

Inspector General

United States
Department of Defense



Controls Over Navy Military Payroll Disbursed in
Support of Operations in Southwest Asia at
San Diego-Area Disbursing Centers

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Acronyms and Abbreviations

ADSN	Accounting and Disbursing Station Number
CNIC	Commander, Navy Installations Command
CZ	Combat Zone
CZTE	Combat Zone Tax Exclusion
DFAS	Defense Finance and Accounting Service
DJMS	Defense Joint Military Pay System
FMR	Financial Management Regulation
FSA	Family Separation Allowance
GSU	Geographically Separated Unit
HDP	Hardship Duty Pay
HFP/IDP	Hostile Fire Pay/Imminent Danger Pay
NPPSC	Navy Pay and Personnel Support Center
SSN	Social Security Number
SWA	Southwest Asia



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-4704

January 22, 2010

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
COMMANDER, NAVY INSTALLATIONS COMMAND
NAVAL INSPECTOR GENERAL

SUBJECT: Controls Over Navy Military Payroll Disbursed in Support of Operations in Southwest
Asia at San Diego-Area Disbursing Centers
(Report No. D-2010-036)

We are providing this report for your information and use. We performed the audit in response to a request from the Commander, Navy Installations Command. We considered management comments on a draft of the report in preparing the final report.

The Assistant Secretary of the Navy (Manpower and Reserve Affairs), responding on behalf of the Commander, Navy Installations Command, comments and Defense Finance and Accounting Service comments conformed to the requirements of DOD Directive 7650.3; therefore, we do not require any additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868 (DSN 329-5868).

Patricia A. Marsh
Patricia A. Marsh, CPA
Assistant Inspector General
Defense Business Operations



Results in Brief: Controls Over Navy Military Payroll Disbursed in Support of Operations in Southwest Asia at San Diego-Area Disbursing Centers

What We Did

During calendar year 2008, the Navy disbursed about \$136 million in Hostile Fire Pay/Imminent Danger Pay (HFP/IDP), Hardship Duty Pay, and Family Separation Allowance entitlements to support operations in Southwest Asia. Our objective was to determine whether Navy military payroll in support of operations in Southwest Asia was processed in accordance with established laws and regulations. Specifically, we determined whether the San Diego-area disbursing centers and the Defense Finance and Accounting Service (DFAS) efficiently obtained and maintained adequate support for combat zone (CZ) entitlements. Therefore, we reviewed the CZ entitlements processed for a population of 15,922 military members.

What We Found

San Diego-area disbursing center personnel were not always able to provide supporting documentation for CZ entitlements. They provided complete support for a statistically projected 18,227 CZ entitlements, of which a projected 1,824 were inaccurate. However, they provided incomplete support for a projected 27,622 CZ entitlements. This occurred because personnel were not able to identify the geographically separated units that processed CZ entitlements under their Accounting and Disbursing Station Numbers to obtain the support. In addition, the disbursing centers did not have efficient and effective procedures in place to ensure that supporting documentation was adequately stored and retained. The lack of proper supporting documentation adversely affects the Navy's ability to detect fraud or improper payments.

In addition, DFAS did not process HFP/IDP in accordance with established laws and regulations. This occurred because the Defense Joint Military Pay System is programmed to

prorate HFP/IDP based on the member's date of separation or date of death. DFAS also did not implement procedures for revised policy eliminating the proration of HFP/IDP. As a result, 768 former Navy members did not receive approximately \$64,000 of earned HFP/IDP payments since 2001. Until procedures are implemented to ensure proper payment of HFP/IDP, warfighters who separate while serving in a CZ will not receive all HFP/IDP payments to which they are entitled.

The Commander, Navy Installations Command and DFAS internal controls were ineffective. We identified internal control weaknesses in processing military payroll.

What We Recommend

We recommend that the Commander, Navy Installations Command:

- establish procedures to identify geographically separated units responsible for processing entitlements and maintaining supporting documentation, and
- establish an electronic storage capability for supporting documentation.

We recommend that the Director, DFAS:

- pay the balance of prorated HFP/IDP owed to separated members and families of deceased members, as appropriate, and
- establish policies and procedures to ensure the proper payment of HFP/IDP upon a member's separation or death.

Management Comments and Our Response

The Assistant Secretary of the Navy (Manpower and Reserve Affairs), responding on behalf of the Commander, Navy Installations Command, and the Director, DFAS Cleveland, agreed with the recommendations. Management comments were responsive to the recommendations.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Director, Defense Finance and Accounting Service		B.1, B.2
Commander, Navy Installations Command		A.1, A.2

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Introduction

Objectives

The Commander, Navy Installations Command, requested that we conduct this audit. Our objective was to determine whether the Navy military payroll in support of the operations in Southwest Asia (SWA) was processed in accordance with established laws and regulations. Specifically, we determined whether the San Diego-area disbursing centers and the Defense Finance and Accounting Service (DFAS) efficiently obtained and maintained adequate supporting documentation for combat zone (CZ) entitlements related to SWA deployments. See Appendix A for a discussion of the scope and methodology.

Background

The Navy provides most of the nation's worldwide rotational military presence and an increasing portion of the required support for ground units in Operations Enduring Freedom and Iraqi Freedom. In FY 2008, the Navy employed approximately 332,000 active duty and 68,000 reserve personnel. During 2008, the Navy deployed approximately 104,000 members to support operations in SWA.

Defense Finance and Accounting Service

The Secretary of Defense created DFAS to standardize, consolidate, and improve accounting and financial functions throughout DOD. The DFAS mission is to direct, approve, and perform finance and accounting functions for DOD. DFAS Cleveland is the center for Navy pay operations, delivering pay and entitlements to Navy members.

Disbursing Centers

The Commander, Navy Installations Command (CNIC) is responsible for providing technical guidance to activities supporting personnel and pay management areas, which includes policy revisions for entitlement programs. The Navy Pay and Personnel Support Center (NPPSC), which is under the technical control of CNIC, provides pay and personnel support services to military personnel and their families through Personnel Support Detachments. NPPSC is responsible for overseeing the day-to-day operations and providing guidance to the Personnel Support Detachments, which include San Diego-area disbursing centers. Disbursing centers maintain pay accounts and personnel records for active duty Navy personnel, including those assigned to joint and unified commands, ships, aviation squadrons, mobile units, and staffs within a prescribed geographic area. A unique four-digit Accounting and Disbursing Station Number (ADSN) identifies each disbursing center.

Other Processing Activities

Pay specialists at geographically separated units (GSU) assist disbursing centers in areas where disbursing centers are not physically located. Like disbursing centers, GSUs provide pay and personnel support services. GSUs include Expeditionary Combat

Readiness Centers located in-theater or other activities. A GSU is not assigned its own ADSN; therefore, GSU pay specialists process transactions under a disbursing center's ADSN.

Entitlement Processing

The Transaction Online Processing System is an online database that enables pay specialists to securely transmit supporting documentation to the designated disbursing center through the Internet. Upon receipt of the supporting documentation or notification, the disbursing center or GSU pay specialists use the Navy Standard Integrated Personnel System, or use the Defense Military Pay Office system, to process pay data. The Navy Standard Integrated Personnel System is used for pay and personnel functions, whereas the Defense Military Pay Office system is used only for certain pay functions. Both the Navy Standard Integrated Personnel System and the Defense Military Pay Office system interface with the Defense Joint Military Pay System (DJMS) to provide pay and personnel data to DFAS. DFAS processes the data to generate and distribute payments to military members.

Combat Zone Entitlements

Military members are eligible for specific entitlements while serving in a CZ, which may include Hostile Fire Pay/Imminent Danger Pay (HFP/IDP), Combat Zone Tax Exclusion (CZTE), Hardship Duty Pay (HDP), and Family Separation Allowance (FSA).

- A member is entitled to HFP/IDP for any month in which the member is on official duty in a designated HFP/IDP area. The HFP/IDP entitlement is payable at a monthly rate of \$225 without being prorated.
- The CZTE entitlement allows military members to exclude all or a portion of their pay from tax liabilities while serving in designated combat areas.
- The HDP entitlement is payable to members for deployed duty of more than 30 days in locations specified by the Secretary of Defense. If a member receives HFP/IDP, the maximum HDP that may be paid is \$100 per month or prorated at \$3.33 per day.
- Generally, the FSA entitlement is payable to military members with dependents assigned away from their permanent duty station. The FSA entitlement is paid at the rate of \$250 per month or prorated at \$8.33 per day.

During 2008, the Navy disbursed approximately \$136 million in HFP/IDP, HDP, and FSA entitlements in support of operations in SWA. DOD does not track or report the CZTE amount.

Review of Internal Controls

DOD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006, requires DOD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses for CNIC and DFAS. CNIC did not establish procedures to identify the GSUs responsible for processing the entitlements and maintaining the supporting documentation. Implementing recommendations in Finding A will improve the disbursing centers' processing of military payroll. In addition, DFAS did not have policies and procedures to monitor the payment of HFP/IDP upon a member's separation or death to assure that qualifying members' entitlements are fully paid. Implementing the recommendations in Finding B will improve DFAS' processing of military payroll. We will provide a copy of the final report to the senior officials responsible for internal controls in CNIC and DFAS.

Finding A. Navy Disbursing Center Processing of Combat Zone Entitlements

San Diego-area disbursing center personnel were not always able to provide supporting documentation for CZ entitlements. Specifically, disbursing center personnel provided complete support for a statistically projected 18,227 CZ entitlements, of which a projected 1,824 were inaccurate. However, they provided incomplete support for a projected 27,622 CZ entitlements. San Diego-area disbursing center personnel did not always provide documentation to substantiate CZ entitlements because they were not able to identify the GSU that processed CZ entitlements under their ADSN to obtain the support. In addition, San Diego-area disbursing centers did not have efficient and effective procedures in place to ensure that the supporting documentation was adequately stored and retained. As a result, the lack of proper supporting documentation adversely affects the Navy's ability to detect fraud or improper payments.

Criteria for Supporting Documentation

Office of Management and Budget Circular No. A-123, "Management's Responsibility for Internal Control," December 21, 2004, states that management is responsible for establishing, implementing, and maintaining internal controls to achieve the objectives of effective and efficient operations and compliance with applicable laws and regulations. Management must clearly demonstrate its commitment to competence in the workplace by ensuring that personnel maintain the proper knowledge and skills to perform their assigned duties and receive necessary training.

DOD 7000.14R, "DOD Financial Management Regulation" (FMR), volume 5, chapter 21, "Disbursing Office Records," September 2007, requires that original disbursing office records and associated papers be retained as Government property. Adequate controls over records storage must be in place to ensure that access to any paper documents and electronic images is limited to authorized personnel, and only for official purposes. The requirement applies to both paper and electronic records maintained as original supporting documentation. In addition, transactions need to be supported by documentation that is readily available for examination and review. Management should also properly manage and maintain this documentation.

In addition, DOD FMR, volume 7A, chapter 10, "Special Pay-Duty Subject to Hostile Fire or Imminent Danger," May 2009, requires that the appropriate commander certify that a member has met the conditions for the HFP/IDP entitlement each month, except when the member is under orders on official duty in one of the IDP areas identified in this chapter.¹ The certification should include the name and social security number (SSN) of the member entitled to HFP/IDP, a short description of the incident, and when and where it occurred.

¹ A review of the DOD FMR in effect when Navy members were originally receiving CZ entitlements indicated no differences from the current citations that would affect the results of the review.

Providing Supporting Documentation

Personnel at the six San Diego-area disbursing centers were not always able to provide supporting documentation for CZ entitlements.² This occurred because they were not able to identify the GSU that processed CZ entitlements under their ADSN to obtain the support. Navy pay systems can enable GSU pay specialists to process CZ entitlements under any ADSN. Only one of six disbursing centers could readily identify the GSU that processed the entitlements under that disbursing center's assigned-ADSN. The inability to determine the GSU that processed the entitlement and the location of supporting documentation used to process the entitlement adversely affects the Navy's ability to detect potential fraudulent and improper payments. The Navy also could not substantiate members' receipt of proper CZ entitlements during SWA deployments. Establishing procedures to identify the GSUs that process entitlements under the disbursing centers' ADSN would enable pay specialists to verify that members receive proper entitlements.

In addition, San Diego-area disbursing centers did not have efficient and effective standard operating procedures in place to ensure that the supporting documentation was adequately stored and retained. San Diego-area disbursing centers generally received documentation in an electronic format either by e-mail or through the Transaction Online Processing System. This method allows the disbursing centers to process the transactions in a more timely manner. Currently, the Transaction Online Processing System stores supporting documentation for approximately 30 days. Therefore, disbursing center personnel printed the documents and stored the hard copies on-site. Because of limited storage space at the disbursing centers, several activities stored documentation in unsecured locations. For example, one activity stored supporting documentation in a base warehouse, which contractors also used for supply storage. This allowed contractors access to documentation containing personally identifiable information. Representatives agreed that the warehouse was not a secure location for the documentation; however, they told us that there was not a secure location on-site. The Navy has identified that the protection of personally identifiable information for its members is imperative for overall operational military readiness. However, unsecured storage could lead to theft and fraudulent use of personally identifiable information. Representatives stated that electronic storage would improve controls over access to personally identifiable information and reduce costs associated with printing and storing hard-copy documentation. In addition, an electronic storage capability would help ensure that supporting documentation is properly maintained and readily available.

Complete Support

San Diego-area disbursing center personnel provided complete supporting documentation for a projected 18,227³ CZ entitlements. Specifically, they provided complete support for a projected 6,633 HFP/IDP entitlements, 6,633 CZTE entitlements, 2,100 HDP

² See Appendix B for a summary of supporting documentation provided by each disbursing center.

³ This number is based on a statistically derived projection and will not sum to the individual numbers below because of rounding differences. See Appendix C for projected results.

entitlements, and 2,861 FSA entitlements.⁴ We considered a CZ entitlement completely supported when the disbursing center personnel provided adequate supporting documentation to start and stop the CZ entitlement. For example, we accepted signed Navy memoranda from the commanding officer that indicated when specific entitlements should start or stop as evidence of complete supporting documentation. If the memorandum addressed multiple members, the commanding officer attached a roster of the members eligible to receive specific entitlements. The roster included names, SSNs, deployment periods, and deployment locations.

The table shows the projected number of completely supported CZ entitlements that we identified as accurately or inaccurately processed. It also includes the projected number of CZ entitlements for which we could not determine the accuracy.

Projected Accuracy of CZ Entitlements Processing

Entitlement	Accurate	Inaccurate	Unable to Determine	Total
HFP/IDP	5,199	584	850	6,633
CZTE	5,150	633	850	6,633
HDP	1,264	213	623	2,100
FSA	2,092	394	375	2,861
Total	13,705	1,824	2,698	18,227

We determined that pay specialists accurately processed a projected 13,705 CZ entitlements under San Diego-area disbursing center ADSNs. We could not determine the accuracy for a projected 2,698 CZ entitlements because the entitlements were ongoing or processed in part under an ADSN outside of our scope. We also identified that a projected 1,824 CZ entitlements were inaccurate because they were not started or stopped in a timely manner. This occurred in most cases because the commanding officer did not prepare supporting documentation for the disbursing center in a timely manner. In other cases, the disbursing center personnel did not process the entitlements in a timely manner. When disbursing center personnel stop an entitlement too late, the member becomes indebted to the Government. For example, overpayment of CZ entitlements for 3 months after the end of a deployment resulted in a debt of approximately \$2,000. A pay specialist identified the error during the month the member separated; the overpayment was recouped through a Separation Pay deduction. This reduction in income may have resulted in financial hardship for the member and the member's family.

⁴ Not all members receiving HFP/IDP and CZTE are entitled to HDP and FSA.

Incomplete Support

San Diego-area disbursing center personnel did not provide complete supporting documentation for a projected 27,622⁵ CZ entitlements. Therefore, the Navy could not substantiate a projected 27,622 CZ entitlements received by 15,922 military members for SWA deployments. Specifically, San Diego-area disbursing center personnel provided partial support for a projected 11,909 CZ entitlements. In addition, they provided no support for a projected 15,712 CZ entitlements.

San Diego-area disbursing center personnel provided partial supporting documentation for a projected 4,442 HFP/IDP entitlements, 4,442 CZTE entitlements, 816 HDP entitlements, and 2,209 FSA entitlements. We considered a CZ entitlement partially supported when disbursing center personnel did not provide adequate supporting documentation for both the start and stop of a CZ entitlement. During certain instances, one disbursing center started an entitlement while another one stopped it. If both disbursing centers did not provide complete support for their respective transactions, the entitlement was classified as partially supported. Partial supporting documentation impairs pay specialists' ability to verify the accuracy of members' entitlements, which could result in potential financial hardship for members and their families. For example, one member was not entitled to FSA; however, the member received approximately \$3,500 for this entitlement. In addition, this member's HFP/IDP, CZTE, and HDP entitlements were not stopped in a timely manner and were overpaid by approximately \$700. After a pay specialist identified the error, the member incurred a debt of approximately \$4,200. The member and the disbursing center established a pay schedule to repay the debt. These payments reduce the member's monthly income until the debt is repaid, which could result in financial hardship for the member and the member's family.

San Diego-area disbursing center personnel also provided no supporting documentation for a projected 4,846 HFP/IDP entitlements, 4,846 CZTE entitlements, 2,786 HDP entitlements, and 3,234 FSA entitlements. We considered a CZ entitlement to be unsupported when disbursing center personnel did not provide any supporting documentation. For example, disbursing center personnel did not provide support for the start of a member's CZ entitlements. However, the disbursing center personnel started the CZ entitlements when the member was in training and not eligible for the entitlements. When a pay specialist identified the errors, the member had incurred debts of approximately \$675 for the HDP/IDP entitlement and \$1250 for the FSA entitlement. These amounts were later recouped over 2 months. In addition, the member paid back taxes on approximately \$8,100 of untaxed earnings. This reduction in income may have resulted in financial hardship for the member and the member's family.

Representatives from several disbursing centers provided deployment rosters as the support used to start or stop CZ entitlements. We accepted the roster as support only when the location and date of the member's deployment corresponded with the applicable

⁵ This number is a statistically derived projection and will not sum to the individual numbers below because of rounding differences. See Appendix C for projected results.

entitlements. Personnel also accepted other unsigned or incomplete documents, such as FSA forms, that did not identify the country of deployment or the dates of entitlement. The lack of full supporting documentation prevents the detection of fraudulent, inaccurate, or untimely receipt of entitlements.

The lack of proper supporting documentation adversely affects the Navy's ability to detect fraud or improper payments. The lack of procedures to efficiently and effectively store and retain supporting documentation creates the potential for inaccurate payments. DFAS Cleveland personnel identified that erroneous CZ entitlement payments processed under San Diego-area ADSNs during 2008 resulted in Navy members being approximately \$270,000 in debt for HFP/IDP, HDP, and FSA entitlements combined. This resulted in a reduction of Navy members' monthly income to repay the debt, which could result in financial hardship for the member and the member's family.

Recommendations, Management Comments, and Our Response

A. We recommend that the Commander, Navy Installations Command:

1. Establish procedures to identify the geographically separated units responsible for processing the entitlements and maintaining the supporting documentation.

Assistant Secretary of the Navy (Manpower and Reserve Affairs) Comments

The Assistant Secretary of the Navy (Manpower and Reserve Affairs), responding on behalf of the Commander, Navy Installations Command, agreed with the recommendation. The Commander, Navy Installations Command and Navy Pay and Personnel Support Center are coordinating with the Navy Standard Integrated Personnel System Project Management Office to develop the ability to readily identify transactions processed by geographically separated units. The Navy Pay and Personnel Support Center is also modifying a current Instruction to direct in-theatre geographically separated unit personnel to transfer supporting documentation for pay and personnel transactions to a central repository for consolidation and retention. The process will serve as an interim solution until the Department of the Navy fully implements electronic data retention.

2. Establish an electronic storage capability for the supporting documentation to ensure it is properly maintained and readily available.

Assistant Secretary of the Navy (Manpower and Reserve Affairs) Comments

The Assistant Secretary of the Navy (Manpower and Reserve Affairs), responding on behalf of the Commander, Navy Installations Command, agreed with the recommendation. The Commander, Navy Installations Command, is working with the Office of the Secretary of the Navy (Financial Management and Comptroller), Navy

Standard Integrated Personnel System Project Management Office, Defense Finance and Accounting Service Cleveland, Navy Personnel Command Millington, and the National Archive and Records Administration to implement electronic data retention.

Our Response

The Navy comments are responsive and meet the intent of our recommendations. No further comments are required.

Finding B. Defense Finance and Accounting Service Processing of Combat Zone Entitlements

DFAS did not process HFP/IDP entitlements in accordance with established laws and regulations. Specifically, DJMS prorated the HFP/IDP entitlement for Navy members who separated⁶ or died during the same month of serving in a CZ. This occurred because DJMS is programmed to calculate a member's HFP/IDP entitlement based on the member's date of separation or date of death instead of paying the full monthly amount. In addition, DFAS did not implement procedures for revised policy eliminating the proration of HFP/IDP. As a result, 768 former Navy members did not receive approximately \$64,000 of earned HFP/IDP payments since 2001. Until procedures are implemented to ensure proper payment of HFP/IDP, warfighters who separate while serving in a CZ will not receive all payments of HFP/IDP to which they are entitled.

Criteria for Hostile Fire Pay/Imminent Danger Pay

Section 310, title 37, United States Code (37 U.S.C. § 310 [2008]), "Special Pay: Duty Subject to Hostile Fire or Imminent Danger," establishes a Navy member's eligibility and entitlement pay for duties subject to HFP/IDP. DOD FMR volume 7a, chapter 10, paragraph 100102, "Special Pay-Duty Subject to Hostile Fire or Imminent Danger," February 2006, implements 37 U.S.C. § 310 (2008) and requires that effective October 1, 2002, HFP/IDP is payable at a monthly rate of \$225. Before October 1, 2002, HFP/IDP was payable at a monthly rate of \$150.⁷ HFP/IDP is payable in addition to all other pays or allowances. Additionally, it is payable in the full amount without being prorated or reduced, for each month, during any part of which a member qualifies. Active and Reserve Component members, who qualify at any time during a month, should receive the full amount of HFP/IDP regardless of the actual number of days served on active or inactive duty during that month.

Proration of Combat Zone Entitlements

DFAS did not process CZ entitlements in accordance with established laws and regulations. According to 37 U.S.C. § 310 (2008) and the DOD FMR, a member that separates or dies during the same month of serving in a CZ should receive the \$225 HFP/IDP entitlement for the entire month. On December 22, 1998, the DFAS Director of Finance issued a memorandum to change procedures implementing revised policy to eliminate the proration of HFP/IDP. However, DJMS continued to prorate the HFP/IDP entitlement for Navy members. This occurred because DJMS is programmed to calculate a member's HFP/IDP entitlement based on the member's date of separation or date of death instead of paying the full monthly amount. In addition, DFAS did not implement procedures for the revised policy. For example, one deceased member received \$150 of HFP/IDP in one month, resulting in an underpayment of \$75. DFAS

⁶ Military separation refers to the release or discharge of a member from active duty.

⁷ The increase in the monthly rate was the only change from the previous guidance affecting HFP/IDP.

should pay the portions of prorated HFP/IDP owed to separated members and families of deceased members. In addition, establishing policies and procedures would ensure the proper payment of HFP/IDP in the future.

DFAS Cleveland personnel identified that 672 separated and 96 deceased Navy members did not receive approximately \$51,800 and \$12,200, respectively, of earned HFP/IDP entitlement payments since 2001. Until DFAS implements procedures to ensure proper payment of HFP/IDP, warfighters who separate while serving in a CZ will not receive all payments of HFP/IDP to which they are entitled. Although the impact of the pay errors is not significant (approximately \$64,000), the 768 former Navy members who earned HFP/IDP are entitled by law to payment in full. In addition, the warfighters currently serving in CZs should be assured that they will receive all payments to which they are entitled.

Recommendations, Management Comments, and Our Response

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

1. Pay the balance of the prorated Hostile Fire Pay/Imminent Danger Pay owed to separated members and families of the deceased members, as appropriate.

Director, Defense Finance and Accounting Service Cleveland, Comments

The Director, Defense Finance and Accounting Service Cleveland, agreed with the recommendations. The Defense Finance and Accounting Service, Navy Military Pay Operations, Cleveland, will research current address information for separated members or beneficiaries of the affected population. Navy Military Pay Operations, Cleveland, will forward letters to the member or beneficiary notifying them of the entitlement and provide 60 days to respond before the case is considered closed.

2. Establish policies and procedures to ensure the proper payment of Hostile Fire Pay/Imminent Danger Pay upon a member's separation or death.

Director, Defense Finance and Accounting Service Cleveland, Comments

The Director, Defense Finance and Accounting Service Cleveland, agreed with the recommendation. The Defense Finance and Accounting Service, Navy Military Pay Operations, Cleveland, established a procedure to ensure the proper payment of Hostile Fire Pay/Imminent Danger Pay upon a member's separation or death. Navy Military Pay Operations, Cleveland, distributed the procedures to all Defense Finance and Accounting Service Cleveland Military Pay Technicians.

Our Response

The Director, Defense Finance and Accounting Service Cleveland, comments are responsive and meet the intent of our recommendations. No further comments are required.

Appendix A. Scope and Methodology

We conducted this performance audit from March 2009 to October 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To evaluate the controls over Navy military payroll, we reviewed the processing of pay transactions and the storage and retention of supporting documentation for CZ entitlements. The Navy and DFAS processed these CZ entitlements, in part or completely, during 2008 for military members deployed to an active CZ. DFAS provided a universe of 175,586 HFP/IDP and CZTE transactions processed in 2008. We extracted the CZ entitlements processed under six San Diego-area disbursing centers for 15,996 military members. The total value of these members' HFP/IDP, HDP, and FSA entitlements was \$13.8 million for 2008. We randomly selected a sample of 300 military members for review at the San Diego-area disbursing centers and DFAS. Of these 300 military members, we identified 2 that were not within the scope of our review because their deployments were not in support of operations in SWA. We analyzed the remaining 298 military members' pay data to determine whether San Diego-area disbursing center and DFAS personnel maintained supporting documentation to substantiate the HFP/IDP, HDP, CZTE, and FSA entitlements processed under the San Diego-area ADSNs. The 15,922 military members included in our projections differs from the 15,996 military members processed under the six San Diego-area disbursing centers because the 2 military members that were removed from our sample were projected to our San Diego population. Therefore, a projected 74 of 15,996 military members would not have been within the scope of our review. See Appendix C for statistical sampling information.

To accomplish the audit objective:

- We contacted the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer to determine its involvement in the Navy military pay process.
- We met with DFAS representatives to obtain the universe of military members receiving CZ entitlements processed during 2008 while deployed in support of operations in SWA. We obtained and reviewed Leave and Earnings Statements, Master Military Pay Accounts,^{*} DJMS queries, and supporting documentation for military members who received CZ entitlements. We interviewed

^{*} The Master Military Pay Account contains current and historical data pertaining to a member's pay, including all leave and pay activity for active duty members. The individual accounts contain current entitlements, deductions, status information, and 11-month history.

responsible officials about DFAS procedures related to processing HFP/IDP entitlements. We evaluated the documentation and procedures to determine whether it complied with established laws and regulations.

- We met with Navy representatives to obtain supporting documentation for military members who received CZ entitlements. In addition, we interviewed responsible officials about the disbursing center's procedures related to the processing of CZ entitlements and the retention of related supporting documentation. We evaluated the documentation and procedures to determine whether they complied with established laws and regulations.
- We compared supporting documentation to pay data to determine whether the San Diego-area disbursing center and DFAS personnel provided adequate support for the CZ entitlements. We evaluated supported entitlements to determine whether personnel accurately processed the entitlements.

Use of Computer-Processed Data

The Navy uses the Navy Standard Integrated Personnel System and Defense Military Pay Office system to process pay transactions. The pay data from these systems feed into DJMS. To assess the reliability of the data in these systems, we compared DJMS data to commanding officer memoranda, deployment rosters, official e-mails, stamped and signed travel orders, approved travel vouchers, completed FSA substantiation forms, and emergency dependent forms to verify deployment location, deployment timeframe, and CZ entitlement accuracy. We also determined the data reliability by validating the SSNs in our population through the Defense Manpower Data Center. This assessment indicated that the data were sufficiently reliable for the purpose of our review.

Use of Technical Assistance

Operations Research Analysts from the DOD Office of Inspector General Quantitative Methods and Analysis Division assisted with project sample selection and validity of SSNs. The DOD Office of Inspector General Data Mining Branch coordinated with the Defense Manpower Data Center to determine deceased members for the SSNs in our San Diego audit population.

Prior Coverage

During the last 5 years, DOD IG and Naval Audit Service have issued two reports discussing Navy military payroll special pays. Unrestricted DOD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Naval Audit Service reports are not available over the Internet.

DOD IG

DOD IG Report No. D-2009-079, "Controls Over the Department of the Navy Military Payroll Disbursed in Support of the Global War on Terror," May 7, 2009

Navy

Naval Audit Service Report N2008-0044, "Validity of Selected Special Pays at Personnel Support Detachments Afloat," August 15, 2008

Appendix B. Supporting Documentation Provided by Disbursing Center

The table displays the number of military members receiving CZ entitlements that we reviewed at each San Diego-area disbursing center. The table also identifies the complete, partial, and no supporting documentation provided by each San Diego-area disbursing center for each member reviewed.

Supporting Documentation Provided by Disbursing Center

Disbursing Center	Military Members Reviewed*	Received Supporting Documentation		
		Complete	Partial	None
5902	53	9	6	38
5903	50	0	3	47
5904	30	7	8	15
5905	57	31	17	9
5908	48	10	20	18
5930	92	30	51	11
Total	330	87	105	138

*The numbers identify the results of our review of entitlements processed under each disbursing center's ADSN, which included entitlements processed by disbursing centers or GSUs. The total members reviewed above do not match the total sample of 300 because CZ entitlements for multiple members within the sample were processed by more than one disbursing center.

Appendix C. Statistical Sampling

Population

The population consisted of 15,996 military members receiving CZ entitlements processed under six San Diego-area disbursing centers during calendar year 2008.

Measures

For the payments sampled, the Quantitative Methods and Analysis Division used an attribute measure to determine whether the Navy maintained adequate support for payments related to SWA deployments.

Parameters

The Quantitative Methods and Analysis Division used a 95-percent confidence interval.

Sample Plan

The Quantitative Methods and Analysis Division used a stratified attribute sample design. The Quantitative Methods and Analysis Division analysts stratified the population into seven strata: six disbursing centers and a stratum for entitlements processed by multiple ADSNs. After the population was stratified, the analysts used simple random sampling to select a sample of 300 military members to test at the San Diego-area disbursing centers.

Analysis and Interpretation

Of the 300 military members selected in the sample, we identified 2 that were not within the scope of our review because their deployments were not in support of operations in SWA. These items projected to 74 military members, which reduced our population to 15,922. We analyzed the remaining 298 military members to determine whether San Diego-area disbursing center personnel maintained supporting documentation to substantiate the HFP/IDP, CZTE, HDP, and FSA entitlements processed under their ADSN. At the 95-percent confidence level, we projected the items over the estimated population of 15,922 military members. See the tables on the following pages for the statistical projections.

Table 1. Complete Support

Entitlement	Lower Bound	Point Estimate	Upper Bound
HFP/IDP	5,497	6,633	7,769
CTZE	5,497	6,633	7,769
HDP	1,458	2,100	2,743
FSA	1,940	2,860	3,781
Total	16,266¹	18,227²	20,187¹

Table 2. Incomplete Support

Entitlement	Lower Bound	Point Estimate	Upper Bound
HFP/IDP	8,154	9,289	10,424
CTZE	8,154	9,289	10,424
HDP	2,852	3,602	4,353
FSA	4,358	5,443	6,527
Total	25,545¹	27,622²	29,700¹

Table 3. Total Population

Entitlement	Lower Bound	Point Estimate	Upper Bound
HFP/IDP	15,698	15,922	16,145
CTZE	15,698	15,922	16,145
HDP	4,878	5,702	6,526
FSA	7,132	8,303	9,474
Total	44,383¹	45,849²	47,315¹

¹ The lower and upper bounds for the projections are statistically derived calculations that will not sum to the total.

² The point estimates may not sum to the total in the tables or correspond to the projections in the body of the report because of rounding differences.

Table 4. Complete – Accurate

Entitlement	Lower Bound	Point Estimate	Upper Bound
HFP/IDP	4,097	5,199	6,300
CTZE	4,052	5,150	6,247
HDP	699	1,264	1,829
FSA	1,228	2,092	2,956
Total	11,839¹	13,705²	15,571¹

Table 5. Complete – Inaccurate

Entitlement	Lower Bound	Point Estimate	Upper Bound
HFP/IDP	76	584	1,092
CTZE	114	633	1,152
HDP	(89)	213	515
FSA	18	394	769
Total	952¹	1,824²	2,695¹

Table 6. Complete – Unable to Determine Accuracy

Entitlement	Lower Bound	Point Estimate	Upper Bound
HFP/IDP	318	850	1,383
CTZE	318	850	1,383
HDP	185	623	1,061
FSA	3	375	746
Total	1,751¹	2,698²	3,645¹

¹ The lower and upper bounds for the projections are statistically derived calculations that will not sum to the total.

² The point estimates may not sum to the total in the tables or correspond to the projections in the body of the report because of rounding differences.

Department of the Navy Comments



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

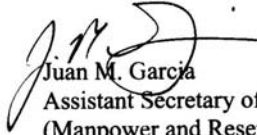
DEC 15 2009

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Navy Review and Comment to DoDIG Draft Audit Report Entitled,
"Controls Over Navy Military Payroll Disbursed in Support of Operations in
Southwest Asia at San Diego-Area Disbursing Centers," (Project No.
D2009-D000FC-0165.00)

Thank you for offering the Department of the Navy an opportunity to review and respond to recommendations in the subject draft audit report. Please find Navy's comments in the attachment.

Navy points of contact (POCs) for this report are [REDACTED],
[REDACTED],
[REDACTED] at [REDACTED] Installation Command (CNIC) at Washington Navy Yard.


Juan M. Garcia
Assistant Secretary of the Navy
(Manpower and Reserve Affairs)

Attachment(s):
As stated

Copy to:
[REDACTED]

Navy Comments on DODIG Draft Audit Report, "Controls Over Navy Military Payroll Disbursed in Support of Operations in Southwest Asia at San Diego-Area Disbursing Centers," (D2009-D000FC-0165.000)

FINDING A. NAVY DISBURSING CENTER PROCESSING OF COMBAT ZONE ENTITLEMENTS (pages 4-8)

We recommend that the Commander, Navy Installations Command (CNIC):

Recommendation A.1: Establish procedures to identify the geographically separated units responsible for processing the entitlements and maintaining the supporting documentation.

Navy Response:

Concur. CNIC and Navy Pay & Personnel Support Center (NPPSC) are coordinating with Navy Standard Integrated Personnel System (NSIPS) Project Management Office (PMO) to develop the capability to readily identify transactions processed by geographically separated units (GSUs), prioritizing in-theater units first, and continuing the process for other remote Personnel Pay/Personnel Support Detachment (PSD) sites. NPPSC is making a change to NPPSC Instruction 7250.1 to direct transfer of supporting documentation for pay and personnel transactions processed from GSU to a central repository (PSD Bahrain) for consolidation and retention (Expected completion date is January 15, 2010). This will be an interim solution until Electronic Data Retention (EDR) is fully implemented throughout the Department of the Navy.

Recommendation A.2: Establish an electronic storage capability for the supporting documentation to ensure it is properly maintained and readily available.

Navy Response:

Concur. CNIC is partnering with Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) (OASN(FM&C) FMO), NSIPS, DFAS Cleveland, Navy Personnel Command (NPC) Millington and the National Archive and Records Administration (NARA) to implement EDR. The goal is to scan and electronically retain all source and supporting documentation used to prepare pay and personnel transactions (including GSU/origin information and all the necessary data elements). The plan includes provision for a centralized EDR solution which complies with laws, regulations and policies. Date for completion is pending based on forthcoming schedule for implementation of a Navy-wide EDR plan.

Attachment (1)

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

1240 EAST NINTH STREET
CLEVELAND OHIO 44199

NOV 17 2009

DFAS-JBB/CL

MEMORANDUM FOR DIRECTOR, DEFENSE BUSINESS OPERATIONS, OFFICE OF THE
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
[REDACTED]

SUBJECT: Office of the Inspector General Draft Report, Project No. D2009-D000FC-0165.000,
"Controls Over Navy Military Payroll Disbursed in Support of Operations in
Southwest Asia at San Diego-Area Disbursing Centers," dated October 28, 2009

The Defense Finance and Accounting Service Cleveland is providing response to
Recommendations B.1 and B.2 of the subject draft audit report in Attachment 1. The procedure
"Hostile Fire Pay (HFP) for Deceased/Separated Accounts" is Attachment 2.

[REDACTED]

A handwritten signature in cursive script, appearing to read "Martha J. Smith".

Martha J. Smith
Director, DFAS Cleveland

Attachments:
As stated

cc:
DFAS-HIP/IN

**DFAS Comments to DoD IG Draft Report, Project No. D2009-D000FC-0165.000,
“Controls Over Navy Military Payroll Disbursed in Support of Operations in
Southwest Asia at San Diego-Area Disbursing Centers,” dated October 28, 2009.**

**Finding B. Defense Finance and Accounting Service Processing of Combat Zone
Entitlements**

Recommendation B.1. We recommend that the Director, Defense Finance and Accounting Service pay the balance of the prorated Hostile Fire Pay/Imminent Danger Pay owed to separated members and families of the deceased members, as appropriate.

Management Comments. Concur. Defense Finance and Accounting Service, Navy Military Pay Operations, Cleveland will conduct research, via automated and manual methods, to identify current address information for separated members or beneficiaries of the affected population. Letters will be forwarded to the member/beneficiary notifying them of the entitlement, and requesting a response back within 60 days with banking or mailing information for delivery of the funds. If no response is received within the 60 day window, the case will be considered closed.

Estimated Completion Date. April 1, 2010.

Recommendation B.2. We recommend that the Director, Defense Finance and Accounting Service establish policies and procedures to ensure the proper payment of Hostile Fire Pay/Imminent Danger Pay upon a member’s separation or death.

Management Comments. Concur. Defense Finance and Accounting Service, Navy Military Pay Operations, Cleveland has established a procedure to ensure the proper payment of Hostile Fire Pay/Imminent Danger Pay upon a member’s separation or death, and has distributed it to all DFAS Cleveland Military Pay Technicians. The procedure “Hostile Fire Pay (HFP) for Deceased/Separated Accounts” is Attachment 2.

Completion Date. September 30, 2009. This recommendation is considered closed.

Hostile Fire Pay (HFP) for Deceased/Separated Accounts:

Per the DoDFMR, Chapter 10, HFP/IDP is payable in the full amount without being prorated or reduced, for each month, during any part of which, a member qualifies. Active and Reserve Component members who qualify, at any time during a month, will receive the full amount of HFP/IDP regardless of the actual period of time served on active or inactive duty during that month. However, DJMS processing prorates the HFP/IDP from the date of death or separation.

In order to pay the entire month of entitlement, first verify that the date of death or separation is correct, and that the member is in receipt of HFP/IDP within the month. Process a 9903 Format ID 23 for the dates of the missing entitlement. Also, process N9 memo entry explaining the action taken.

Example:

Monthly entitlement amount \$225.00

Date of Death or Separation: 090610

Account reflects HFP/IDP 090601 - 090610 \$75.00 (\$7.50 X 10 days)

Process 9903(23) for 090611 - 090630 \$150.00 (\$7.50 X 20 days)

In addition, process N9 memo entry to post explanation of the entitlement.



Inspector General Department of Defense

