

FRAUD CASE STUDY – BASIC ALLOWANCES FOR HOUSING

Case

DoD auditors conducted an audit in response to several hotline complaints that alleged Service members were wrongfully receiving basic allowances for housing (BAH). Some of the complaints stated that:

- ❖ Service members were being dishonest about where their family was living to get a higher BAH rate than they were entitled to.
- ❖ Service members claimed the dependent rate BAH when there were no dependents.
- ❖ BAH payments were being made to Service members in a non-pay status.

Based on BAH guidance, the auditors determined that Service members assigned to permanent duty within the United States and not furnished government housing were eligible for BAH. The amount of the BAH was based on the member's rank, dependency status, and permanent duty station zip code.

The auditors created a plan to determine whether the Military Pay System's BAH internal controls were operating effectively. In addition, the auditors would compare the information on BAH applications to information maintained in various DoD personnel databases (e.g. address; marital status).

Further, as the auditors planned the review, they focused on the fraud risk factors and performed a fraud risk assessment to determine the BAH program's exposure to potential internal and external fraud. The assessment reviewed the operations and controls, including policies and procedures of the BAH program to determine where gaps exist that could allow a person to carry out fraudulent activity.

The auditors did substantiate the hotline allegations and those involved in fraudulently activity were disciplined, as appropriate. The auditors determined the controls for reconciling, updating and matching military pay data needed improvement to mitigate fraud in the future.

Control Activities – Were Not Aimed to Prevent Housing Allowance Fraud

CONTROL ACTIVITIES: The Military Pay System did not include the following control activities in its daily operations:

- ❖ Controls Over Information Processing
- ❖ Establishment and review of performance measures and indicators
- ❖ Accurate and timely recording of transactions

Controls Over Information Processing

A variety of control activities could have been used while processing BAHs. For example, the disbursing office should have performed cross-system consistency checks to compare data in different systems to ensure it was consistent (e.g. the address for the Service member with the same Social Security Number is the same in all systems checked).

Performance Measures and Indicators

Management should have established activities to monitor performance measures and indicators. The procedures in place for the Military Pay System failed to:

- ❖ Monitor controls over Service members' dependency status changes; military pay data wasn't updated or matched with personnel records.
- ❖ Recognize Service members who were separated, confined, deceased, absent without leave, or suspended. As a result, the system authorized a payment for those in a non-pay status.
- ❖ Allow the BAH disbursing office to recognize and quickly initiate corrections in the pay system for overpayments.

Accurate and Timely Recording of Transactions

Accurate and timely recording of transactions is an important and necessary aspect of internal controls. When Service members were placed into non-pay status, procedures should have been in place to promptly update that information to assist management in controlling operations and making decisions. This could have quickly alerted the BAH disbursing office that the Service member was not qualified to receive the funds.

What to Monitor

- ❖ Fraud risk factors that can provide an opportunity for persons to receive BAHs they are not entitled to. Management may need to develop further responses to address any future risks.
- ❖ The status of remediation efforts to ensure internal control deficiencies are corrected in a timely manner.

Fraud Indicators

- ❖ Service members claim the dependent rate BAH when there are no dependents.
- ❖ Address for the Service member with the same Social Security Number is different in various systems.