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DoD Salary Offset Program

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Acronyms

DFAS	Defense Finance and Accounting Service
DIMHRS	Defense Integrated Military Human Resources System
DJMS	Defense Joint Military Pay System
DRAS	Defense Retiree and Annuitant Pay System



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

October 9, 2007

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Report on DoD Salary Offset Program (Report No. D-2008-002)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Director, Corporate Reporting Standards and Compliance comments were partially responsive. We request additional comments on Recommendations A.1., A.2., and A.3., by November 8, 2007. See the Finding section for the deleted and renumbered recommendations.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Audclev@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

Questions should be directed to Mr. Kenneth B. VanHove at (216) 706-0074, extension 245 or Mr. John C. Petrucci at (216) 706-0074, extension 266. See Appendix C for the report distribution. 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".

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

Department of Defense Office of Inspector General

Report No. D-2008-002

October 9, 2007

(Project No. D2007-D000FC-0059.000)

DoD Salary Offset Program

Executive Summary

Who Should Read This Report and Why? Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer personnel and the Defense Finance and Accounting Service representatives responsible for processing salary offsets should read this report. It discusses processing salary offsets from current DoD civilian employees' and active and retired military members' earnings.

Background. The "Debt Collection Improvement Act of 1996" requires the collection of delinquent debts owed to the Federal Government. To maximize collection of delinquent debts, DoD may offset the earnings of current DoD civilian employees and active and retired military members. Salary offsets are collected in one or more officially established pay intervals. The Defense Finance and Accounting Service Salary Offset Office, located in Cleveland, Ohio, handles salary offsets from non-DoD Federal agencies. The Defense Finance and Accounting Service Salary Offset Office is also responsible for settling Bank of America individually billed Government travel card debt obligations incurred by DoD personnel.

During FY 2006, the Defense Finance and Accounting Service Salary Offset Office reported collections of \$9.8 million in delinquent debts. The collection process begins when the Defense Finance and Accounting Service Salary Offset Office receives validated debts from the Department of the Treasury or Bank of America. The Defense Finance and Accounting Service Salary Offset Office then transfers the debts to various Defense pay systems, including the Defense Civilian Pay System, the Defense Joint Military Pay System-Active and Reserve Components, the Defense Retiree and Annuitant Pay System, and the Marine Corps Total Force System, for collection. The Defense Finance and Accounting Service attempts to collect offsets in one lump sum, but under certain circumstances debts can be collected in installment payments. These installments may not exceed 15 percent of disposable pay unless the payee has agreed to a greater amount. There is no limit on the amount collected when an employee or military member has separated from DoD.

Results. The Defense Finance and Accounting Service properly offset earnings from current civilian DoD employees. However, during FY 2006, the Defense Joint Military Pay System used inaccurate disposable pay to calculate salary offsets for current and retired military members. Also, the Defense Joint Military Pay System-Active Component and the Defense Retiree and Annuitant Pay System did not use 15 percent of disposable pay to calculate salary offsets. The Defense Joint Military Pay System-Reserve Component also included unsupported salary offsets for some military reservists. As a result, the Defense Finance and Accounting Service improperly offset earnings for current and retired military members to satisfy debt obligations. Also, Defense Finance and Accounting Service may have improperly offset the earnings of additional current military members. The Defense Finance and Accounting Service should modify its

payment systems to ensure that disposable pay is in compliance with the DoD Financial Management Regulation and use 15 percent of disposable pay to calculate salary offsets. Additionally, it should ensure that payment documentation is retained and readily accessible in accordance with DoD Financial Management Regulation 7000.14-R, volume 5, chapter 21, section 210101, "Disbursing Office Records," March 2003.

After we communicated our concerns to Defense Finance and Accounting Service management, they initiated a review to identify potential corrective actions for the issues described within this report. Based on management comments, Defense Finance and Accounting Service determined that the required systems changes were too time-consuming and costly to ensure compliance with Federal regulations and the DoD Financial Management Regulation.

Defense Finance and Accounting Service internal controls were not adequate, and there is a material internal control weakness in its processing of salary offsets for current and retired military members. See the finding for further details on the material internal control weaknesses.

Management Comments and Audit Response. The Director, Corporate Reporting Standards and Compliance concurred with two recommendations, nonconcurred with two recommendations, and partially concurred with one recommendation. As a result of management comments, we deleted one draft recommendation and renumbered one draft recommendation. The Director, Corporate Reporting Standards and Compliance management comments were partially responsive to three recommendations and responsive to one recommendation. We request that the Director, Defense Finance and Accounting Service provide comments on the final report by November 8, 2007. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the text of the comments.

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Background

The “Debt Collection Improvement Act of 1996” requires the collection of delinquent debts owed to the Federal Government. To maximize collection of delinquent debts, DoD may offset the earnings of current DoD civilian employees and current and retired military members. Salary offsets are collected in one or more officially established pay intervals from the payee.

DFAS Salary Offset Office. The Defense Finance and Accounting Service (DFAS) Salary Offset Office, located in Cleveland, Ohio, handles salary offsets from non-DoD Federal agencies. Specifically, the Department of the Treasury sends electronic requests to the DFAS Salary Offset Office to establish salary offsets for delinquent United States guaranteed loans, overpayments, penalties, fines and all other amounts due to the Federal Government. Also, the DFAS Salary Offset Office is responsible for settling Bank of America individually billed Government travel card debt obligations incurred by DoD personnel. During FY 2006, the DFAS Salary Offset Office reported collections of \$9.8 million in delinquent debts.

Salary Offset Processing. The Department of the Treasury or Bank of America transmits valid debts to the DFAS Salary Offset Office for processing. The DFAS Salary Offset Office receives the validated debts through the Salary Offset Reporting System. The Salary Offset Reporting System consists of three databases¹ and manages debt balances during the salary offset process. The Salary Offset Reporting System then transfers these debts to the Defense pay systems, including the Defense Civilian Pay System, the Defense Joint Military Pay System (DJMS)-Active and Reserve Components, the Defense Retiree and Annuitant Pay System (DRAS), and the Marine Corps Total Force System for collection. DFAS attempts to collect the offsets in one lump sum, but debts can be collected in installment payments under certain circumstances. These installments may not exceed 15 percent of disposable pay, unless the payee has agreed to a greater amount. There is no limit on the amount collected when an employee or military member has separated from DoD.

Objective

Our audit objective was to determine whether DFAS accurately and efficiently offset current DoD civilian employees’ and active and retired military members’ earnings to satisfy debt obligations. See Appendix A for a discussion of the scope and methodology.

¹ The Salary Offset Reporting System includes the Salary Offset Reporting System database, the Treasury Offset Program database, and the Bank of America database. The Salary Offset Reporting System database and the Treasury Offset Program database contain Federal debts. The Bank of America database contains Government travel card debts.

Review of Internal Controls

We identified material internal control weaknesses for DFAS as defined by DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," January 4, 2006. Specifically, DFAS did not ensure that DJMS and DRAS properly offset the earnings of current and retired military members' earnings. Implementing the recommendations in this report will strengthen the DoD salary offset process and prevent improper offset amounts. See the finding for further details on the material internal control weaknesses. A copy of the report will be provided to the senior official responsible for management controls in DFAS.

Accuracy of Salary Offsets

DFAS properly offset earnings from current civilian DoD employees. However, during FY 2006:

- DJMS used inaccurate disposable pay to calculate salary offsets;
- DJMS-Active Component and DRAS did not use 15 percent of disposable pay to calculate salary offsets; and
- DJMS-Reserve Component included unsupported salary offsets for some military reservists.

DFAS improperly programmed DJMS to calculate disposable pay. DJMS-Active Component and DRAS also did not have the capability to offset members' earnings at 15 percent of disposable pay. Furthermore, DJMS-Reserve Component could not retain adequate documentation to support salary offsets. As a result, DFAS improperly offset earnings for current and retired military members to satisfy debt obligations. Also, DFAS may have improperly offset the earnings for additional current military members.

DFAS Pay Systems Background

DJMS. The DFAS Military Pay Offices use DJMS to process monthly payroll services for Army, Navy, and Air Force military members. Active military member pay is processed by DJMS-Active Component, and Reserve military member pay is processed by DJMS-Reserve Component.

DRAS. The DFAS Retired and Annuitant Pay Office, located at DFAS Cleveland, oversees Lockheed Martin, which uses DRAS to process monthly payroll services for military retirees and their annuitants. Payroll information within DRAS interfaces with an allotment system that retains allotment² information, to include salary offsets.

Salary Offset Criteria

Public Law. Public Law 105-264, "The Travel and Transportation Reform Act of 1998," October 19, 1998, states that Federal agencies may collect, on behalf of Bank of America, any undisputed delinquent Government travel card debts. The amount deducted from an employee's pay may not exceed 15 percent of the

² Allotments consist of discretionary and non-discretionary allotments. Some examples of discretionary allotments include life insurance premiums; voluntary payments to a family member, former spouse or relative; and deposits to a financial institution. Some examples of non-discretionary allotments include payment of delinquent taxes and repayment of Army Emergency Relief loans.

employee's disposable pay, unless the employee has agreed to a greater percentage by written consent.

United States Code. Section 5514, title 5, United States Code, requires agencies to withhold money from an employee if the employee is indebted to the United States Government. The amount deducted may not exceed 15 percent of the employee's disposable pay, unless the employee has agreed to a greater percentage by written consent. Also, there is no limit on the amount collected when an employee has separated from service.

DoD Financial Management Regulations. DoD Financial Management Regulation 7000.14-R, volume 7A, chapter 50, section 500103, "Stoppages and Collections Other Than Court Martial Forfeitures," September 2006, defines disposable pay for current military members. For Active duty members, disposable pay includes gross pay less any deductions made for the Federal Insurance Contributions Act, Armed Forces Retirement Home, Federal Income Tax Withholdings, State Income Tax Withholdings, and Servicemembers' Group Life Insurance (including Family Servicemembers' Group Life Insurance and Traumatic Servicemembers' Group Life Insurance). Disposable pay is defined the same way for reservists, except that there is no deduction for the Armed Forces Retirement Home.

DoD Financial Management Regulation 7000.14-R, volume 7B, chapter 28, section 280209, "Collection of Debts," April 2005, defines disposable pay for retired military members. Specifically, disposable pay includes gross pay less any deductions due to civilian employment, Reserve duty, Veterans Affairs compensation, Retired Serviceman's Family Protection Plan premiums, and Survivor Benefit Plan premiums.

Accuracy of Salary Offsets

Accuracy of Disposable Pay. DFAS properly offset earnings from current civilian DoD employees. However, during FY 2006, DJMS used inaccurate disposable pay to calculate salary offsets. Specifically, military members' disposable pay did not include some special and incentive pays and did not include authorized Armed Forces Retirement Home and Medicare deductions. Also, military reservist disposable pay included entitlements³ and deductions not authorized by the DoD Financial Management Regulation.

Salary Offset Limitations. DJMS-Active Component and DRAS did not use 15 percent of disposable pay to calculate salary offsets, even though DFAS Salary Offset Office transmitted the 15 percent disposable pay limitation to the pay systems. DJMS-Active Component and DRAS deducted a fixed salary offset amount instead of 15 percent. For example, one military member had a fixed salary offset of \$137.85 deducted from each monthly payment during FY 2006.

³ Entitlements are all the components of an employee's gross pay. This includes basic pay, allowances, and special pay.

However, in May 2006 the member should have had a salary offset of \$1,830.71, due to receiving a Selective Reenlistment Bonus of over \$14,000.

Salary Offset Documentation. DJMS-Reserve Component included unsupported salary offsets for some military reservists. Specifically, DJMS-Reserve Component included unsupported salary offsets deducted during the first quarter of FY 2006. The DFAS Military Pay Office could not provide adequate documentation supporting these salary offsets.

Adequacy of Salary Offset Processing

DJMS-Active Component Disposable Pay Programming. DFAS improperly programmed DJMS-Active Component disposable pay by excluding some special and incentive pays and other authorized deductions. A DFAS Military Pay Office representative stated that this happened because DJMS-Active Component uses the previous pay period for calculating disposable pay. Also, DJMS-Active Component did not include Armed Forces Retirement Home and Medicare as authorized deductions. According to the DoD Financial Management Regulation 7000.14-R, volume 7A, chapter 50, section 500103, military members' disposable pay should include all authorized special and incentive pays, as well as authorized Armed Forces Retirement Home and Medicare deductions. DFAS should ensure that DJMS-Active Component disposable pay is in compliance with the DoD Financial Management Regulation.

DJMS-Reserve Component Disposable Pay Programming. DFAS improperly programmed DJMS-Reserve Component disposable pay to include all available entitlements and deductions. A DFAS Military Pay Office representative stated that Basic Allowances for Subsistence and Housing are not included within disposable pay. However, several military reservists' disposable pay included these entitlements. Also, the DoD Financial Management Regulation 7000.14-R, volume 7A, chapter 50, section 500103, does not include additional debts as authorized deductions for calculating disposable pay. However, a military reservist's pay improperly included additional debts as an authorized deduction. DFAS should ensure that DJMS-Reserve Component disposable pay complies with the DoD Financial Management Regulation.

System Capabilities for Salary Offset Limitations. DJMS-Active Component and DRAS did not have the capability to calculate the salary offset at 15 percent of disposable pay each pay period. DFAS representatives stated that both DJMS-Active Component and DRAS could not calculate a salary offset at 15 percent of disposable pay. DFAS should calculate salary offsets using 15 percent of disposable pay.

Maintaining Salary Offset Documentation. DJMS-Reserve Component did not retain adequate documentation to support salary offsets. DoD Financial Management Regulation 7000.14-R, volume 5, chapter 21, section 210101, "Disbursing Office Records," March 2003, requires original disbursing office records and associated papers to be retained and readily accessible for 6 years and 3 months. Specifically, the DFAS Military Pay Office could not provide adequate

salary offset documentation for the first quarter of FY 2006. DFAS should ensure payment documentation is retained and readily accessible as required by the DoD Financial Management Regulation.

Salary Offset Deductions

DFAS used inaccurate disposable pay to offset earnings for current and retired military members and could not support some salary offset amounts for reservists. As a result, DFAS improperly offset earnings for current and retired military members to satisfy debt obligations. In addition, DFAS may have improperly offset the earnings from additional current military members during FY 2006 because DFAS did not properly maintain supporting documentation. By maximizing the collection of debts through salary offset, DFAS would increase the likelihood of fully recovering Federal debts. These recovered debts allow for additional funding to Federal agency operations.

Management Actions

After we communicated our concerns to DFAS management, they initiated a review to determine potential corrective actions for the issues described in this report. Based on management comments, DFAS determined that the required systems changes were too time-consuming and costly to ensure compliance with Federal regulations and the DoD Financial Management Regulation.

Management Comment on the Finding and Audit Response

Management Comment. The Director, Corporate Reporting Standards and Compliance nonconcurred with the identified material internal control weakness. He stated that the dollar discrepancies of these calculations are not material, since each debt input to the system is collected in total. In most cases, the amount of over- or under-collection based on the system calculation methodology is limited to a few dollars per collection, and each DFAS system correctly collects the entire amount of the debt. However, DFAS is looking into a work-around process to capture and collect up to 15 percent of all high-dollar entitlements and one-time payments that are earned after the initial salary offset collection is calculated and loaded into DJMS or DRAS.

Audit Response. The Director, Corporate Reporting Standards and Compliance acknowledged that DJMS-Active Component and DJMS-Reserve Component had a systems issue in calculating disposable pay. DFAS improperly programmed DJMS-Active Component disposable pay by excluding some special pays, incentive pays, and other authorized deductions. DJMS-Reserve Component disposable pay was incorrectly programmed to include all available entitlements and deductions. As a result of improperly programming DJMS, DFAS improperly offset the earnings from active and reserve military members.

Additionally, DFAS was not in compliance with Public Law 105-264, “The Travel and Transportation Reform Act of 1998,” section 5514, title 5, United States Code, as well as the DoD Financial Management Regulation, because DFAS deducted offsets greater than 15 percent of disposable pay. During our review, we found numerous instances where DJMS-Active Component, DJMS-Reserve Component, and DRAS collected offsets greater than 15 percent of disposable pay, without authorization for a greater percentage. Due to the systemic nature of the DJMS and DRAS disposable pay calculation issue and the significant non-compliance with Federal regulations and the DoD Financial Management Regulation, we noted them as material internal control weaknesses for DFAS.

Recommendations, Management Comments, and Audit Response

Deleted and Renumbered Recommendations. As a result of management comments, we deleted Recommendation A.3.a. and renumbered Recommendation A.3.b. to Recommendation A.3.

A. We recommend that the Director, Defense Finance and Accounting Service:

1. Modify the Defense Joint Military System-Active Component and the Defense Joint Military System-Reserve Component to ensure that disposable pay complies with the DoD Financial Management Regulation 7000.14-R, volume 7A, chapter 50, Section 500103.

Management Comments. The Director, Corporate Reporting Standards and Compliance concurred with our recommendation and submitted a point paper requesting systems changes. However, the request was denied due to time and cost constraints. DFAS then submitted an issue paper to the Defense Integrated Military Human Resources System (DIMHRS) office identifying the DoD Financial Management Regulation 7000.14-R, volume 7A, chapter 50, section 500103 requirement.

Audit Response. Although the Director, Corporate Reporting Standards and Compliance concurred with our recommendation, his comments were partially responsive. The Director, Corporate Reporting Standards and Compliance recognized that DJMS used incorrect disposable pay to calculate salary offsets but did not provide a proposed date of when DIMHRS would become operational. Until DIMHRS becomes operational, DJMS will continue to incorrectly calculate disposable pay. Therefore, disposable pay is not in compliance with the DoD Financial Management Regulation 7000.14-R, volume 7A, chapter 50, section 500103. We request that the Director, Corporate Reporting Standards and Compliance provide a proposed date of when DIMHRS will become operational and when DFAS will comply with the DoD Financial Management Regulation.

2. Modify the Defense Joint Military System-Active Component to ensure that salary offsets are calculated using 15 percent of disposable pay.

Management Comments. The Director, Corporate Reporting Standards and Compliance nonconcurred with our recommendation. He stated that each DFAS system correctly collects the entire amount of the debt, although it might be at a slightly different dollar amount than would be calculated each month. He also provided that DoD Financial Management Regulation 7000.14-R, volume 7A, chapter 50, section 500104.B.2. states, “Collections may be made in monthly installments or at established pay intervals not to exceed 15 percent of disposable pay for any pay period, unless a greater percentage is authorized by written consent of the member.” The Director, Corporate Reporting Standards and Compliance submitted a point paper requesting changes to DJMS to prevent collections of greater than 15 percent of disposable pay. However, the request was denied due to time and cost constraints. DFAS then submitted an Issue Paper to the DIMHRS office identifying the DoD Financial Management Regulation 7000.14-R, volume 7A, chapter 50, section 500104 requirement.

Audit Response. The Director, Corporate Reporting Standards and Compliance comments are partially responsive. We agree with the Director, Corporate Reporting Standards and Compliance that the DoD Financial Management Regulation 7000.14-R, volume 7A, chapter 50, section 500104.B.2. states that collections may not exceed 15 percent of disposable pay, unless a greater percentage is authorized. However, the Code of Federal Regulations, Title 31 Section 901.1(a) (2006) directs Federal agencies to aggressively collect all debts. Collection activities should be undertaken promptly, with follow-up action taken as necessary. Additionally, the Department of the Treasury, along with the DFAS Salary Offset Office, transmits 15 percent of disposable pay to the DFAS pay centers for collection of salary offsets. As a result, the Defense Civilian Payroll System and the DJMS-Reserve Component collected offsets at 15 percent of disposable pay. However, DJMS-Active Component did not use 15 percent of disposable pay to calculate salary offsets. During our review, we found that the DJMS-Active Component collected salary offsets ranging from 1 to 28 percent of disposable pay, without authorization of a greater percentage. Instances may also occur where DFAS does not aggressively offset a military member’s debt, resulting in the Federal Government not fully recovering the overall debt. For example, a debt would not be fully recovered when an employee separates from DoD and their final payment is not sufficient to cover the remaining Federal debt. By collecting debts at 15 percent, DFAS would ensure compliance with Federal and DoD regulations and increase the likelihood of fully recovering Federal debts. We request that the Director, Corporate Reporting Standards and Compliance reconsider his position and provide additional comments on the final report.

3. Modify the Defense Retiree and Annuitant Pay System to ensure that all salary offsets are calculated using 15 percent of disposable pay.

Management Comments. The Director, Corporate Reporting Standards and Compliance partially concurred with our recommendation. He stated that DRAS is consistent and compliant with the DoD Financial Management Regulation 7000.14-R, volume 7B, chapter 28, section 280602, because it establishes the initial salary offset deduction at an amount equal to or less than 15 percent of

disposable pay through the life of the offset. However, the Director, Corporate Reporting Standards and Compliance agrees that collecting amounts above 15 percent is noncompliant with the salary offset collection process. Therefore, DFAS Retired and Annuitant Pay will require that appropriate system changes be included in the DRAS Modernization initiative for the development of a new system. The DRAS Modernization is going through early approval processes and decision levels. A specific time frame for the development is not yet determined.

Audit Response. The Director, Corporate Reporting Standards and Compliance comments were partially responsive. We recognize that the DoD Financial Management Regulation 7000.14-R, volume 7B, chapter 28, section 280602 states that collections may not exceed 15 percent of disposable pay, unless a greater percentage is authorized. However, the Code of Federal Regulations, Title 31 Section 901.1(a) (2006) directs Federal agencies to aggressively collect all debts. Collection activities should be undertaken promptly, with follow-up action taken as necessary. Additionally, the Department of the Treasury, along with the DFAS Salary Offset Office, transmits 15 percent of disposable pay to the DFAS pay centers for collection of salary offsets. As a result, the Defense Civilian Payroll System and the DJMS-Reserve Component collected offsets at 15 percent of disposable pay. However, DRAS did not use 15 percent of disposable pay to calculate salary offsets. During our review, we found that DRAS collected salary offsets ranging from 7 to 38 percent of disposable pay, without authorization of a greater percentage. Instances may occur where DFAS does not aggressively offset a retired military member's debt, resulting in the Federal Government not fully recovering the overall debt. For example, a debt would not be fully recovered when a retired military member stops receiving payment from DoD and their final payment is not sufficient to cover the remaining Federal debt. By collecting debts at 15 percent, DFAS would ensure compliance with Federal and DoD regulations and increase the likelihood of fully recovering Federal debts. We request that the Director, Corporate Reporting Standards and Compliance reconsider his position and provide additional comments on the final report.

4. Ensure that payment documentation is maintained in accordance with DoD Financial Management Regulation 7000.14-R, volume 5, chapter 21, section 210101, "Disbursing Office Records," March 2003.

Management Comments. The Director, Corporate Reporting Standards and Compliance concurred with our recommendation and stated that DFAS provided payment documentation requested by the auditors.

Audit Response. The Director, Corporate Reporting Standards and Compliance comments were responsive. DFAS provided payment documentation for the five Army reservists; however, the payment documentation was not adequate to support the salary offsets deducted from the first quarter of FY 2006. On August 24, 2007, a DFAS representative stated that DFAS was unable to retrieve the necessary documentation for these five Army reservists. DFAS concurrence with our recommendation to ensure that payment documentation is maintained in accordance with the DoD Financial Management Regulation meets the intent of this recommendation. Therefore, no further comments are required.

Appendix A. Scope and Methodology

We conducted this performance audit from October 2006 through July 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To review the DoD salary offset program, we evaluated the DFAS process of offsetting earnings for current DoD civilian employees and current and retired military members to pay debt obligations. During FY 2006, the Salary Offset Reporting System included a universe of 18,309 current DoD civilian employees and current and retired military members, with salary offsets amounting to a total of \$9.8 million. We used a statistical sample of 300 social security numbers for current and retired DoD personnel to determine whether DFAS accurately offset earnings. See Appendix B for the statistical sampling plan. We reviewed salary offset and payment documentation for the statistical sample. Also, we contacted representatives from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, the DFAS Salary Offset Office, the DFAS pay centers (Civilian, Military (Active and Reserve), and Retired and Annuitant), and Lockheed Martin. We limited our scope to total salary offsets greater than \$100.

To accomplish the audit objective:

- We contacted the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer to determine its involvement with the DoD Salary Offset Program.
- We met with the DFAS Salary Offset Office to obtain a universe of transactions and gain an understanding of the salary offset process. We obtained and reviewed salary offset documents for the 300 DoD personnel.
- In order to obtain FY 2006 payment documentation, we visited the DFAS centers located in Cleveland, OH; Denver, CO; Kansas City, MO; and Indianapolis, IN. We also visited Lockheed Martin at DFAS Cleveland. We used the payment documentation to recalculate disposable pay and to identify salary offsets withheld. We compared the salary offsets to amounts identified within the DFAS Salary Offset Office databases.

Use of Computer-Processed Data. We did not evaluate the general and application controls of the DFAS Salary Offset Office and the DFAS pay systems, although we relied on data produced by those systems to conduct the audit. We determined data reliability by comparing the pay documentation to system information provided by the DFAS Salary Offset Office and recalculated disposable pay to determine accurate salary offset amounts. Although we did not evaluate additional controls, the results of our audit were not affected.

Use of Technical Assistance. An Operations Research Analyst of the Quantitative Methods Division of the Department of Defense Office of the Inspector General assisted with the project sample selection. The Data Mining Division of the Department of Defense Office of the Inspector General coordinated with the Defense Manpower Data Center to ensure the validity of the social security numbers within our sample.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report provides coverage of one aspect of the DoD financial management high-risk area.

Prior Coverage

No prior coverage has been conducted on the DoD salary offset process during the last 5 years.

Appendix B. Statistical Sample

Population. The DFAS Salary Offset Office provided us with 18,309 unique social security numbers during FY 2006. We excluded 2,162 social security numbers with total salary offsets less than \$100. The remaining population consisted of 16,147 unique social security numbers.

Sample Plan. We categorized each of the 16,147 social security numbers based on the collection amount and divided the population into four strata. The Quantitative Methods Division of the Department of Defense Office of the Inspector General selected records within each stratum using a simple random sample (without replacement), and determined the sample size for each stratum based on calculations, what-if analysis, and professional judgment. The Quantitative Methods Division drew the sample using the random sampling capabilities of SAS version 9.1. Table B-1 discusses the statistical sampling plan.

<u>Stratum</u>	<u>Population</u>	<u>Sample</u>
GTE 2500	371	50
1000-2499	2,264	110
500-999	3,386	60
100-499	<u>10,126</u>	<u>80</u>
Total	16,147	300

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Program Analysis and Evaluation

Department of the Army

Auditor General, Department of the Army

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Naval Inspector General
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Other Defense Organizations

Director, Defense Finance and Accounting Service

Non-Defense Federal Organization

Office of Management and Budget
Department of the Treasury
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Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

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Defense Finance and Accounting Service Comments



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

AUG 09 2007

DFAS-JJR/IN

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

SUBJECT: Comments to Recommendations in the DoDIG Draft Report/Project No.
D2007-D000FC-0059.000

Attached are management comments to Recommendation Numbers A1 through
A4 and the Material Internal Control Weakness in the DoDIG Draft Report, "DoD Salary
Offset Program", dated July 12, 2007.

Questions your staff may have concerning these matters may be directed to
Mr. Ron Cox at 317-510-2467.


William E. Bergmeyer
Director, Corporate Reporting
Standards & Compliance

Attachment:
As stated

www.dfas.mil
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**DFAS comments on DoDIG draft report, "DoD Salary Offset Program",
dated July 12, 2007
(Project No. D2007-D000FC-0059.000)**

**A. WE RECOMMEND THAT THE DIRECTOR, DEFENSE FINANCE AND
ACCOUNTING SERVICE:**

RECOMMENDATION 1: Modify the Defense Joint Military System-Active Component and the Defense Joint Military System-Reserve Component to ensure that disposable pay complies with the DoD Financial Management Regulation 7000.14-R, volume 7A, chapter 50, Section 500103.

Management Comments: Concur in principle. A point paper was submitted to the DJMS Change Configuration Board (CCB) on April 30, 2007 requesting the change. The request was denied due to the cost and time constraints for implementation and the impending DIMHRS Initial Operating Capability. The OSD Human Resources Policy Form Issue Paper, 2007-OPS-01 was submitted to the DIMHRS Office on May 15, 2007 identifying the DODFMR Volume 7A, Chapter 50, Section 500103 requirement.

Completion Date: This recommendation is considered closed.

RECOMMENDATION 2: Modify the Defense Joint Military System-Active Component to ensure that salary offsets are calculated using 15 percent of disposable pay.

Management Comments: Nonconcur. The DODFMR Volume 7A, Chapter 50, Section 500104B2 states, "Collections may be made in monthly installments or at established pay intervals not to exceed 15 percent of disposable pay for any pay period, unless a greater percentage is authorized by written consent of the member." Each DFAS system correctly collects the entire amount of the debt, although it might be at a slightly different dollar amount than would be calculated each month. A point paper was submitted to the DJMS Change Configuration Board (CCB) on April 30, 2007 requesting the change to DJMS to prevent collection of greater than 15% of the member's disposable pay. It was not approved due to the cost and time constraints for implementation and the impending DIMHRS Initial Operating Capability. The OSD Human Resources Policy Form Issue Paper, 2007-OPS-01 was submitted to the DIMHRS Office on May 15, 2007 identifying the DODFMR Volume 7A, Chapter 50, Section 500104 requirement.

Completion Date: This recommendation is considered closed.

RECOMMENDATION 3: Modify the Defense Retiree and Annuitant Pay System to:

a. Ensure that disposable pay complies with the DoD Financial Management Regulation 7000.14-R, volume 7B, chapter 28, section 280209 and

Management Comments: Nonconcur. The Defense Retired and Annuitant Pay System (DRAS) currently considers and reduces the gross pay of a retired service member by the entitlements cited in DODFMR 7000.14-R, Volume 7B, Chapter 28, Section 280209, to arrive at disposable pay when applying a salary offset deduction.

Completion Date: This recommendation is considered closed.

b. Ensure that all salary offsets are calculated using 15 percent of disposable pay.

Management Comments: Partially Concur. The DRAS establishes the initial salary offset deduction at an amount equal to or less than 15% of disposable pay through the life of the offset. This is consistent and compliant with the DODFMR 7000.14-R, Volume 7B, Chapter 28, Section 280602, which states "Collection may be made in monthly installments or at established pay intervals not to exceed 15 percent of disposable pay for any pay period, unless a greater percentage is authorized by written consent of the member."

The DoDIG and Retired and Annuity (R&A) Pay differ as to the interpretation of the collection process since the DoDIG interprets that each salary offset collection amount should be equal to 15% of disposable pay, and R&A Pay interprets the process to allow for collection at or less than 15% of disposable pay. However, both the DoDIG and R&A Pay agree that collection amounts above 15% of disposable pay are noncompliant with the salary offset collection process. Therefore, R&A Pay will require that appropriate system changes be included in the DRAS Modernization initiative for the development of a new system. The DRAS Modernization is going through early approval processes and decision levels. A specific timeframe for the development is not yet determined. However, these requirements will be included in that development effort. No immediate system changes will be made to the existing DRAS system.

Completion Date: This recommendation is considered closed.

RECOMMENDATION 4: Ensure that payment documentation is maintained in accordance with DoD Financial Management Regulation 7000.14-R, volume 5, chapter 21, section 210101, "Disbursing Office Records," March 2003.

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Pages 3, 4, 5
and 7

Management Comments: Concur. DFAS has provided the payment documentation requested by the auditors regarding the audited accounts.

Completion Date: This recommendation is considered closed.

Material Internal Control Weaknesses: We identified material internal control weaknesses for DFAS as defined by DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," January 4, 2006. Specifically, DFAS did not ensure that DJMS and DRAS properly offset the earnings of current and retired military members' earnings. Implementing the recommendations in this report will strengthen the DoD salary offset process and prevent improper offset amounts.

Response to the Material Weakness: We also do not concur with the draft report that the audit identified "material internal control weaknesses for DFAS". This statement was made on the basis of the systems not computing disposable pay correctly and not taking exactly 15% collection. In most cases, the amount of over or under collection based on the system calculation methodology would be limited to a few dollars per collection. Each DFAS system correctly collects the entire amount of the debt, although it might be at a slightly different dollar amount than would be calculated each month. DFAS is looking into a work around process to capture and collect up to 15% of all large dollar entitlements/one time payments that are earned after the initial salary offset collection is calculated and loaded into the DJMS or DRAS system. While the DODFMR states that collections may not exceed 15%, it also does not state that the collection must be exactly 15%. We believe the dollar discrepancies of these calculations are not material, especially in light of the fact that each debt input to the systems is collected in total.

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