

October 25, 2004



Financial Management

Military Retirement Fund Processes
Related to Deceased Retirees'
Accounts
(D-2005-007)

Department of Defense
Office of the Inspector General

Quality

Integrity

Accountability

Additional Copies

To obtain additional copies of this report, visit the Web site of the Inspector General of the Department of Defense at <http://www.dodig.osd.mil/audit/reports> or contact the Secondary Reports Distribution Unit, Audit Followup and Technical Support at (703) 604-8937 (DSN 664-8937) or fax (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact Audit Followup and Technical Support at (703) 604-8940 (DSN 664-8940) or fax (703) 604-8932. Ideas and requests can also be mailed to:

ODIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General of the Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-4704

DEPARTMENT OF DEFENSE

hotline

To report fraud, waste, mismanagement, and abuse of authority.

Send written complaints to: Defense Hotline, The Pentagon, Washington, DC 20301-1900
Phone: 800.424.9098 e-mail: hotline@dodig.osd.mil www.dodig.osd.mil/hotline

Acronyms

COE	Certification of Eligibility
DFAS	Defense Finance and Accounting Service
DMDC	Defense Manpower Data Center
FMR	Financial Management Regulation
MRF	Military Retirement Fund
OMB	Office of Management and Budget
SSA	Social Security Administration



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

October 25, 2004

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
DIRECTOR, DEFENSE MANPOWER DATA CENTER

SUBJECT: Report on Military Retirement Fund Processes Related to Deceased Retirees'
Accounts (Report No. D-2005-007)

We are providing this report for your information and use. We considered management comments on a draft of this report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Douglas P. Neville at (703) 428-1061 (DSN 328-1061) or Mr. Thomas J. Winter at (703) 428-1082 (DSN 328-1082). For the report distribution, see Appendix B. The team members are listed inside the back cover.

By direction of the Deputy Inspector General for Auditing:

A handwritten signature in cursive script, reading "Paul J. Granetto", is positioned above the typed name.

Paul J. Granetto, CPA
Assistant Inspector General
Defense Financial Auditing
Service

Office of the Inspector General of the Department of Defense

Report No. D-2005-007

October 25, 2004

(Project No. D2003FH-0104)

**Military Retirement Fund Processes Related
to Deceased Retirees' Accounts**

Executive Summary

Who Should Read This Report and Why? Defense Finance and Accounting Service (DFAS) management, staff, supporting contractor personnel who process Military Retirement Fund payments, and military retirees and their spouses or dependents should read this report. The report discusses the need for change in the process for determining continued eligibility of retirees.

Background. DFAS Cleveland Center administers the Military Retirement Fund, using contractor support. The fund pays military retirement benefits to retirees or their survivors for the life of each recipient. During 2003, DFAS administered payments to about 2 million retirees and survivors totaling about \$39 billion. This audit is a continuation of our audit of the FY 2002 Military Retirement Fund Financial Statements. In that audit we identified management control weaknesses related to account management. These weaknesses involved cases where DFAS received death notifications pertaining to retirees. We identified cases where DFAS should have suspended and eventually closed accounts based on receipt of a notification of death.

Results. Systemic control weaknesses led DFAS to improperly pay military retirement benefits of about \$4.8 million per month to the accounts of as many as 3,100 deceased retirees who were still on the retirement rolls as of August 1, 2003. And retiree accounts that DFAS should have taken steps to close remained suspended, thus incurring unnecessary maintenance fees. These payments are material to this audit due to their sensitive nature and were not addressed in the FY 2002 audit results. By working more closely with the Social Security Administration, DFAS could help improve the accuracy of both agencies' databases of deceased beneficiaries and reduce the incidence of erroneous payments. Also, DFAS should improve efforts to recover benefit payments made to the accounts of deceased retirees.

Management Comments. The Director of the Defense Finance and Accounting Service fully concurred with Recommendations 1, 2, 3, 4, and 6 and partially concurred with Recommendation 5. For recommendation 5, management proposes to annually contact retirees over a statistically determined age for a Certificate of Eligibility.

Audit Response. Management comments are responsive to all recommendations. The alternative to Recommendation 5 that DFAS proposed meets the intent of our objective. We included the full text of the DFAS comments in the Management Comments section of this report.

Table of Contents

Executive Summary	i
Background	1
Objective	2
Finding	
Military Retirement Fund Procedures for Deceased Retirees' Accounts	3
Appendixes	
A. Scope and Methodology	10
Management Control Program Review	11
B. Report Distribution	13
Management Comments	
Defense Finance and Accounting Service	15

Background

The Military Retirement Fund (MRF) pays military retirement benefits to retirees or their survivors for the life of each eligible recipient. During our FY 2002 MRF financial statements audit we identified Defense Finance and Accounting Service (DFAS) management control weaknesses related to deceased retirees' accounts. Auditors' concerns about the management control weaknesses prompted this follow-on audit. During FY 2003, approximately 2 million retirees and survivors received annual payments totaling approximately \$39 billion. We reviewed account management procedures related to deceased retirees' accounts to assess efficiency and effectiveness.

DFAS Cleveland Center administers the MRF payment program with contractor support. Closing out accounts of deceased retirees is one responsibility of the program. Office of Management and Budget (OMB) and DoD criteria specify procedures for DFAS to follow when it receives notification of a retiree's death. However, to avoid mistakenly suspending a living beneficiary's payments, DFAS follows additional procedures to verify a beneficiary's death before closing an account and taking steps to recover erroneous payments.

The Social Security Death File, an extensive database maintained by the Social Security Administration (SSA), is one tool DFAS uses to identify deceased retirees through data matching between the SSA and DoD databases. The SSA database lists all deceased persons who had a Social Security number. However, inaccuracies exist in the SSA database that make confirmation of the data necessary before DFAS stops payment on the retiree account. More than 70 million names were in the SSA database during 2003. The Defense Manpower Data Center (DMDC) - West performs the data matching monthly and provides the results to DFAS. DFAS procedures state that it will:

- independently validate the data to prevent an inappropriate suspension, and
- suspend payments if a retiree does not provide a timely Certificate of Eligibility (COE) with a notarized signature when DFAS sends such a request. DFAS sometimes receives notification of a retiree's death from nongovernmental sources, such as phone calls from relatives.

However, the data matching process using the SSA and DFAS databases may be the first and only form of death notification to DFAS because relatives do not always contact DFAS or provide a death certificate.

Objective

Our overall objective was to evaluate how DFAS determines whether a military beneficiary has died, and how DFAS verifies the death and stops payments to the deceased retiree's account. We evaluated the process of matching the DFAS retiree database to the SSA Death File through the use of a computer data mining software program that performs a 100-percent data match between the SSA Death File and the DFAS retiree database. We also assessed management controls over the payment process for military retirees. See Appendix A for a discussion of the scope and methodology and the review of the management control program.

Military Retirement Fund Procedures for Deceased Retirees' Accounts

DFAS continued to pay retirement benefits to some deceased retirees' accounts despite death notifications from the death match procedure between Government databases. Further, DFAS did not act to recover erroneous payments in an effective or timely manner. This occurred because DFAS and its contractor support staff did not always identify deceased retirees from data matching results provided to them, as required by DFAS policies. Further, DFAS did not stop payments pending validation of the death notification, as required by DoD Financial Management Regulation volume 7B, chapter 30. Also, DFAS did not proactively verify retirees' continuing eligibility, but relied on reports from other Federal Agencies and nongovernmental sources concerning retirees' deaths. As a result, during FY 2003, DFAS improperly paid military retirement benefits totaling about \$4.8 million each month to about 3,100 deceased retirees' accounts.

Criteria

Office of Management and Budget. OMB Bulletin 92-04, "Guidance for Termination of Federal Benefits to Deceased Beneficiaries," January 15, 1992, states that Federal agencies that pay benefits should monthly access the SSA database listing deceased individuals and match the data against their own payment files to identify deceased beneficiaries. Additionally, Bulletin 92-04 requires that DFAS independently verify the death before terminating benefits. After verification, agencies must immediately terminate payment and, if applicable, initiate recovery of erroneous payments.

DoD Financial Management Regulation (FMR). DoD 7000.14-R, DoD Financial Management Regulation, Volume 7B, chapter 30, "Death of Retiree," October 2000, requires that DFAS suspend a retiree's account upon receipt of a notification of death from any source until DFAS verifies the death.

DFAS-Cleveland Standard Procedures. The DFAS Cleveland Center issued standard operating procedures for processing accounts of deceased retirees. Standard Operating Procedure 4832.10, "Death Match Processing," October 2, 2000, states that DFAS should match the SSA death data against its database of retirees on a monthly basis to determine the continued eligibility of the retirees. The procedure requires that DFAS send the retiree a letter requesting notarized proof of continuing eligibility. The letter states that DFAS will suspend benefit payments if they do not receive a notarized response from the retiree within 30 days. The procedure also requires that guardians of retirees who have been adjudicated as incompetent, and retirees with overseas addresses, certify continuing eligibility every 6 months by sending in a Report of Eligibility. If DFAS does not receive a timely response to the request for certification, it should suspend payments in accordance with regulations and guidance.

Standard Operating Procedure 3551.00, "Report of Existence/Certificate of Existence Processing," November 4, 1999, provides policy and procedures for processing reports of eligibility and certificates of eligibility by which retirees or their legal guardians can verify their continuing eligibility to receive benefits. Also, the procedures provide policy for suspending payments if the retiree or legal guardian does not respond timely.

Standard Operating Procedure 4801.00, "Reclamation Action on Outstanding Payments on Deceased Retired/Retainer Pay Accounts," January 6, 1993, provides policy and procedures for reclaiming funds erroneously paid to a deceased retiree. The Procedure requires that DFAS try to recover the payments from the bank or next of kin, as appropriate. If DFAS cannot collect the overpayment, the debt collection group at DFAS Denver Center starts an additional collection process. DFAS is required to refer the debt to the United States Treasury in the event it remains uncollectible.

Payments to Deceased Retirees' Accounts

Death Notifications. DFAS receives notifications of retirees' deaths primarily from survivors or from the Department of Veterans Affairs. DFAS can also ascertain that a retiree is deceased by using the data matching process. The DoD FMR and DFAS standard operating procedures require DFAS to follow up on death notifications and discontinue payments if the retiree is deceased or does not timely respond to an inquiry for continued eligibility. We performed an alternative data matching procedure using our data mining software. In this manner we identified about 3,100 retirees whom the SSA showed as deceased before August 1, 2003. We judgmentally selected and reviewed 99 individuals from that universe to assess the effectiveness of DFAS account management procedures.

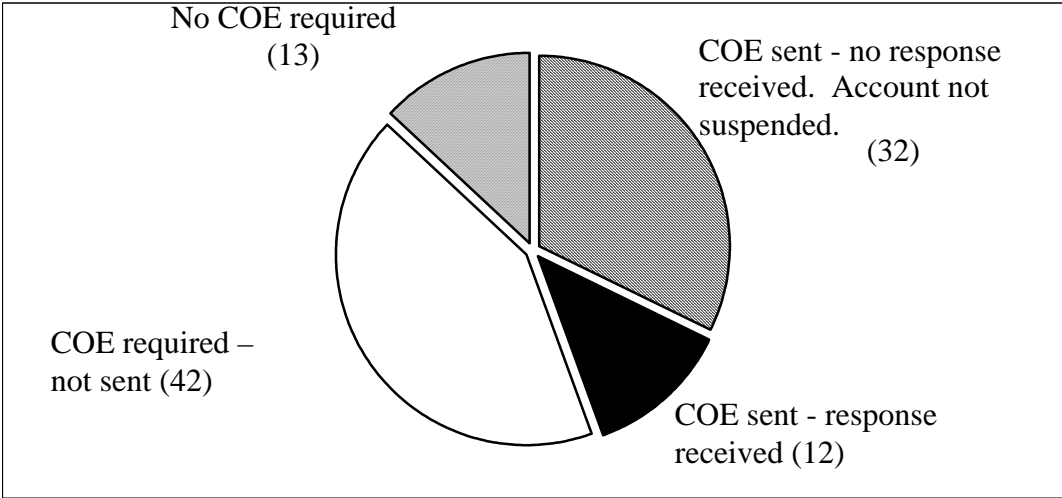
As shown in Chart 1, DFAS did not always follow the FMR-prescribed data matching procedures. In 42 of the 99 cases we reviewed, the DFAS case file showed no evidence of any notification of death. In all cases, the SSA Death File showed the individual as deceased. In some cases, the SSA Death File showed the retiree died more than 2 years earlier, and DFAS continued to pay retirement benefits.¹ One retiree died in 1985, according to the SSA Death File, at age 83. However, DFAS continued payments until February 2004, when he would have been 102 years old, paying out about \$351,000. DFAS stopped payment on the account after we brought it to their attention. DFAS should have identified these deceased individuals earlier because DMDC provides the data matching results to DFAS monthly. However, DFAS continued to make payments beyond a reasonable time after the retirees' deaths.

Chart 1 also indicates that DFAS issued a letter requesting a COE in 44 cases, but the retirees did not respond in 32 of these cases. DFAS did not suspend and stop payments to any of the 32 accounts, and 5 of the accounts remained active more

¹ In the majority of cases we reviewed, the SSA Death File shows the person to be deceased for less than 2 years.

than 2 years after the retiree should have answered the COE letter. The controls over the DFAS manual COE letter system were not adequate to effectively monitor the COE requests sent out and the retirees' responses. As a result, DFAS made payments of about \$47,000 monthly to these 32 retiree accounts after the individuals' deaths. DFAS should develop and implement effective controls to track COE letters and responses, such as establishing control serial numbers for the COEs to account for all related documents.

Chart 1. DFAS Action on Audit Sample Items



Recovery of Erroneous Payments. DFAS did not always initiate timely action to recover erroneous payments after it verified a retiree's death. Standard Operating Procedure 4801.00 prescribes recovery procedures, but does not specify when recovery should commence. We reviewed 33 cases in which DFAS stopped payment on the account when it received proper death verification some time after the retiree died. Although DFAS did initiate timely recovery procedures in 11 of these cases, the files for the other 22 cases showed no evidence of DFAS attempts to recover erroneous payments.

Causes of Erroneous Payments

DFAS Cleveland and its contractor support staff did not effectively implement the data matching process, as required by DFAS Cleveland Standard Operating Procedure 4832.10, and did not always suspend accounts pending validation of the death notice, as required by DoD FMR volume 7B, chapter 30. Furthermore, DFAS did not proactively verify members' continuing eligibility, but relied on external reports of retirees' deaths before taking any action. In the case of the individual who died in 1985 at age 83, DFAS could have avoided the long-term payout by issuing a COE letter. Then, if DFAS received no response, it should have stopped payment on the account.

Data Matching Results. DMDC performs monthly data matching between the retiree database and the SSA Death File, and provides the results to DFAS. DFAS then assembles the data into manually processed Excel spreadsheets that it (or the contractor staff) tracks manually. The manual processing and tracking increases the risk of data errors and decedents not being identified. As a result, a retiree could be deceased for a long time before DFAS became aware of the death and took steps to stop payment on and close the retiree's account.

Account Suspension. DFAS did not timely suspend payment on all accounts upon confirming they had a legitimate death notification on retirees. The DoD FMR requires that DFAS suspend a retiree's account when there is a reason for DFAS to believe that a retiree is deceased. However, DFAS standard operating procedures require that retirees first be given an opportunity to certify their continuing eligibility. The retiree's account should not be suspended unless DFAS does not receive a response within 60 days. However, DFAS does not timely suspend all accounts once it receives a notification of death or when a COE request is unanswered.

DFAS and contractor officials explained that they are reluctant to immediately suspend payment on an account upon receipt of a death notice from a source they consider to be prone to errors, such as the SSA database. DFAS is reluctant to stop a retiree's benefits because of the hardship it might cause a retiree who is still eligible, and the potential for adverse publicity. DFAS and the contractor wish to independently verify that the person is alive by mailing out a COE request and waiting the appropriate number of days for the return of the signed, notarized document. However, in some cases DFAS issued a COE letter and did not get a response, and there was no evidence that DFAS suspended payment on the account as it should have according to DFAS guidance.

Reliability of Death Notifications. DFAS and contractor officials considered the SSA Death File to have a significant error rate. Therefore, they were reluctant to suspend an account without first trying to validate the report of death by the COE process. Of the 99 cases we reviewed, the SSA Death File showed an incorrect date of death in 32 cases, and at least 10 of these individuals were still alive according to the DFAS case files. Errors included cases in which the deceased individual was not the retiree but the retiree's spouse. Despite these errors, the SSA death information is correct in most cases, especially for recent deaths.

The SSA Death File records show if a friend or relative verified an individual's death, and have a code, "V," in the file. SSA considers a death certificate as proof positive of an individual's death and codes it as a "P" in the file. DFAS considers delivery of a death certificate as the only proof positive that a retiree is deceased. The absence of a V or P code indicates that the death is neither verified nor proven. However, about 93 percent of the death reports identified by our SSA file matching process had a V or P code. Of the SSA file death reports, coded V or P in our audit sample, more than 98 percent of the dates of death were correct.

DFAS and contractor officials considered phone calls from next of kin and written notifications to be much more reliable than the data matching process, and a death certificate to be the final word. However, if a relative or other person does not provide DFAS a death certificate, none will be in the files because DFAS

takes no initiative to obtain one. DFAS and contractor personnel initiated suspensions and termination procedures promptly upon receiving notification from a retiree's family in 33 out of 37 such cases (89 percent) in our judgmental audit sample.² This is much better performance than with the SSA data match procedure, but it still leaves room for improvement.

Proactive Measures. DFAS does not proactively verify that retirees are still eligible for retirement benefits. Verifying eligibility would be a prudent business practice. DFAS does send out a COE after receiving notification of a retiree's death. However, DFAS makes payments until the SSA file match process identifies the retiree as deceased and DFAS validates the notification. The inefficiencies of the SSA file match process sometimes result in significant time passing before DFAS acts on a reported death. In six cases, DFAS sent out a COE request or suspended an account because there was an unanswered COE request during the audit. When we brought the reported deaths to DFAS managers' attention they were cooperative and acted in a timely manner to stop monthly payments. SSA had reported at least one of the retirees' deaths as early as 1985.

DFAS can and should implement proactive contacts with retirees to determine whether they are still eligible for retirement benefits. Methodologies such as the COE request letter are already in use as part of the SSA data matching process. This COE application could be expanded and used on a random or deliberate basis, using other criteria. DFAS could proactively confirm the continued eligibility of retirees by inquiring about the accuracy or receipt of the payments made to date. The recipient could have a change in marital status, residence change, or other life-changing event that affects benefit payment amounts or processes. DFAS should develop a plan by which retirees would be periodically contacted, similar to the DFAS standard operating procedures that require periodic contact with incompetent recipients and retirees who have international addresses. Recipients more than 80 years old could be contacted annually since they represent about 124,000 (7.4 percent) of the total population of about 1.7 million military retirees. DFAS could mail its standard COE letter and follow the standard procedure to suspend payments if a timely response is not forthcoming from the recipient.

Effect of Erroneous Payments

By not responding to all notifications of death, as required by the DoD FMR, DFAS improperly paid military retirement benefits to as many as 3,100 retirees' accounts after the retirees had died. For the 68 cases we reviewed, in which DFAS should have suspended the accounts, DFAS improperly paid about \$98,000 monthly to deceased retirees whose DoD accounts were active on August 1, 2003. Most of these individuals were deceased as reported by the SSA, but we identified some errors in the SSA database. The SSA Death File reported about 4,700 additional deceased individuals as of September 30, 2003. DFAS should take action to validate these reported deaths and implement the prescribed procedures.

² The judgment sample percentage does not generalize to the universe.

As a result of DFAS not pursuing timely reclamation of erroneous payments, the funds were not available for other Government use. Delays in reclamation can decrease the likelihood of ever recovering the funds. We identified 19 cases in which DFAS did not pursue timely reclamation or there was no evidence of a reclamation attempt for payments after death. As of February 2004, DFAS made overpayments totaling about \$200,000 to the 19 deceased retirees in our judgmental sample. The potential for overpayments is significant because DFAS makes the majority of payments through electronic fund transfer. Therefore, DFAS will automatically continue to make payments into the accounts until DFAS is notified of retirees' deaths and stops the payments. DFAS should more timely pursue reclamation of erroneous payments.

Recommendations, Management Comments and Audit Response

We recommend that the Director of the Defense Finance and Accounting Service and its supporting contractor:

1. Promptly identify deceased retirees by using the prescribed Social Security Administration Death File match process and validate the death reports.

Management Comments. DFAS concurred and stated that corrective actions would be completed by September 2004. In subsequent discussions, management stated that corrective actions were completed.

2. Develop and implement effective controls to track Certificate of Eligibility letters and responses, such as unique controlled serial numbers on documents.

Management Comments. DFAS concurred and stated that corrective actions will be completed by April 2005.

3. Follow prescribed procedures to validate reported deaths and suspend payments to retirees who do not respond to Certificate of Eligibility requests in a timely manner.

Management Comments. DFAS concurred and stated that corrective actions would be completed by October 2004. In subsequent discussions, management stated that corrective actions were completed.

4. Execute and carry out an agreement with the Social Security Administration by which the Defense Finance and Accounting Service will notify the Social Security Administration of any detected errors in Social Security Administration records.

Management Comments. DFAS concurred and stated that corrective actions will be completed by April 2005.

5. Proactively verify that retirees remain eligible for retirement payments by developing and implementing procedures, similar to those in place for retirees adjudicated as incompetent or those with an overseas address, requiring certification every 6 months.

Management Comments. Defense Finance and Accounting Service partially concurred and offered an acceptable alternative procedure to determine continued eligibility for benefits. Defense Finance and Accounting Service proposes to send an annual letter to those individuals over a statistically determined age, as explained on page 3 of the Agency's comments. Management indicated that applying the existing rules that apply to incompetent retirees and retirees living overseas would be too costly and an undue burden on its customers. Management states that over a recent 18-month period they recovered funds on 99 percent of accounts owed to the Government by annuitants and retirees. Defense Finance and Accounting Service projects completion of the proposed actions by June 30, 2005.

Audit Response. Management comments are responsive to the intent of our recommendation. We consider an annual confirmation for older retirees to be an excellent start to ensure that only proper payments occur. The Defense Finance and Accounting Service states that they have a highly successful collection process for amounts owed to the Government (accounts receivable) which we will be reviewing in future audits. We do not require further comments on this recommendation since the alternative solution is acceptable and addresses the identified issue.

6. For suspended accounts with no death certificate forthcoming from friends or relatives within a reasonable time frame, contact the authority issuing the certificate and obtain a copy for DFAS processing.

Management Comments. DFAS concurred and stated that corrective action will be complete by April 2005.

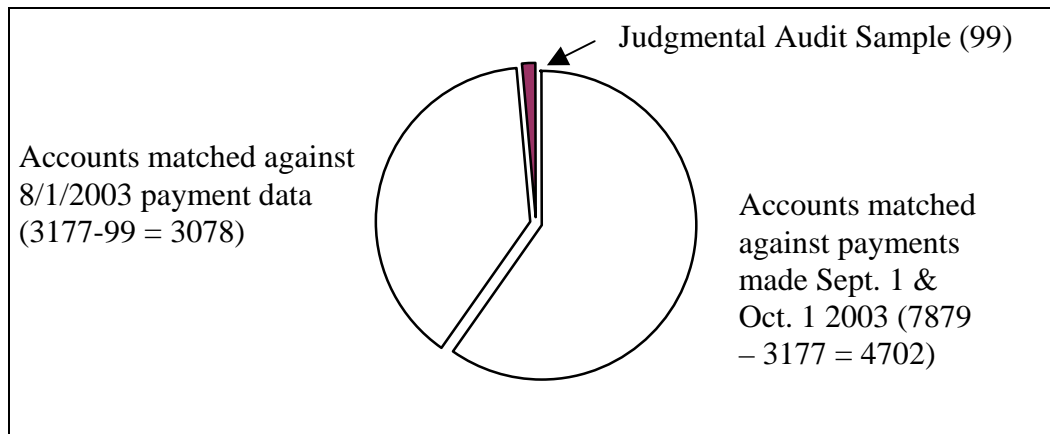
Additional management comments on the adequacy of management controls are discussed in Appendix A.

Appendix A. Scope and Methodology

We reviewed the DFAS Cleveland Retired and Casualty Pay Subsystem for deceased retiree accounts in pay active status. We reviewed applicable DFAS Cleveland Standard Operating Procedures. We interviewed DFAS Cleveland Center and supporting contractor officials. We also reviewed retiree files to evaluate the support for continued payments of benefits and actions taken by DFAS.

We matched the SSA Death File against the database of retirees in pay active status in the Retired and Casualty Pay Subsystem as of August 1, 2003. The data match identified 7,879 retirees in the Retired and Casualty Pay Subsystem that SSA records showed as deceased, with 3,177 of those retirees deceased before August 1, 2003. We also identified 86 retirees whose names differed between the two databases, but who had the same social security number. The causes of the incorrect Social Security numbers were transposition of numbers and other explainable events. Our universe consisted of the 3,177 suspected deceased retirees, from which we selected a judgmental sample of 99 retirees. We selected the 99 retirees to include those who died years ago as well as those who died more recently. See Chart 2 for a depiction of the audit sample with respect to the universe of 7,879.

Chart 2. Audit Sample as Portion of Universe



We reviewed the 99 sample retirees' case files to determine whether DFAS and the supporting contractor followed required procedures when notified of a retiree's death. Specifically we determined whether DFAS validated SSA death matching reports in a timely manner and suspended accounts when the retiree was no longer authorized monthly payments. We reviewed the 86 accounts with mismatched names to determine whether DFAS Cleveland or SSA had the correct name for the retiree. We performed this audit from March 2003 through March 2004 in accordance with generally accepted government auditing standards, as described in "Government Auditing Standards" issued by the Comptroller General of the United States.

Use of Computer-Processed Data. We used computer-processed data in this audit. Specifically, we used the SSA Death File, Retired and Casualty Pay Subsystem, and the Mail Image Routing & Optical Recording System, a DFAS archiving system, while conducting our audit. We did not assess the reliability of the Retired and Casualty Pay Subsystem or the Mail Image Routing & Optical Recording System. The reliability of the data in these systems did not affect the results of this audit.

Use of Technical Assistance. The Data Mining Division in the Contract Management Directorate assisted us with data mining procedures, including matching the SSA Death File against the retirees in pay active status in the Retired and Casualty Pay Subsystem.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

Management Control Program Review

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD managers to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of management controls over the MRF. Specifically we reviewed DFAS Standard Operating Procedures that prescribe the procedures DFAS Cleveland is required to take when a retiree is reported deceased. We interviewed DFAS Cleveland Center officials about the prescribed procedures to determine whether they were followed. We did not review management’s self-evaluation applicable to the controls over the MRF.

Adequacy of Management Controls. We identified material management control weaknesses as defined by DoD Instruction 5010.40. Management controls for the MRF were not adequate to ensure that retirement benefits were terminated upon the death of the retiree. Recommendations 1, 2, 3, 5, and 6, if implemented, will result in more timely termination of benefits upon the death of the retiree, and provide a monetary benefit by reducing the amount of resources required to reclaim overpayments made to deceased retirees. Recommendation 4, if implemented, will improve the accuracy of the SSA Death File and result in fewer living retirees being erroneously identified as deceased during the death match process. We will provide a copy of the report to the senior official responsible for management controls at DFAS.

Adequacy of Management’s Self-Evaluation. Management’s self evaluation did not detect the material weakness. The frequency of audit sample items in which death match procedures were ineffective, and several instances of accounts that DFAS management suspended during the audit, indicate that management did

not place enough emphasis on controls over erroneous payments to deceased retirees because the dollar amounts are small relative to the overall program DFAS administers.

Management Comments on the Management Control Weakness. DFAS agreed to take corrective action in response to all 6 recommendations. DFAS also recognizes the value of a more aggressive process to verify continuing eligibility to receive retirement benefits. DFAS also stated that it plans to fully automate the death match process by April 2005, to include automatic account suspension if a CoE request is not answered within the required timeframe. The corrective actions, when implemented, should eliminate the weaknesses of the existing manual processes and should vastly improve the effectiveness of MRF processes related to deceased retirees.

Prior Coverage

No prior coverage has been conducted on payments to deceased retirees' accounts during the last 5 years. However, the Military Retirement Fund financial statements have received an unqualified audit opinion for each of the last 5 years.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Under Secretary of Defense for Personnel and Readiness

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Audit Service
Naval Inspector General
Department of the Navy
Superintendent, Naval Postgraduate School

Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Contract Management Agency
Director, Defense Finance and Accounting Service
Director, Defense Intelligence Agency
Office of the Inspector General
Director, Defense Logistics Agency
Director, Defense Manpower Data Center
Director, National Security Agency

Non-Defense Federal Organizations

Commissioner of the Social Security Administration
Secretary of the Department of Veterans Affairs

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on National Security, Emerging Threats and International Relations, Committee on Government Reform
House Subcommittee on Government Efficiency, and Financial Management, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and The Census, Committee on Government Reform

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56TH STREET
INDIANAPOLIS, INDIANA 46249

DFAS-P/IN

SEP 22 2004

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,
OFFICE OF THE INSPECTOR GENERAL, DoD

SUBJECT: Requested Comments to Recommendation Nos. 1 through 6 in the DoDIG Draft
Report, "Military Retirement Fund Processes Related to Deceased Retirees'
Accounts", dated July 21, 2004 (Project No. D2003FH-0104)

Per your request, attached are our comments to the subject report recommendations. We
have also provided management comments to the material management control weaknesses
discussed in Appendix A.

Questions your staff may have concerning these matters may be directed to my point of
contact, Ms. Debra Williams, DFAS-PD/CL, 216-522-6072.

Patrick T. Shine
Director, Military and Civilian Pay Services

Attachment:
As stated

cc:
DFAS-DDI/AR

www.dfas.mil
Your Financial Partner Work

**DoDIG DRAFT REPORT – DATE JULY 21, 2004
DoDIG CODE D2003FH-0104**

**“MILITARY RETIREMENT FUND PROCESSES RELATED TO DECEASED
RETIREES’ ACCOUNTS”**

**DEFENSE FINANCE AND ACCOUNTING SERVICE
COMMENTS
TO THE RECOMMENDATIONS**

RECOMMENDATION 1: Promptly identify deceased retirees by using the prescribed Social Security Administration Death File match process and validate the death reports.

DFAS RESPONSE: Concur. As of July 30, 2004, we have updated the original Memorandum of Understanding between DFAS and the Defense Manpower Data Center/Social Security Administration to ensure timely exchange of the data file. We have created a backup position for the Death Match Administrator to ensure continuity of work and consistent application of procedures. For each Death Match Report, the identification data of accounts that require actions are added to a spreadsheet for each month. The spreadsheet has been updated to track each stage of the death match process, which now includes documenting the date the initial prudent management letter was sent to the retiree requesting them to complete a Certificate of Eligibility, the date of the 30 day follow-up to the retiree, if required, the 60 day follow-up to determine if the COE is returned, and the date the account was suspended, if applicable. This improved manual process will be utilized only until automation of the Death Match process is implemented as stated in Recommendation 2.

As of August 30, 2004, the initial letter to the retiree has been modified. It requests the retiree to complete a Certificate of Eligibility. The letter specifically notes (in bold), that a failure to complete the Certificate of Eligibility will result in the suspension of the monthly payment.

We are working with the Defense Manpower Data Center to identify additional fields on the current transmission file so they will be added to the report used by Retired and Annuity Pay for the Death Match process. There is a Verification (V)/Proof (P) code that will be used to place certain accounts in an immediate suspense status upon receipt of the report. The Verification Code of “V” identifies retirees on the Social Security Administration file where a friend or relative has reported their death. The Proof Code of “P” identifies retirees on the Social Security Administration file where the death certificate of a retiree has been observed.

ECD: September 30, 2004

RECOMMENDATION 2: Develop and implement effective controls to track Certificate of Eligibility letters and responses, such as unique controlled serial numbers on documents.

DFAS RESPONSE: Concur. As of November 30, 2003, we began annotating all Certificates of Eligibility cards in the upper right hand corner of the form before they were mailed out with the initial letter to the retiree. The annotations denote the month of the Death Match file received from the Defense Manpower Data Center and the retiree's branch of military service. This allows for quick recognition when that Certificate of Eligibility is returned and distinguishes it from the other Certificate of Eligibility processing required for incompetent retirees and retirees with a foreign banking address.

We will implement an automated Death Match process to include automated correspondence to the retiree and automated suspense of the account if no response is received from the retiree within 60 days from the date of the initial letter.

ECD: April 30, 2005

RECOMMENDATION 3: Follow prescribed procedures to validate reported deaths and suspend payment to retirees who do not respond to Certificate of Eligibility requests in a timely manner.

DFAS RESPONSE: Concur. As of July 30, 2004, we have revised the procedures in support of the Death Match process by including more detail concerning the Certificate of Eligibility process from release to the retiree and return to our Death Match Administrator, as well as, ensuring all employees executing the process understand the requirements.

As of August 30, 2004, the Quality Assurance group in Lockheed Martin Information Technology has established a procedure for quarterly audits of the Death Match process. Reports of these audits will be published to the Lockheed Martin Information Technology Program Manager and the Continuing Government Activity. The first audit is scheduled for September 30, 2004.

The Continuing Government Activity will develop a Quality Assurance Plan which will detail the procedures used to review and to ensure the Death Match process is being completed accurately and timely.

ECD: October 30, 2004

RECOMMENDATION 4: Execute and carry out an agreement with the Social Security Administration by which the Defense Finance and Accounting Service will notify the Social Security Administration of any detected errors in Social Security Administration records.

DFAS RESPONSE: Concur. We will actively pursue the execution of a Memorandum of Understanding with the Social Security Administration (SSA) for notification of errors in the SSA data. The actual execution of such agreement is contingent upon SSA's support. Additionally, discussions between DFAS and SSA may reveal that the actual MOU should occur between SSA and the Defense Data Manpower Center. If so, DFAS will facilitate such agreement.

ECD: April 30, 2005

RECOMMENDATION 5: Proactively verify that retirees remain eligible for retirement payments by developing and implementing procedures, similar to those in place for retirees adjudicated as incompetent or those with an overseas address, requiring certification every 6 months.

DFAS RESPONSE: Partially Concur. DFAS is pursuing various opportunities to increase its effectiveness in verifying eligibility to retired pay. This includes annual certification of eligibility for retirees' at or greater than the median (middle) and mean (average) age of retirees at death or greater. The median age is 76 years and the mean age is 74 years. DFAS believes that requiring all retirees to certify eligibility every six months will create an undue burden on our customers.

Another consideration is US banks are required to return funds deposited after a retiree dies. The current ACH rules for banks give the Government a means to recoup payments after a retiree's death. Therefore, the risk of improper payments is minimized, with the ability to get most payments returned in a quick manner. Historically, DFAS has achieved significant success in recovering these funds. For example, over a recent 18-month period, DFAS successfully recovered funds in over 99% of the cases. DFAS' increased oversight and enforcement of applicable procedures, along with the DFAS proposed expanded certification process, will mitigate any risks of loss of funds.

DFAS operational cost of implementing a semi-annual certification requirement for all retirees would exceed \$4.1 million annually. By comparison, applying an annual certification requirement to retirees at or above age, for example age 70, will reduce the recurring annual operational cost to approximately \$800K vice \$4.1 million. DFAS believes this approach supports the spirit of the DoDIG recommendation while reducing the minimizing operational costs and any burden on retirees.

As an additional measure, DFAS is also determining the feasibility of obtaining earlier verification of eligibility by phone in situations where the SSA identifies the retirees as deceased. Positive verification would allow DFAS to suspend payments pending written confirmation.

ECD: June 30, 2005

RECOMMENDATION 6: For suspended accounts with no death certificate forthcoming from friends or relatives within a reasonable time frame, contact the authority issuing the certificate and obtain a copy for DFAS processing.

DFAS RESPONSE: Concur. DFAS has contacted the Executive Board of the National Funeral Directors Association for assistance from funeral directors in providing death notification forms to DFAS on deceased retirees served by the funeral home. These forms would be used in lieu of death certificates, which will require a change to the Department of Defense Financial Management Regulation, Volume 7B. They have agreed to assist us with the development of a notification system for funeral homes; however, it is contingent upon reaching agreement and implementation with this partner organization.

ECD: April 30, 2005

MANAGEMENT CONTROL WEAKNESS:

In the Department of Defense Inspector General's report they identified a material management control weaknesses as defined by DoD Instruction 5010.40. They further stated, "Management controls for the Military Retirement Fund were not adequate to ensure that retirement benefits were terminated upon the death of the retiree. Recommendations 1, 2, 3, 5, and 6, if implemented, will result in more timely termination of benefits upon the death of the retiree, and provide a monetary benefit by reducing the amount of resources required to reclaim overpayments made to deceased retirees. Recommendation 4, if implemented, will improve the accuracy of the Social Security Administration Death File and result in fewer living retirees being erroneously identified as deceased during the death match process".

DFAS RESPONSE: DFAS agrees to pursue implementation of Recommendations 1, 2, 3, 4, and 6. Additionally, DFAS recognizes the value of a more aggressive verification process and agrees to pursue different methods. This includes a variation of Recommendation 5.

To ensure the Death Match File is being processed, complete automation is scheduled for April 2005. This automation will systematically mail letters and Certificates of Eligibility to the retirees listed on the Death Match File. If the Certificate of Eligibility is not returned within the required timeframe, the account will be automatically suspended. In addition, Lockheed Martin Information Technology will perform quarterly audits on the Death Match process, as well as periodic reviews by the Continuing Government Activity.

Team Members

The Office of the Deputy Inspector General for Auditing of the Department of Defense, Defense Financial Auditing Services prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

Paul Granetto
Douglas Neville
William Kelley
Thomas Winter
Jonathan Rabben
Michael Davitt
Frederick McComas
Mark Heim
Thomas Daquano