also notes that out of the 86 records missing waivers in the audit, 35 had approval letters and 10 actually had disapproval letters. The Marine Corps noted that out of the 41 records not available for review, 16 had approval letters and 9 actually had disapproval letters issued.

Audit Response. The auditors conducted their audit field work from August 2004 through August 2005 and based the audit findings on documentation and data provided during that time by the Marine Corps. The auditors could work only with the documentation and information made available to them. Even if 51 (35 missing records plus 16 not available for audit review) waiver requests were later submitted to the Marine Corps for the higher BAH rate after audit, these items in the audit subpopulation would still be considered errors because of the lack of internal controls to prevent payment of the higher BAH rate. As stated in our report, the data mining technique for selection of records for audit was the

receipt of BAH in excess of the zip code of the permanent duty station. Thus, the 19 (10 missing records plus 9 not available for audit review) records cited by the Marine Corps in the comments as having disapproval letters are considered even more serious than the other items noted in the report. We appreciate that the MMIA has conducted additional work in this area. MMIA did not provide us details; therefore we cannot adjust our original numbers.

Criteria for Higher Basic Allowance for Housing. The Marine Corps disagreed that Marines assigned by Squadron Special Order to an alert site in an area with a higher BAH rate should receive the BAH rate of their permanent duty station. The Marine Corps stated that the DoD Financial Management Regulation states that BAH is based on a permanent duty station or where a Marine spends a preponderance of their duty time. The Marine Corps added that Anacostia PDS fits this category and the Marines are entitled to the higher BAH while assigned there. The Marine Corps also stated that MMIA is working with Manpower Management to ensure proper documentation for the higher BAH rate.

Audit Response. Based on the comments provided we re-examined the DoD Financial Management Regulation but could not find the statement presented. We found no justification for the Marines assigned to the alert site in Anacostia receiving the higher BAH rate.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy
Inspector General of the Marine Corps

Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service
Kansas City

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

United States Marine Corps Comments



DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
3000 MARINE CORPS PENTAGON
WASHINGTON, DC 20350-3000

IN REPLY REFER TO:

D2004-0210
RFR
9 Nov 05

MEMORANDUM FOR PROGRAM DIRECTOR, FINANCIAL RESOURCES DIVISION,
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Marine Corps comments on DODIG Draft Audit report of the
FY 2004 Military Payroll and Withholding Data
(Project No. D2004-D000FP-0210.000)

Ref: (a) DODIG Memo of September 27, 2005

Encl: (1) Marine Corps comments on draft report

1. In accordance with the reference, the Marine Corps has reviewed
the subject draft report and provides comments at the enclosure.

A handwritten signature in black ink, appearing to read 'R.F. Kassel'.

R.F. Kassel
By Direction of the
Commandant of the Marine Corps

Audit of the FY 2004 Military Payroll and Withholding Data
(Project No. D2004-D000FP-0210.000)

1. The following general comments are provided on the draft report:

a. Page four of draft report states, "Movement of house-hold goods (HHG) at government expense is not authorized if a Marine is assigned to a PDS with a lower BAH rate". Neither PAAN 29-02 nor any other Marine Corps guidance states this. Authorization to relocate is not based upon a duty station's BAH rate but rather is based upon proximity of the permanent duty stations. MCO P1300.8 Marine Corps Personnel Assignment Policy directs no cost moves for specific areas.

b. Regarding Recommendation A.2.b addressed to DFAS: Manpower Management Integration and Administration (MMIA) has access to MCTFS data through 3270. 3270 does not provide the ability to determine a Marine's previous address. MMIA is only able to see current addresses. MMIA is not able to view any information on when the Marine moved.

c. There were 31 duplicate records that fell under more than one category, contrary to the footnote under Table 2, page 8. The footnote should read, "These total dollar amounts do not duplicate those in Table 1."

d. Do not agree that there were actual and potential overpayments of over \$800,000. Rather, there was a potential for \$445,260 in overpayments. Some of the discrepancies in the audit are due to the resubmission of waiver requests and the implementation of MARADMIN 239/05. Below describes the discrepancies in the report after an MMIA review:

- The report states that 86 records were missing waivers, with a potential for overpayments of \$291,999. MMIA Review found:
 - o 35 records had approval letters issued by MMIA
 - o 10 records had disapproval letters issued by MMIA
 - o 41 records need to be reviewed
 - o Actual potential overpayment is \$117,660
- The report states that 41 records were unavailable to be reviewed with a cost of potential overpayment being \$136,500. MMIA review found:
 - o 16 records had approval letters issued by MMIA
 - o 9 records had disapproval letters issued by MMIA
 - o 16 records need to be reviewed
 - o Actual potential overpayment is \$54,648
- The report states that 79 records fell under Low-High-Low with a cost of potential overpayment being \$210,588. MMIA review found:

Audit of the FY 2004 Military Payroll and Withholding Data
(Project No. D2004-D000FP-0210.000)

- o 12 records did not meet the Low-High-Low category and were approved for the higher BAH rate
 - o 8 records had disapproval letters issued by MMIA prior to MARADMIN 239/05
 - o 12 records had disapproval letters issued by MMIA subsequent to MARADMIN 239/05 review with higher BAH rate terminated effective 1 August 2005
 - o 16 records had been previously approved, but need to be reviewed IAW MARADMIN 239/05
 - o 31 records need to be reviewed
 - o Actual potential overpayment is \$135,936
- The report states that 41 Marines had changed housing although they were approved for the higher BAH rate with a potential overpayment of \$138,300.
MMIA review found:
 - o 17 Marines had received MMIA approval for higher BAH rate protection but moved, either before or after the approval was granted, which may not entitle them to rate protection
 - o 4 records were IAW MARADMIN 239/05 and approval letters were issued by MMIA
 - o 3 records were not IAW MARADMIN 239/05 review and had disapproval letters issued by MMIA subsequent to MARADMIN 239/05 review with higher BAH rate terminated effective 1 August 2005
 - o Effective May 2004, MMIA states in its approval letters that if a Marine relocates his/her HHG, he/she may not be entitled to BAH rate protection and must resubmit a waiver request for determination
 - o 17 records need review
 - o Actual potential overpayment is \$108,660
- The report states 9 records were Marines from HMX-1 assigned by Squadron Special Order to a higher BAH rate area, but did not have approval for the higher rate with a cost of potential overpayment being \$31,620. MMIA review found:
 - o 1 record had an approval letter issued by MMIA
 - o DODFMR and JFTR states that BAH is based upon a PDS or where a Marine spends a preponderance of their duty time; Anacostia PDS fits this category and the Marines are entitled to the higher BAH while assigned there
 - o MMIA is working with MM to ensure proper documentation for the higher BAH rate

Audit of the FY 2004 Military Payroll and Withholding Data
(Project No. D2004-D000FP-0210.000)

2. The following comments are provided to the recommendations:

a. Recommendation A.1.a. "Establish procedures, including a checklist that addresses waiver requirements, for Personnel Administrative Center (PAC) staffs to complete for each BAH rate protection request."

(1) Marine Corps Response: Nonconcur.

(2) From a practical standpoint this checklist would be too unwieldy to be of value. As the DODIG points out on page 6 of their draft report, "The BAH rate paid to Marines reassigned from a low BAH area to a high BAH area and back again is a complicated issue." The varied nature of each Marine's circumstances make "one size fits all checklists impossible."

b. Recommendation A.1.b. "Direct Manpower Management Integration and Administration (MMIA) to review the errors discussed in the report and verify the eligibility of Marines to receive the higher BAH, discontinuing the higher BAH rate where appropriate."

(1) Marine Corps Response: Concur.

(2) The actions outlined in MARADMIN 239/05 direct all commands to determine if any Marines assigned are receiving BAH at other than their PDS rate and if so, to submit those personnel for a review and re-adjudication.

(3) MMIA is currently reviewing the BAH rate errors that the DODIG report found. Review findings completed so far are included in the general comments above. Estimated completion date of review and corrective action is 1 Dec 05.

c. Recommendation A.1.c. "Direct MCAAT-West to locate and review the 41 Service Record Books and Officer Qualification Records that were not available for audit, to determine if the Marines were eligible and approved to receive the BAH paid in excess of their current Permanent Duty Station, and report the results to the Personnel Administrative Centers (PAC) and Manpower Management Integration and Administration (MMIA)."

(1) Marine Corps Response: Concur.

(2) The Director, Manpower Information (MI), will forward the list of records to MCAAT-West for audit. MCAAT-West will report its findings to the servicing PAC, Director MI, and MMIA. Estimated completion date is 31 December 2005.

Revised,
Renumbered
as
Recommendation A.1.

Renumbered
as
Recommendation A.2.

Renumbered
as
Recommendation A.3.

Audit of the FY 2004 Military Payroll and Withholding Data
(Project No. D2004-D000FP-0210.000)

d. Recommendation A.1.d. "Direct Marine Corps Administration Analysis Team (MCAAT) in its inspections to review all BAH rates in excess of the Permanent Duty Station rate."

(1) Marine Corps Response: Concur.

(2) The MCAAT checklist will be modified to verify correct BAH rates. Estimated completion date is 31 December 2005.

e. Recommendation B.1. "Direct Personnel Administrative Center personnel to specifically point out to Marines how each requested payroll change has been recorded and how the change(s) will impact their benefits."

(1) Marine Corps Response: Nonconcur.

(2) Two Marine Corps Orders clearly state that the individual Marine is responsible for the accuracy of his/her pay:

- MCO 7220.44A dated 21 June 1989: Marine Corps Policy for Paying Marines Under the Joint Uniform Military Pay System Manpower Management System (JUMPS/MMS)
- MCO 5000.14D dated 4 June 2004: Marine Corps Administrative Procedures (MCAP)

(3) Additionally, DFAS-KC 7220.21-R dated 21 August 1998 (Marine Corps Total Force System Automated Pay Systems Manual (MCTFS APSM)) identifies how Marines will be notified of changes in pay:

- Each member shall be adequately informed in writing as to the amount of earnings and deductions or changes thereto.
- The information shall be in sufficient detail to show total pay, allowances, deductions, and net pay. The notifications shall be an integral part of the payroll system.
- The MCTFS provides each member with a monthly LES.

f. Recommendation B.2. "Direct administrative chiefs to validate the personnel forms supporting unit diary transactions, which will post into the Marine Corps Total Force System database prior to providing the transactions to certifiers."

(1) Marine Corps Response: Concur in principle.

(2) Administrative chiefs are required to review the source documents prior to either approving and forwarding them to the unit diary clerk or rejecting them for more documentation. Figure 1-3 of the Marine Corps Total Force System Personnel

Renumbered
as
Recommendation A.4.

Audit of the FY 2004 Military Payroll and Withholding Data
(Project No. D2004-D000FP-0210.000)

Reporting Instructions Users Manual (MCTFSPRIUM) flowcharts the administrative chief's responsibilities.

g. Recommendation B.3. "Direct administrative chiefs and certifiers to approve the entries and certify they have been accurately recorded before personnel specialists file the election forms into Service Record Books and Officer Qualification Records."

(1) Marine Corps Response: Concur in principle.

(2) Administrative chiefs and certifiers are required to approve or reject draft unit diaries before personnel specialists file the election forms (see MCTFSPRIUM Figure 1-3).

h. Recommendation B.4. "Require personnel specialists to execute annual audits of the Service Record Books and Officer Qualification Records."

(1) Marine Corps Response: Nonconcur.

(2) MCO P1070.12K dated 14 July 2000 (Marine Corps Individual Records Administration Manual (IRAM)) directs the occasions for auditing service records of all Marines. Three auditing occasions are identified as the minimum to be conducted - the Joint Process Audit, the Triennial Audit, and the Deployment Readiness Audit. Additionally, Commanders are permitted to direct an audit at any time. MCTFSPRIUM paragraph 120104 also allows individual Marines to request an audit at any time.

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56 TH STREET
INDIANAPOLIS, INDIANA 46249

DFAS-P/IN

October 27, 2005

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,
OFFICE OF THE INSPECTOR GENERAL, DoD

SUBJECT: Requested Comments to Recommendations in the DoDIG Draft
Report, "Audit of the FY 2004 Military Payroll and Withholding Data",
dated September 27, 2005 (Project No. D2003FH-0087).

Per your request, attached are our comments to Recommendation Numbers A2a
and A2b in the subject draft report.

Questions your staff may have concerning these matters may be directed to my
point of contact, Lt Colonel Eric Kessler, DFAS-PMC/KC, at 816-926-5666.


Patrick T. Shine
Director, Military and Civilian
Pay Services

Attachment:
As stated

cc:
DFAS-DDI/AR

www.dfas.mil
Your Financial Partner @ Work

**DoDIG DRAFT REPORT DATED SEPTEMBER 27, 2005
(PROJECT NO. D2004-D000FP-0210.000)**

“AUDIT OF THE FY 2004 MILITARY PAYROLL AND WITHHOLDING DATA”

**DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS)
COMMENTS
TO THE DoDIG RECOMMENDATIONS**

A. HOUSING ALLOWANCE

A.2. The Director of the Defense Finance and Accounting Service Kansas City should:

RECOMMENDATION 2a: Adjust Basic Allowance for Housing payments to Marines in accordance with information provided by the Deputy Commandant for Manpower and Reserve Affairs. (Draft Report, Page 9)

DFAS COMMENTS: Nonconcur that DFAS is the OPR for this recommendation. This recommendation should be addressed to the Marine Corps for a formal response. DFAS-Kansas City Military Pay Operations contacted the Marine Corps officials at the Manpower Information Operations, and they do not agree with this recommendation since it is not in accordance with USMC policy. Under Marine Corps policy, data input for the Basic Allowance for Housing adjustments (and almost all other pay and personnel entries) is the responsibility of the Marine Corps since they are responsible for the maintenance of the member’s account. The central site in Kansas City is not the responsible office for this data input. DFAS-KC is responsible for the systematic computation of all transactions input by the Marine Corps field sites in MCTFS.

RECOMMENDATION 2b: Provide Manpower Management Integration and Administration staff read-only access to the Marine Corps Total Force System database so they can view information on Marines’ addresses and the dates of moves. (Draft Report, Page 9)

DFAS COMMENTS: Concur. DFAS-Kansas City contacted Major Cedric Wynn at Headquarters, Marine Corps, and on October 12, 2005 was informed the Manpower Management Integration and Administration Office has read-only access to the Marine Corps Total Force System.

Completed: October 12, 2005

Attachment

Revised,
Redirected,
and
Renumbered
as
Recommen-
dation A.5.

Revised,
Redirected,
and
Renumbered
as
Recommen-
dation A.6.

Team Members

The Defense Financial Auditing Service, Office of the Deputy Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

Paul J. Granetto
Patricia Marsh
Douglas P. Neville
Joseph A. Powell
Lusk Penn
Donovan Quimby
Mark Heim
Lisa Vega
Daniel Carlquist