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Internal Controls Over Army Selective Reenlistment Bonuses

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Acronyms

AMPO	Army Military Pay Operations
CPO	Central Processing Operations
DFAS	Defense Finance and Accounting Service
DJMS	Defense Joint Military Pay System
DMO	Defense Military Pay Office
HRC	Army Human Resources Command
OIG	Office of Inspector General
RETAIN	Reenlistment, Extension, Reclassification, and Reserve Component Transition System
SRB	Selective Reenlistment Bonus



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

February 13, 2008

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE INDIANAPOLIS

SUBJECT: Report on Internal Controls Over Army Selective Reenlistment Bonuses
(Report No. D-2008-049)

We are providing this report for review and comment. The Director of the Army Human Resources Command did not respond to the draft report; however, we considered comments from the Defense Finance and Accounting Service when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Finance and Accounting Service comments were partially responsive. Therefore, we request additional comments on Recommendation 1.a. by March 14, 2008. As a result of management comments, we deleted Recommendation 1.b. from the report. We request that the Director of the Army Human Resources Command provide comments on Recommendation 2. by March 14, 2008.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to AudDFS@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).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Joseph A. Powell at (703) 601-5953 (DSN 329-5953). See Appendix C for the report distribution.

By direction of the Deputy Inspector General for Auditing:

Patricia A. Marsh
Patricia A. Marsh, CPA
Assistant Inspector General
Defense Financial Auditing Service

Department of Defense Office of Inspector General

Report No. D-2008-049

February 13, 2008

(Project No. D2007-D000FP-0111.000)

Internal Controls Over Army Selective Reenlistment Bonuses

Executive Summary

Who Should Read This Report and Why? The Director of the Defense Finance and Accounting Service (DFAS) Indianapolis and the Director of the Army Human Resources Command should read this report because it discusses and recommends improvements to the processes for and controls over selective reenlistment bonuses (SRBs) for Army Service members.

Background. DFAS Indianapolis is responsible for computing pay and making disbursements to Army Service members. DFAS Indianapolis disburses more than \$104 billion annually to more than 1.9 million Army Service members. The Army sends pay information to the Defense Joint Military Pay System, a financial management system located at DFAS Indianapolis, for DFAS to process the pay. DFAS Denver controls and maintains the Defense Joint Military Pay System for all of DoD.

The Reenlistment, Extension, Reclassification, and Reserve Component Transition System (RETAIN) is the Army's computerized retention system for enlisted personnel. It contains all the reenlistment data required to document the retention of Army Service members, including tracking reenlistment bonuses paid and data required to transition active Army Service members to the Army National Guard and U.S. Army Reserves. DFAS and the Army activated an adjustment to the SRB portion of the interface between RETAIN and the Defense Joint Military Pay System in April 2007. This interface reduced the requirement for reenlistment data to be manually fed from RETAIN into the Defense Joint Military Pay System. RETAIN provides the Army Human Resources Command (HRC) Enlisted Personnel Management Directorate with a list of both processed SRBs and those rejected for career counselors to review and correct. An SRB is paid to encourage Army Service members to reenlist in critical military occupational skills to ensure adequate retention levels.

The total budgeted amount for Army active duty military personnel for the year ended September 30, 2006, was \$31.105 billion. In FY 2006, the Army made 70,754 SRB payments to Army Service members totaling approximately \$654 million.

Results. The purpose of the audit was to determine whether internal controls were in place and effective for payments to Army Service members for reenlistment bonuses. Funding was not made available to maintain the Defense Joint Military Pay System to allow the Army to pay the amount due to Service members for SRBs. As a result, 1,336 SRBs worth \$15.6 million were not paid as of August 31, 2007. We recommend that DFAS improve the Defense Joint Military Pay System so that it will pay Army Service members the amount owed. We also recommend that the Army HRC develop internal controls to include posting the information concerning selective reenlistment bonus payments to the bonus report in the RETAIN system for Army career counselor access. We identified DFAS management control weaknesses related to the processing

of Army reenlistment bonuses. Although those weaknesses were not material in relation to the Army reenlistment bonus program taken as a whole, the weaknesses should be resolved because reenlistment bonuses affect Army Service members' pay. The recommendations, when implemented, will correct these internal control weaknesses. (See the Finding section of the report for the detailed recommendations.)

Management Comments and Audit Response. The Director of the Army Human Resources Command did not comment on the October 4, 2007, draft of this report. The Director, Defense Finance and Accounting Service Indianapolis disagreed with two of the recommendations and partially agreed with one recommendation. As a result of the management comments, we deleted a draft recommendation. The Director, Defense Finance and Accounting Service Indianapolis comments were nonresponsive for Recommendation 1. The Army Military Pay Operations personnel should determine how often they must correct reenlistment transactions when the payment is blocked by a Code T in the Defense Joint Military Pay System. We request that the Director, Defense Finance and Accounting Service Indianapolis reconsider his position on Recommendation 1. and provide comments on the final report. We request that the Director, Defense Finance and Accounting Service Indianapolis and the Director, Army Human Resources Command provide comments on the final report by March 14, 2008. (See the Finding section of the report for discussion of management comments and the Management Comments section of the report for the complete text of the comments.)

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Background

In August 2006, the Army requested that the Department of Defense Office of the Inspector General (DoD OIG) review SRBs for timeliness of payments. On March 28, 2007, we issued Report No. D-2007-077, “Timeliness of Payments for Reenlistment Bonuses in the Army.” We determined that 97.75 percent of the Service members paid had properly received a reenlistment bonus within 30 days after their reenlistment date, as recorded in the Reenlistment, Extension, Reclassification, and Reserve Component Transition System (RETAIN). During the period of August 2006 to May 2007, the Defense Finance and Accounting Service (DFAS) processed more than 26,000 reenlistment actions with a 98.9 percent accuracy rate. Ninety-three percent were paid within 15 days of the reenlistment date, the agreed-upon standard between RETAIN and DFAS. However, because we identified internal control issues during our review of the timeliness of SRB payments, we determined we should perform this additional review of internal controls over Selective Reenlistment Bonuses (SRBs).

Defense Finance and Accounting Service. DFAS Indianapolis is responsible for computing pay and making disbursements to Army Service members. DFAS Indianapolis disburses more than \$104 billion annually to a population of more than 1.9 million Army Service members including active and Reserve Component members and their spouses. The Army sends pay information through the Defense Joint Military Pay System (DJMS) at DFAS Indianapolis for DFAS to compute pay. DFAS Denver controls and maintains DJMS for all of DoD. DJMS supports pay and entitlements for active duty Army Service members. The Defense Military Pay Office (DMO) software is used to input payroll data, including reenlistment bonuses, in DJMS. The total budgeted amount for Army active duty military personnel for the year ended September 30, 2006, was \$31.105 billion. In FY 2006, DFAS made 70,754 SRB payments to Army Service members totaling approximately \$654 million. An SRB is paid to encourage Army Service members to reenlist in critical military occupational skills to ensure adequate retention levels.

Installation-Level Career Counselors. The reenlistment bonus payment process begins at the installation level with the preparation of a Department of the Army Form 4591R (Retention Data Worksheet), the Defense Department Form 4-1 (Enlistment/Reenlistment), and Form 3340 (Request for Reenlistment or Extension in the Regular Army). Army career counselors manually calculate a Service member’s reenlistment bonus according to the Service member’s Basic Active Service date, years of experience, military occupational skill, and additional years of obligated Service. The career counselors then enter a member’s reenlistment bonus amount in the Army’s reenlistment information system: RETAIN. The career counselors are under the command of the Army Human Resources Command (HRC). Career counselors are required to confirm a reenlistment within 3 days of the actual event. They do not send reenlistment data to DFAS for payment until a reenlistment has been confirmed. The reenlistment bonus payment information is transmitted from RETAIN to DJMS for processing and payment.

RETAIN System. RETAIN is the Army’s computer retention system for tracking enlisted personnel retention. It contains all the reenlistment data required to document the retention of Army Service members, including tracking

reenlistment bonuses paid and data required to transition active Army Service members to the Army National Guard and U.S. Army Reserves. RETAIN has no standardized process or spreadsheets, so computations vary. The career counselors are responsible for manually computing the bonus entitlement. Thus, the counselors use various methods, forms, and spreadsheets. DFAS and the Army activated an adjustment to the SRB portion of the interface between RETAIN and DJMS in April 2007. This interface reduced the requirement for reenlistment data to be manually fed from RETAIN into DJMS. RETAIN provides the Army HRC Enlisted Personnel Management Directorate with a list of both processed SRBs and those rejected for career counselors to review and correct.

Army Military Pay Operations and Payments of Selected Reenlistment Bonuses. The Army Military Pay Operations (AMPO) branch of DFAS Indianapolis is responsible for paying Army Service member entitlements, except for SRBs. The AMPO consists of 8 divisions with 327 personnel assigned to the Centralized Processing Office (CPO) division. There are 15 personnel assigned to the Bonus Branch, which processes all Army bonuses. The workload has more than tripled since 2003. CPO has 15 employees involved in processing and paying bonuses. Before the activation of the RETAIN/DJMS interface, the CPO was responsible for processing and paying reenlistment bonus information received from the RETAIN system. The CPO used the DJMS and DMO systems for paying the bonuses, usually to Army Service members' bank accounts. The CPO still pays SRBs to Army Service members. The CPO continues to review information from FLASH* messages provided to it by the Army HRC Enlisted Personnel Management Directorate. FLASH messages contain information on possible reenlistment bonus payment errors. The CPO processes information from FLASH messages for correction as needed.

Objective

Our overall audit objective was to determine whether internal controls were in place and were effective for payments to Army Service members for reenlistment bonuses. See Appendix A for a discussion of the audit scope and methodology and for prior coverage related to our audit objective.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006, states that internal controls are the organization, policies, and procedures that help program and financial managers to achieve results and safeguard the integrity of their programs.

Scope of the Review of the Management Control Program. We reviewed the adequacy of the DFAS Indianapolis Management Control Program. Specifically, we reviewed the adequacy of DFAS controls over the processing of Army reenlistment bonuses.

* Appendix B is a glossary of technical terms used in this report.

Adequacy of Management Controls. We identified DFAS management control weaknesses related to the processing of Army reenlistment bonuses. Specifically, DFAS did not maintain DJMS to allow the Army to pay the amount due to Service members for SRBs, and DFAS and the Army HRC did not post SRB payment information so career counselors could verify the accuracy of SRB payments with those in the RETAIN system. Although those weaknesses were not material in relation to the Army reenlistment bonus program taken as a whole, the weaknesses should be resolved because reenlistment bonuses affect Army Service members' pay.

Management Actions. As a result of our review, DFAS Indianapolis began taking immediate corrective actions. Those actions included the development of standard operating procedures, as well as secondary reviews of the accuracy of the SRB amounts processed in DJMS.

Payments for Selective Reenlistment Bonuses

DFAS and the Army HRC internal controls over payments to Army Service members for reenlistment bonuses were not completely effective. Specifically, funding was not made available to maintain DJMS to allow the Army to pay the amount due to Service members for SRBs. The Army did not pay the bonuses because DJMS rejected the selective reenlistment bonus transactions that would have paid Army Service members the amount owed. Also, the Army HRC did not post selective reenlistment bonus payment information so career counselors could verify the accuracy of selective reenlistment bonus payments with those in RETAIN. As a result, 1,336 selective reenlistment bonuses worth \$15.6 million were not paid as of August 31, 2007.

Reenlistment Bonus Criteria

The Army implements section 308, title 37, United States Code (37 U.S.C. 308), “Special Pay: Reenlistment Bonus,” to provide special pay to Service members for reenlisting or voluntarily extending their enlistment. As such, 37 U.S.C. 308 defines the legal limitations, including adjustments based on the FY 2007 National Defense Authorization Act (Public Law 109-364, October 17, 2006). The Army implements 37 U.S.C. 308 through the Department of Defense Financial Management Regulation and Army Regulation laws on reenlistment bonuses. The Financial Management Regulation also provides policy regarding financial management and military pay. In addition, DFAS Military Pay E Messages provide further guidance on reenlistment bonus procedures.

United States Code. As stated in 37 U.S.C. 308, a Service member is qualified for a reenlistment bonus if the Service member has completed at least 17 months of active duty. Also, the Service member must be qualified in a critical Military Occupational Skill and agree to reenlist for a period of at least 3 years. Reenlistment bonus payments are paid to the member in either a lump sum or installments totaling up to \$60,000.

DoD Financial Management Regulation. DoD Financial Management Regulation, volume 7A, chapter 9, “Special Pay-Enlistment and Reenlistment Bonus-Enlisted Members,” May 2005, implements the United States Code. SRBs are paid according to three zones of consideration. Zone A SRBs contain those reenlistments falling between 17 months and 6 years of active Service. Zone B SRBs contain those reenlistments falling between 6 years and 10 years of active Service. Zone C SRBs contain those reenlistments falling between 10 years and 14 years of active Service. The single lump sum or initial payment of the SRB to a member who reenlists with a break in active duty greater than 24 hours is paid no earlier than 30 days after the member arrives at the first permanent duty station following reenlistment.

Army Regulation 601-280. Army Regulation 601-280, “Army Retention Program,” January 31, 2006, outlines procedures for immediate reenlistment or

extension of enlistment. The Commander, Army HRC is responsible for operating and technically supervising the SRB program. The objective of the SRB program is to increase reenlistments in critical Military Occupational Skills that do not have adequate retention levels to fill the career force.

DFAS Military Pay E Message 07-041, Army Reenlistment Bonus Process. DFAS Military Pay E Message 07-041, Army Reenlistment Bonus Process, expiring December 31, 2008, requires that SRBs be based on the Army Service members' years of additional obligation for service incurred as a result of the reenlistment. The E Message requires Service members to contact their career counselor for resolving reenlistment bonus payment issues. The CPO pays SRBs to Army Service members. The retention non-commissioned officers and career counselors have sole responsibility for the reenlistments.

Accuracy of Selective Reenlistment Bonuses to Army Members

DFAS internal controls were not effective for payments to Army Service members for reenlistment bonuses. Specifically, DFAS did not maintain DJMS to allow the Army to pay the amount due to Service members for SRBs. From April 16, 2007, through August 31, 2007, the Army did not correctly pay 1,336 Service members their SRBs. The bonuses were not paid because of three types of errors in the DJMS system: Maximum Bonus Indicator, Stop/Loss, and Code T separation. The rejected payment transactions prevent payment for a set period of time, and some of the SRBs may have been paid after the data were obtained.

<u>Selective Reenlistment</u>		
<u>DJMS Reject Type</u>	<u>Bonuses Rejects</u>	<u>Monetary Amount</u>
Maximum Bonus Indicator	731	\$10,028,555
Stop/Loss	258	2,149,353
Code T	347	3,458,077
SRBs Rejected (Subtotal)	1,336	\$15,635,985
SRBs Not Rejected	3,244	\$37,186,060

Military Pay System Accuracy and Review

The Army did not pay the bonuses because the DJMS rejected the SRB transactions that would have paid the Army Service members the amount owed. Also, the Army HRC did not post SRB payment information so career counselors could verify the accuracy of SRB payments with those in RETAIN.

Defense Joint Military Pay System Funding and Programming. DFAS controls and maintains DJMS. In January 2003, DFAS Military Pay Operations discontinued all funding for DJMS software maintenance in order to fund the Forward Compatibility Pay System (which was meant to be an interim military pay system but was later canceled). When the Forward Compatibility Pay System

was cancelled, all funding and programming efforts then switched to the Defense Integrated Military Human Resources System and not back to DJMS. The funding change affected system change requests in progress for DJMS. DFAS resumed the funding of DJMS in December 2005. However, DFAS's failure to provide consistent funding and programming for DJMS has led to maximum bonus indicator, stop/loss, and separation date payment rejections.

Maximum Bonus Indicator. DFAS rejected 731 transactions worth approximately \$10 million because DJMS used the incorrect maximum bonus indicator table. DJMS should be updated so that it uses the correct maximum bonus indicator table.

Stop/Loss Category. DJMS does not have the correct separation date for Service members in a stop/loss category. The Army issues a stop/loss order to prevent the discharge of Service members deemed essential to national security. When an Army Service member is affected by a stop/loss order, the separation date is automatically changed in DJMS to reflect the extension of Service. However, DJMS cannot accurately calculate the SRB when an Army Service member subsequently reenlists because the bonus is determined by the Army Service member's years of Additional Obligation for Service incurred as a result of the reenlistment. Stop/loss and separations cause bonuses to be incorrectly computed because the Expired Term of Service date in both RETAIN and DJMS have been moved out to the stop/loss date as opposed to the true contracted ETS date. The organization responsible for RETAIN was briefed on this when the interface went live in April 2007 and several times afterwards. The Army HRC Enlisted Personnel Management Directorate suggested that DFAS modify DJMS to accept a factor to determine bonuses that would reflect the correct separation date instead of the date in DJMS. As of September 11, 2007, DFAS had not adjusted DJMS to accept the factor provided through the RETAIN interface.

Separation Dates. DJMS also cannot calculate the bonus accurately because Army Service members approaching separation dates are often classified as Code T even before separation. The Code T classification indicates a Service member is pending separation from the military, and the Service member's account is suspended by the Code T. The Army Service member then has the option to either separate from the Army or reenlist and qualify for an SRB. However, if the Service member reenlists, the SRB is rejected in DJMS because DJMS shows the Service members' account is suspended in a Code T status. The Code T in DJMS prevents payment until the Army HRC takes corrective action to pay the Army Service member the amount due. The Army representative suggested that DJMS should convert Code T automatically to a payable Code A when the Army Service member reenlists.

Review of Selective Reenlistment Bonus Transactions. Army career counselors cannot ensure the accuracy of SRBs paid because the Army HRC had not posted SRB payment data to the DJMS bonus report in RETAIN. Army career counselors can assure Army Service members that they are being paid properly only if the career counselors have access to the DJMS bonus report in the RETAIN system. Career counselors still rely on the Army Service members to report SRB errors. According to the DFAS AMPO, Army HRC is responsible for providing the SRB payment data for the DJMS bonus report.

Conclusion

We determined that 1,336 Army Service member bonuses totaling \$15.6 million were not paid as of August 31, 2007. There were 731 Army Service members whose bonuses were rejected because the incorrect table was used in DJMS. Another 258 Army Service members had their SRB rejected because DJMS did not have the correct separation date for members in a stop/loss category. DJMS had not been modified to accept a factor for bonuses that would have solved this problem. In addition, 347 other Army Service members were classified as separated (Code T) and were not paid the bonuses owed to them. DFAS should improve DJMS to prevent it from rejecting bonus transactions.

The non-payments were also caused by the very limited review of the results of DJMS processing SRBs through the interface with RETAIN. According to DFAS Military Pay E Message 07-041, the Army career counselors and retention non-commissioned officers have sole responsibility for reenlistments. The Army HRC had not posted the data needed for Army career counselors to determine the amount of selective reenlistment bonuses paid. The Army HRC should post the SRB payment data needed so that Army career counselors can determine the amount of bonus paid.

Recommendations, Management Comments, and Audit Response

Deleted and Renumbered Recommendations. As a result of management comments, we deleted draft Recommendation 1.b. Recommendation 1.c. has been renumbered as Recommendation 1.b.

1. The Director of the Defense Finance and Accounting Service Indianapolis should:

a. Improve the Defense Joint Military Pay System so that it will pay Army Service members the selective reenlistment bonus amount owed. At a minimum, update the Defense Joint Military Pay System to convert Code T automatically to a payable Code A when the Army Service member reenlists.

Management Comments. The Director, DFAS Indianapolis nonconcurred and stated that the edits built into DJMS compare key data fields upon receipt of the RETAIN and TRANSPROC data, and DJMS rejects certain RETAIN transactions for separated accounts. RETAIN sends a reenlistment transaction to DFAS. DJMS cannot determine whether the TRANSPROC or RETAIN transaction is correct. The Army Military Pay Operations personnel stated that they correctly reject the second transaction for validation by the source (RETAIN).

Audit Response. The Director, DFAS Indianapolis comments are not responsive. The Army Military Pay Operations personnel did not provide any specific evidence to support that DJMS is accurately calculating the bonuses for Service members approaching separation dates from the military. The Army Military Pay Operations personnel should determine how often they must correct reenlistment transactions when the payment is blocked by a Code T in DJMS. We request that DFAS reconsider its position on the recommendation and provide comments on the final report.

b. Review the rejected selective reenlistment bonus payment data and pay those bonuses that meet the criteria for payment, and identify and correct those rejected selective reenlistment bonuses not appropriate for payment.

Management Comments. The Director, DFAS Indianapolis concurred and stated that the correction of rejects occurs within the 15-day processing time. DFAS audited the data and identified that 97.9 percent of the applicable bonuses were paid on time and in the correct amount. Also, DFAS forwarded to RETAIN 156 accounts for additional validation. The Director, DFAS Indianapolis stated that the Army Human Resources Command Enlisted Personnel Management Directorate has not validated the remaining 138 accounts requiring adjustments or action to pay.

Audit Response. Although DFAS only partially concurred, the DFAS comments are responsive. DFAS has thoroughly analyzed the rejected selective reenlistment bonus payment data we provided. The validation of the 156 accounts will assist in resolving whether it was appropriate to pay those bonuses.

2. The Director of the Army Human Resources Command should develop internal controls over posting the selective reenlistment bonus payment data to the bonus report of selective reenlistment bonuses paid in the RETAIN system for Army career counselor access.

Management Comments Required

The Director of the Army Human Resources Command did not comment on a draft of this report. We request that the Director of the Army Human Resources Command provide comments on the final report. In addition, we request that the Director of the Army Human Resources Command process and provide information on the 138 reenlistment bonus accounts requiring validation.

Appendix A. Scope and Methodology

We conducted this performance audit 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.

We examined Army reenlistment bonuses and the related internal controls. We reviewed the internal controls over the reenlistment bonus payment process from base level to DFAS Indianapolis.

We performed this audit from January 2007 through September 2007. DFAS Indianapolis and Army career counselors briefed our team on the DJMS database and the Army reenlistment bonus process. We examined reenlistment bonus processing documents and internal review documents maintained at DFAS Indianapolis. We interviewed DFAS Indianapolis Army Military Pay Operations personnel as well as Army retention personnel at Ft. Belvoir. In addition, Army Human Resources Command – Enlistment Personnel Management Directorate personnel briefed us on its responsibilities for providing support for the RETAIN system.

We used data mining software to compare the Army RETAIN database, against DJMS for Army Service members who were paid SRBs. We examined SRBs because the Army paid approximately \$654 million in SRBs during FY 2006. We have not made statistical projections because we used data mining techniques to select items for examination in the audit.

Use of Computer-Processed Data. We did not evaluate the general and application controls of DJMS, the database that processes bonus data, although we did rely on data produced by that system. We did not evaluate the general and application controls of RETAIN, the database that the Army uses to record reenlistment bonus data. Instead we determined data reliability by comparing the data provided to us from DJMS and RETAIN to source documents, reports, and the explanations of DFAS and Army personnel. Not evaluating the controls did not affect the results of the audit.

Use of Technical Assistance. The DoD OIG Quantitative Methods Division and the Data Mining Division assisted with the audit.

We asked the Quantitative Methods Division to review, analyze, and compare three files: the combined 2006 dataset containing 836 observations; the timeliness file for January through July 2006 containing 642 observations; and the timeliness file for August through December 2006 containing 194 observations. The Quantitative Methods Division determined that the January through July 2006 file and the August through December 2006 file exhibit similar characteristics to the extent there are no major differences between them. As a result, our audit could not determine whether there was a difference in the timeliness of SRB payments between the two time periods.

The Data Mining Division trained our team to use data mining software and provided us with software to compare data and sort information. We used the software to compare RETAIN reenlistment bonus data received according to Army records against DFAS data of reenlistment bonus data paid.

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

Prior Coverage

During the last 5 years, GAO has issued two reports discussing internal controls over reenlistment bonuses. Unrestricted GAO reports can be accessed over the Internet at <http://www.gao.gov>.

GAO

Report No. GAO-04-86, “DoD Needs More Effective Controls to Better Assess the Progress of the Selective Reenlistment Bonus Program,” November 13, 2003

Report No. GAO-03-149, “Military Personnel: Management and Oversight of Selective Reenlistment Bonus Program Needs Improvement,” November 25, 2002

Appendix B. Glossary

Additional Obligated Service – Active Service commitment beyond the existing contractual Service agreement including enlistments, extensions of enlistments, and reenlistments.

Code T – Code in the Defense Joint Military Pay System that indicates Defense Finance and Accounting Service has suspended the member's account and the member is pending separation status from the military.

FLASH Message – E-mail containing Selective Reenlistment Bonus payment information that Defense Finance and Accounting Service reviews to determine whether the Service member was erroneously paid.

Maximum Bonus Indicator – Code used in the Defense Joint Military Pay system to prevent the overpayment of a member's Selective Reenlistment Bonus.

Military Occupational Specialty – A grouping of duty positions requiring similar qualifications, and the performance of closely related duties.

Stop/Loss – The suspension of a member's promotion, retirement, or separation if the President determines the member is essential to national security.

Selective Reenlistment Bonus – A bonus paid to Army Service members in critical military occupational skills to ensure adequate retention levels.

Appendix C. Report Distribution

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Defense Finance and Accounting Service Indianapolis Comments



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MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

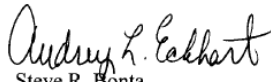
SUBJECT: Internal Controls Over Army Selective Reenlistment Bonuses,
Project No. D2007-D000FP-0111.000

Indianapolis Operations is providing management comments to the draft report.

The purpose of this document is to provide DFAS Indianapolis Operation's management factual comments omitted on the subject report. Military Pay Operations (MPO) informed auditors that changes to the Defense Joint Military Pay Systems (DJMS) were beyond MPO's control, and could only be addressed by the Configuration Control Board (CCB). The attached comments should be included in the report as written.

DFAS Indianapolis Operations management comments to the recommendations are also provided in the attachment.

My point of contact is Harold Wicks, 317-510-1443.


for Steve R. Bonta
Director, Indianapolis Operations

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**INTERNAL CONTROLS OVER ARMY SELECTIVE REENLISTMENT BONUSES
DRAFT REPORT DATED OCTOBER 4, 2007
PROJECT NO. D2007-D000FP-0111.000**

**DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS)
MILITARY PAY OPERATIONS-INDIANAPOLIS
MANAGEMENT RESPONSE**

Clarifications to the Background

Background: Add to the background paragraph, **page # 1:**

1. During the period August 2006 to May 2007, DFAS processed over 26,000 reenlistment actions with a 98.9% accuracy rate. 93% were paid within 15 days of the reenlistment date, the agreed upon standard between RETAIN and DFAS.
2. Change the **DFAS Finance and Accounting Service, page #1**, the last sentence to read: An SRB is paid to encourage Army service members to reenlistment in critical military occupational skills to ensure adequate retention levels.
3. Add a sentence under the **Installation-Level Career Counselors, page #1 paragraph to read:** The installation career counselors are under the command of Human Resource Command (HRC). Career counselors are required to confirm a reenlistment within 3 days of the actual event. No reenlistment data is sent to DFAS for payment until a reenlistment has in-fact been confirmed.
4. Add the statement under **RETAIN system, page #1 to read:** RETAIN has no standardized process or spreadsheets, so computations vary. The career Counselors are responsible for manually computing the bonus entitlement. Thus, there are various methods, forms and spreadsheets utilized by the Counselors.
5. Change the sentence under **Army Military Pay Operations and Payments of Selected Reenlistment Bonuses, page #2 to read:** The MPO-Indianapolis consist of eight divisions with 327 personnel assigned to the Centralized Processing Office. There are 15 personnel assigned to the Bonus Branch, which processes all Army bonuses. The workload has more than tripled since 2003.
6. Add the statement to the second sentence under **Payments for Selective Reenlistment Bonuses, page #4; to read:** DFAS did not maintain DJMS to allow for better bonus processing, due to the system being browned out for development and implementation of the Forward Compatible Pay System (FCP). When FCP was cancelled, all funding and programming efforts then switched to DIMHRS, and not back to DJMS.
7. Add the following statement under **DFAS Military Pay E-Message 07-041, Army Reenlistment Bonus Process, page # 5 to read:** Field Finance Offices are no longer responsible

Added to
final report
(Pg. 1)

Revised in
final report
(Pg. 1)

Added to
final report
(Pg. 1)

Revised in
final report
(Pg. 2)

Added to
final report
(Pg. 2)

for releasing bonus payments. This process has been superseded by MPO-I pulling and generating payments systemically once a week.

8. Add the following statement in the paragraph, **Accuracy of Selective Reenlistment Bonuses to Army Members, page # 5 to read:** Some service members did not receive their reenlistment bonuses due to the DFAS edit that rejected data from RETAIN, Stop/Loss and separated accounts because of discrepancies between RETAIN and TRANSPROC. Also add the following statements to the paragraphs on **page #6** of the stated report.

- a. The separated soldiers were in fact separated by a TRANSPROC transaction received from HRC. RETAIN then sends us a reenlistment transaction. Since the system cannot determine which transaction is correct, and we cannot assume that the second transaction received (reup) supersedes the first (separation), we correctly reject the second for validation by the source (RETAIN). We consider this a good internal control.
- b. Stop/Loss and separations causes bonuses to be incorrectly computed because the Expired Term of Service (ETS) date in both RETAIN and DJMS have been moved out to the Stop/loss date as opposed to the true contracted ETS date. The organization responsible for RETAIN was briefed on this when the interface went live in April 2007 and several times afterwards. The fix is to send us an ETS overlay to move the date back to the contracted ETS date, process the reenlistment transaction to pay the bonus, then process another overlay if RETAIN needs to move the date back out. We have sent several ETS/Date of Separation (DOS) listings to RETAIN, and processed several large files from RETAIN with ETS corrections. It is RETAIN's responsibility to establish the correct ETS date, then generate the appropriate transactions to reenlist a soldier and pay the bonus based on the ETS date as set by them in both systems.
- c. The Maximum Bonus Indicator (MBI) table is set correctly, based upon requirements from RETAIN and Army G-1. At issue is the fact that DJMS was supposed to match the start date of the bonus with the effective date of the table. When the system failed to do this, we identified the accounts involved, coordinated with RETAIN to validate the correct MBI, and adjusted accounts. These adjustment actions are not noted in the report.

Added first
two
sentences to
final report
(Pg. 6)

Deleted

Renumbered
as
Recommend
-ation 1.b.

**INTERNAL CONTROLS OVER ARMY SELECTIVE REENLISTMENT BONUSES
DRAFT REPORT DATED OCTOBER 4, 2007
PROJECT NO. D2007-D000FP-0111.000**

**DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS)
MILITARY PAY OPERATIONS-INDIANAPOLIS COMMENTS TO THE AUDIT
RECOMMENDATIONS**

Recommendation 1: Director of Defense Finance and Accounting Service should:

- a. Improve the Defense Joint Military Pay System so that it will pay Army service members the selective reenlistment bonus amount owed. As a minimum, update the Defense Joint Military Pay System to convert code T automatically to a payable code A when the Army service member reenlists.
- b. Develop Internal Controls to include posting the selective reenlistment bonus payment data to the bonus report of selective reenlistment bonuses paid in the RETAIN system for Army career counselor access.
- c. Review the rejected selective reenlistment bonus payment data and pay those bonuses determined to meet the criteria for payment, and identify and correct those rejected selective reenlistment bonuses not appropriate for payment.

Management Comments

Recommendation 1.a. Non-concur. The edit is our established internal control. The edits built into the current DJMS software compares key data field upon receipt of RETAIN and TRANSPROC data and will reject certain RETAIN transactions for separated accounts. The separated soldiers were in fact pending separation by TRANSPROC. RETAIN then sends us a reenlistment transaction. The system (DJMS) cannot determine which transaction is correct, and we cannot assume that the second transaction received (the re-up) supersedes the first (separation), so we correctly reject the second for validation by the source (RETAIN)

Recommendation 1.b. Non-concur. We use the spreadsheet method with RETAIN to pay bonuses, and as soon as the spreadsheets are processed, we send back reports showing the bonus payment data. With the interface up and running, not only does RETAIN get a daily processed, rejected, and recycling report, they also get a weekly report of bonuses paid by both the E603 (Reenlistment) transactions they submit, as well as, installments generated by the system. If RETAIN failed to post the payment data to the RETAIN system so counselors could verify payment, that is not a DFAS issue.

Recommendation 1.c. Partial concur. The report took a snapshot of the process in the middle of the payment process. The reconciliation or rejects is a part of the process that happens and as part of the end-to-end process is the correction of the rejects within the 15 day processing time.

The spreadsheet provided by the DoDIG reflected a list of 2,071 accounts. There are numerous variations in reject and reenlistment dates provided in the DoDIG data and actual reenlistment and payment dates on DJMS. Our analysis and audit of the data and bonus payment information in DJMS reveals, we paid 97.90% of the applicable bonuses on time and correctly. Of the 1,944 actual bonuses paid, we forwarded 156 accounts (8.02%) to RETAIN for further validation and corrections where applicable.

- | | | |
|--|-------|--|
| a. | 2,071 | accounts listed by DoDIG |
| b. | 1,312 | paid by August 31, 2007 |
| c. | 122 | paid after August 31, 2007 |
| d. | 18 | paid, RETAIN corrections made by August 31, 2007 |
| e. | 1 | paid, RETAIN correction made after August 31, 2007 |
| f. | 115 | paid, amount paid does not agree with DoDIG, sent to RETAIN for |
| validation | | |
| g. | 41 | not paid, DoDIG indicates entitlement. We sent to RETAIN for |
| verification, only responded on 13 cases | | |
| h. | 113 | duplicate accounts listed by reject code, inflating dollar amount involved |
| in audit | | |
| i. | 355 | no entitlement indicated on DoDIG list, validated no payment made in |
| DJMS (4 paid for Oct reenlistment) | | |
| j. | 4 | soldiers have already separated, bonus was recouped |
| k. | 2 | soldiers reenlisted 2005 or 2006, have not changed Zones, cannot reenlist |
| in 2007 | | |

Estimated Completion Date: RETAIN to validate 156 names by November 30, 2007



DEFENSE FINANCE AND ACCOUNTING SERVICE

8899 EAST 56 TH STREET
INDIANAPOLIS, INDIANA 46249

DFAS-JB/IN

NOV 30 2007

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Internal Controls Over Army Selective Reenlistment Bonuses,
Project No. D2007-D000FP-0111.000

Indianapolis Operations is providing management comments to the draft report,
Recommendation 1c.

Recommendation 1: Director of Defense Finance and Accounting Service should:

c. Review the rejected selective reenlistment bonus payment data and pay those bonuses determined to meet the criteria for payment, and identify and correct those rejected selective reenlistment bonuses not appropriate for payment.

Previous Management Comments: Partial concur. The report took a snapshot of the process in the middle of the payment process. The reconciliation or rejects are a part of the process which happens. As part of the end-to-end process we correct rejects within the 15 day processing time.

The spreadsheet provided by the DoDIG reflected a list of 2,071 accounts. There are numerous variations in reject and reenlistment dates provided in the DoDIG data and actual reenlistment and payment dates on DJMS. Our analysis and audit of the data and bonus payment information in DJMS reveals, we paid 97.90% of the applicable bonuses on time and correctly. Of the 1,944 actual bonuses paid, we forwarded 156 accounts (8.02%) to RETAIN for further validation and corrections where applicable.

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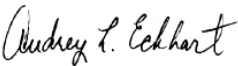
j. 4 soldiers have already separated, bonus was recouped
k. 2 soldiers reenlisted 2005 or 2006, have not changed Zones, cannot reenlist
in 2007

Previous Estimated Completion Date: RETAIN to validate 156 names by November 30, 2007.

Current Management Comments: Further analysis of the DODIG and RETAIN bonus data file shows we paid 18 additional payments after the DODIG audit period and report of August 2007. RETAIN has not sent “flash” messages or created Case Management System (CMS) cases on the remaining 138 accounts requesting adjustments or action to pay. Thus we can not take action on these cases until we hear from RETAIN.

Completion Date: November 30, 2007

My point of contact is Harold Wicks, 317-510-1443.


Steve R. Bonta
Director, Indianapolis Operations

Added
information
on 138
accounts to
final report
(Pg. 9)

Team Members

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

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Inspector General Department of Defense

