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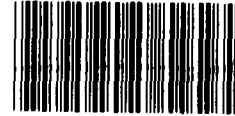
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

ACCOUNTING AND FINANCIAL
MANAGEMENT DIVISION

OCTOBER 12, 1984

B-199833

The Honorable John F. Lehman, Jr.
Secretary of the Navy



125340

Dear Mr. Secretary:

Subject: Survey of Actions to Correct Problems with the
Navy's Military Pay System (GAO/AFMD-85-05)

We have completed a survey of the actions the Navy has taken or planned to correct the long-standing, serious problems being experienced with the Navy's Joint Uniform Military Pay System (JUMPS). Our survey disclosed that the planned actions will have some impact on correcting JUMPS problems, but additional changes are necessary for the Navy's reforms to be fully effective. These changes include paying personnel to the nearest dollar or the exact amount due, incorporating retroactive payments into the pay computations, and making the computation twice a month. Also, the Navy should adopt a supplemental pay policy in lieu of its current override policy. These changes will reduce the extensive manual reconciliation by field disbursing officers and provide central control over pay at the Navy Finance Center.

The Navy plans to have, by April 1985, a central pay computation system for those personnel choosing the electronic fund transfer of pay to their bank. For the most part, this system will incorporate the above changes. We believe that the planned central pay computation system should be used for all active duty personnel regardless of whether they choose electronic transfer of their pay.

We have briefed the Assistant Secretary of the Navy for Financial Management and Navy Finance Center officials on the need for these changes. They agreed with our findings and believe these changes can be made.

BACKGROUND

In response to a November 1966, Department of Defense directive, the Army, Navy, Air Force, and Marine Corps each established its own JUMPS that were subsequently approved by the Comptroller General. The Navy's version of JUMPS is a computerized payroll system with the master pay accounts maintained by the Navy Finance Center in Cleveland, Ohio.

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The finance center forecasts monthly the amount the Navy's 563,000 active duty personnel are to be paid in the following month. These forecasts are shown on leave and earnings statements sent to hundreds of disbursing officers on ships and at shore stations throughout the world. The Navy estimates it will pay its active duty personnel about \$11 billion in fiscal year 1984.

In prior audits, we and the Naval Audit Service identified numerous problems with Navy JUMPS. The major problem was that the forecasted amounts were incorrect over half of the time and had to be changed, or overridden, by the disbursing officers. This required extensive manual efforts to determine the members' correct pay, and created, in effect, a dual payroll system. Other problems identified in two recent audits are listed in enclosure I.

Because of the significance of the problems, and the extensive period of time planned to correct them, the Comptroller General withdrew his approval of the Navy's JUMPS accounting system in February 1982. Subsequently the Navy has made concerted efforts to correct those problems and we initiated this review in March 1984, to evaluate the results of those efforts.

OBJECTIVES, SCOPE AND METHODOLOGY

Our survey objectives were to identify the Navy's corrective actions, and evaluate whether the revised system can ultimately pay the correct amount efficiently. To accomplish these objectives, we discussed with Navy officials the status of the actions planned or taken. We reviewed documents describing the corrective actions and their current status. We also visited two ships--the USS Emory S. Land and the USS Farragut--and two personnel support detachments (PSD)--PSD Lakehurst, New Jersey and PSD Yorktown, Virginia--to determine the impact these actions have had or may have on the problems reported.

We randomly selected pay records for 126 and 127 individuals from the four sites, for the February 15 and 29, 1984, paydays, respectively, and compared the amounts forecasted on the leave and earnings statements with the amounts actually paid. This permitted us to project, with 95 percent confidence, the number of forecasted payments the disbursing officers had to override for the two paydays. We discussed with Navy officials the reasons for the differences in the amounts forecasted and paid, and compared reasons for the differences with the corrective actions planned to determine if they would eliminate the problems.

We visited the Army and Air Force finance centers to obtain information on their systems for paying members in order to consider whether the Navy could use certain aspects of their systems to alleviate its own problems. Enclosure II presents a comparison of the various features of the Navy, Army, and Air Force military pay systems.

ADDITIONAL ACTIONS NEEDED
TO CORRECT PROBLEMS

The Navy's planned corrective actions will have some impact on correcting JUMPS problems, but will not substantially reduce the need for overrides by disbursing officers. We believe the Navy should revise the JUMPS system to (1) compute pay to the nearest dollar or the exact amount due, (2) incorporate retro-active payments into the pay computation, and (3) compute pay twice monthly. Also, the Navy needs to eliminate overrides and adopt a supplemental pay policy, thus providing central control over pay at the Navy Finance Center.

The Navy plans to have, by April 1985, a central pay computation system for personnel choosing the electronic transfer of their pay. For the most part, this system will incorporate the above needed revisions. We believe that the planned central pay computation system should be used for all active duty personnel regardless of whether they choose electronic transfer of their pay.

Since 1980, when GAO issued a report¹ highlighting the problems of the Navy JUMPS, the Navy has taken several interim actions to overcome them and has other long-range changes planned. The major long-range change is the implementation of the computerized Source Data System that will provide integrated pay and personnel data to the finance center from shore stations by 1988. The system is intended, among other objectives, to reduce overrides to 1 percent for the continental United States pay accounts, 5 percent for overseas accounts, and to provide accurate leave and earnings statements to Navy personnel. A similar system is planned for ships as part of the Navy's shipboard, non-tactical, automated data processing program. The objectives of both systems, and our opinion on which will be achieved and which will not, are listed in enclosure III.

Navy should make
system changes

To evaluate the impact the proposed actions have, or will have, on resolving the various JUMPS problems, we visited two ships and two personnel support detachments. Based on our analysis of payments to 126 and 127 randomly selected Navy personnel paid through the four sites for the February 15 and 29, 1984, paydays, respectively, we estimate that the disbursing officers at these sites overrode from 65 to 82 percent of the finance center's 5,014 forecasted payments for the February 15 payday and from 20 to 42 percent of the 5,024 forecasted payments for the February 29 payday.

¹The Navy's Computerized Pay System Is Unreliable and Inefficient--What Went Wrong? FGMSD-80-71, Sept. 26, 1980.

At each of the four locations visited, the overrides for the February 15 payday were much higher because this first payday of the month is when the disbursing officers make their initial reconciliations for the month and become aware of changes in pay that are not included in the forecast. We noted the reasons for the overrides were the same at each site. Because the reasons were the same, we did not attempt to attribute the precise number of overrides for each reason. Our proposed solutions for the three primary causes of overrides and why additional changes are needed before the Navy can substantially reduce the overrides are highlighted below.

Pay to nearest dollar or exact amount due

One reason for the overrides on the first payday in February was to pay members the odd cents that accumulate because the Navy issues checks only for whole dollars earned. Since the forecasted amount on the leave and earnings statement is in whole dollars, and the cents are accumulated in another section of the statement with other adjustments, such as retroactive payments, the field disbursing officers must reconcile members' current statements with prior statements to compute payments due for accumulated cents. For example, on the USS Land, 11 of the 23 overrides we identified for the first payday were made to pay accumulated cents.

To eliminate this reconciliation process and overrides, the finance center could program into its pay computation the payment of cents each time the cents accumulate to \$1 or pay the exact amount due. We believe this is feasible because the Army does the former and the Air Force usually does the later.

Incorporate retroactive payments into forecasts

Another reason for overrides on the first payday was that the finance center did not incorporate retroactive payments or deductions into the personnel pay forecasts. These amounts were determined by the disbursing officer during the field reconciliation process and were paid by overriding the amounts forecasted. For example, a USS Farragut crew member elected to receive separate rations rather than eat all his meals on a barge while his ship was in overhaul. The effective date of this event was January 4, 1984, and the pertinent document was prepared and transmitted to the finance center on the same date. The finance center posted the event to the member's pay account on January 19, 1984, and included it on the member's January 31, 1984, leave and earnings statement. However, the disbursing officer had to override the February 15, 1984 forecast on the statement and pay the member for separate rations due from January 4 through January 31 because this retroactive period was not in the forecast. By incorporating retroactive payments and deductions in the forecast, the finance center could eliminate this type of override.

Adopt twice-monthly pay computation

A third major reason for overrides is the long period of time between when the pay is forecasted by the finance center and the actual payday. For example, a Navy member assigned to the PSD Yorktown was promoted effective January 16, 1984, and the pertinent documentation was forwarded to the finance center on the same date. However, it was not entered into the system in time to be included in the January 31 leave and earnings statement. Therefore, the forecast amount was overridden for the February 15 and 29 paydays. The promotion was finally included in the March 15 and 31 forecast. A twice-monthly pay computation, rather than the current monthly forecast, would have resulted in the member receiving the correct amount on February 15, including that portion due for January, without an override.

Navy should eliminate overrides and establish supplemental pay policy

Under the Air Force and the Army systems, pay is centrally computed and overrides are not permitted. However, the disbursing officers may make supplemental payments if requested by an individual who has not received entitlements due or has an emergency need for money. This policy retains control over the pay computation at one central point -- a major internal control aspect of the Air Force and Army systems.

The Navy, however, relinquishes this important control to hundreds of disbursing officers by allowing them to make hundreds of thousands of overrides on centrally computed pay amounts. If the Navy were to adopt the policy of the other two services and make supplemental payments in lieu of changing the centrally computed pay amount, better central control of pay records would be achieved, and the extensive manual reconciliation efforts by disbursing officers would decrease.

New system being developed could substantially solve problems

The Navy plans to have a central pay computation system for personnel who choose the electronic transfer of pay to their banks. For the most part this system will incorporate the needed revisions discussed above. However, personnel not choosing electronic fund transfer will continue to be paid under the current system. If the Navy adopted central pay computation processing for all personnel, overrides and the manual reconciliation by disbursing officers would be substantially reduced, and central control over pay computation would be better assured.

By April 1985, the Navy plans to make electronic transfer of pay available for its personnel. A separate pay computation system will be established to

-- compute and make all payments from the finance center,

- incorporate all changes to a member's account into his or her pay up to the 7th of the month for the 15th of the month payday and the 23rd of the month for the end of the month payday,
- pay the exact amount due, and
- incorporate retroactive payments into pay.

In developing a pay system to comply with Department of Treasury directives for electronic transfer of pay to banks, the Navy has recognized that such a system can not function properly if disbursing officers are allowed to override the central pay computation. To correct this problem, the center recommended a restricted override policy for Navy sites in the continental United States. This policy allows disbursing officers to override the finance center forecasted amount only for emergencies and other financial hardships. While this is a step in the right direction, we believe that this policy should also apply to ships and overseas locations. Further, as noted above, to improve control and to eliminate the need for manual reconciliations, disbursing officers should make any increase in the amount to be paid through supplemental payments instead of overriding the centrally-computed amount.

The Army and the Air Force have already established systems for the central computation of pay for all personnel and payment from their finance centers. In contrast, the Navy does not plan to establish central pay computation for all personnel because possible delays in mail would disrupt the timely delivery of information to disbursing officers. This problem should be largely corrected by the improved communication changes to be fully implemented in 1988. We believe, however, that the Navy should establish the central computation of pay for all members by April 1985. This could be done by decreasing the volume of information sent to disbursing officers, i.e., sending only changes in net pay to disbursing officers instead of complete pay listings. This would afford the opportunity to use other communication means, thereby reducing dependence on the mails.

CONCLUSIONS

The Navy recognizes that its JUMPS has major problems and has initiated actions to correct the problems by 1988 or later. We believe, however, that if these actions are to be effective, additional system changes are needed. The Navy plans to establish a separate system by April 1985 that will, for the most part, include these additional changes in a twice-monthly, central pay computation but only for personnel who choose the electronic transfer of pay to their banks. For other personnel, the current system, requiring manual reconciliation by field disbursing officers to determine a member's correct pay, will still be used.

Adoption of central pay computation for all Navy personnel with a supplemental pay policy rather than overrides, would

considerably reduce the JUMPS problems discussed above and, in most cases, much sooner than the 1988 Navy goal. It would also provide control of pay at the Navy Finance Center rather than at hundreds of disbursing sites throughout the world.

RECOMMENDATIONS

We recommend that the Secretary of the Navy at the earliest possible date

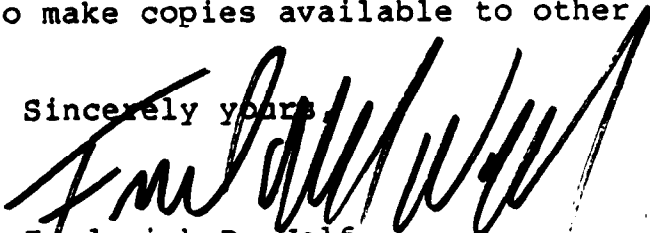
- adopt for all members the twice-monthly central pay computation that is planned for those members choosing electronic transfer of pay and
- eliminate the override policy and adopt a supplemental pay policy similar to the one used by the Army and Air Force.

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This report contains recommendations to you. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report, and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen, Senate Governmental Affairs Committee, House Government Operations Committee, and House and Senate Committees on Appropriations and Armed Services. We will also make copies available to other interested parties.

Sincerely yours,



Frederick D. Wolf
Director

Enclosures

NAVY JUMPS PROBLEMSIDENTIFIED IN PRIOR AUDITS

<u>Problem</u>	<u>1980 GAO report</u>	<u>1983 Naval audit service report</u>
Input documents to finance center not prepared timely and accurately	X	X
Manual reconciliation of leave and earnings statement required	X	X
Many input transactions rejected by finance center	X	X
Master pay account balances incorrect	X	X
Inadequate procedures for resolving incorrect account balances and rejects	X	X
Inadequate procedures for leave accounting		X
High override rate by disbursing officers	X	X
Personnel separated in over or underpaid status	X	X
W-2 forms prepared incorrectly	X	

COMPARISON OF NAVY, ARMY ANDAIR FORCE PAY SYSTEMS

<u>Feature</u>	<u>Navy</u>	<u>Army</u>	<u>Air Force</u>
Pay based on central computation without override		X	X
Centralized payment		X	X
Override authority	X		
Special pay	X ¹		
Supplemental payments		X	X
Central system makes retroactive payments		X	X
Manual reconciliation required	X		
Disbursing officers attempt to pay to nearest dollar amount due each pay day	X		
Electronic fund transfer		X	X
Central system adjusts forecasted amount or amount due		X	X

¹Special pay is defined as any disbursement of pay and allowances between regularly scheduled pay days.

NAVY'S LONG RANGE OBJECTIVESTO CORRECT JUMPS PROBLEMS

The following objectives should be achieved:

- Improve accuracy and timeliness of transactions reported by field organizations to the finance center.
- Reduce document preparation time (period between the time event, e.g., leave, promotion, occurs and when it is reported).
- Provide feedback on pay data to field activity within 24 hours of receipt.
- Reduce overpayments to personnel separating from the Navy.
- Provide rapid access to personnel records.
- Increase accuracy and control of Navy personnel appropriation account.
- Provide timely and accurate data for production of financial reports.
- Integrate the reporting of pay and personnel data.

These objectives will not be achieved unless system changes are made:

- Reduce overrides to 1 percent in the continental United States and 5 percent overseas.
- Produce accurate leave and earnings statements.
- Eventually eliminate manual annotation of leave and earnings statements.