

July 17, 2006



# Financial Management

Military Retirement Fund Processes  
Related to Deceased Former Military  
Spouses  
(D-2006-098)

Department of Defense  
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Article I, Section 9

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### **Acronyms**

COE	Certificate of Eligibility
DFAS	Defense Finance and Accounting Service
IGS	Integrated Garnishment System
OMB	Office of Management and Budget
SSA	Social Security Administration



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July 17, 2006

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

SUBJECT: Report on Military Retirement Fund Processes Related to Deceased Former  
Military Spouses (Report No. D-2006-098)

We are providing this report for information and use. We performed the audit in response to a congressional request. We did not require any written response to this report, and we did not receive any. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the staff. You should direct your questions to Mr. Douglas P. Neville at (703) 428-1061 (DSN 328-1061) or Mr. Thomas J. Winter at (703) 428-1082 (DSN 328-1082). We have listed the team members inside the back cover. See Appendix B for the report distribution.

By direction of the Deputy Inspector General for Auditing:

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

Paul J. Granetto  
Assistant Inspector General  
Defense Financial Auditing  
Service

## Department of Defense Office of Inspector General

Report No. D-2006-098

July 17, 2006

(Project No. D2005-D000FP-0254.000)

### Military Retirement Fund Processes Related to Deceased Former Military Spouses

#### Executive Summary

**Who Should Read This Report and Why?** Defense Finance and Accounting Service (DFAS) management and staff, supporting contractor personnel who process Military Retirement Fund payments, and military retirees should read this report. The report discusses the validity of payments from the Military Retirement Fund to former military spouses, and the potential for refunds to the military retiree if the former spouse dies.

**Background.** We performed this audit in response to congressional requests we received after we issued Report No. D2005-007, "Military Retirement Fund Processes Related to Deceased Retirees' Accounts," October 20, 2004. The constituents of these elected officials voiced concern about possible overpayment of military retirement benefits to accounts of deceased former military spouses.

Section 1408, title 10 United States Code, the Uniformed Service Former Spouses Protection Act, authorizes former military spouses to receive portions of the military retirees' pay. This legislation qualifies former military spouses to receive up to 50 percent of military retirees' disposable pay. Payments to former military spouses terminate when the former military spouse or the retiree dies.

DFAS Cleveland administers the DoD Garnishment Operations Program. The DoD Garnishment Operations Program reviews court orders and keeps records of DoD employees' garnishments. DFAS Cleveland personnel calculate and administer garnishment payments out of the Retiree and Casualty Pay Subsystem. During FY 2004, DFAS administered payments totaling about \$625 million, to 77,863 former military spouses.

**Results.** DFAS paid military retirement benefits to the accounts of deceased former military spouses less than 1 percent of the time. We identified overpayments to only 14 deceased former military spouses' accounts, out of a universe of 77,863 accounts. One former military spouse was alive, although the Social Security Administration Death Master File identified her as deceased. The overpayments to these accounts occurred from the period of 1999 through 2005. In addition, in 90 percent of the accounts we reviewed, DFAS made timely refunds to military retirees' accounts when it learned the former spouse had died. We found only 10 accounts where DFAS did not refund overpayments for a period longer than 1 year after it suspended the former military spouses' accounts.

We identified no material management control weaknesses in the payment of military retirement benefits to former military spouses, and DFAS plans to further improve efficiency by providing the Defense Manpower Data Center with a monthly list of names of former military spouses receiving payments in order to compare the list with the Social Security Administration Death Master File.

**Management Comments.** We provided a draft of this report on May 24, 2006. No written response to this report was required, and none was received. Therefore, we are publishing this report in final form.

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## Background

We performed this audit in response to Congressional requests received after we issued Report No D-2005-007, “Military Retirement Fund Processes Related to Deceased Retirees’ Accounts,” October 20, 2004. Constituents of the elected officials were concerned about possible overpayments of portions of the military retirees’ pay to their former spouses under section 1408, title 10 United States Code, (10 U.S.C. 1408), the Uniformed Services Former Spouses Protection Act (the Act).

**Uniformed Services Former Spouses Protection Act.** The Act recognizes the right of State courts to award military retirement pay to a former military spouse and provides a method of enforcing these awards through the Department of Defense. For entitlements, the court must have awarded a former military spouse a portion of the member’s military retirement pay property in its final decree of divorce, dissolution, annulment, or legal separation (court order). A member and former military spouse must have been married for at least 10 years, during which the member performed at least 10 years of creditable military service, for a court order to divide retirement pay as property. Under the Act, former military spouses can receive, as a maximum, 50 percent of a member’s disposable retirement pay. The right to payments under the Act terminates upon the death of the member or former spouse.

**Integrated Garnishment System (IGS).** Defense Finance and Accounting Service (DFAS) Cleveland Garnishment Operations processes all court-ordered garnishment for child support, alimony, and commercial debts for all military members and all civilian employees paid by DFAS, plus court ordered divisions of military retirement pay under the Act. DFAS Cleveland Garnishment Operations uses the IGS to maintain former spouses’ data. The IGS is a case management system used to store former spouses’ information. Garnishment Operations is staffed by lawyers and paralegals, who receive and review court orders and enter the data into IGS. IGS transmits the information to the Defense Retiree and Annuitant Pay System. The Defense Retiree and Annuitant Pay System is a technologically sound, standardized pay processing system that supports military retirees and their surviving annuitants. DFAS Cleveland processes military retirement pay transactions, using the Retiree and Casualty Pay Subsystem, and it issues payments to annuitants through the Annuitant Pay System.

**Defense Finance and Accounting Service.** DFAS Cleveland Retired and Annuitant Pay is responsible for adjusting or terminating allotments to former spouses’ accounts. DFAS sometimes receives unconfirmed death notices from a former spouse’s family members, friends, or banks. Also, returned mail may lead DFAS to suspect that a former military spouse has died. Upon receiving an unconfirmed death notice, DFAS proceeds to suspend the former spouse’s account and sends a Certificate of Eligibility (COE) letter to determine the former spouse’s continued eligibility to receive military retirement benefits. When DFAS suspends an account, the funds are withheld until it receives the COE proving that the former spouse is still living or a copy of the former spouse’s death certificate. Once DFAS receives a confirmed death notice in the form of a

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death certificate, newspaper clipping, or a notarized letter from the former spouse's estate, it proceeds to terminate the account immediately and return any overpayments to the retiree.

## Objective

Our overall audit objective was to determine whether DFAS was paying military retirement benefits to the accounts of deceased former military spouses. Specifically, we evaluated procedures DFAS applied to avoid payment of military benefits to deceased former military spouses' accounts. We also assessed management controls over the payment process for former military spouses. See Appendix A for a discussion of the scope and methodology, and for prior audit coverage related to the objectives.

## Manager's Internal Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996,<sup>1</sup> 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 DFAS management controls to ensure that retirement benefits were terminated upon the death of former military spouses. Specifically, we interviewed DFAS Cleveland officials about the procedures in place to avoid overpayments. We also reviewed documentation for selected accounts to determine whether DFAS followed its prescribed procedures. Because we did not identify a material weakness, we did not assess management's self-evaluation.

**Adequacy of Management Controls.** DFAS management controls were adequate in that we identified no material management control weaknesses.

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<sup>1</sup> Office of Management and Budget Circular No. A-123, "Management's Responsibility for Internal Control," December 21, 2004, provides updated internal control standards and new requirements for conducting management's assessment of internal control over financial reporting. Revised OMB Circular No. A-123 became effective in FY 2006. Subsequently, DoD canceled DoD Instruction 5010.40 and issued DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," January 4, 2006.



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## Other Matters of Interest

We identified 205 social security numbers with name differences on both the SSA Death Master File and IGS databases. Further research indicated that about 50 percent of the differences were caused by keystroke errors. We also matched the data from IGS to the SSA Enumeration Verification System, which contains social security information on every individual to whom the SSA has issued a social security number, to determine the validity of the social security number on DFAS' records. We identified more than 4,000 discrepancies between the databases. Of those discrepancies, we provided DFAS with approximately 3,800 accounts for further research. DFAS' research determined that about 68 percent of the discrepancies were either social security numbers that DFAS assigned to foreign national former military spouses without requesting a valid social security number, keystroke errors, or former spouses who changed their last name after the divorce and did not correct their records.

DFAS is working to modify policies and procedures that will give DFAS greater flexibility to close and suspend accounts. The modifications could require changes to Chapter 30 of the DoD Financial Management Regulation. In addition, military retirees could determine if a former spouse is deceased by accessing the SSA Death Master File where they can request a death certificate. Delivery of a death certificate can expedite DFAS closing the account so the retiree can receive the full retirement benefit after the former spouse's demise.

DFAS personnel were very cooperative during the audit and took immediate corrective action on the minor issues we identified during our audit. Specifically, DFAS Cleveland entered into an agreement with the Defense Manpower Data Center to provide a monthly list of former military spouses in order to conduct a data match procedure against the Social Security Administration (SSA) Death Master File.<sup>2</sup> This procedure will further improve DFAS efficiency in identifying accounts that should be suspended or terminated. In addition, DFAS modified current policies regarding death notices and developed a new COE letter to send to former spouses for whom it receives unconfirmed death notices. The modified policy requires DFAS to follow up on COEs that a former spouse does not return within 90 days.

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<sup>2</sup> A file of all deaths reported to the Social Security Administration. The file can be accessed at <http://www.rootsweb.com>.

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# Military Retirement Fund Procedures Related to Deceased Former Military Spouses

DFAS paid military retirement benefits to the accounts of deceased former military spouses less than 1 percent of the time. DFAS suspended payments upon receiving unconfirmed death notices and appropriately terminated former spouses' accounts after receiving confirmed death notices. For accounts receiving payments after a former spouse's death, DFAS refunded the amount due the retiree in less than 1 year, 90 percent of the time.

## Guidance for Terminating Payment to Former Spouses

**United States Code.** Title 10 U.S.C. 1408, March 18, 2004, "Payment of Retired or Retainer Pay in Compliance with Court Orders," states that payment from the retired pay will terminate in accordance with the terms of the court order. However, it should not be later than the date of death of the member or the date of death of the former spouse receiving the payments.

**Office of Management and Budget.** Office of Management and Budget 92-04, "Guidance for Termination of Federal Benefits to Deceased Beneficiaries," January 15, 1992, states that Federal Agencies that pay benefits should access the SSA database listing deceased individuals and match the data against their own payment files to identify deceased beneficiaries monthly.

## Payment of Benefits

**Payment of retirement benefits.** DFAS appropriately disbursed military retirement benefits to 99 percent of the former military spouses on record in pay active status as of September 30, 2004. It paid approximately \$625 million in benefits to former spouses during that fiscal year. Although 99 former military spouses (.1 percent), from a total universe of 77,863 accounts, were identified as deceased on the SSA Death Master File, only 14 were still being paid as of the date of our audit. When we brought the 14 reported deaths to DFAS managers' attention, they suspended the accounts and stopped monthly payments. The overpayments on these accounts during the period of 1999 through 2005 totaled approximately \$242,000. Prior to our audit, DFAS had properly either suspended or terminated the remaining 85 accounts.

DFAS mailed COE letters to the 14 former military spouses whose eligibility was in question. One former military spouse was alive although the SSA Death Master File identified her as deceased. For the remaining 13 accounts, in two instances, the retirees sent DFAS copies of their former spouses' death certificates; and for one account, DFAS Retired Pay obtained a copy of the former spouse's death certificate and provided it to Garnishment Operations. DFAS did not obtain any response for six accounts; therefore, they terminated the accounts.

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DFAS has appropriately terminated the remaining four accounts because the former spouses had died.

**Timeliness of refunds to retirees.** For the 99 accounts we identified as belonging to deceased former military spouses, DFAS had refunded money to the retirees in less than 1 year for 90 percent of the accounts. However, for 10 accounts DFAS did not refund retirees' accounts for more than a year. For example, a retiree's former spouse died in October 1997. DFAS learned of the spouse's death in April 2000 and appropriately suspended the account. DFAS terminated the former spouse's account in November 2005 upon receiving a copy of the death certificate, and proceeded to credit the retiree's account for the money owed.

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## Appendix A. Scope and Methodology

We reviewed data from the IGS for former military spouses' accounts. In addition, we reviewed data from the Defense Retiree and Annuitant Pay System-Retired Casualty Pay Subsystem for former military spouses' accounts in active pay status as of September 30, 2004. We also reviewed applicable DFAS Cleveland Standard Operating Procedures, DoD Regulations, the United States Code, and applicable Federal Government regulations. We interviewed DFAS Cleveland Retired and Annuitant Pay, Garnishment Operations; and Lockheed Martin personnel. We also reviewed supporting documentation for accounts DFAS suspended but took more than a year to make final disposition determination on terminating the account. Additionally, we reviewed supporting documentation for accounts where the former spouse had been deceased for more than 1 year and DFAS had not taken action to terminate the account. Finally, we reviewed supporting documentation for all former spouses' accounts in an active pay status at the start of our audit.

We used the Audit Command Language Program to analyze the results of the data match between the SSA Death Master File and the database of former military spouses from the IGS, as of September 30, 2004. From the universe of 77,863 former military spouses in the IGS, 99 were deceased according to SSA records. For these 99 accounts, only 14 were in active pay status as of the beginning of our audit. One of these 14 accounts returned a notarized COE stating that she was alive.

We performed this audit from July 2005 through March 2006 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 did not test the accuracy of benefit dollar amounts, in the context that we did not verify that the amounts paid to the former spouse accounts were the amounts due the former spouses. We did not evaluate the general and application controls of the IGS, the database that contains former military spouses' information and the Defense Retiree and Annuitant Pay System-Retired Casualty Pay Subsystem, the database that processes payments to former military spouses. We did rely on data produced by those systems to conduct the audit. To assess reliability of the data, we compared the information on the databases to the SSA Death Master File, which is an outside source. In addition, we reviewed supporting documentation for some of the former military spouses' accounts. Not evaluating the controls did not affect the results of the audit.

**Use of Technical Assistance.** The Data Mining Division under the Deputy Inspector General for Policy and Oversight assisted us with data mining procedures, including matching the SSA Death Master File against the information in IGS.

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

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## **Prior Coverage**

During the last 5 years, the Department of Defense Inspector General (DoD IG) issued one report discussing payment of military retirement benefits to deceased beneficiaries. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

## **DoD IG**

DoD IG Report No. D-2005-007, "Military Retirement Fund Processes Related to Deceased Retirees' Accounts," October 25, 2004

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## **Appendix B. Report Distribution**

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President, Naval Postgraduate School

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Auditor General, Department of the Air Force

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Director, Defense Logistics Agency  
Director, Defense Manpower Data Center  
Director, National Security Agency  
Defense Systems Management College

### **Non-Defense Federal Organization**

Director, Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

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Senate Subcommittee on Defense, Committee on Appropriations

Senate Committee on Armed Services

Senate Committee on Homeland Security and 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 Government Efficiency and Financial Management, Committee on Government Reform

House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform

House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

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