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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

The Navy's Computerized Pay System Is Unreliable And Inefficient--What Went Wrong?

During the past 12 years, the Navy has spent over \$150 million to develop and operate a central automated military pay system for its military personnel. But the centralized system is so unreliable that, as a check, local disbursing officers calculate pay amounts manually. Each payday over 50 percent of the centrally computed pay amounts are changed to agree with amounts computed locally.

GAO approved the design of the system but now finds that the Navy did not implement the design effectively. Also, the Navy made changes to the system which it did not submit for approval as required and which, if submitted, GAO would not have approved.

The report makes several recommendations to the Secretary of Defense to improve the timeliness and accuracy of inputs to the automated system and to reduce the manual effort required to make the system work.



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FGMSD-80-71
SEPTEMBER 26, 1980

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-199833

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses serious deficiencies in the Navy's central pay system for active military personnel. The system is so unreliable that local disbursing officers must recalculate pay amounts for the Navy's 522,000 members manually. We are making several recommendations to improve the timeliness and accuracy of the centralized system.

We are sending copies of this report to the Director, Office of Management and Budget, the Secretary of Defense, and the Secretary of the Navy.

James B. Atchaf
Comptroller General
of the United States

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D I G E S T

During the past 12 years the Navy has spent over \$150 million to develop and operate a central automated military pay system in Cleveland, Ohio, that is largely unreliable and inefficient. GAO has approved the pay system design but the system is not working as designed because management did not implement it as designed.

Most of the pay computed by the system is based on erroneous and/or outdated information and, as a result, an expensive unapproved parallel manual system is being used to help assure that the Navy's 522,000 active duty members are paid correctly. Local disbursing officers at 400 locations compare all members' Leave and Earnings Statements provided by the central automated system with manual pay computations they are required to record in their local financial records. In over half of the cases the disbursing officers change (override) the centrally computed pay to the amount their records indicate. When approving the system design in September 1976, GAO recognized that disbursing officers may have to override the centrally computed amounts on an exception basis but the system was changed (without informing GAO) to, in effect, require that disbursing officers duplicate the functions of the central computer by calculating pay for each member. As required by Section 31, Title 2, GAO Policy and Procedures Manual for Guidance of Federal Agencies, important changes to approved systems are supposed to be submitted to GAO.

Although the extensive overrides made by the disbursing officers bring the pay closer to the amount due members, many errors still exist in members' pay records. A Naval Audit Service study in 1978 found that 42 percent of 291 selected pay accounts reviewed were inaccurate. Another study performed in 1978

FGMSD-80-71

by the internal auditors at Cleveland found that 52,200 accounts remained in an overpaid status for more than 90 days. Using scientific sampling techniques in selecting 96 pay records for review, GAO found, in 1979, that 34 of the accounts were in error in amounts ranging from \$5 to over \$1,800. (See p. 6.)

The major problems with the system stem from the lack of timely and accurate input data from field organizations to the central computer. For most input it takes an average of 23 days, including 12 days to prepare and 7 days in the mail, between the time a pay action occurs at the local installation and the date it is entered on the centralized records. The system design GAO approved required field activities to prepare input documents within 3 working days of the pay action. GAO recognized that there would be some delay in recording pay data centrally because of the large number of widely disbursed organizations submitting the data and because the data was to be mailed to the central site. Therefore, in approving the system, GAO cautioned the Navy to make sure pay data was submitted promptly.

Besides being late, the quality of the input is very poor. About 250 clerks (at a cost of \$3.4 million annually) at the central site resolve an average of 38,000 errors the computer system rejects each month. This amounts to about 8 percent of pay change transactions submitted each month. And in 17 percent of those cases the corrections made by the clerks are rejected and the errors must be corrected again.

Despite costly efforts to overcome system inefficiencies, the system continues to operate inadequately as evidenced by the following incidents.

--During fiscal 1978, of the approximately 100,000 Navy military personnel separated, about 22,500 were underpaid and about 17,000 were overpaid. The total of the overpayments was about \$4.2 million. According to the Navy Audit Service, the Navy

could not tell the members the cause of the overpayments 40 percent of the time. Once a member is separated it is difficult to recoup overpayments. In the past 3 years, the Navy has, on the average, collected only 23 cents for each dollar of overpayment.

- Navy members have been inconvenienced in preparing their income tax returns because about 78,000 Wage and Tax Statements (IRS W-2 forms) were incorrectly prepared for 1977 and 1978 and had to be corrected.
- The benefit of issuing the Leave and Earnings Statement is diminished. The statement given each month to members is usually wrong because the pay received does not agree with the pay calculated by the central system and shown on the statement.

As indicated above, the timeliness of input to the central computer would be greatly improved if the system were implemented as GAO approved. Field units average 12 days to prepare input as opposed to the 3 days required by the system design. Further, the approved system design required an automated control over rejects but since the automated system was not properly implemented, management does not rely on it for control purposes.

In addition, Navy management did not establish overall goals and objectives to measure pay system performance as required by the Office of the Assistant Secretary of Defense (Comptroller).

Although the Assistant Secretary of Defense (Comptroller) has the responsibility for ensuring that Defense has efficient and effective pay systems, his office did not provide the necessary guidance and monitoring of the Navy's pay system development and implementation. Also, the Comptroller's Office has not required the Navy to comply with Defense requirements for managing the automated pay system and has not determined whether the Navy implemented the pay system design as GAO approved.

Improvements underway and planned

The Navy recognizes that the present system is inadequate and has begun to reorganize its many field activities which provide pay data input to the central system. The reorganization, which the Navy hopes will result in prompt and accurate pay data, is scheduled for completion in December 1980.

Beginning in the Fall of 1981, the Navy is also planning to have its major installations in the continental United States send pay data to the Finance Center electronically rather than through the mail. This process will apply to only about 25 percent of pay system input, however, primarily because ships and overseas activities will not participate in this initial effort to reduce reliance on the mail system. A more sophisticated telecommunication system that is planned for implementation after 1984 will include an estimated 68 percent of pay system input. If properly implemented these steps will improve the promptness and accuracy of pay data.

Further, the Navy plans to reduce processing time of rejected data at the Finance Center. By March 1983 the Navy plans to use teleprocessing technology to reduce the processing time to correct errors from 6 to 8 workdays to 1 workday.

GAO MAY WITHDRAW ITS APPROVAL

The changes the Navy made in creating a parallel manual system would not have been approved by GAO if the changes were submitted to GAO as required. Further, the system is largely ineffective and inefficient because the Navy did not make sure that pay data was submitted promptly to the central site, as GAO urged when the system was approved.

The Navy's top management should make sure that planned improvements are effectively implemented and should require cognizant officials to operate the system as designed and as approved by GAO. GAO will consider withdrawing its approval of the pay system

unless the Secretary of the Navy acts promptly to implement the system as approved by GAO.

RECOMMENDATIONS

The Secretary of Defense should require the Secretary of the Navy to:

- Require commanding officers, disbursing officers, and administrative officers to operate the pay system as designed and as approved by GAO. In this connection, target dates should be established for reducing the extent of manual effort now required to make the system work. As the automated system becomes more effective, reliance upon the manual system should be considerably reduced thereby eliminating the parallel manual system.
- Identify those organizations which submit untimely and erroneous pay data and take corrective action where indicated.
- Expedite the Navy's plans to transmit input data to the Finance Center electronically rather than by mail.
- Establish measurable goals and objectives for improving the timeliness and accuracy of the pay system.

GAO made several other recommendations which are designed to make the pay system more effective and efficient. (See pp. 23 and 27.)

AGENCY COMMENTS

The Department of Defense advised GAO that it concurs with the intent of the report's recommendations but that it disagrees with GAO's findings that the pay system is not being operated as designed. Defense also said that (1) the report seems to imply that the Navy has done little or nothing to improve the system and (2) GAO should have evaluated the Navy's actions to correct the system's deficiencies. These actions are intended to enhance the approved system's design. (See p. 23.)

GAO recognizes in this report that the Navy plans to make major systems improvements and believes that if these changes are properly implemented, they will increase the timeliness and accuracy of pay data. (See pp. 9, 11, and 12.) Defense is in error in insisting that the Navy had implemented the system design as approved by GAO. As noted above, substantial improvements could be made if the approved system were properly implemented. (See pp. 9 and 14-17.)

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CHAPTER 1

INTRODUCTION

The Navy's automated military pay system is a computerized payroll system with centralized pay account maintenance and computation but decentralized payment based on computer output. All Navy active duty members and reserve members on extended active duty are paid through the automated pay system which integrates in one record all pay, leave, allotment, bond, and indebtedness data. The system employs single source automation techniques through interface with the personnel data system. The central computer is located at the Navy Finance Center in Cleveland, Ohio.

The heart of the system is the Master Military Pay Account, which is maintained at the Finance Center on magnetic tape with supporting disk files, and contains the latest 18 months' data for all active duty members. Data is put into the account by the Naval Military Personnel Command, field administrative offices, field disbursing officers, and pay technicians at the Finance Center. Field input is often the result of action initiated by individual members, such as requests for leave or allotment action. Using the data in the master pay account, the computer calculates pay and leave entitlements.

The central computer edits and uses accepted transactions to update the members' master pay account. Rejected data is resolved by Finance Center pay technicians or returned to the Personnel Command for resolution. The master pay account file is updated twice a week.

Approximately 400 disbursing officers located worldwide are responsible for collecting and transmitting to the Finance Center pay change information in the form of optical character recognition documents. Most of these documents are prepared at local field administrative offices and sent to a disbursing office where they are batched and mailed. The large naval activities also use magnetic tape to transmit the information. The personnel information necessary to compute pay is transmitted by the Personnel Command via a telecommunication system. This information consists of promotions, demotions, marital or dependency status, special entitlements, court-martial results, and the like. The disbursing offices generally report events rather than specific actions to be taken. For example, the promotion of a member requires only member identification, the new rank, and the effective date. Processing within the system adjusts all affected entitlements and computes the new payment due the member.

In addition to maintaining the master pay account file, the Finance Center

- produces and distributes to disbursing offices the Leave and Earnings Statements for members which show all entitlement, deduction, collection, net pay, and leave data;
- produces and mails allotment checks and bonds; and
- prepares internal and external reports.

The Navy began developing the pay system in 1966 and it implemented the system in several stages commencing with officer personnel in November 1972. Master military pay accounts for officers were initiated during January 1976, and accounts for enlisted personnel were completed in January 1977. Naval officials said the system cost \$26 million to develop.

The pay and allowances included in the Military Personnel, Navy Appropriations for fiscal 1979, totaled \$6.7 billion, based on the year-end strength of 522,000 active duty members.

WE APPROVED SYSTEM DESIGN

The head of each executive agency is responsible for establishing and maintaining systems of accounting and internal control which conform to the principles, standards, and related requirements prescribed by the Comptroller General. Those systems must be approved by the Comptroller General. Approval is an agreement between us and the submitting agency that the proposed systems conform to our prescribed principles and standards.

We have established a two-phase procedure for examining agency accounting systems that are submitted to the Comptroller General for approval. We first examine the accounting principles and standards established by an agency as the basis for its accounting system. After the principles and standards are approved, we examine the design--procedures and practices that will be followed to perform the agency's accounting--to determine whether it conforms to the approved principles and standards. After approval is given, agencies are required to submit to us significant changes to the system. We examine these changes to determine whether the system should remain in an approved status.

In January 1970, we advised the Secretary of Defense that the principles and standards contained in the Department of Defense directive and instruction for the development and installation of the Joint Uniform Military Pay System conformed to the principles and standards for accounting established by the Comptroller General. In September 1976, we advised the Secretary of Defense that the design of the Navy Joint Uniform Military Pay System was approved, but pointed out that our review of the automated data processing aspects of the design was limited to determining the adequacy of the network of controls and audit trails.

Design implementation is
agency responsibility

It is important to note that our approval was of the design, not of the implemented system. It is up to each agency to effectively implement and maintain its system in accordance with the approved systems design. In chapter 2 we discuss those aspects of the approved design which the Navy failed to effectively implement.

OBJECTIVE, SCOPE, AND METHODOLOGY

To evaluate the implemented Navy Joint Uniform Military Pay System, we (1) reviewed the procedures and practices of implementing the pay system, (2) interviewed officials responsible for managing the pay system, (3) evaluated the adequacy of selected controls throughout the system, (4) discussed with the appropriations manager the reliability of system-produced financial reports, (5) reviewed audit reports issued by onsite examination teams, and (6) traced a number of transactions through the system to determine the timeliness and accuracy of selected functions.

In addition, we visited representatives of the Naval Investigative Service and discussed payroll payments made through the system. We also discussed with the local auditor-in-charge of the Naval Audit Service the work his staff has performed with the pay system.

We visited the following locations:

- Navy Finance Center, Cleveland, Ohio.
- Naval Military Personnel Command, Headquarters, Washington, D. C.
- Office of the Navy Comptroller, Washington, D. C.

--Office of the Secretary of Defense (Comptroller),
Pentagon.

--Navy Finance Office, Charleston, South Carolina.

--Personnel Support Activity, Norfolk, Virginia.

--Navy Regional Finance Center, Great Lakes, Illinois.

In this report our studies on timeliness of input data, disbursing officers' correction of Leave and Earnings Statements, and accuracy of data in the Master Military Pay Account File were performed using accounts selected statistically by the Navy's audit subsystem. The audit subsystem yields a sample size of approximately one tenth of one percent of the universe (total accounts in master pay file). From this sample--about 600 accounts--we took a scientific subsample of approximately 100 accounts and performed our detailed analyses. The only studies we projected to the entire universe related to the accuracy of data in the master pay accounts and the inaccuracies in the financial reports sent to the military personnel appropriations manager. These projections are based on a confidence level of 95 percent.

CHAPTER 2

THE NAVY'S COMPUTERIZED PAY SYSTEM IS

UNRELIABLE AND INEFFICIENT

The Navy's military pay system is unreliable and inefficient. It is unreliable because large numbers of errors exist in the master pay accounts, data in the accounts are out of date, and each month about 38,000 transactions are rejected as errors by the central computer.

The pay system is inefficient because disbursing officers duplicate the function of the central computer and calculate each pay change and compare all members' Leave and Earnings Statements produced by the central system with data in their local financial records. In over half of the cases they manually change (override) the centrally computed pay to the amount their records indicate. Although these changes bring the pay closer to the correct amount, many errors are still found in members' paychecks.

Further, 250 pay clerks at the central site resolve the errors the computer system rejects each month. And in 17 percent of those cases, the clerks' correction work is rejected and the errors must be corrected again.

The pay system is in trouble mainly because management did not effectively implement the system design as approved by us. For example, we found that for most pay data it takes an average of 23 days from the effective date of pay action for the action to be entered on the member's central pay account. The system design we approved provided for up to 10 days.

Other aspects of the system design not effectively implemented include

- automated controls over system rejects,
- reconciliation of data between pay and personnel systems,
- formal control procedures for transmitting documents between administrative and disbursing offices,
- automated controls over transmittal of input documents, and
- use of overrides by disbursing officers.

The effects of erroneous and obsolete data in the master pay file are several. Substantial overpayments and underpayments are being made to members separating from the service, many erroneous Wage and Tax Statements (Internal Revenue Service) W-2 forms have to be corrected, and most of the Leave and Earnings Statements are in error.

Although pay problems exist, the automated pay system does provide more current data to the military personnel appropriations manager than the manual system did. Data that took from 9 to 18 months to reach the appropriations manager now takes about 1 month. However, the computer-produced reports must be reconciled with other data before they can be used because the master pay accounts are inaccurate and untimely.

Some changes have been planned to improve the timeliness and accuracy of pay data but the plans must still be effectively implemented. In the meantime, the Navy must ensure that responsible personnel operate the automated pay system as it was designed and approved by us. We will consider withdrawing our approval unless the Secretary of the Navy takes prompt action to implement the recommendations contained in this report.

RECORDS CONTAIN ERRONEOUS DATA

After spending over \$150 million during the past 12 years to develop and operate the automated pay system, a large number of errors exist in the master pay accounts at the central computer site, making the system unreliable. Defense criteria require the central-site pay system to maintain an accurate pay account for each member's entitlements and payments.

Several studies have revealed a high error rate in the master pay files. In 1978 the Naval Audit Service and the Finance Center's internal review division reviewed the accuracy of pay data in the master file. In 1979 we performed a study of randomly selected accounts to determine whether the many errors noted in their reviews were still apparent. The results of these studies are discussed in the following sections.

Naval Audit Service finds pay data inaccurate

A 1978 Naval Audit Service study found a 42-percent error rate in the master pay accounts they reviewed at the Finance Center. The errors were caused primarily by field

offices' late reporting or failure to report pay actions to the Center. As a result, the pay computed for the affected members by the central computer was inaccurate and had to be corrected in the field by the manual pay system.

The Service reviewed in detail 291 selected master accounts whose balances were either underpaid or overpaid more than \$500. Of these, 121 were underpaid and 170 were overpaid. After allowing all transactions in process to clear, the Service found 122, or 42 percent, of the selected accounts were still inaccurate. The Finance Center corrected the remaining 169 accounts by posting entitlement credits or debits to them. The Service could not project the results of its study because the sample used was not scientifically selected.

Analyzing why the 122 accounts remained inaccurate, the Service found that:

- Pay account balances for 65 personnel were understated or overstated because the master accounts did not contain valid credits for which payments were made. Underpayments and overpayments were also caused by late submission of documents and failure by field offices to resubmit rejected or lost documents.
- Pay account balances for 16 personnel were understated or overstated because the master accounts contained incorrect pay status codes. For example, some members recorded as being on active duty had actually been released from active duty.
- Pay account balances for 14 personnel were understated because the master accounts contained no record of regular or special payments made by field disbursing officers.
- Pay account balances for the remaining 27 personnel were understated or overstated for miscellaneous reasons, such as incorrect pay entry base dates, late submission of pay documents, and errors in tax calculations.

The Service told Navy management that based on the results of its review, it appeared that management should take corrective action.

Internal review division finds
inaccurate pay data in master accounts

A 12-month study (ending in November 1978) by the internal review division at the Finance Center found many of

the master pay records to be in an overpaid or underpaid status for more than 90 days and by more than \$25.

In its study, which ended in November 1978, the division found that overpaid accounts exceeding the 90-day and \$25 criteria ranged from 22,400 accounts for \$12.5 million in January 1978 to 52,200 accounts for \$22.4 million in November 1978. Further, underpaid accounts ranged from 56,400 for \$16.4 million in July 1978 to 89,100 for \$28.7 million in December 1977. The division never completed this study and came to no conclusion as to why the master pay accounts reflected such a large number and dollar value of overpaid and underpaid accounts. In other studies, however, the division found that many errors were caused by late postings.

Our study shows pay data is inaccurate

In our study of 96 randomly selected pay records we found that after allowing 60 days for transactions to clear, nearly all the records were in an underpaid or overpaid status. Over 35 percent of the accounts contained errors ranging from \$5 to over \$1,800. Projecting our sample results over the entire master pay accounts, we are 95-percent confident that on March 31, 1979, the errors were between \$5.7 million and \$49.2 million with a mid-point estimate of \$27.5 million. The wide range in our estimate is due to the relatively small number of accounts we reviewed compared to the large number of accounts in the system. However, when taken with the results of the previous Navy studies, our sample results show conclusively that errors in pay accounts are a continuing problem which need management attention.

Examples of errors we found that were not corrected during the 60-day period are shown below.

<u>Case</u>	<u>Amount underpaid as of March 31, 1979</u>	<u>Net amount still underpaid as of May 31, 1979</u>
1	\$402.52	\$ 54.48
2	308.96	152.96
3	481.67	78.85
4	532.78	299.78
5	215.54	148.77

For our study, we took a scientific random sample of the master pay account month-end balances for March 31, 1979, and determined how many of the accounts were recorded as either overpaid (excluding advanced pay) or underpaid. For the accounts in our sample, we analyzed in detail all entitlement and payment transactions affecting these accounts for the following 60 days through May 31, 1979.

We did not attempt to determine specifically why so many of the master pay accounts were in error after 60 days, but we know from our studies that late input data was a major problem. (See p. 10.) To insure that the sampled accounts were corrected, we gave the detailed results of our findings to officials at the Finance Center.

In April 1980 Navy officials informed us that a project has been established to identify and resolve potential problem accounts. Further, they said that a study analyzing a large number of pay accounts for accuracy has begun.

LATE INPUT CAUSES A MAJOR PROBLEM

Late posting of input data to master pay records is a major factor contributing to the unreliability of the system. Our review shows that it takes an average of more than 23 days from the effective date of the pay transaction to post the transaction to the master records. Had field activities been required to submit data in accordance with the GAO-approved system design, the average posting time would be appreciably less.

Reasons for the posting time lag are many. They include

- delayed preparation of input documents, and transmission by mail rather than by electronic means,
- lack of incentive for field units to encourage prompt preparation and transmission of input documents,
- slow processing of transactions at the Finance Center,
- late input of data from the Personnel Command, and
- lack of good procedures to make sure all pay data is submitted promptly.

The Navy plans to reduce its reliance on the mail system and is reorganizing its payroll reporting units so that payroll data will be more current. The reorganization is scheduled for completion in December 1980.

Long delays in preparing and mailing transactions

Looking into the long delays in posting pay transactions to the central master pay records, we reviewed both the transactions initiated by administrative and disbursement offices, which are sent directly to the Finance Center, and the transactions initiated by administrative offices which are sent to the Finance Center via the Personnel Command. Most transactions are in the first category. Our selection of transactions excluded those with inherent delays due to retroactive effective dates, such as Family Separation Allowances.

We measured the time that elapsed between the effective date of the pay transaction and the date it was posted to the master accounts, tracking 98 statistically selected accounts from January through June 1979. The detailed results of our study are as follows.

<u>Form</u>	<u>Documents tested</u>	<u>Average number of days</u>		<u>Average elapsed days</u>
		<u>From event to document preparation</u>	<u>From preparation to transaction posting</u>	
Miscellaneous action affecting pay for one member	67	21.5	11.3	32.8
Miscellaneous action affecting pay for more than one member	23	8.1	11.7	19.8
Leave authorization	53	9.8	11.2	21.0
Adjustment to leave authorization	6	13.8	9.7	23.5
Notification of member leaving unit	63	4.7	12.1	16.8
Notification of member reporting to unit	<u>50</u>	11.5	11.1	22.6
Total	<u>262</u>			
Average days		11.8	11.4	23.3

The study shows that administrative offices are taking an average of nearly 12 days to prepare a document after the effective date of the pay transaction. The Navy's regulations and approved system design require 3 days. We also found that, on the average, it takes another 11 days to transmit the documents to the Finance Center and post the transaction to the master pay accounts--7 days in the mail and 4 days for processing within the Center. The total elapsed time of 23 days from the date of the event to the date of posting clearly shows how unresponsive the automated pay system is in reflecting current pay data in the master files.

We next looked at payroll transactions which are prepared by disbursing officers and transmitted to the Finance Center. We traced 1,039 payroll input documents from the disbursing offices and found the total elapsed time averaged 13.3 days from the date of preparation to posting to master account. Mailing and processing at the Finance Center took an average of 12.8 days and preparation took only 0.5 days. It is quite apparent that the disbursing offices are preparing payroll input documents faster than the administrative offices. One reason for the disbursing offices' greater speed is that for about 43 percent of the payroll payments the documents are automatically prepared as part of the Payday Processing System used by the larger field activities. In these cases, the disbursing offices need only verify the accuracy of the payment documents and put them in the mail.

In the second category of payroll transactions--those prepared by administrative offices, sent first to the Personnel Command, Washington, D.C., and then to the Finance Center--we found that for the 309 documents we tracked, 31.9 days elapsed from the effective date of the transaction to posting. Data was not available to allow us to break this time down into document preparation time, mail time, processing time at the Personnel Command, transmittal time to the Finance Center, and processing time at the Finance Center.

The results of our timelag study readily show why the data in the master pay accounts is not current and why the disbursing officers are changing the central site pay computations so frequently. Navy internal reports confirm our findings.

The Navy plans to reduce its reliance on the mail system. Beginning in late 1981, the Comptroller of the Navy will implement a system wherein major continental U.S. field activities will send pay data to the Finance Center electronically. However, this system will apply to only about 25 percent of pay system input, since ships and overseas activities will not participate in this initial effort. A

more sophisticated telecommunication system is planned for implementation after 1984 which will include an estimated 68 percent of system input.

The Navy is also reorganizing its administrative and disbursing offices so that one person will be in charge of both activities. The Navy hopes this will result in more expedient submission of pay data.

Lack of incentive to prepare accurate and timely input documents

Each month the central computer system rejects an average of 38,000 errors from pay transactions submitted by field activities. This amounts to about 8 percent of the pay change transactions submitted each month. Also each month the field activities, particularly the administrative offices, send pay data in late.

Even though the field activities receive feedback from the Finance Center on accuracy and timeliness of input data to the central computers and have been receiving this information since the start of the automated pay system, neither accuracy nor timeliness has significantly improved.

Since the Finance Center has no authority over the reporting activities and can take no disciplinary action, the field units have no incentive to prepare prompt and accurate input documents.

Delayed processing of pay data at the Finance Center

Delays are occurring in processing pay data once input documents reach the Finance Center. The problem gets worse when a document is rejected by the computer on its initial pass through the system and must be reprocessed.

The Finance Center has about 250 pay clerks (at a cost of \$3.4 million annually) to resolve the 38,000 errors the computer system rejects each month from pay transactions submitted by field activities. These clerks also respond to messages from the field pertaining to problems with accounts. In the process of correcting these errors and answering messages, the pay clerk's correction work is rejected by the computer system about 17 percent of the time and the errors must be reworked again. This reworking causes further delays of up to 90 days or more before the transaction is finally entered on a member's pay record.

For example, in one case involving the Norfolk Personnel Support Activity, a simple transaction dated March 1979--the removal of an entitlement for basic allowance for quarters with dependents--had been recorded erroneously at the Finance Center. To correct the mistake, the technician gave the member basic allowance for quarters without dependents, but did nothing to remove from the computer record the basic allowance for quarters with dependents. After several messages were sent to the Finance Center, Norfolk realized that the transaction could not be corrected by message. The Norfolk supervisor finally called a division director at the Finance Center who said he would have a technician check into the matter. As of June 29, 1979, however, the transaction had not been corrected.

In another case the Norfolk Personnel Support Activity had requested a member's prior activity record to see if that member was paid \$125 on December 6, 1977. Norfolk officials requested this record on August 16, 1978, which was when they noticed the member's previous disbursing office had annotated a Leave and Earnings Statement with this payment. The disbursing office verified the payment; cited the payroll number, disbursing office symbol, date, and voucher number of the payment; and sent an information copy to the Finance Center. In October 1978 Norfolk told the Finance Center of the previous disbursing office's annotation and asked the Center to post the payment. A Finance Center technician replied in November that the payroll was never received, so Norfolk asked the prior activity to resubmit the payroll. This was done on March 27, 1979. By May 24, however, the payment had still not been posted. When Norfolk officials asked the prior activity to follow up on the action, they were told that the Finance Center acknowledged receipt of the payroll on April 25, 1979. Checking a printout of this account, we found the payment still had not been posted to the member's account as of July 4, 1979--nearly a year and a half after the \$125 was paid. Neither of these cases was complicated, yet the Finance Center technicians were not able to promptly resolve them.

Control over the prompt and accurate resolution of system rejects and the handling of messages is vital if the system is to be reliable. However, supervision over the pay clerks' work is poor, as indicated by (1) the long time taken to resolve the rejected documents discussed in the examples above and (2) the fact that about 17 percent of pay clerks' corrections are rejected by the computer system.

In April 1980 Navy officials said that the high rejection rate of work performed by the Finance Center's pay clerks was not due to poor supervision but to the complexity of the work. While we agree that some changes made to pay

may be complex, the 17-percent rejection rate is unreasonably high and supervisors should check the work of their subordinates more closely.

The system design requires rejected input to be controlled by an automated system to assure that rejections are corrected and reentered into the pay system. However, we found the reject control system is not working as planned because pay clerks are not following procedures to remove corrected rejections from the file. As a result, the number of transactions on the file keeps building and reports generated from the system are inaccurate and unreliable.

Because Finance Center management is aware of the problem with the reject control system, it does not rely on system reports for decisionmaking. It relies instead on daily production reports prepared by pay clerks.

The Navy plans to reduce processing time of rejected data at the Finance Center starting in early 1980. By March 1983 the Navy plans, through the use of teleprocessing technology, to reduce the processing time to correct errors from 6 to 8 workdays to 1 workday. The new system should also allow supervisors to better review their subordinate's work for quality. In addition, the new system is to provide management with current and accurate reports on system rejection statistics.

Personnel data late and inaccurate

Delays are also occurring in receipt of personnel data from the Navy Military Personnel Command. These delays prevent the Finance Center from promptly establishing pay accounts for people entering the Navy and as a result payroll payments do not "post"--the computer will not accept them. (See p. 20 for a discussion of this problem.)

The military pay system relies on the personnel system to furnish information on members entering the Navy. When the pay system receives this information it establishes a pay account for each new member so that entitlements and payments can be properly recorded.

While the Navy's goal is to enter data on all new members into the personnel file within 60 days of the start of active duty, it has set no time limit for sending this data to the Finance Center. Until a master pay account is established, the system will not produce a Leave and Earnings Statement. Therefore, for the new member to receive pay, the disbursing officer must manually compute the member's pay and continue to do so until a master account is established.

In addition to delays in sending personnel data to the Finance Center, the data, when received, often does not agree with that in the master pay accounts. To eliminate such discrepancies between the pay and personnel files, the Finance Center has been made responsible for assuring that common data elements in the two files are the same. The Personnel Command is responsible for providing the personnel-related data elements to the Finance Center once each month, so they can be reconciled with the master pay accounts. Any discrepancies are to be corrected by the Finance Center.

Contrary to Defense guidance and the pay system design as approved by us, key personnel data elements are not being systematically reconciled and corrected between the personnel and pay systems. The Finance Center has put a low priority on reconciliation and very little is being done. During the 9 months ending August 1979, the number of discrepant data elements monthly ranged from a low of 25,300 to a high of 49,900. The Personnel Command failed to send the reconciliation data for September and October 1979 to the Finance Center; therefore, no reconciliation could be performed.

To determine how many discrepancies are corrected, we selected one data element--the pay entry base date--and found that only 13 of 100 discrepancies regarding this data element had been corrected over 6 months. While we did not try to determine whether failure to correct this data resulted in erroneous payments to members, it would appear that incorrect payments must result because the local disbursing offices could not know of an error in a pay entry base date unless the member pointed it out.

In April 1980 Navy officials said the Center attempts to resolve the most critical discrepancies each month. In January 1980, however, the Finance Center's director of the technical department, who is responsible for the reconciliation, had informed us that due to what we found the Center began in late 1979 to put more effort into the process. The director said the increased effort has resulted in a better job of clearing discrepancies in the data elements than when we reviewed the process. We did not evaluate the results of their increased efforts.

Poor procedures for controlling input data

Procedures included in the GAO-approved design to ensure prompt and complete submission of data to the Finance Center were not effectively implemented. Local field offices were instructed to establish written procedures to control pay-related documents between administrative offices and

disbursing offices. However, in our review of 215 onsite examination reports, issued from October 1978 to May 1979, we noted that 62 percent of the local activities still had no written control procedures.

The design also called for automated control over transmittal of input data from field units. Although this automated control was expected to be implemented in 1976, we were told that it was not implemented until December 1979. We did not evaluate how well the automated control is working.

In April 1980 Navy officials advised us that adequate manual controls were in effect prior to implementing the automated control system. In our visit to the Charleston Navy Finance Office, however, we noted that the manual controls needed some improvement. For six transmittals covering 222 pay documents submitted to the Finance Center between January 8 and 16, 1979, the disbursing officer at Charleston had not received confirmation of receipt from the Finance Center by March 21, 1979, despite sending a trace letter to the Finance Center on February 21. Generally, automated controls are less susceptible to errors than manual controls.

INACCURATE DATA CAUSES SEVERAL PROBLEMS

The fact that data in the master pay accounts are neither current nor accurate causes several continuing problems:

- Field disbursing officers must override pay amounts shown on computer-produced Leave and Earnings Statements in more than 50 percent of the cases.
- Pay for members being separated from the Navy is incorrect about 40 percent of the time.
- Wage and Tax Statements (W-2s) are improperly prepared.
- Payroll payments made by disbursing officers too often will not post to the master pay accounts.

These problems are discussed below.

Poor pay data requires excessive use of override

Because of delays in making changes to members' central master pay accounts and because of errors in the accounts, more than half of the computer-produced Leave and Earnings Statements for 522,000 active duty members show incorrect amounts due and are overridden by the Navy's 400 disbursing

officers. Each payday the centrally computed pay amounts are compared with amounts calculated by disbursing officers and where the amounts do not agree, the disbursing officer pays the amounts indicated by local records. In many instances the override must be repeated several times until the central master pay accounts are corrected, placing a heavy workload on the staff of the disbursing office. Although we could not determine the cost of the manual override, we believe it accounts for a significant portion of the estimated \$38 million annual cost of operating the system.

The design we approved required disbursing officers to depend largely on pay amounts calculated by the central computer. Disbursing officers were not required to make detailed calculations of each member's pay at the local level. Provisions were made, however, which permitted the disbursing officer to change the centrally computed pay under certain circumstances. In approving the design we assume that pay data would be submitted and recorded promptly, thereby precluding the need for extensive overrides.

The Navy made subsequent changes to the system which were not submitted to us for approval as required 1/ and which are in conflict with Defense regulations. These changes require the disbursing officers to make detailed computations of each pay action at the local level (thereby duplicating the function of the central computer) and compare such amounts with the centrally computed amounts. Thus, a parallel system for computation of pay was established. Defense regulations state that detailed computations of amounts due will not be made at the local level and that payments will generally be those specified by the latest Leave and Earnings Statement prepared by the central site.

At the time GAO approved the system design, the Navy intended to put dollar restrictions on the use of overrides, but it had not done so because field input is so undependable.

Although, ideally, every member should receive accurate and timely pay, the Navy should look for ways to reduce the expensive manual effort it now uses to pay its members. One possibility is to establish a standard dollar amount below which no overrides of the amount shown on Leave and Earnings Statements would be made. In our random sample of 955 payments we found that 513, or 53.7 percent, were either increased or decreased from the amounts shown on the Leave and

1/Section 31, Title 2, GAO Policy and Procedures Manual for Guidance of Federal Agencies.

Earnings Statements. A breakdown of these payments by the amount of change follows:

<u>Amount of change</u>	<u>Number of payments</u>	<u>Percent</u>
\$1 to \$1.99	78	15.2
\$2 to \$20	222	43.3
Over \$20	<u>213</u>	<u>41.5</u>
Total	<u>513</u>	<u>100.0</u>

As indicated by the above table, by adopting a standard floor of just \$2, over 15 percent of the manual overriding would be eliminated. Near the end of our review, the Navy established for the large field activities a standard of \$5 below which no override would take place.

The extensive override practice not only costs a lot of money but substantially negates the benefits of an automated system as well as the Leave and Earnings Statement. A primary objective of the system was to provide each member with an accurate record of pay received each month. In April 1980 Navy officials said that some data on the statement is of value to the member and that prior to the automated pay system the members had no Leave and Earnings Statements.

Erroneous payments made to separated members

The inaccurate and outdated pay data in the master pay accounts results in members being paid erroneously at separation. During fiscal 1978 about 100,000 members were separated from the Navy. Of these, about 22,500 were underpaid and 17,000 were overpaid. Overpayments totaled about \$4.2 million. According to the Naval Audit Service, the Finance Center could not tell 40 percent of the members the cause of the overpayments. In the past 3 years Navy has, on the average, collected only 23 cents for each dollar of overpayment. 1/

The number of overpayments to separated members has grown consistently during the past 5 years. As a result, the accounts receivable from separated members has steadily increased, almost tripling since 1974 from \$4 million to \$11.8

1/Overpayments at the time of the separation and poor collection practices are ongoing Defense-wide problems. We have a comprehensive review underway dealing with these problems.

million. The number of accounts also nearly tripled--from 10,040 to 28,951--by September 30, 1979. While the automated pay system is able to detect erroneous payments to members better than the prior manual pay system and therefore accounts for some of the growth in accounts receivable, we believe that the problem of inaccurate and outdated pay data generated by the present system certainly has contributed to their growth.

A July 1979 Naval Audit Service report on separation payments indicates that the growth in the accounts receivable can be attributed to untimely and/or inaccurate pay data in the master pay accounts. The Service found that the Finance Center could not identify the cause of overpayments in 40 percent of the cases examined. Furthermore, the Service found that it takes about 8 months to establish a receivable account. The delays are attributed to not promptly clearing rejected pay action documents (some were not cleared for over 2 years), untimely submission of documents, and duplication of effort by Finance Center employees.

In April 1980 Navy officials advised us that they can and do tell separated members the cause of overpayments. Subsequently, we randomly selected 50 collection letters sent to overpaid members between January and April 1979 and found that in 40 percent of the letters the cause of the overpayment was not stated. In addition, we randomly selected 50 collection letters sent to overpaid members between January and April 1980 and found that in 18 percent of the letters the cause of overpayment was not stated.

Navy officials said that about half of the overpayments made at the time of separation are caused by factors which cannot be attributed to weaknesses in the system. These overpayments are caused by erroneous computation of lump sum leave in the field and excess leave status and advanced pay for personnel receiving administrative discharges. Some of such overpayments apparently cannot be precluded, particularly with regard to administrative discharges. We believe, however, that through training of pay personnel--which should be an integral part of the system--in areas such as correctly computing lump sum leave, the amount of overpayments can be reduced.

Inaccurate pay data leads
to erroneous W-2s

The lack of current, accurate pay data in the master accounts causes the Finance Center to issue incorrect Wage and Tax Statements (W-2s). Many members have undoubtedly been inconvenienced in preparing their income tax returns because of erroneous W-2s.

About 78,000 W-2s had to be corrected in 1977 and 1978, as shown below.

	<u>1977</u>	<u>1978</u>
W-2s issued	632,964	608,524
Total W-2s corrected	42,571	35,117
Percentage of W-2s corrected	6.7	5.8

Navy officials said that the decrease in the number of erroneous W-2s between 1977 and 1978 was due to a concerted effort to eliminate errors in the form before it was sent to the field and that special project teams are set up each year to improve the system. They also told us that most corrections are necessary for two reasons: (1) the member's pay and tax status is not kept current throughout the year and (2) a significant amount of pay and entitlement data for November and December arrive at the Finance Center after the W-2s are initially prepared (about mid-January).

Payroll payments will not post

As of September 1979, 6,700 payroll payments totaling over \$1.8 million could not post to master accounts at the Finance Center. Although these payments are reported to the appropriations manager in total, they are not charged to a member until a specific account can be established in the master account file. Most of these payments would not post because pay accounts either had not been established or contained errors in names or Social Security numbers. Since some of the payments that will not post were made as early as 1976, the absence of data for new members from personnel is clearly not the problem. However, management did not know why these payments will not post.

The Finance Center started in May 1979 to identify causes for payroll payments that do not post to master accounts. This effort was not fully implemented until February 1980. We were given a briefing on this matter in April 1980 and we were provided some data which shows the Navy has identified the majority of the causes for the payments that would not post.

Through February 1980 about 6,000, or 70 percent, of the payments were identified as being to (1) members whose pay accounts had not been established due to late receipt of information from the personnel system or (2) new members whose accounts contained errors in their name or Social Security number. However, as of February 1980, the causes had not been identified as to why about 2,500, or 30 percent, of the unposted payments would not post. Further, 55 payments have

been identified as being fraudulent and these cases have been turned over to the authorities for prosecution.

The Finance Center is now requiring that the cause of payments not posting be examined each month.

REPORTS TO APPROPRIATIONS
MANAGER HAVE IMPROVED

A major reason for establishing the automated pay system was to achieve more timely and accurate controls over the military personnel appropriations. The pay system provides more timely financial data to the military personnel appropriations manager than the prior manual system did. Financial data that used to take from 9 to 18 months to reach the appropriations manager, now takes about 1 month. Although the financial data is more timely, the computer-produced reports must be manually reconciled with the disbursing officer's monthly financial reports before they can be used because the data contained in the master pay accounts is inaccurate and late.

Also, the disbursing officer's reports and the reports produced by the automated pay system are different by design. The financial reports from the automated pay system are prepared about the 26th of the month to provide timely data. These reports, therefore, do not include expenditures for the last payday of the month. The disbursing officer's financial reports do include such expenditures. In March 1979 this difference amounted to about \$187 million.

WE MAY WITHDRAW OUR APPROVAL

To help assure that approved accounting systems remain in compliance with the Comptroller General's principles and standards, we require that all major changes to the system be submitted to us for review. If the Navy had submitted the changes it made creating the parallel manual system, we would not have approved them.

Also, the agency is responsible for making sure that the approved system is effectively implemented. When we approved the system, we urged the Navy to make sure that its field organizations adhere to the timeliness requirements of the system when submitting pay data to the central site. Lack of timely data is a major cause for the system's inefficiencies and ineffectiveness.

In light of the above, unless the Secretary of the Navy takes prompt action to make sure the system we approved is

effectively implemented we will consider withdrawing approval of the system.

CONCLUSIONS

During the past 12 years, the Navy spent over \$150 million to develop and operate an automated pay system that is largely unreliable and inefficient. The major problems with the pay system stem from the lack of timely and accurate input data to the central computer. These problems would make any pay system unreliable and inefficient. A primary cause of these problems is that the Navy failed to effectively implement the system design we approved. If the Navy had submitted its changes creating a parallel manual system, we would not have approved them.

Because the master pay file at the Finance Center contains data that is not current and/or accurate, the disbursing officers are changing over half of the pay computed by the central computer to try to assure that payments to members are correct. The extensive manual effort required by field offices to maintain pay records is expensive and inefficient. However, until the users of the system do a better job of preparing and processing accurate and timely pay documents, the manual system will be necessary to pay Navy military personnel. In approving the system design, we recognized that disbursing officers may have to override the centrally computed amounts on an exception basis. However, the system that was approved did not require disbursing officers to duplicate the functions of the central computer by calculating pay for each member.

To reduce the need for the manual system the Navy must motivate the managers of the pay system to do their jobs better. Personnel submitting and processing pay data must improve their performance. We believe immediate results would be obtained if pay transactions were prepared and processed in accordance with the system design.

The Navy plans to make improvements in the pay system which, if properly implemented, would make the pay data in the system more timely and accurate. For example, the plan to send pay data to the Finance Center electronically would reduce dependence on the mail system. Further, the new error correction and control system planned for implementation in mid-1980 will speed up the processing of errors at the Finance Center.

The Navy's top management should make sure these improvements are effectively implemented and should also require that cognizant officials operate the system as designed and

as we approved. We will consider withdrawing our approval of the system unless the Secretary of the Navy takes prompt action to implement the system as it was approved.

RECOMMENDATIONS

We recommend to the Secretary of Defense that he require the Secretary of the Navy to improve the reliability, efficiency, and effectiveness of the Navy's military pay system by:

- Requiring commanding officers, disbursing officers, and administrative officers to operate the pay system as designed and as approved by us. In this connection, target dates should be established for reducing the extent of the manual effort now required to make the system work. As the automated system becomes more effective, reliance upon the manual system should be considerably reduced thereby eliminating the parallel manual system.
- Identifying those organizations which submit untimely and erroneous pay data and taking corrective action where indicated.
- Expediting the Navy's plans to transmit input data to the Finance Center electronically rather than by mail.
- Setting a standard for when an override of computer-produced Leave and Earnings Statements by all local disbursing officers can take place. This standard could vary with the rank of the member.
- Strengthening supervisory controls over pay technicians' resolution of system rejections.

AGENCY COMMENTS

In a June 5, 1980, letter (see app. I), the Principal Deputy Assistant Secretary of Defense (Comptroller) said that Defense concurs with the intent of our recommendations. Defense said, however, that our report implies little or nothing has been done to correct the deficiencies noted in the report and that we did not evaluate the Navy's planned corrective actions which will enhance the original systems design. As indicated on pages 11, 14, 16, 18, and 22, the report does comment on and evaluate the Navy's actions taken and planned. Also, we recognize that the Navy has been aware of many of the problems discussed in the report. We point out, however, that the system would function more effectively even without

any of these improvements if it were implemented as it was designed and as approved by us.

Defense also disagreed with our findings that the system is not being operated as designed. The system design we reviewed for approval is clearly different from the system now in operation. The design required disbursing officers to depend largely on pay amounts calculated by the central computer. Provisions were made in the design, however, which permitted the disbursing offices to change the centrally computed pay (override) under certain circumstances. In approving the design we assumed that pay data would be submitted and recorded promptly by Navy organizations, thereby reducing the need for extensive overrides. Also, the Navy said the extent of overrides would be limited. The Navy, however, made subsequent changes which were not submitted, as required, to us for approval. These changes require the disbursing offices to make detailed computations of each pay action (thereby duplicating the function of the central computer) at the local level and compare such amounts with the centrally computed amounts. Thus, a parallel system for computation of pay was established.

Defense further objected that the report contains misleading representations of facts and figures as indicated to us by the Navy at an April 25, 1980, meeting held to discuss the draft of this report. At that meeting, the Navy officials made the same criticisms of the report that Defense had made.

The Navy officials also took issue with our sample of master pay accounts. They indicated that the sample was too small and therefore invalid for drawing the conclusion that a large number of the accounts are in an overpaid/underpaid status.

Our random sample of 96 accounts was small when compared to the universe. Since two previous Navy studies had already shown that the Navy's central pay accounts contained many errors, we decided that a time-consuming review of a large number of accounts was unnecessary. When consolidated with the results of the Navy's previous studies, our review of the 96 accounts demonstrates that errors in the pay accounts are a continuing problem needing management attention.

In May 1980, we reviewed the accounts in our sample with Finance Center officials and explained how we arrived at the amount of error in each account. These officials did not agree in every case with our findings. In those cases where there was a reasonable doubt about whether the account was accurate, we excluded them from our error count.

At the April 25 meeting, several other matters were raised by the Navy officials. Where appropriate we included these matters in the body of the report.

CHAPTER 3

OVERALL MANAGEMENT OF NAVY'S PAY

SYSTEM NEEDS IMPROVEMENT

The Navy's automated military pay system has been in operation over 3 years, yet management does not know whether the system is more efficient and/or effective than the prior system which was operated manually. The Navy failed to comply with Defense instructions for establishing specific goals and standards to measure system effectiveness. Only after we inquired as to how the Navy measured the effectiveness of the automated pay system did the Navy begin to establish measurement standards.

Further, the Assistant Secretary of Defense (Comptroller) failed to effectively monitor the implementation of accounting policies set out in Defense directives and instructions for the automated pay system. The Comptroller did not follow up to make certain the Navy complied with Defense requirements to establish an adequate effectiveness measurement system.

FAILURE TO COMPLY WITH DEFENSE INSTRUCTION

The Office of the Navy Comptroller and the Finance Center failed to comply with Defense Instruction 5010.27, which required specific goals and objectives to be established, ranked, and expressed in measurable terms so system effectiveness could be determined. Finance Center management is collecting an abundance of data such as error rates, backlog statistics, input volumes, and production statistics, but they have no standards or goals with which to measure the effectiveness of the pay system.

A 1971 Defense memorandum also specified that goals and objectives should be expressed in measurable terms, stating that such goals as "improved accuracy," or "improve timeliness," are inadequate. Unless measurable terms are used, such as

- improve accuracy of the Master Military Pay Account (to a specific level),
- reduce the number of personnel (to a specific number),
or
- improve timeliness (by a specific amount),

management at all levels is unable to develop (1) performance indicators, (2) performance standards, or (3) a base from

which information about performance indicators can be obtained. These are all needed to ensure that the right things are being done and measured.

With measurable goals and objectives in place, periodic evaluations can be made to see if responsible officials are improving the efficiency and effectiveness of the system. Those officials can be held accountable if they are not improving system performance.

An official in the Office of the Assistant Secretary of Defense (Comptroller) said he was aware that the Navy had not complied with the provisions of Defense directives and instructions in developing the automated pay system. He said his office issues the directives and implementing instructions but time does not permit him to follow up for compliance. He said he must rely on the services to do what is required.

Navy officials said they do not have a set of performance standards to measure the effectiveness of the automated pay system. After we discussed performance standards with Navy officials in May 1979, they did begin to develop standards to judge the accuracy of the data in the master pay accounts. However, as of January 1980 we had not been given the details of the standards and how they will be applied to the system.

In April 1980 Navy officials informed us that major changes planned for the system include defining goals and objectives.

RECOMMENDATIONS

We recommend that the Secretary of Defense require the Secretary of the Navy to comply with Defense requirements to carry out the policies prescribed for developing and operating the military pay system. Specifically, the Secretary of Defense should require the Secretary of the Navy to:

- Establish procedures to measure system effectiveness. This should include defining goals and objectives in measurable terms, identifying applicable performance indicators to be measured, and developing standards against which performance can be measured. At the same time, responsible officials should be required to operate the pay system as designed and as approved by us. (See ch. 2.)
- Insure that internal auditors periodically report to top management on the progress responsible officials

are making toward operating the system as designed and in meeting the established goals and objectives.

--Comply with all Defense policies and procedures in future work now planned to correct the problems with the automated pay system.

We also recommend that the Secretary of Defense monitor the Navy's compliance with Defense requirements more closely to improve its military pay system.

AGENCY COMMENTS

In a June 5, 1980, letter, the Principal Deputy Assistant Secretary of Defense (Comptroller) told us that Defense concurred with the intent of our recommendations.

We deleted one of the recommendations that was in our draft report. It pertained to the need to develop cost/benefit analysis. After we issued the draft report, the Navy provided us with information showing that a cost/benefit analysis was made.



COMPTROLLER

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

5 JUN 1980

Mr. D. L. Scantlebury
 Director, Division of Financial and
 General Management Studies
 United States General Accounting Office
 Washington, D.C. 20548

Dear Mr. Scantlebury:

This is in response to your letter dated April 9, 1980, to the Secretary of Defense concerning GAO draft report entitled "The Navy's Military Pay System: Unreliable and Inefficient - Major Improvements are Needed," (OSD Case #5416) (Code 903900).

We concur with the intent of the recommendations. However, your report seems to imply that little or nothing has been done. The deficiencies noted were well documented prior to this report and actions are under way to correct them. Through the Military Pay System Improvement Project (MPSIP) and the Pay/Personnel Administrative Support System (PASS), Navy is enhancing the original Military Pay System design to correct known weaknesses.

The detail comments document Navy's actions.^{1/} They also point out misleading representations of facts and figures. It is unfortunate that your efforts and emphasis concentrated on evaluating implementation of the original system design rather than on assessing whether MPSIP and PASS will correct the deficiencies Navy management identified to you. We believe the projects will contribute to a more effective and efficient military pay operation. Further, many minor system changes are processed as soon as the need is identified and the solution developed.

Since we disagree with the findings and representations as well as the implications of the draft report that the Navy's military pay system is not being operated as designed, we request that appropriate modifications be made before you issue the final report.

Sincerely,

John R. Quetsch
 Principal Deputy Assistant Secretary of Defense
 (Code 903900)

1/GAO Note: The Deputy Assistant Secretary is referring to oral comments GAO received from the Navy at the meeting conducted April 25, 1980.

(903900)

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