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Acronyms

DFAS	Defense Finance and Accounting Service
DFAS R&A	Defense Finance and Accounting Service Retired and Annuitant Pay
DRAS	Defense Retiree and Annuitant Pay System
SSA	Social Security Administration
SSN	Social Security Number



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

May 14, 2008

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Report on Processing of Deceased Retired Military Members' Suspended
Accounts (Report No. D-2008-093)

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

The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer and Defense Finance and Accounting Service comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Kenneth B. VanHove at (216) 706-0074, ext. 245 or Mr. John C. Petrucci at (216) 706-0074, ext. 266. See Appendix D for the report distribution. The team members are listed inside the back cover.

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

Department of Defense Office of Inspector General

Report No. D-2008-093

May 14, 2008

(Project No. D2007-D000FC-0205.000)

Processing of Deceased Retired Military Members' Suspended Accounts

Executive Summary

Who Should Read This Report and Why? Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer personnel and Defense Finance and Accounting Service representatives responsible for processing payments for retired military members should read this report. This report discusses processing deceased retired military members' suspended accounts.

Background. The Defense Finance and Accounting Service Retired and Annuitant Pay Office, located in Cleveland, Ohio, is responsible for servicing military retirees and its annuitants. Lockheed Martin, the servicing contractor, is responsible for maintaining all existing retiree and annuitant accounts. Lockheed Martin uses the Defense Retiree and Annuitant Pay System to administer monthly payroll and pay-related services for military retirees and their annuitants. The Defense Retiree and Annuitant Pay System maintains pay and personnel information for use in computing military retired pay and survivor benefits. Deceased retired military members' suspended accounts are considered suspected deceased accounts when death has not been confirmed. As of July 9, 2007, the Defense Finance and Accounting Service Retired and Annuitant Pay Office maintained over 82,000 suspected deceased accounts.

The Defense Finance and Accounting Service Retired and Annuitant Pay Office initiates the suspension process of a suspected deceased account upon notification of death. Once suspended, the Defense Finance and Accounting Service Retired and Annuitant Pay Office does not make any additional payments to the suspected deceased individual. The Defense Finance and Accounting Service Retired and Annuitant Pay Office suspends these accounts until it confirms dates of death through receipt of a death certificate from the beneficiary or next of kin or receipt of a DD Form 1300, "Report of Casualty." It also can obtain death certificates from the Department of Veterans Affairs. Once deaths are confirmed, the Defense Finance and Accounting Service Retired and Annuitant Pay Office terminates the suspected deceased account and can recover erroneous payments.

Results. The Defense Finance and Accounting Service did not efficiently process suspected deceased accounts. The Defense Retiree and Annuitant Pay System contained over 82,000 suspected deceased accounts with unconfirmed dates of death. Over the past 9 years, the number of suspected deceased accounts quadrupled. Additionally, based on our statistical sample, approximately 16,000 suspected deceased accounts included erroneous payments. Since February 2002, the Defense Finance and Accounting Service Retired and Annuitant Pay Office has, therefore, paid Lockheed Martin almost \$4 million for maintaining suspected deceased accounts. The Defense Finance and Accounting Service Retired and Annuitant Pay Office could avoid costs of \$2 million for maintaining suspected deceased accounts over the next 4 years. Additionally, the Defense Finance

and Accounting Service Retired and Annuitant Pay Office did not recover approximately \$84.1 million paid to deceased retired military members. The Under Secretary of Defense (Comptroller)/Chief Financial Officer should modify DoD Financial Management Regulation, volume 7B, chapter 30, "Death of Retiree," June 2005, to allow information other than death certificates or DD Form 1300, "Report of Casualty," for confirming dates of death of deceased retired military members. The Director, Defense Finance and Accounting Service should revise policies and procedures to ensure timely termination of suspected deceased accounts, define information other than death certificates or DD Form 1300, "Report of Casualty" for confirming dates of death of deceased retired military members, recover erroneous payments made to deceased retired military members, and terminate suspected deceased accounts maintained over 6 years. Implementing the recommendations would allow the Defense Finance and Accounting Service Retired and Annuitant Pay Office to avoid costs of \$2 million for maintaining suspected deceased accounts over the next 4 years and recover \$84.1 million in erroneous payments made to deceased retired military members. See the Finding section for the detailed recommendations. See Appendix B for the sample analysis and interpretation and Appendix C for a summary of the potential monetary benefits.

Defense Finance and Accounting Service internal controls were not adequate. We identified a material internal control weakness in its processing of suspected deceased accounts. See the Finding section for further details on the material internal control weaknesses.

Management Comments. The Deputy Chief Financial Officer and the Director, Defense Finance and Accounting Service Cleveland concurred with our recommendations. The comments were responsive to the recommendations, and no additional comments are needed. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

The Defense Finance and Accounting Service Retired and Annuitant Pay Office (DFAS R&A), located in Cleveland, Ohio, is responsible for servicing military retirees and its annuitants. It is comprised of the Continuing Government Activity, DFAS Contracting Services Directorate, and the servicing contractor. The Continuing Government Activity provides contractor oversight of Lockheed Martin. It ensures that Lockheed Martin complies with the contractual requirements and all contractual changes are coordinated.

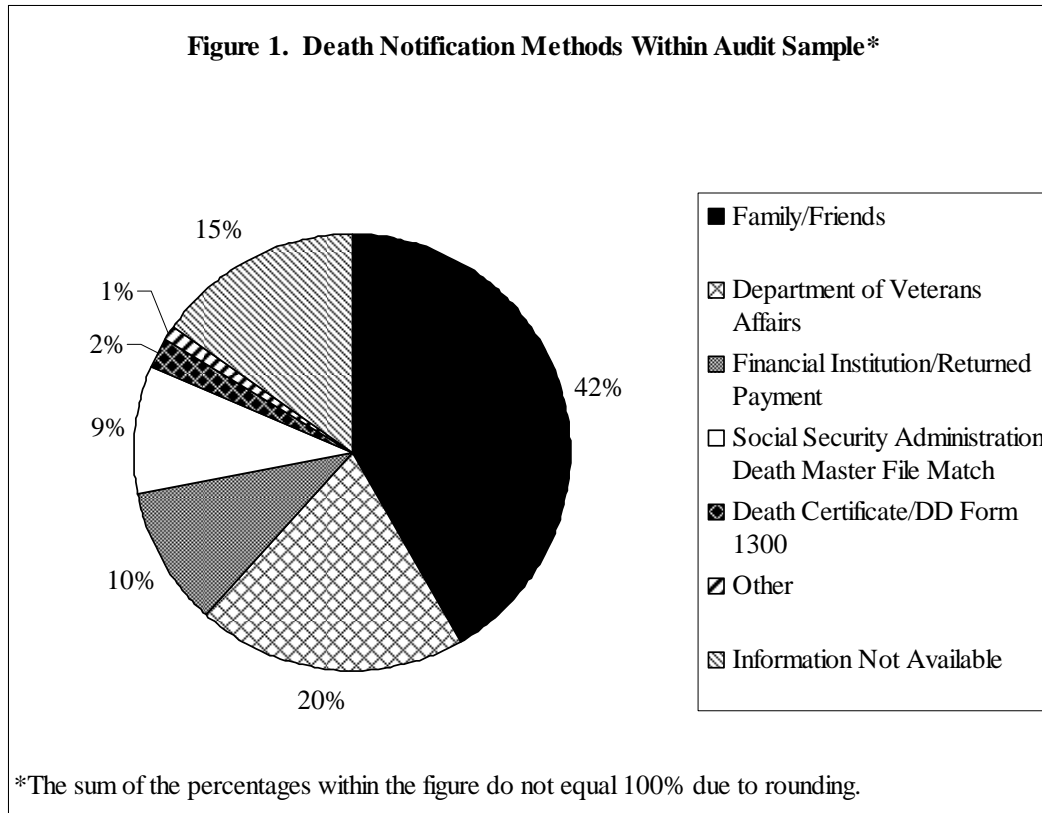
Retired and Annuitant Pay Contract History. In 2001, DFAS contracted with Affiliated Computer Services Government Solutions Group, Inc. to manage pay accounts and provide payroll services to military retirees, surviving annuitants, and other pay recipients. Specifically, the contractor was responsible for maintaining and upgrading technology, proposing and applying best business practices, and maintaining a management structure that serves as a “business partnership” with DFAS. During May 2004, Lockheed Martin Government Services, Inc. became the contractor. Lockheed Martin uses the Defense Retiree and Annuitant Pay System (DRAS) to administer monthly payroll and pay-related services for military retirees and their annuitants.

DRAS. In FY 2006, Lockheed Martin used DRAS to pay approximately \$41 billion in annuities and pensions to 2.1 million military retirees, surviving annuitants, and other pay recipients. DRAS maintains pay and personnel information for use in computing military retired pay and survivor benefits. It also maintains all account status changes. Status changes are classified within DRAS as temporary, reinstatement, or permanent. Some temporary status changes include undeliverable pay, recall to active duty, and the suspected death of a retired military member. Deceased retired military members’ suspended accounts are considered suspected deceased accounts until dates of death are confirmed. Although these accounts are suspended, Lockheed Martin bills DFAS R&A bi-weekly for maintaining the accounts within DRAS. As of July 9, 2007, DFAS R&A maintained over 82,000 suspected deceased accounts. DFAS R&A continues to pay maintenance fees on all suspected deceased accounts until they are settled.

Suspected Deceased Accounts Process. DFAS R&A initiates the suspension process of a suspected deceased account upon notification of death. Death notifications are provided by relatives, friends, financial institutions, Social Security Administration (SSA) Death Master File matches, DD Form 1300, “Report of Casualty,”¹ military hospitals, and other Federal agencies. Within the audit sample, DFAS R&A received 72 percent of notifications from family members and friends, the Department of Veterans Affairs, and financial institutions. Of the 72 percent, over half of the death notifications came from family members and friends. Studies conducted by the U.S. Government Accountability Office have shown that notifications from family members and funeral homes are over 99 percent accurate. DFAS R&A immediately suspends

¹ DD Form 1300, “Report of Casualty,” is a notification of death sent by the DoD Component reporting an active duty death.

retired military members' accounts upon notification of death from these sources. Figure 1 identifies death notification methods within the audit sample.



SSA Death Master File. DFAS R&A does not immediately suspend accounts for death notifications provided through SSA Death Master File matches. The SSA Death Master File is an extensive database containing information on deceased individuals who were issued social security numbers. The Defense Manpower Data Center compares the SSA Death Master File with DRAS accounts and reports matches to DFAS R&A. DFAS R&A independently verifies SSA Death Master File matches by calling relatives of suspected deceased members. If attempts to reach a relative are not successful within 60 days, DFAS R&A suspends the account.

Termination Process. Once suspended, DFAS R&A does not make any additional payments to the suspected deceased individual. DFAS R&A suspends these accounts until it confirms dates of death through receipt of a death certificate from the beneficiary or next of kin or receipt of a DD Form 1300. To obtain death certificates, DFAS R&A initially sends a letter to the beneficiary or next of kin. If DFAS R&A does not receive the death certificate, it sends additional letters at 12 weeks and 3 years from the notification date. DFAS R&A could also obtain death certificates from the Department of Veterans Affairs, as an information sharing agreement already exists between the two organizations. Once deaths are confirmed, DFAS R&A terminates the suspected deceased account and can recover erroneous payments.

Objective

Our objective was to determine whether DFAS efficiently processed deceased retired military members' suspended accounts. See Appendix A for a discussion of the scope and methodology.

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. DFAS did not have adequate procedures for obtaining death information necessary to recover erroneous payments made to deceased retired military members. Specifically, DFAS relied on others to provide the documentation necessary to initiate the termination of suspected deceased accounts. Implementing recommendations 1., 2.a., 2.b., and 2.c. will strengthen policies and procedures to ensure termination of suspected deceased accounts and could result in potential monetary benefits of \$84.1 million (see Appendix C). We will provide a copy of the final report to the senior official responsible for internal controls in DFAS.

Efficiency of Processing Suspected Deceased Accounts

DFAS did not efficiently process suspected deceased accounts. DRAS contained over 82,000 suspected deceased accounts with unconfirmed dates of death. Over the past 9 years, the number of suspected deceased accounts quadrupled. Additionally, based on our statistical sample, approximately 16,000 suspected deceased accounts included erroneous payments. DFAS R&A termination policies and procedures were not adequate to confirm dates of death and recover erroneous payments. As a result, since February 2002, DFAS R&A paid Lockheed Martin almost \$4 million for maintaining suspected deceased accounts. DFAS R&A can avoid costs of \$2 million for maintaining suspected deceased accounts over the next 4 years. Additionally, DFAS R&A did not recover approximately \$84.1 million paid to deceased retired military members.

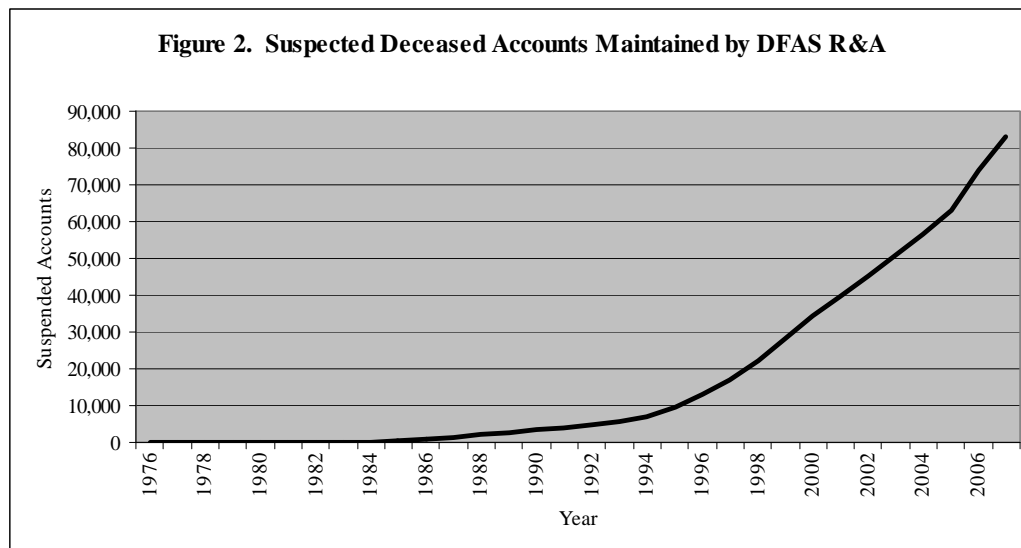
Criteria for Processing Suspected Deceased Accounts

United States Code. Section 3702, title 31, United States Code established a 6-year limitation for individuals to make claims for retired pay against the Federal Government.

DoD Financial Management Regulations. DoD Financial Management Regulation, volume 7B, chapter 30, “Death of Retiree,” June 2005, requires DFAS to suspend retired military pay accounts upon receipt of a notification of death from any source until the date of death can be verified. DFAS R&A verifies the death and terminates the retiree’s account upon receipt of a death certificate or DD Form 1300. Additionally, unrecovered funds are treated as erroneous payments; every attempt should be made to recover all payments forwarded past the date of entitlement.

Increase in Suspected Deceased Accounts

DFAS did not efficiently process suspected deceased accounts. DRAS contained over 82,000 suspected deceased accounts with unconfirmed dates of death. Over the past 9 years, the number of suspected deceased accounts quadrupled. In 1998, DFAS R&A maintained about 22,000 accounts. These suspected deceased accounts increased by at least 5,000 accounts each year. For example, the suspected deceased accounts increased by almost 11,000 accounts in 2006. Figure 2 depicts the increase in suspected deceased accounts maintained by DFAS R&A.



Additionally, the number of suspected deceased accounts may continue to exponentially increase as the number of members who served in the military during World War II continue to age. As deaths of World War II veterans are projected to increase, the number of suspected deceased accounts will increase when dates of death are not confirmed.

Payments to Suspected Deceased Accounts

Based on our statistical sample, approximately 16,000 suspected deceased accounts included erroneous payments. Once notified of a death, DFAS R&A suspends retired military pay until the date of death is confirmed. However, DFAS R&A already made erroneous payments to the deceased retired military member prior to notification. After DFAS R&A confirms the retired military member's date of death, it can recover the erroneous payments. If a date of death is not confirmed, DFAS R&A suspends the suspected deceased account indefinitely without attempting to recover erroneous payments.

Termination of Suspected Deceased Accounts

DFAS R&A termination policies and procedures were not adequate to confirm dates of death and recover erroneous payments. At our request, DFAS R&A conducted an analysis of the effectiveness of obtaining death certificates using current policies. DFAS R&A sent 10,690 letters during a 3-month period. During that same period, DFAS R&A received 9,520² death certificates. Of the death certificates received, 99 percent were obtained before sending the 12-week letter. However, only one percent of the death certificates were obtained after the

² Some of the death certificates received during the 3 months may not have been responses to the letters sent during this period.

12-week letter and none were received after the 3-year letter. Although they received a high response rate to the initial letter, DFAS R&A did not receive death information to terminate all accounts.

Additionally, DFAS R&A did not contact the Department of Veterans Affairs to obtain death certificates necessary to terminate suspected deceased accounts and recover any outstanding erroneous payments. The Department of Veterans Affairs retains death certificates for burial and memorial benefits. DFAS R&A should contact the Department of Veterans Affairs to obtain death certificates.

Confirming Payments Made to Deceased Retired Military Members. Within the audit sample, we were able to confirm erroneous payments of approximately \$234,000. A DFAS R&A representative stated that DFAS R&A considers the cost of obtaining death certificates. However, we paid about \$500 to obtain death certificates that confirmed approximately \$107,000 in erroneous payments. Without incurring any additional costs, we also confirmed an additional \$127,000 in erroneous payments using public and other Government Web sites. By confirming dates of death of suspected deceased accounts, DFAS R&A can terminate and recover erroneous payments made after dates of death.

Other Federal Agencies Termination Process. Other Federal agencies do not require death certificates to terminate benefits and recover erroneous payments made to deceased individuals, specifically, the Department of Veterans Affairs and SSA. For example, SSA immediately terminates benefits upon notification from a family member, friend, funeral director, lawyer, or agent of the individual. If they are notified by a financial institution, postal authority, or other government agency, SSA contacts the beneficiary, a representative payee, a nursing home, or doctor to verify the death. If they are unable to verify the death, SSA automatically suspends benefits 20 days after initial notification and terminates benefits 60 days later. These Federal agencies terminate benefits because there is no statute that requires Federal agencies to obtain death certificates to terminate accounts.

Although there is no statutory requirement for a death certificate to terminate suspected deceased benefits, DoD Financial Management Regulation, volume B, chapter 30, "Death of Retiree," June 2005, requires a death certificate, or DD Form 1300, for terminating a suspected deceased account. Modifying the DoD Financial Management Regulation to allow other information for confirming dates of death would give DFAS R&A the ability to efficiently terminate suspected deceased accounts and initiate the recovery of erroneous payments.

Maintenance Fees for Suspected Deceased Accounts

Since February 2002, DFAS R&A paid Lockheed Martin almost \$4 million for maintaining suspected deceased accounts. Of the 82,000 suspected deceased accounts, approximately 37,000 accounts were suspended in excess of 6 years. For example, one account was suspended in 1976 and DFAS R&A continued to maintain the account through July 2007. However, section 3702, title 31, United States Code established a 6-year limitation for individuals to make claims for

retired pay against the Federal Government. DFAS R&A could have avoided paying \$1.7 million if they had terminated suspected deceased accounts after 6 years. Additionally, by terminating accounts at 6 years, DFAS R&A can avoid costs of \$2 million over the next 4 years.

Recovery of Payments Made to Suspected Deceased Accounts

DFAS R&A did not recover approximately \$84.1 million paid to deceased retired military members. DFAS R&A did not recover erroneous payments because it did not confirm dates of death. Specifically, DFAS R&A often used the notification date as the date of death, limiting the ability in DRAS to recover erroneous payments. In other instances, DFAS R&A obtained the correct date of death; however, the death notification was provided well after the date of death. For example, DFAS R&A was notified in September 2006 that a retired military member died on February 25, 2003, but did not attempt to recover the \$19,210 in erroneous payments. Additional unrecovered erroneous payments occurred when DFAS R&A was notified of a retired military member's death through SSA Death Master File matches. DFAS R&A could erroneously make two additional payments before suspending the account. DoD Financial Management Regulation, volume B, chapter 30, "Death of Retiree," June 2005, states that unrecovered funds are treated as erroneous payments; every attempt should be made to recover all payments forwarded past the date of entitlement.

Management Comments on the Finding and Audit Response

Management Comments. The Director, Defense Finance and Accounting Service Cleveland stated that the DoD Office of the Inspector General report makes several recommendations with which she generally concurs. However, the Director, Defense Finance and Accounting Service Cleveland believed that the projection should be \$57.4 million. In addition, she indicated that up to \$45 million of the \$57.4 million was outside the direct control of Defense Finance and Accounting Service Retired and Annuitant Pay based on current DoD Financial Management Regulation policy requiring proof of death for collection of overpayments.

Audit Response. Because the Defense Finance and Accounting Service provided additional documentation after the issuance of the draft report, the auditors revisited their analysis and revised the statistical projection from \$95.3 million to \$84.1 million. The Director, Defense Finance and Accounting Service Cleveland did not introduce any additional support to further reduce the statistical projection to \$57.4 million. The differences in statistical projections were caused by discrepancies in erroneous payment methodologies. The primary difference was the audit team used gross pay to calculate total erroneous payments and the Defense Finance and Accounting Service used net pay. The audit team considered total payments as erroneous, not just the net portion.

The Director, Defense Finance and Accounting Service Cleveland also believed that up to \$45 million of the \$57.4 million was outside the direct control of Defense Finance and Accounting Service Retired and Annuitant Pay. However, the audit team obtained death certificates with minimal effort for about \$500 confirming approximately \$107,000 in erroneous payments within the audit sample. Some States even provided death certificates at no cost. The Defense Finance and Accounting Service could have taken similar steps to obtain death certificates.

The Director, Defense Finance and Accounting Service Cleveland recognized that the Defense Finance and Accounting Service did not recover erroneous payments made to deceased retired military members. When the Defense Finance and Accounting Service implements our recommendations and initiates recovery of funds, it will identify the actual amount of erroneous payments.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer modify DoD Financial Management Regulation, volume 7B, chapter 30, “Death of Retiree,” June 2005, to allow information other than a death certificate or DD Form 1300 “Report of Casualty” for confirming dates of death of deceased retired military members.

Management Comments. The Deputy Chief Financial Officer concurred and issued a policy memorandum on March 21, 2008, to allow information other than a death certificate or DD Form 1300 to confirm dates of death for deceased retired military members. The policy change was effective immediately and will be incorporated into the next update of DoD Financial Management Regulation, volume 7B, chapter 30, “Death of Retiree.”

Audit Response. The Deputy Chief Financial Officer’s comments were responsive and conform to requirements; no additional comments are needed.

Management Comments. Although not required to comment, the Director, Defense Finance and Accounting Service Cleveland concurred and stated that the policy memorandum issued by the Deputy Chief Financial Officer would give Defense Finance and Accounting Service the ability to efficiently terminate suspended accounts.

Audit Response. Although not required to comment, the Director, Defense Finance and Accounting Service Cleveland agreed with our recommendation.

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

a. Revise policies and procedures to ensure timely termination of suspected deceased accounts. The Defense Finance and Accounting Service

should consider accepting notifications from family members and funeral homes, contacting the Department of Veterans Affairs to obtain death certificates, purchasing death certificates, using public and other Government Web sites for confirming deaths, and automatically terminating benefits 80 days after notification.

Management Comments. The Director, Defense Finance and Accounting Service Cleveland concurred and agreed to amend policies and procedures to terminate suspected deceased accounts based upon recent changes to the DoD Financial Management Regulation. Corrective action will be completed by July 1, 2009.

Audit Response. The Director, Defense Finance and Accounting Service Cleveland's comments were responsive and conform to requirements; no additional comments are needed.

b. Define information other than death certificates or DD Form 1300, "Report of Casualty" for confirming dates of death of deceased retired military members.

Management Comments. The Director, Defense Finance and Accounting Service Cleveland concurred and agreed to implement the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer directed modification to the DoD Financial Management Regulation that expands the definition of acceptable proof of death documentation for terminating a suspended retired pay account. The recommendation is considered closed as of March 26, 2008.

Audit Response. The Director, Defense Finance and Accounting Service Cleveland's comments were responsive and conform to requirements; no additional comments are needed.

c. Recover erroneous payments made to deceased retired military members.

Management Comments. The Director, Defense Finance and Accounting Service Cleveland concurred and stated current procedures are in effect to recover erroneous payments made to deceased retired military members. The Defense Finance and Accounting Service will ensure that action is taken to recover any erroneous payments that may have been made in cases in which a suspended account is terminated in accordance with the revised procedures. The recommendation is considered closed as of March 20, 2008.

Audit Response. The Director, Defense Finance and Accounting Service Cleveland's comments were responsive and conform to requirements; no additional comments are needed.

d. Terminate suspected deceased accounts maintained over 6 years.

Management Comments. The Director, Defense Finance and Accounting Service Cleveland concurred and will work with Lockheed Martin Business Process Solutions to implement system changes to terminate suspected deceased

accounts that have been in a suspended status for more than 6 years. Corrective action will be completed by July 1, 2009.

Audit Response. The Director, Defense Finance and Accounting Service Cleveland's comments were responsive and conform to requirements; no additional comments are needed.

Other Matters of Interest

Validity of Suspected Deceased Accounts. DFAS R&A maintained 40 suspected deceased accounts that contained invalid information. Specifically, DRAS included altered members' service numbers³ rather than the members' Social Security Number (SSN). The Military Departments maintained retired members' accounts by their service number. In 1963, the Internal Revenue Service required SSNs for tax and identification purposes for retirees. The Military Departments then requested retired members provide their assigned SSNs to update their accounts. If a response was not received, the Military Departments assigned fictitious SSNs to the retired members by altering their service number. For example, the Army assigned a retired military member's account a fictitious SSN starting with 810. However, the SSA has not issued 800 series SSNs. Additionally, DRAS included data entry errors for suspected deceased accounts. For example, DRAS included a date of death of 1898 for one deceased retired military member account even though the actual date of death was 1998. This account remained active for almost 10 years because the suspected date of death within DRAS did not match the date of death on the death certificate.

³ Service numbers were issued to military members by the Military Departments. These numbers were used to store and locate military members' records.

Appendix A. Scope and Methodology

We conducted this performance audit from June 2007 through February 2008 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 the 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 processing of deceased retired military members' suspended accounts, we evaluated the DFAS R&A process of suspending and terminating the suspected deceased accounts. As of July 9, 2007, DRAS included 82,855 suspected deceased accounts. We excluded 40 SSNs because they were determined to be invalid. The remaining population consisted of 82,815 unique SSNs. We used a statistical sample of 300 SSNs. See Appendix B for the statistical sampling plan. We interviewed representatives from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer; DFAS Military Pay; DFAS R&A; and Lockheed Martin. Additionally, we interviewed representatives from the Department of Veterans Affairs, the Department of Health and Human Services, SSA, and their respective Offices of the Inspector General. We also contacted the National Association for Public Health Statistics and Information Systems and the Office of Vital Statistics in various States.

To accomplish the audit objective:

- We contacted the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer to determine its involvement in the suspension and termination of suspected deceased accounts and to identify legal statutes requiring death certificates.
- We met with members of DFAS R&A, Cleveland, Ohio, to obtain a universe of suspected deceased accounts and gain an understanding of the suspension and termination process. We obtained and reviewed pay documentation for 300 SSNs and identified payments made after the dates of death. Additionally, we reviewed contract number MDA220-01-C-0002 and modifications to identify procedures for processing suspected deceased accounts. We also reviewed bi-weekly invoices between February 2002 and September 2007 to identify the cost for maintaining suspected deceased accounts.
- We contacted representatives from the Department of Veterans Affairs, the Department of Health and Human Services, SSA, and their respective Offices of the Inspector General to identify their process for terminating benefits for deceased individuals. Additionally, we verified dates of death by contacting the Office of Vital Statistics in various States to obtain death certificates for suspected deceased accounts. We also confirmed other dates of death through America's Obituaries and Death Notices and Department of Veterans Affairs Nationwide Gravesite Locator Web sites.

Use of Computer-Processed Data. We did not evaluate the general and application controls of DRAS, although we relied on data produced by this system to conduct the audit. We determined data reliability by verifying dates of death through obtaining death certificates and other sources of information. Although we did not evaluate additional controls, it did not affect the results of the audit.

Use of Technical Assistance. An Operations Research Analyst of the Quantitative Methods Directorate, DoD Office of Inspector General assisted with the project sample selection and projection of results. The Data Mining Directorate, DoD Office of Inspector General coordinated with the Defense Manpower Data Center to obtain SSA Death Master File information for the audit universe. Additionally, the Office of Legal Counsel, DoD Office of Inspector General provided legal support regarding interpretation of applicable regulations.

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 high-risk area.

Prior Coverage

During the last 5 years, the DoD Inspector General issued one report related to deceased military members' suspended accounts. 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

Appendix B. Statistical Sample

Population. DFAS R&A provided us with 82,855 unique SSNs maintained within DRAS as of July 9, 2007. We excluded 40 SSNs because they were determined to be invalid. The remaining population consisted of 82,815 unique SSNs.

Sample Plan. The Quantitative Methods Directorate, DoD Office of Inspector General selected records using a simple random sample. The Quantitative Methods Directorate selected a random sample of 300 SSNs for review.

Analysis and Interpretation. Through an analysis of each SSN contained in the sample, we identified 58 suspected deceased accounts with erroneous payments totaling \$304,759. The table provides the Quantitative Methods Directorate projection of these amounts across the population at a 95-percent confidence level.

Projection of Suspected Deceased Accounts with Erroneous Payments		
	<u>Number of Suspected Deceased Accounts</u>	<u>Erroneous Payments</u> (in dollars)
Upper Bound	19,847	123.0 million
Point Estimate	16,011	84.1 million
Lower Bound	12,175	45.3 million

Appendix C. Potential Monetary Benefits

Summary of Potential Monetary Benefits			
<u>Recommendation Reference</u>	<u>Type of Benefit</u>	<u>Amount of Benefit (in dollars)</u>	<u>Accounts</u>
2.d.	Economy and Efficiency. Maximizes cost avoidance by reducing future fees associated with maintaining suspected deceased accounts.	2 million	Military Retirement Fund
1., 2.a., 2.b., and 2.c.	Management Controls. Allows DFAS to efficiently recover erroneous payments.	84.1 million	Military Retirement Fund

Appendix D. Report Distribution

Office of the Secretary of Defense

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

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Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
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Department of the Air Force

Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Finance and Accounting Service

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
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Senate Committee on Homeland Security and Governmental Affairs
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Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments



COMPTROLLER

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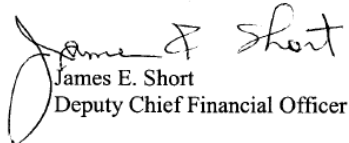
MAR 24 2008

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING
SERVICE, OFFICE OF INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

SUBJECT: Response to Draft Audit Report, "Processing of Deceased Retired Military
Members' Suspended Accounts," (Project No. D2007-D000FL-0205.000)

This memorandum forwards the Office of the Under Secretary of Defense
(Comptroller) response to subject Department of Defense, Office of Inspector General
draft audit report. A copy of the response is attached.

The Department appreciates the opportunity to comment on the subject report.
My staff point of contact on this matter is Ms. Jacqueline E. Jenkins. She may be
contacted by e-mail: jacqueline.jenkins@osd.mil or by telephone at (703) 602-0126.


James E. Short
Deputy Chief Financial Officer

Attachment:
As stated

**DOD OIG DRAFT REPORT DATED FEBRUARY 27, 2008
PROJECT NO. D2007-D000FL-0205.000**

**“PROCESSING OF DECEASED RETIRED MILITARY
MEMBERS’ SUSPENDED ACCOUNTS”**

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)
(OUSD)(C) COMMENTS TO THE DOD OIG RECOMMENDATIONS**

RECOMMENDATION 1: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer modify DoD Financial Management Regulation, Volume 7B, Chapter 30, “Death of Retiree,” June 2005, to allow information other than a death certificate or DD Form 1300 “Report of Casualty,” for confirming dates of death of deceased retired military members.

OUSD(C) RESPONSE: Concur. The Deputy Chief Financial Officer issued a policy memorandum in March 2008 to allow information other than a death certificate or DD Form 1300 to confirm the dates of death for deceased retired military members. Action is complete.



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MAR 21 2008


MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Termination of Deceased Retired Military Members' Suspended Accounts

To ensure that suspended pay accounts of deceased military members are terminated in a timely manner, acceptable proof of death documentation (death certificates and DD Form 1300, (Report of Casualty)) is modified to also include: reports of commercial funeral directors; Department of Veterans Affairs cemetery records; the Defense Enrollment Eligibility Reporting System records; Social Security records; and other forms of official death notification.

This change in policy is effective immediately and will be incorporated into the next update of the Department of Defense Financial Management Regulation, Volume 7B, Chapter 30, "Death of Retiree," section 3001.

My point of contact is Ms. Jacqueline E. Jenkins. She may be reached by phone at (703) 602-0126 or email at jacqueline.jenkins@osd.mil.


for James E. Short
Deputy Chief Financial Officer

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
1240 EAST NINTH STREET
CLEVELAND OHIO 44199

DFAS-JBB/CL

MAR 27 2008

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDITING SERVICE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE (ATTN: MR. KENNETH B. VANHOVE)

SUBJECT: Office of the Inspector General Draft Report, Project No. D2007-D000FC-0205.000,
"Processing of Deceased Retired Military Members' Suspended Accounts," dated
February 27, 2008

The Defense Finance and Accounting Service is providing the attached response to
Recommendations 1, 2.a, 2.b, 2.c, and 2.d of the subject draft audit report in Attachment 1.

The point of contact is Mr. Stanley Koch. Mr. Koch can be reached at 216-204-7066 or
DSN 580-5628.

A handwritten signature in cursive script, reading "Martha J. Smith", is positioned above the printed name and title.

Martha J. Smith
Director, DFAS Cleveland

Attachment:
As stated

cc:
DFAS-HIP/IN

**DFAS Comments to DoD IG Draft Report, Project No. D2007-D000FC-0205.000,
“Processing of Deceased Retired Military Members’ Suspended Accounts,”
Dated February 27, 2008.**

General Management Comments Summary on Report Statements.

The DoD IG audit draft report makes several recommendations with which DFAS generally concurs. The key issue is the recommendation to allow notices other than a death certificate to close a deceased retiree’s account. The DoD IG audit of the process of completing deceased retiree accounts recommends a change to the DoD FMR requirement, for accounts to remain suspended until a death certificate is provided. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer has issued a change in policy memorandum to the DoD FMR, that expands the definition of acceptable proof of death documentation for purposes of terminating a suspended retired pay account.

The draft report notes that the support contractor, Lockheed Martin, was paid almost \$4 million for the accounts held in a suspended status for the past 5.5 years. Per DFAS contract, this is acknowledged as correct. DFAS is pursuing a methodology, which will move these cases to a purged status, eliminating them from being charged to the government.

The draft report further suggests that DFAS did not recover \$95.3 million improperly paid to deceased members. DFAS determined the DoD IG projection may be overstated based on overpayment calculation and account status inconsistencies verified by Retired Pay. Using updated account data the recalculated DoD IG projection, using the exact same statistical procedures, resulted in a revised projection of approximately \$57.4 million in potential overpayments to deceased members. Up to \$45 million of the \$57.4 million was outside the direct control of Retired Pay Operations to affect reclamation based on current DoD FMR policy requiring proof of death for collection of overpayments. From the IG sample data, only \$12.4 million out of the recalculated \$57.4 million projection from the sample of overpayments had known dates of death allowing reclamation. Once the DoD IG recommended policy changes are implemented the effectiveness of improper payment processing will dramatically improve based on historical performance rates. DFAS 2006-2007 data indicates between 91-96.8% of total overpayments sampled is recouped within 60 days after confirmed date of death.

The DoD IG statistical projection is based on a very low precision level of 47%. No documentation was given of how minimum sample sizes for the projection of proportions and monetary figures were determined. While the sample size of 300 is more than adequate for a simple attribute application, it provides a very low precision of only 47% for the monetary projection, which is \$95.3 million +/- \$44.7 million, a spread that is actually as large as the point estimate (\$95.3 million).

Recommendation 1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer modify DoD Financial Management Regulation, volume 7B, chapter 30, “Death of Retiree,” June 2005, to allow information other than a

Revised
Pages 3, 4,
6, 7, 13, and
14

**DFAS Comments to DoD IG Draft Report, Project No. D2007-D000FC-0205.000,
“Processing of Deceased Retired Military Members’ Suspended Accounts,”
Dated February 27, 2008.**

death certificate or DD Form 1300 “Report of Casualty” for confirming dates of death of deceased retired military members.

Management Comments. Concur. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer has issued a change in policy memorandum to the DoD Financial Management Regulation (DoD FMR), Volume 7B, Chapter 30, Paragraph 300101, that expands the definition of acceptable proof of death documentation for purposes of terminating a suspended retired pay account. The change in policy memorandum, Termination of Deceased Retired Military Members’ Suspended Accounts,” dated March 21, 2008, is Attachment 2. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer in issuing the policy memorandum has responded to the Department of Defense, Office of Inspector General with comments to draft audit report Recommendation 1, response memorandum dated March 24, 2008, is Attachment 3. The change will be incorporated into the next update of the DoD FMR, Volume 7B, Chapter 30, “Death of a Retiree,” Section 3001, which will give DFAS the ability to efficiently terminate suspended accounts.

Completion Date. March 26, 2008. This recommendation is considered closed.

Recommendation 2.a. We recommend that the Director, Defense Finance and Accounting Service revise policies and procedures to ensure timely termination of suspected deceased accounts. The Defense Finance and Accounting Service should consider accepting notifications from family members and funeral homes, contacting the Department of Veteran Affairs to obtain death certificates, purchasing death certificates, using public and other Government Web sites for confirming deaths, and automatically terminating benefits 80 days after notification.

Management Comments. Concur. DFAS will implement the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer directed change to the DoD FMR that is referenced in Recommendation 1. The change requires that DFAS must attempt to obtain proof of death before terminating a suspended account, and, if acceptable proof of death cannot be obtained within 60 days of notification, the account will not be terminated. In order to comply with the 60-day period, DFAS procedures will be amended to allow for the termination of accounts based upon acceptable documentation and notification of death from other reliable sources. To avoid the erroneous termination of an account and the resulting impact upon the retiree, the reliability of the source of death notification will have to be evaluated on a case-by-case basis.

Estimated Completion Date. July 1, 2009.

**DFAS Comments to DoD IG Draft Report, Project No. D2007-D000FC-0205.000,
“Processing of Deceased Retired Military Members’ Suspended Accounts,”
Dated February 27, 2008.**

Recommendation 2.b. We recommend that the Director, Defense Finance and Accounting Service define information other than death certificates or DD Form 1300, “Report of Casualty” for confirming dates of death of deceased retired military members.

Management Comments. Concur. DFAS will implement the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer directed modification to the DoD FMR that expands the definition of acceptable proof of death documentation for purposes of terminating a suspended retired pay account, as defined in the change of policy memorandum, Attachment 2. In addition to the official death certificate and the DD Form 1300 (Report of Casualty), acceptable proof of death documentation includes reports of commercial funeral directors, Department of Veterans Affairs cemetery records, the Defense Enrollment Eligibility Reporting System (DEERS) records, Social Security records, and other forms of official death notification. The final settlement of a deceased retired member’s account and any claim by a third party for the payment of unpaid compensation due the decedent, however, will still need to be supported by a death certificate or DD Form 1300.

Completion Date. March 26, 2008. This recommendation is considered closed.

Recommendation 2.c. We recommend that the Director, Defense Finance and Accounting Service recover erroneous payments made to deceased retired military members.

Management Comments. Concur. Procedures are in effect to recover erroneous payments that may result in the case of a deceased retired member. DFAS will ensure that action is taken to recover any erroneous payments that may have been made in cases in which a suspended account is terminated in accordance with the revised procedures. DFAS 2006-2007 data reflects an average overpayment of \$44.3 million and \$48.6 million per year respectively, of which \$42.9 million or 96.8% is collected within 60 days in 2006 and \$44.4 million or 91% is collected within 60 days in 2007 for confirmed death accounts. No further action necessary.

Completion Date. March 20, 2008. This recommendation is considered closed.

Recommendation 2.d. We recommend that the Director, Defense Finance and Accounting Service terminate suspected deceased accounts maintained over 6 years.

Management Comments. Concur. DFAS will work with Lockheed Martin Business Process Solutions (LMBPS) to implement system changes that will terminate suspected deceased accounts that have been in a suspended status for more than 6 years. Any account that is terminated for this reason will be identified with a unique system code.

**DFAS Comments to DoD IG Draft Report, Project No. D2007-D000FC-0205.000,
“Processing of Deceased Retired Military Members’ Suspended Accounts,”
Dated February 27, 2008.**

Estimated Completion Date. July 1, 2009.



OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MAR 21 2008

COMPTROLLER

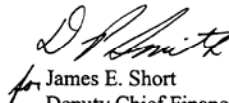
MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Termination of Deceased Retired Military Members' Suspended Accounts

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This change in policy is effective immediately and will be incorporated into the next update of the Department of Defense Financial Management Regulation, Volume 7B, Chapter 30, "Death of Retiree," section 3001.

My point of contact is Ms. Jacqueline E. Jenkins. She may be reached by phone at (703) 602-0126 or email at jacqueline.jenkins@osd.mil.


for James E. Short
Deputy Chief Financial Officer

ATTACHMENT 2



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

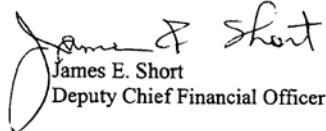
MAR 24 2008

MEMORANDUM FOR PROGRAM DIRECTOR, DEFENSE FINANCIAL AUDITING
SERVICE, OFFICE OF INSPECTOR GENERAL,
DEPARTMENT OF DEFENSE

SUBJECT: Response to Draft Audit Report, "Processing of Deceased Retired Military
Members' Suspended Accounts," (Project No. D2007-D000FL-0205.000)

This memorandum forwards the Office of the Under Secretary of Defense
(Comptroller) response to subject Department of Defense, Office of Inspector General
draft audit report. A copy of the response is attached.

The Department appreciates the opportunity to comment on the subject report.
My staff point of contact on this matter is Ms. Jacqueline E. Jenkins. She may be
contacted by e-mail: jacqueline.jenkins@osd.mil or by telephone at (703) 602-0126.


James E. Short
Deputy Chief Financial Officer

Attachment:
As stated

1

ATTACHMENT 3

**DOD OIG DRAFT REPORT DATED FEBRUARY 27, 2008
PROJECT NO. D2007-D000FL-0205.000**

**"PROCESSING OF DECEASED RETIRED MILITARY
MEMBERS' SUSPENDED ACCOUNTS"**

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)
(OUSD)(C) COMMENTS TO THE DOD OIG RECOMMENDATIONS**

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OUSD(C) RESPONSE: Concur. The Deputy Chief Financial Officer issued a policy memorandum in March 2008 to allow information other than a death certificate or DD Form 1300 to confirm the dates of death for deceased retired military members. Action is complete.

Attachment

2

ATTACHMENT 3

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.

Patricia A. Marsh
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Inspector General Department *of* Defense