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[Administrative Examination of Military Pay Matters].
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Report to Capt. William H. Mayer, Assistant Comptroller, Navy Financial Management Systems, Department of the Navy; by D. L. Scantlebury, Director, Financial and General Management Studies Div.

Issue Area: Accounting and Financial Reporting (2800).
Contact: Financial and General Management Studies Div.
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Organization Concerned: Department of the Navy: Navy Regional Finance Center, Cleveland, OH.
Authority: Accounting and Auditing Act of 1950 (31 U.S.C. 66a).

Although the audit staff at the Navy Finance Center, Cleveland, Ohio, has been examining travel and leave transactions in selected ship and foreign station accounts to test the quality of the Navy disbursing function, administrative examiners at the Center have detected and corrected only a small fraction of the travel and leave errors occurring in these accounts. A 1971 report emphasized the need for improvement in the quality and management of Navy audits and examinations of military pay and allowances. In tests performed in 1976 and 1977, a statistical sample of 1,859 vouchers paid by 84 ship and 38 foreign station disbursing officials was examined. Although the accounts had been previously audited by Finance Center examiners, there were travel and leave errors of \$10 or more on over 29% of the ship account documents and 19% in the foreign station account documents. The travel and leave errors have resulted from a variety of factors: rotation of disbursing personnel, inexperienced disbursing officers, untrained disbursing clerks, and complex regulations. However, sufficient resources have not been made available for the Finance Center's error detection and correction program, and thousands of errors have never been corrected. The Assistant Comptroller, Navy Financial Management Systems, should: evaluate staffing policies to assure that sufficient resources are available to effectively examine ship and foreign station accounts, establish a policy and procedure for comparing leave computations, and evaluate the use of statistical sampling techniques when auditing station and ship accounts. (RRS)

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

DIVISION OF FINANCIAL AND
GENERAL MANAGEMENT STUDIES

B-125037

April 13, 1978

Captain William H. Mayer
Assistant Comptroller, Navy
Financial Management Systems
Department of the Navy

Dear Captain Mayer:

For several years our audit staff at the Navy Finance Center, Cleveland, Ohio, has been examining travel and leave transactions in selected ship and foreign station accounts to test the quality of the Navy disbursing function and the effectiveness of the Navy's administrative examination program. Our examinations have shown that administrative examiners at the Center have detected and corrected only a small fraction of the tens of thousands of travel and leave errors occurring annually in these accounts.

In September 1971 we reported to the Secretary of Defense (B-125037) that the Navy Comptroller needed to improve the quality and management of Navy audits and examinations of military pay and allowances. The report emphasized that thousands of overpayments and underpayments were not being corrected because there was insufficient staff to perform required examinations. We recommended that additional resources be provided to accomplish required examinations.

Since September 1971 we have issued 69 reports to ship and foreign station commanders and other officials of the Navy's financial management system. In most of these reports we have discussed disbursing deficiencies involving travel and leave. The predominant errors discussed in a typical report were published by the Finance Center in the Navy-wide "Disbursing Digest" in March 1977 as a training aid for field disbursing offices. Despite these efforts, we believe there has not been any significant reduction in the number of travel and leave errors.

While we are concerned about the exceedingly large number of errors and their causes, we are equally concerned

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about the Navy's apparent reluctance or inability to provide resources to implement an effective examination program. Such examinations are required by law.

We have brought these matters to the attention of the past and present commanding officers of the Finance Center. They have concurred with our findings but have been unable to increase the strength of the examination department because of staff constraints or competing priorities for staff in other operating divisions. As you know, responsibility for the examination of ship and foreign station accounts was transferred to the Fleet Accounting and Disbursing Centers in February 1978. Because the Navy's effectiveness in the past has been limited by available resources, we believe careful consideration should be given to the staffing needs of the examination activities at these Centers.

BACKGROUND

Section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C. 66a) requires the head of each executive department and agency to establish adequate administrative procedures for systematically examining disbursements to verify their legality, propriety, and correctness.

The Comptroller General reminded the heads of all Federal agencies of this responsibility on August 1, 1969, and has prescribed the following principles and standards in the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies:

- Examinations should be made prior to disbursement or as soon thereafter as possible so that effective corrective action can be taken at the earliest practicable time.
- The cost of the examination procedures should be in balance with the potential benefits of preventing or correcting illegal, improper, or incorrect disbursements.
- The competition of other agency programs for needed personnel should not be permitted to dilute the effort considered necessary to validate disbursements.

Until February 1978 disbursing officers on ships and at foreign stations were sending their paid vouchers to the Finance Center for examination. Instructions in the Navy

Comptroller's Administrative Examination Handbook required Center examiners to complete a detailed examination of approximately 10 percent of the vouchers in each account using a \$10 minimum error criteria. If an activity experienced a high error rate, Center examiners were required to schedule monthly followup examinations until the errors were reduced to an acceptable level. Conversely, if an activity maintained a consistently high standard of quality, the coverage could be lowered.

RESULTS OF OUR REVIEWS

We have been examining selected disbursing accounts at the Finance Center for many years as part of our continuing audit and settlement responsibility. Because of the staffing problem in the Center's Examination Division, we have generally found that an exceedingly large number of voucher errors over \$10 were not being corrected.

In tests performed in 1976 and 1977, we examined a statistical sample of 1,859 vouchers paid by 84 ship and 38 foreign station disbursing officers in the 6 months ended June 30, 1975. Although the accounts had been previously audited by Finance Center examiners, we found travel and leave errors of \$10 or more on over 29 percent of the documents in the ship accounts and 19 percent of the documents in the foreign station accounts.

In 19 ship and 2 foreign station accounts we found errors of \$10 or more in at least 50 percent of the documents. Based on the results of our sample, we estimate that Navy-wide the accounts contained about \$1.7 million in errors for the 6-month period as follows:

--28,100 travel errors with overpayments and underpayments totaling \$792,000, and

--13,600 leave errors totaling about \$950,000--
45,500 days of leave either were not charged or were charged erroneously.

In subsequent tests, we reviewed a random sample of vouchers from the accounts of three ships and one foreign station and found a large number of errors over \$10. The results are summarized below.

D.S.S. Little Rock--we reviewed a statistical sample of 205 vouchers forwarded to the Finance

Center in the 6 months ended December 31, 1975. On 75 vouchers, or 37 percent of the total, we identified 130 errors--92 overpayments and underpayments and 38 leave accounting errors. We reported our findings to the Commander, Naval Surface Force, Atlantic Fleet, on December 20, 1976.

U.S.S. San Diego--we reviewed a statistical sample of 59 vouchers paid in the 6 months ended June 30, 1976. On 27 vouchers, or 45 percent of the total, we identified 38 errors--19 overpayments and underpayments and 19 leave accounting errors. We reported our findings to the Commanding Officer on February 15, 1977.

U.S.S. Bausell--we reviewed a statistical sample of 39 vouchers paid in the 6 months ended August 31, 1976. On 28 vouchers, or 72 percent of the total, we identified 52 errors--41 overpayments and underpayments and 11 leave accounting errors. We reported our findings to the Commanding Officer on April 18, 1977.

Naval Air Facility, Sigonella, Sicily--we reviewed a statistical sample of 332 vouchers paid in the 6 months ended September 30, 1976. On 55 vouchers, or about 17 percent of the total, we identified 77 errors--59 overpayments and underpayments and 18 leave accounting errors. We reported our findings to the Commanding Officer on July 8, 1977.

We are unable to determine the causes of these errors at the Finance Center, but our experience indicates they usually can be attributed to the following: (1) constant rotation of disbursing personnel on ships and at foreign stations; (2) lack of experience of military disbursing officers; (3) lack of formal training of many disbursing clerks; and (4) extremely complex and ever-changing military travel regulations. In the replies we received from the four activities discussed above, the Commanding Officers cited similar reasons for the errors of their disbursing officers.

RESULTS OF NAVY FINANCE CENTER AUDITS

We compared our findings with those reported by Finance Center examiners in the 6-month period covered in our Navy-wide tests and found they had detected and corrected only

2,527, or about 9 percent, of the estimated 28,100 travel errors. The Finance Center examiners did not detect or correct any of the estimated 13,600 leave errors because they did not compare leave shown on individual travel vouchers with amounts recorded as leave in the official leave accounts. Thus, for both travel and leave errors, the examiners detected and corrected only about 6 percent of the estimated 41,700 errors in the accounts.

We also compared our findings with those reported by the Finance Center following our respective examinations of the accounts of the three ships and foreign station discussed above. The results were similar. For example, after the Center examiners audited these accounts, we found 196 additional erroneous travel payments. As shown below, Center examiners detected only 98 travel errors in their initial examination.

	<u>Travel errors detected by</u> <u>GAO</u>	<u>Finance Center</u>
<u>U.S.S. Little Rock</u>	83	56
<u>U.S.S. San Diego</u>	19	13
<u>U.S.S. Bausell</u>	37	19
Naval Air Facility, Sigonella	<u>57</u>	<u>10</u>
Total	<u>196</u>	<u>98</u>

We also found a total of 86 leave errors which the administrative examiners did not detect. On the basis of our tests, we estimate that the unexamined vouchers in these accounts contained an additional 432 travel and leave errors.

In the period from January through November 1977, Center examiners audited about 35,300 or 18 percent of 193,000 vouchers submitted by ship and foreign station disbursing officers. On these vouchers, the examiners detected and corrected 2,083 errors totaling \$129,390. Since about 82 percent of the vouchers were not audited, we estimate that several thousand additional travel errors totaling several hundred thousand dollars were not found and corrected. Further, we estimate that thousands of leave errors remained undetected.

ADMINISTRATIVE EXAMINATION ACTIVITIES

In recent years the number of voucher examiners at the Finance Center has steadily decreased. In 1973 the Center had eight examiners. This was decreased to six examiners in 1975, five in 1976, and four in 1977. Center officials told us the number of examiners was reduced because of competing priorities for people in other Center activities.

Despite the reduction in personnel, and limited examination effort, administrative examinations have been very cost effective. In the period January 1, 1975, to June 30, 1977, the Center incurred salary costs of \$146,000 for examiners who identified and corrected errors of \$598,000, or a return of over \$4 for every \$1 in salary costs.

Prior to 1977, Center examiners selected approximately 10 percent of the vouchers from individual accounts and looked for prominent errors. This approach provided insufficient data to test the overall quality of the disbursing function on ships and at foreign stations and little basis for taking corrective action.

In January 1977 the Center modified its examination approach and began using scientific sampling procedures and computer programs to obtain voucher selections for examination. Finance Center officials told us accounts with higher error rates were examined in more detail. This new approach appears to have been a step in the right direction. However, on February 1, 1978, responsibility for administrative examinations of ship and foreign station accounts was transferred to the Fleet Accounting and Disbursing Centers at Norfolk, Virginia, and San Diego, California. Consequently, the Finance Center did not have sufficient experience to determine if it ultimately would have proven successful.

CONCLUSIONS AND RECOMMENDATIONS

Because of a variety of factors--rotation of disbursing personnel, inexperienced disbursing officers, untrained disbursing clerks, and extremely complex regulations--travel and leave errors on ships and at foreign stations have been occurring at a high rate. Despite this continuing problem, sufficient resources have never been made available for the Finance Center's error detection and correction program. As a result, tens of thousands of errors have never been corrected.

We raised questions concerning the staffing of the Navy's examination program in our 1971 report to the Secretary of Defense and we recommended that the Secretary of the Navy provide staffing criteria and the resources needed to make examinations more effective. We have not observed any noticeable improvements at the Finance Center. To the contrary, there has been a gradual reduction in the examination effort.

Administrative examinations complement other elements of management control. Without reliable error data, Navy financial managers cannot effectively evaluate or improve the quality of disbursing. Since the examination function has been transferred from the Finance Center to Fleet Accounting and Disbursing Centers, we recommend that you

- evaluate the Fleet Accounting and Disbursing Center's staffing policies and assure that sufficient resources are available to effectively examine ship and foreign station accounts,
- establish a policy and procedures for comparing leave computations on travel vouchers with leave recorded in the official leave accounts and for making necessary corrections in the accounts, and
- evaluate the use of statistical sampling techniques when auditing ship and foreign station accounts to determine if the Fleet Accounting and Disbursing Centers can benefit from the experience gained at the Finance Center.

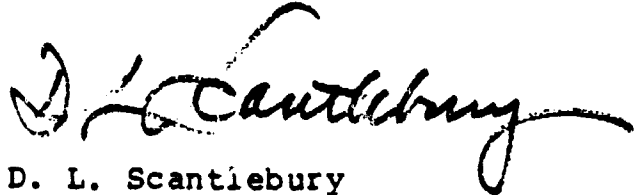
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We are bringing these matters to your attention so they can be considered when establishing staffing patterns and examination methods at the Fleet Accounting and Disbursing Centers. We are sending copies of this report to the Commanding Officers of the Centers for their information. Copies are also being sent to the Director, Naval Audit Service.

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We appreciate the courtesy and cooperation extended to our representatives during our review. We shall appreciate receiving your comments on any actions the Navy takes or plans to take on the matters discussed in this report.

Sincerely yours,

A handwritten signature in cursive script, reading "D. L. Scantiebury". The signature is written in black ink and is positioned above the typed name and title.

D. L. Scantiebury
Director