Audit Report

OFFICE OF THE INSPECTOR GENERAL

RECONCILIATION OF AIR FORCE COMMON PAY AND PERSONNEL DATA FOR MEMBERS OF THE MILITARY

Report No. 96-047 December 15, 1995

Department of Defense

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Acronyms

AFAA	Air Force Audit Agency
AFMPC	Air Force Military Personnel Center
DFAS	Defense Finance and Accounting Service
DIS	Defense Investigative Service
DJMS	Defense Joint Military Pay System
DMDC	Defense Manpower Data Center
EFT	Electronic Funds Transfer
ETS	Expiration of Term of Service
GAO	General Accounting Office
JSS	Joint Service Software
PDS	Personnel Data System
SSA	Social Security Administration
SSN	Social Security Number

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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December 15, 1995

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT SECRETARY OF THE AIR FORCE (MANPOWER, RESERVE AFFAIRS, INSTALLATIONS AND ENVIRONMENT)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DEPUTY CHIEF OF STAFF OF THE AIR FORCE, PERSONNEL

SUBJECT: Audit Report on the Reconciliation of Air Force Common Pay and Personnel Data for Members of the Military (Report No. 96-047)

We are providing this audit report for information and use. We considered comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. David C. Funk, Audit Program Director, at (303) 676-7392 (DSN 926-7392) or Mr. Donald F. Broderick, Audit Project Manager, at (303) 676-7433 (DSN 926-7433). See Appendix F for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, Department of Defense

Report No. 96-047 **December 15, 1995**
(Project No. 4FD-5009)

Reconciliation of Air Force Common Pay and Personnel Data for Members of the Military

Executive Summary

Introduction. This report deals with the process used by the Defense Finance and Accounting Service (DFAS) Denver Center and the Air Force Military Personnel Center to reconcile common pay and personnel data of Air Force members. The purposes of those reconciliations are to prevent and detect over- and underpayments, and to reduce the risk of fraud and abuse. A separate report will address Air Force civilian employees. During FY 1994, the DFAS Denver Center used the Defense Joint Military Pay System to pay entitlements worth about $17 billion to nearly 442,000 Air Force active-duty members. Those pay entitlements were based on source personnel data for each active-duty member. Source data are recorded in personnel files and entered in the Air Force Personnel Data System, which is operated and maintained by the Air Force Military Personnel Center at Randolph Air Force Base, Texas. Our review focused on the reconciliation process at the end of May 1994.

Audit Objectives. The overall audit objective was to evaluate the effectiveness of the reconciliation process used by DFAS and the Air Force to ensure agreement of data common to the various pay and personnel systems. We also reviewed applicable management controls for compliance with the DoD management control program. This report discusses the objective as it applies to Air Force members. In a later report, we will discuss the objective and the adequacy of the management control program as they apply to Air Force civilian employees.

Audit Results. The DFAS and Air Force Military Personnel Center reconciliation process, if properly implemented, would effectively ensure agreement of data elements common to the pay and personnel files of Air Force active-duty members. These data elements affect members' pay. A review of the May 1994 reconciliation identified minor discrepancies and nominal overpayments and underpayments. Our retrievals of pay data and comparisons of files at the DoD Manpower Data Center also identified minor overpayments and data errors. We found no indications of fraud or abuse. Although the reconciliation process is fundamentally sound, its implementation can be improved. Large numbers of data differences were unresolved for indefinite periods and resulted in payment errors. Also, DFAS analyses of reconciliation results can be strengthened to prevent recurrence of discrepancies and avoid payment errors in the future. We identified a material weakness at the Air Force Military Personnel Center in that the reconciliation process was not brought to closure each time it was performed (Appendix A). Both monetary and nonmonetary benefits can be achieved by

implementing our recommendations. However, the potential monetary benefits cannot be quantified. See Part I for details of the audit results and Appendix D for a summary of the potential benefits resulting from the audit.

Summary of Recommendations. We recommend establishing requirements to resolve in a timely manner all differences arising from each reconciliation of common pay and personnel data. We also recommend that the results of reconciliations be periodically subjected to causative analysis to prevent future differences and related overpayments and underpayments. We recommend the expanded use of data retrievals to periodically test for potentially fraudulent conditions in pay files.

Management Comments. The Air Force concurred with all recommendations and established requirements to resolve reconciliation differences in a timely manner. The DFAS concurred or concurred in principle with all recommendations to analyze the results of pay and personnel data reconciliations, expand the use of data retrievals, and notify the Air Force when pay-affecting differences are not corrected within 90 days of detection. The Air Force's management comments are discussed in Part I, and the complete text of the comments is in Part III.

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Part I - Audit Results

Audit Background

This report deals with the process used by the Defense Finance and Accounting Service (DFAS) Denver Center, Denver, Colorado, and the Air Force Military Personnel Center (AFMPC), Randolph Air Force Base, Texas, to reconcile common pay and personnel data of Air Force members. The purposes of those reconciliations are to prevent and detect over- and underpayments and to reduce the risk of fraud and abuse. A separate report will address reconciliations of the pay and personnel data of Air Force civilian employees.

The AFMPC and installation-level military personnel offices (flights) maintain personnel information that affects Air Force members' pay. That information supports new pay accounts, grades, and promotions for Air Force active-duty members in the Personnel Data System (PDS). The information is provided to the Defense Joint Military Pay System (DJMS), which the DFAS Denver Center maintains, and is recorded in the master military pay account of each affected Air Force member. During FY 1994, entitlements paid to active duty Air Force members totaled $17 billion. In May 1994, DJMS was used to pay approximately 442,000 Air Force active-duty members.

Reconciliations of DFAS Denver Center pay data and AFMPC personnel data for Service members had been performed at various intervals. DoD Manual 7220.9-M, the "DoD Accounting Manual," October 1983, requires that pay and personnel systems interface and be reconciled in a timely manner to help minimize the possibility of fraud, waste, and mismanagement. The frequency of reconciliations is not specified. When the pay system was maintained by the Air Force, the reconciliations were performed each quarter. After the DFAS Denver Center was established, reconciliations were required semiannually on a random basis. However, in a letter dated January 27, 1994, the Director, DFAS, set a minimum bimonthly requirement for reconciling the data elements of name, Social Security number, pay grade, rank, and loss date, and for resolving these discrepancies before performing the next match and reconciliation. In May 1994, these and other data elements were being reconciled monthly.

Audit Objectives

The overall audit objective was to evaluate the effectiveness of the reconciliation process used by DFAS and Air Force personnel to ensure agreement of data common to the pay and personnel system and to recover any inappropriate payments. We also examined the DFAS and Air Force management control programs as they pertained to the audit objective. This report discusses the objective as it applies to Air Force active-duty members. In a later report, we will discuss the objective as it applies to civilian employees. See the finding for a discussion of the material management control weakness we identified; Appendix A for a discussion of the audit scope, methodology, and management control program; and Appendix B for prior audits and other reviews.

Unresolved Data Differences

The DFAS Denver Center and the AFMPC reconciliation process was fundamentally sound. Our review of the May 1994 reconciliation process did not identify any fraud or abuse. The reconciliation process identified and resolved numerous data differences, and detected and corrected nominal overpayments and underpayments. Audit-initiated retrievals of pay file data and file comparisons similarly identified data errors and minor overpayments, but no fraud or abuse (see Appendix C for a summary of those errors). However, implementation of the reconciliation process can be improved. Large numbers of identified data differences were carried forward unresolved for indefinite periods of time. Tests of those unresolved data differences at the end of May 1994 also identified overpayments and underpayments. The same degree of aged, unresolved differences continued to exist in May 1995. Aged, unresolved differences occurred because the Air Force military personnel function could not promptly respond to error notifications and correct discrepancies disclosed during reconciliations. Lack of prompt resolution of differences in data elements that affect pay could allow fraud or abuse to go unreported and payment errors to go undetected. Also, DFAS analyses of reconciliation results need to be strengthened to prevent recurrence of discrepancies and avoid payment errors in the future.

The Reconciliation Process

The DFAS Denver Center, the AFMPC, and Air Force military personnel flights reconcile data that affect Air Force members' pay and are common to both the Defense Joint Military Pay System (DJMS) and the Personnel Data System (PDS). Information in the personnel file, which should agree with data recorded in the DJMS and PDS, is maintained by the Air Force military personnel function at center, installation, and regional locations. This information is the source for pay entitlements. The reconciliation process starts when the AFMPC sends personnel data tapes to the DFAS Denver Center for automated comparison to pay files. The DFAS Denver Center prepares reports that show data differences resulting from the file comparisons and sends the reports to servicing pay offices and personnel functions. Managers perform transactions to correct the differences by changing the data recorded in pay and personnel systems.

Reconciling Air Force Pay and Personnel Data

The DFAS Denver Center and the Air Force military personnel function had effective procedures to reconcile active-duty members' pay and personnel data. Differences in data elements identified and resolved during the May 1994 reconciliation did not disclose any fraud or abuse, and led to the detection and correction of overpayments and underpayments totaling approximately $51,000. Although the process was not error-free (a $1,660 overpayment went undetected because of a lapse in applying established controls over rejected transactions), and some needed analyses and file comparisons were absent, our tests of the methods used to ensure agreement of the six pay-entitling data elements selected for review did not disclose material errors. Detailed results of our tests are presented in Appendix C. However, the reconciliations have a major flaw in that they are not brought to closure each time they are performed.

Unresolved Data Differences. As Table 1 illustrates, more than half of the data differences disclosed in reconciliations were brought forward uncorrected from previous reconciliations.

Table 1. Unresolved Data Differences

	Month and Year of Reconciliation		
	May 1994	June 1994	May 1995
Total number of differences	19,455	20,337	18,139
Number of unresolved differences	11,474	11,936	11,551
Percentage of unresolved differences	59.0	58.7	63.7

Those unresolved differences occurred in part because of differences in pay and personnel transaction processing cycles, but also because the Air Force military personnel function could not promptly respond to error notifications produced by the reconciliations. Since FY 1993, the DFAS Denver Center has reported this problem as a material management control weakness under the DoD management control program. The AFMPC has not reported this problem as a weakness in its reports, in part because the reconciliation process was not identified as an assessable unit in its management control program.

Age of Unresolved Data Differences. Of the 11,474 unresolved data differences for 16 pay elements brought forward to the May 1994 reconciliation, 2,775 were related to the 6 pay-affecting elements selected for audit. Of that number, 1,927 differences did not have immediate materiality.[1] However, the remaining 848 unresolved differences could or did have an immediate effect on pay entitlement. The audit prompted resolution of a limited number of those aged differences. Our tests showed that nearly 40 percent of the differences resulted in over- and underpayments.[2] The DFAS Denver Center appropriately corrected those situations. Table 2 illustrates the age of the 848 unresolved differences by pay-affecting condition. For example, 101 of the 848 had been identified as early as April 1993.

Table 2. Age of Selected Unresolved Pay-Affecting Conditions, May 31, 1994

	Number of Differences Previously Reported		
Condition	April 1994	January 1994	April 1993
Social Security number in pay, not in personnel	12	3	0
Social Security number in personnel, not in pay	637	554	90
Social Security number match, but name difference	1	0	0
Pay status: active in pay, inactive in personnel	8	1	0
ay status: active in personnel, inactive in pay	55	32	1
Pay date difference over 9 months (differences ranged from over 9 months to 18 years, 3 months)	31	22	10
Lapsed ETS in pay, future ETS in personnel	84	15	0
Lapsed ETS in personnel, future ETS in pay	13	0	0
Different lapsed ETS in pay and personnel	6	4	0
Grade difference	1	0	0
Totals	**848**	**631**	**101**

[1]Examples of the unresolved differences were misspelled names, obvious errors in accessing new personnel, small differences in longevity (pay dates), differing dates for future expiration of term of service (ETS), and coding errors.

[2]Audit tests of differences for two of the conditions in Table 2 identified over- and underpayments totaling $16,706. Three of 8 members with differing pay status (active pay and inactive personnel) had been overpaid $3,832; and 8 of 21 sampled members with pay date differences were either overpaid or underpaid a total of $12,874.

The aged, unresolved differences occurred because the Air Force military personnel function could not promptly respond to DFAS Denver Center error notifications produced by the reconciliation process. Managers at the AFMPC, who acknowledged responsibility for the timely completion of each reconciliation, identified several problems that affected their ability to bring each reconciliation to closure. Personnel directives gave unclear instructions for correcting differences, and personnel technicians were not trained to correct discrepancies. Military personnel managers stated that efforts are under way to correct those problems and improve the reconciliation process. They mentioned initiatives to automate the error notification process (currently done with computer listings) and improve computer communication links to speed the flow of data.

Improving Reconciliation Controls and Analyses. The reconciliations omitted a control designed to ensure the completeness of the process. Also, no analyses were made of the causes of significant numbers of data differences, and over- and underpayments disclosed by reconciliations or other file comparisons. Such analyses could help management determine whether changes to pay and personnel systems or processes are warranted. In addition, files maintained by the Defense Manpower Data Center (DMDC) were not being periodically used to validate selected pay conditions in order to detect and deter fraud.

Completeness of Reconciliations. Pay managers at the DFAS Denver Center, through apparent oversight, had not established a control to ensure that every record in the pay file was reconciled. We were unable to ensure that every pay record in the pay file entered the May 1994 reconciliation because responsible pay managers did not retain the count of pay records in the pay file when the reconciliation process began. Alternatively, we compared counts of pay and reconciliation files for the November 1994 reconciliation. That comparison showed that a small number of records in the pay file were not reconciled. Pay managers were unaware of the difference. Their research later showed that incorrect record coding caused the records to be excluded. Absence of controls to ensure that all pay records are reconciled could contribute to fraud by disguising nonexistent (ghost) employees in the pay file. Pay managers instituted the control during the audit.

Analyzing Causes of Data Differences. Neither the DFAS Denver Center nor the AFMPC evaluated the results of reconciliation, file extracts, results, or file comparisons designed to detect errors in order to fix the causes of any detected data differences and over- and underpayments. Consequently, attempts were not made to determine whether procedural or systemic changes were needed to prevent or reduce the possibility of recurrence. Pay managers considered identification and recovery of overpayments to be a routine consequence of performing reconciliations. Those pay managers said they did not have enough employees to analyze the results of the process and

determine whether cost-effective systemic changes could be made or management controls could be developed to prevent the recurrence of circumstances that caused the data differences and over- or underpayments.

Using DMDC Files. At the time of audit, DFAS Denver Center pay managers planned to pursue the periodic comparison of pay data to other DMDC files in the future under the provisions of Operation Mongoose. Operation Mongoose is a joint operation staffed by personnel from DFAS, DMDC, and the DoD Inspector General. It is designed to minimize fraudulent attack against DoD financial assets. To date, although the DFAS Denver Center provides pay files to DMDC, periodic file comparisons had not been finalized. Information in Air Force active-duty and Reserve pay files possessed by DMDC could be compared to other data files possessed by the DoD to detect and deter possible fraud in military pay files. Our tests using DMDC files did not identify fraud or abuse, but did isolate anomalous situations, erroneous SSNs, and a minor overpayment. Details of the test results are in Appendix C.

Summary

The reconciliation of data common to active-duty pay and personnel files is not brought to closure each time it is performed. The Air Force military personnel function could not promptly respond to error notifications from the DFAS Denver Center and could not resolve differences that had existed for extended periods. AFMPC managers said that inability was caused by differences in processing cycles for pay and personnel transactions; personnel directives that gave unclear instructions for correcting differences; and personnel technicians who were not adequately trained to correct discrepancies. Also, the DFAS Denver Center and the Air Force personnel function were not adequately analyzing reconciliation results so that controls could be developed or systems changed to prevent recurrence of discrepancies and avoid over- and underpayments. The DFAS Denver Center can better detect fraud by expanding the use of periodic data retrievals to test for potentially fraudulent conditions and by periodically enlisting the aid of DMDC to make selected comparisons of file data.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Deputy Chief of Staff of the Air Force, Personnel, direct the Air Force Military Personnel Center to:

a. Establish requirements for timely responses to notifications of pay-affecting differences in data elements, when such differences arise from comparisons of pay and personnel data files.

b. Act with the Defense Finance and Accounting Service Denver Center to analyze the results of pay and personnel data reconciliations, and to develop additional controls to prevent recurrences of discrepancies and avoid over- and underpayments made to Air Force members.

c. Establish the pay and personnel data reconciliation as an assessable unit in the DoD management control program.

Management Comments. The Deputy Chief of Staff of the Air Force, Personnel, concurred, stating that requirements were established in September 1995 to ensure timely responses to notifications of pay-affecting differences in data elements; that the Air Force was working with DFAS Denver Center to streamline the reconciliation process and validate reports in order to correct errors, with an estimated completion date of January 30, 1996; and that the reconciliation process was included as an assessable unit in the FY 1996 management control program in September 1995.

2. We recommend that the Director, Defense Finance and Accounting Service, require the Denver Center to:

a. Act with the Air Force Military Personnel Center to analyze the results of pay and personnel data reconciliations, and develop additional controls to prevent recurrences of discrepancies and avoid over- and underpayments made to Air Force members.

b. Expand the use of data retrievals to test for potentially fraudulent conditions in Air Force pay files and, under Operation Mongoose, formally enlist the aid of the Defense Manpower Data Center to periodically compare and validate data.

c. Notify the Air Force Military Personnel Center when a Service member's pay-affecting difference has not been corrected within 90 days of detection. Request that the Air Force Military Personnel Center contact the member through the servicing military personnel function and pursue correction to avoid disruptions of pay.

Management Comments. DFAS concurred or concurred in principle stating that beginning in November 1995, reconciliation results will be analyzed and procedures will be developed to prevent recurring discrepancies and avoid over- and under payments; that the Operation Mongoose military team leader was tasked to coordinate and analyze results of file matches with DMDC; and that the Air Force Military Personnel Center will be notified by means of a system-generated monthly report, starting in May 1996, when a Service member's pay-affecting difference has not been corrected within 90 days.

Part II - Additional Information

Appendix A. Scope and Methodology

Scope

Our review had three components. First, we evaluated the reconciliations the Air Force makes between the pay and personnel system and various pay systems. Second, we retrieved data from active-duty pay accounts to isolate and validate conditions that may have the potential for fraud or abuse. Third, we enlisted the aid of the DMDC to compare files in its possession to isolate anomalous conditions that may have the potential for fraud or abuse.

Reconciliations. We evaluated the reconciliation process for pay and personnel data conducted at the DFAS Denver Center and AFMPC as of May 31, 1994, as it addressed six pay-affecting data elements (name, Social Security number, grade, pay date [longevity date], expiration of term of service date, and pay status) for 441,919 active-duty Air Force members. We reviewed comparisons of the Air Force active-duty pay file to the Air Force Reserve component pay file, dated May 31, 1994; the Air Force active-duty pay file to the Air Force Reserve component pay file, dated June 30, 1994; and the Air Force Reserve component pay file to the Air Force retired pay file, dated May 31, 1994.

Data Retrievals. We validated unusual conditions identified by data extracted from Air Force active-duty pay accounts on various dates during May, June, and August 1994. Those conditions included multiple electronic fund transfers payable to an individual during a pay period; multiple paychecks sent to a single post office box; large gross entitlements of pay and allowances; leave not taken by an individual during the previous 12 months; and members possessing unissued SSNs.

DMDC File Comparisons. We asked the DMDC to compare SSNs in different data files to seek matches that might indicate fraud or abuse. The Air Force active-duty pay file was compared to the Social Security death file (October 1994), the active-duty pay files of the Army and the Navy (August 1994), and the Army and Navy Reserve component pay files (September 1994). The DMDC also compared Air Force active-duty and Reserve component pay files to the retired pay files of the Army and the Navy (September 1994). All matched SSNs were then validated.

Use of Computer-Processed Data. We performed limited tests on the reliability of computer-processed data used when the DFAS Denver Center and AFMPC reconciled data appearing in the DJMS and the PDS as of the end of May 1994. To the extent that we reviewed the computer-processed data, we concluded that they were sufficiently reliable to be used in meeting our audit objectives.

Audit Period, Standards, and Locations. We performed this financial-related audit from January 1994 through July 1995 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included such tests of management controls as were considered necessary. Appendix E lists the organizations we visited or contacted.

Statistical Sampling Methodology

We used statistical sampling methods to test the pay records of Air Force officers and enlisted members and to validate large gross pay entitlements earned in August 1994.

Audit Universe. Two audit universes were defined for gross pay entitlements earned in August 1994. One included all (294) Air Force officers earning $11,000 or more during that month, and the other included all (1,374) Air Force enlisted members earning $5,000 or more during that month.

Sampling Plan. Auditors drew stratified samples from each of the two audit universes for review. Samples of officers were composed of the 35 officers who earned $22,000 or more and a representative sample of 59 officers who earned from $11,000 to less than $22,000. Samples of enlisted members were composed of the 175 enlisted members who earned $10,000 or more and a representative sample of 70 enlisted members earning from $5,000 to less than $10,000.

Sampling Results. No errors were found in the samples. We are 95 percent confident that no more than 12 of the Air Force officers with $11,000 or more in gross monthly entitlements are receiving incorrect payments. Also, we are 95 percent confident that no more than 49 enlisted members with $5,000 or more in gross monthly entitlements are receiving incorrect payments.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. We reviewed management controls that the AFMPC and the DFAS Denver Center use to govern the reconciliation of common data on Air Force members' pay and personnel files. We also reviewed management's self-evaluation of those management controls.

Adequacy of Management Controls. We identified a material management control weakness, as defined by DoD Directive 5010.38, in the reconciliation process. The Air Force military personnel function could not promptly respond to notifications of significant numbers of differences disclosed by the reconciliation process, and could not coordinate related corrections. Consequently, aged, unresolved differences, which have the potential for fraud and abuse and have a high degree of over- and underpayment, remained uncorrected for extended periods. Recommendation 1.a., if implemented, will ensure that reconciliations are promptly brought to closure. The amount of potential monetary benefits associated with the material weakness cannot be quantified because of the unknown degree, duration, and consequences of current and future overpayments and underpayments. See Appendix D for benefits associated with the audit. A copy of the report will be provided to the senior official in charge of management controls for the Air Force.

Adequacy of DFAS Denver Center and AFMPC Self-Evaluation. The DFAS Denver Center identified the reconciliation of DJMS and PDS data as an assessable unit, and correctly identified the risk associated with DJMS as high. The AFMPC did not identify the reconciliation of DJMS and PDS data as an assessable unit, and therefore did not identify or report the material management control weakness identified by the audit. We could not determine why the AFMPC overlooked the reconciliation process. Recommendation 1.c. will correct this problem by establishing the reconciliation process as an assessable unit in the AFMPC management control program.

Appendix B. Prior Audits and Other Reviews

During the last 5 years, the General Accounting Office (GAO) and the Air Force Audit Agency (AFAA) issued reports that related to management controls over the reconciliation processes for payroll and personnel systems of the uniformed services.

General Accounting Office

GAO Report No. AIMD-93-32 (OSD Case No. 9276-A), "Defense's System for Army Military Payroll is Unreliable," September 30, 1993, stated that because of lapses in internal controls, DFAS paid some Army personnel that should not have been paid and did not detect these overpayments. The overpayments occurred primarily because DFAS and Army personnel did not comply with established procedures for investigating and resolving discrepancies arising from periodic automated comparisons of data in military pay and personnel records.

The report recommended that the Secretary of Defense instruct the Acting Secretary of the Army and the Acting Chief Financial Officer, DoD, to direct and monitor the recovery of amounts due to the Government as a result of improper Army payroll payments. The report also recommended that the Secretary of Defense require the Service Secretaries and the Director, DFAS, to incorporate standards and requirements for systems development into the planned Joint Service Software (JSS) payroll system conversions. These requirements include validation of the accuracy of payroll data entered into JSS[3].

Air Force Audit Agency

AFAA issued the following audit reports relating to the Air Force military payroll process.

Report of Audit, "Review of Military and Civilian Pay, Fiscal Year 1994 Air Force Consolidated Financial Statements," Project 94053035, April 24, 1995, concluded that military personnel expenses, including accruals, were generally accurate and reliable at installations reviewed, and internal controls were generally effective when properly applied. The report acknowledged that the DFAS Denver Center had reported a material weakness in the process for

[3]The JSS was a part of the Air Force Joint Uniform Military Pay System, which later became the Defense Joint Military Pay System.

reconciling pay and personnel systems. The weakness was in the DFAS Denver Center's ability to correct discrepancies between the systems. The report did not make any recommendations.

Report of Audit, "Review of Military Payroll Costs," Fiscal Year 1993 Air Force Consolidated Financial Statements," Project 93053013, July 1, 1994, concluded that military personnel costs were generally accurate and reliable, internal controls were effective, and managers were complying with laws and regulations. The report did not address the reconciliation process for military pay and personnel systems.

Report of Audit, "Review of Military Payroll Process, Fiscal Year 1992 Consolidated Air Force Financial Statements," Project 92053003, August 13, 1993, concluded that military personnel costs and accruals were accurate, internal controls were effective, and laws and regulations were complied with. The process for reconciling pay and personnel systems was not addressed.

Appendix C. Audit Test Results

Reconciling Air Force and Air Force-Related Pay Files

The DFAS Denver Center had effective procedures for comparing Air Force active-duty to Reserve component pay files and for comparing both files to the Air Force retired pay files maintained at the DFAS Cleveland Center.

Active-Duty Pay File Compared to Reserve Component Pay File. The DFAS Denver Center's quarterly comparison of active-duty to Reserve component pay files was made on June 30, 1994. Review of that comparison confirmed that DFAS accurately identified members paid from both pay files for the same periods of time. The DFAS Denver Center comparison identified six members who had been overpaid $14,192. All of the overpayments had occurred since the previous quarterly reconciliation, and at the time of audit, amounts overpaid were being recovered.

Active-Duty and Reserve Component Pay Files Compared to Air Force Retired Pay Files. DFAS Denver Center's monthly comparison of Air Force active-duty and Reserve component pay files to the Air Force retired pay file was made as of May 31, 1994. Our review confirmed that the comparisons were accurately completed. All anomalies were validated, and no overpayments were identified.

Data Retrieved from Air Force Active-Duty Pay Files

DFAS Denver Center pay managers make many data retrievals to test the validity of various pay conditions. To detect fraud, they also annually identify members who have not taken leave during the year and validate status. The audit indicated that those reviews were effectively done. However, formal procedures and frequencies had not been established to periodically test pay files to isolate anomalous conditions that could have a potential for fraud or abuse. The retrievals we designed to test these conditions included measures to identify nonexistent (ghost) employees. Audit-validated test results did not identify any instances of fraud or abuse, but did disclose unusual situations and errors made by Service members. Of particular interest was the test involving unissued SSNs. Results of that test are addressed below.

Unissued SSNs. Nine SSNs in the May 1994 Air Force active-duty pay and personnel files had not been issued by the Social Security Administration (SSA). Eight were attributed to Service members erroneously transposing digits. AFMPC performs checks to ensure that all SSNs are valid; however, the audit showed that AFMPC validity criteria were outdated when compared to the SSA

criteria. Personnel managers had no procedure for periodic updates of SSN criteria used by the PDS. In a letter dated August 3, 1995, we requested that AFMPC correct the SSN of the remaining member, and update the criteria they used in the PDS to validate SSNs.

All nine individuals had been granted security clearances ranging from Secret to compartmentalized Top Secret access. In a January 6, 1995, letter, we expressed concern that the investigative process for security clearances may have a weakness. In response, the Director, Defense Investigative Service (DIS) (the security clearance investigating authority), stated that the ". . . SSN is not considered a positive source of information for establishing an individual's identity because of the ease in obtaining a valid SSN using counterfeit documents." The Director added, ". . . it is the opinion of DIS that those current PSI [personnel security investigation] investigative requirements established by DoD are sufficient and present a minimal risk to the integrity of the security clearance process. DIS is also of the opinion that if a DoD agency chooses to maintain a system of records by SSN to verify the identity of their employees, the responsibility for validation should rest with that agency."

In response to our questions, the SSA advised that employer and employee contributions under the Federal Indemnity Compensation Act are not credited to nonexistent accounts. Those amounts are held in a suspense account pending possible receipt of future claims.

Multiple Electronic Funds Transfers (EFTs) in the Same Pay Period for the Same Person to One Bank Account. Two individuals had multiple EFTs that met the criteria. All transfers were correct.

A Single Post Office Box Receiving Multiple Checks. Five individuals sent checks to a single post office box owned by a bank. The box was used for individuals who had not yet established mailing addresses. No errors existed.

Individuals Who Received Large Gross Pay Entitlements During the Month of Inquiry. 294 officers receiving entitlements greater than $11,000, and 1,374 enlisted members receiving entitlements greater than $5,000, met the sample criteria. Stratified statistical sampling methods were used to validate entitlement and did not disclose errors in the sample.

No Leave Taken During the Previous 12 Months (to Identify Nonexistent Employees). All members took leave during the previous 12 months.

Comparisons of DMDC File Data

Under the provisions of Operation Mongoose, we asked DMDC to compare SSNs in different data files to identify situations where the potential for overpayment or fraud might exist. The audit-validated SSN matches done by DMDC did not identify any fraud or abuse, but did identify anomalous

situations, erroneous SSNs, and a previously undetected overpayment of $339. Results of each comparison follow.

Air Force Active-Duty Pay Files Compared to Social Security Administration Death Files. SSNs of 19 Air Force active-duty members also appeared in the SSA death file dated October 1994. The audit showed that SSA files had five incorrect SSNs; four members in the pay file had died; four members had transposed digits in their SSNs; two members were deserters (no pay had accrued); one member was in confinement, having been charged with a staged death in an attempt to defraud; and one member used an incorrect SSN for more than 20 years. Pay and personnel files were appropriately corrected. Two members who could not be located had served sentences as a consequence of the judicial process. Their pay had been suspended and their pay records had been placed in an appellate review status.

Air Force Active-Duty Pay Files Compared to Active-Duty Pay Files of Other Services. SSNs of six Air Force members appeared in the pay files of other Services dated August 1994. All pay files were correct, and no members had been overpaid.

Air Force Active-Duty Pay Files Compared to All Services' Reserve Component Pay Files. SSNs of 108 Air Force active duty members appeared in the Reserve component pay files of other Services (67 in Navy files and 41 in Army files) dated September 1994. One former Army reservist had been overpaid $339, and the DFAS Indianapolis Center pursued recovery of that amount. One active-duty member erroneously used the SSN of a reservist. As of July 1995, the DFAS Cleveland Center was still checking the September 1994 Naval Reserve status of eight members.

Air Force Reserve Component Files Compared to All Services' Retired Pay Files. SSNs of six Air Force Reserve component members also appeared in the retired pay file dated September 1994. Both files were correct, and affected members had been paid correctly.

Air Force Active-Duty Files Compared to All Services' Retired Pay Files. SSNs of six Air Force active-duty members appeared in retired pay files, five in Air Force files and one in Army files. The DFAS Denver Center had previously detected and recovered overpayments totaling $13,873 made to three Air Force members. The remaining two Air Force members had been paid correctly. The retired Army member had erroneously used the SSN of an Air Force active-duty member.

Appendix D. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefits	Amount and/or Type of Benefit
1.a.	Management controls. Implement methods to promptly correct all differences disclosed by each reconciliation of Air Force pay and personnel data.	Monetary; amounts, incidence, collectibility, or payability of over- and underpayments cannot be determined.
1.b., 2.a. - 2.c.	Economy and efficiency. Strengthen AFMPC and DFAS procedures to reduce differences and prevent over- and underpayments in the future.	Nonmonetary.
1.c.	Compliance with regulations and laws. Assess control weakness and comply with the DoD management control program.	Nonmonetary.

Appendix E. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Washington, DC
- Directorate for Accounting Policy

Department of the Air Force

Deputy Assistant Secretary of the Air Force (Budget), Washington, DC
- Director, Budget Investment

Deputy Chief of Staff of the Air Force (Personnel), Washington, DC
- Personnel Plans Directorate

Air Force Military Personnel Center, Randolph Air Force Base, TX
- Field Activities Division
- Directorate of Mission Support
- Military Personnel Flights:
  - F.E. Warren Air Force Base, WY
  - Lackland Air Force Base, TX
  - Scott Air Force Base, IL
  - Sheppard Air Force Base, TX

Air Force Audit Agency, March Air Force Base, CA
- Financial and Support Audit Directorate

Defense Organizations

Defense Finance and Accounting Service, Washington, DC
- Directorate of Military and Civilian Pay
- Defense Finance and Accounting Service Center, Denver, CO
  - Directorate of Military Pay
  - Directorate of Debt and Claims Management
- Defense Finance and Accounting Service Center, Cleveland, OH
  - Directorate of Military Pay
  - Directorate of Retired Pay
- Defense Finance and Accounting Service Center, Indianapolis, IN
  - Directorate of Military Pay
  - Directorate of Retired/Annuitant Pay

Defense Organizations (cont'd)

Defense Manpower Data Center, Monterey, CA
Financial Management Support Division
Defense Investigative Service, Alexandria, VA
Freedom of Information Act Office

Non-Defense Federal Organizations

Social Security Administration, Baltimore, MD
Office of Systems Requirements

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Under Secretary of Defense (Personnel and Readiness)

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Deputy Chief of Staff of the Air Force (Personnel)
Commander, Air Force Military Personnel Center
Auditor General, Department of the Air Force

Defense Activities

Director, Defense Finance and Accounting Service
  Defense Finance and Accounting Service Denver Center
Director, Defense Investigative Service

Non-Defense Federal Organizations

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

Non-Defense Federal Organizations (cont'd)

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 Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on National Security
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight

Part III - Management Comments

Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON DC

16 OCT 1995

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: HQ USAF/DP
1040 Air Force Pentagon
Washington DC 20330-1040

SUBJECT: DoDIG Draft Audit Report, Reconciliation of Air Force Common Pay and Personnel Data for Members of the Military, 24 Aug 95 (Project No. 4FD-5009)

This is in reply to your memorandum requesting the Deputy Chief of Staff of the Air Force, Personnel to provide Air Force comments on subject report.

We concur with all the findings and recommendations. Management comments for inclusion in the report of audit are as follows:

Recommendation 1a: Requirements have been established to ensure timely responses to notifications of pay-affecting differences in data elements. HQ AFPC/DPSF forwards letter through DFAS-DE to all Military Personnel Flight (MPF) chiefs requiring them to correct data discrepancies. Our letter provides the discrepancies that need attention and basic instructions on how to work corrections. We also provide the MPFs with numbers for our POCs and a suspense for return to this office. (Completed September 1995)

Recommendation 1b: The results of a pay and personnel data reconciliation analysis show that the timeliness of data comparisons currently is a problem. The reconciliation products are often inaccurate due to the difference between the dates of files when the reconciliation match occurs. The problem is compounded by the time lag caused by mailing tapes from AFPC to DFAS-DE and then the mailing of paper products by DFAS-DE to each MPF. As a result, these matches identify invalid discrepancies. We are working with DFAS-DE to evaluate and streamline the reconciliation process and to validate the reports. To this end, we have developed an automated reconciliation process that will transfer the data files by using the Defense Data Network (DDN) instead of the mail, thereby eliminating this problem. This will provide more timely, accurate, manageable products for the MPFs use in correcting valid errors. DFAS-DE is testing the use of DDN and should be converted by 31 Oct 95. (Estimated completion date: 30 Jan 96)

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Recommendation 1c: The reconciliation process has been included as an assessable unit in the FY96 internal management control plan. (Completed September 1995)

EUGENE E. HABIGER
Lieutenant General, USAF
Deputy Chief of Staff, Personnel

Defense Finance and Accounting Service Comments

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

NOV 9 1995

DFAS-HQ/F

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Reconciliation of Air Force Common Pay and Personnel Data for Members of the Military (Project No. 4FD-5009)

The Defense Finance and Accounting Service, as the responsible action agency, offer the following comments:

Recommendation 2a. Require the Defense Finance and Accounting Service Denver (DFAS-DE) Center to act with the Air Force Military Personnel Center (AFMPC) to analyze the results of pay and personnel data reconciliations, and develop additional controls to prevent recurrences of discrepancies and avoid over- and underpayments made to Air Force members.

Management comments. Concur. The DFAS-DE Center completes a quarterly compilation of reconciliation discrepancies. Beginning in November 1995, analysis procedures will be developed with the Air Force Personnel Center (AFPC) (formerly called the AFMPC).

To prevent recurrence of discrepancies and avoid over- and underpayments, DFAS-DE will send a letter to each Military Personnel Flight (MPF) detailing what actions need to be taken to correct the discrepancies identified. Identical letters will be sent to AFPC, which they can use to assist the MPF in correcting the discrepancies and ensuring timely corrective action.

To further aid in the identification of recurring discrepancies, the AFPC will be asked to highlight to DFAS-DE Center discrepancies caused by DFAS-DE actions. The DFAS-DE Center will analyze the discrepancies and take corrective actions.

Finally, the DFAS-DE Center will perform an in-depth analysis of reconciliation discrepancies by data element. This analysis will include a complete systemic review, trend analysis, and evaluation. The estimated completion date by data element is as follows:

DATA ELEMENT	TARGETED COMPLETION DATE
Status	March 1997
Date of Separation	July 1997
SSAN	January 1996
Name	April 1996
Sex Code	July 1996
Grade	September 1996
Grade Effective Date	December 1996
Aviation Service Date	April 1997
Officer Service Date	May 1997
Service Component	June 1997
Total Active Federal Service Date	August 1997
Pay Date	September 1997
Entered Active Duty Date	October 1997
Date of Enlistment	November 1997
Expiration of Term of Service	December 1997
Special Duty Assignment Pay Rate	January 1998
Special Duty Assignment Pay Eff Date	February 1998

The above schedule is purely an estimate. The DFAS Denver Center reserves the right to adjust the proposed dates, forward or backward, as conditions dictate.

Recommendation 2b. Require the DFAS-DE Center to expand the use of data retrievals to test for potentially fraudulent conditions in Air Force pay files and, under Operation Mongoose, formally enlist the aid of the DoD Manpower Data Center (DMDC) to periodically compare and validate data.

Management comments. Concur in principle. The DFAS Headquarters has established Operation Mongoose to develop and operate an active anti-fraud detection unit to minimize fraudulent attacks against, among others assets, DoD Financial Pay Systems. A full-time Operation Mongoose military pay team leader position has recently been staffed and is in the process of "standing up" this function. Although DFAS-DE has a continuing responsibility to assess, review, and implement effective internal pay system controls, the Operation Mongoose military pay team leader is responsible for requesting data retrievals from DFAS, coordinating file matches with DMDC and analyzing results of the matches. Operation Mongoose as an operating activity acting independently of DFAS-DE, is best suited to accomplish the spirit of this recommendation. Action completed.

Recommendation 2c. Require the DFAS-DE Center to notify the AFMPC when a Service member's pay-affecting difference has not been corrected within 90 days of detection. Request that the AFMPC contact the member through the servicing military personnel function and pursue correction to avoid disruptions of pay.

Management comments. Concur with your recommendation to notify AFMPC when differences have not been corrected. For those data elements where AFPC/MPFs are the office of primary responsibility, a systems generated report will be prepared monthly starting May 1996 indicating data element mismatches that have gone unresolved since the last report. The report cover letter will request AFPC take appropriate actions to resolve the discrepancies, including advising the member.

To aid in the mismatch/discrepancy process, a new prototype matching process is being tested. Instead of downloading AFPC tapes and comparing these tapes to data in the pay system at a later date, AFPC's Personnel data system will generate input transactions specifically for the purpose of reconciling personnel/pay data. The current system "transaction driven bump" software prototype in testing, only compare name, SSN, and status data. However, a systems change was approved to add the remaining data elements to the software. High risk pay effecting data elements, includuing those mentioned in the audit report, will be addressed first. In addition, a systems change will be initiated for the pay system to automatically generate a statistical aging report for AFPC and DFAS-DE. Estimated implementation schedules for these systems efforts are as follows:

Transaction driven bump using three data elements (systems change XB00 & XB01)	January 1996
Aging report for unresolved mismatches (systems change XB02)	May 1996
Completion of incremented additions of remaining data elements (systems change RX00)	February 1998

This proposed system is only a prototype. As such the proposed schedule may change as conditions and DFAS Denver Center management dictate.

If you have any questions, please contact my project officer, Lt Col Rob Watson at DSN 327-5068 or Commercial (703) 607-5068.

Edward T Grzywacz
for Roger W. Scearce
Brigadier General, USA
Deputy Director for Finance

Audit Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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