

Naval Audit Service

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Audit Report



Navy Aviation Career Incentive Pay

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N2009-0025
24 April 2009

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NAVAL AUDIT SERVICE
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24 Apr 09

**MEMORANDUM FOR DEPUTY CHIEF OF NAVAL OPERATIONS (TOTAL
FORCE) (N1)
COMMANDER, NAVAL PERSONNEL COMMAND**

**Subj: NAVY AVIATION CAREER INCENTIVE PAY (AUDIT REPORT
N2009-0025)**

Ref: (a) NAVAUDSVC memo 7510/N2007-NFO000-0029, dated 14 November 2006.
(b) SECNAV Instruction 7510.7F, "Department of the Navy Internal Audit"

1. The report provides results of the subject audit announced in reference (a). Section A of this report provides our finding and recommendations, summarized management responses, and our comments on the responses. Section B provides the status of the recommendations. The full text of all management responses is included in the Appendix.

2. We made recommendations to the Deputy Chief of Naval Operations (Total Force) (N1) and Naval Personnel Command (PERS-435). The Naval Personnel Command's responses were submitted by the Deputy Chief of Naval Operations (Total Force) (N1). Actions taken meet the intent of Recommendation 7, and the recommendation is closed. Actions planned meet the intent of Recommendations 1-6 and 8, and management agreed to the funds potentially available for other use. These recommendations are considered open pending completion of the planned corrective actions, and are subject to monitoring in accordance with reference (b). Management should provide a written status report on the recommendations and associated funds available for other use within 30 days after target completion dates. Please provide all correspondence to the Assistant Auditor General for Manpower and Reserve Affairs, XXXXXXXXXXXXXXXXXXXX, XXXXXXXXXXXXXXXXXXXX, with a copy to the Director, Policy and Oversight, XXXXXXXXXXXXXXXXXXXX. Please submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.

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3. Any requests for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy as required by reference (b). This audit report is also subject to followup in accordance with reference (b).

Subj: **NAVY AVIATION CAREER INCENTIVE PAY (AUDIT REPORT
N2009-0025)**

4. We appreciate the cooperation and courtesies extended to our auditors.



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Section A:

Finding, Recommendations, And Corrective Actions

Finding: Navy Aviation Career Incentive Pay Compliance

Reason for Audit

The audit objective was to verify that Navy Aviation Career Incentive Pay (ACIP) is managed in compliance with Federal and Department of Defense (DoD) guidelines and regulations. The Office of the Assistant Secretary of the Navy (Manpower and Reserve Affairs) expressed concerns over ACIP internal controls and requested this audit.

Background

ACIP is an entitlement for service members who hold, or are in training leading to, an aeronautical designation and who frequently perform flying duty by orders. Entitlement to ACIP may be on a *continuous* (based on months of flying) or *conditional* (based on monthly flight hours) basis. The Department of the Navy budgeted \$76.6 million for ACIP for Fiscal Year 2007, the largest (43 percent) of all the Navy incentive pays.¹

The Naval Personnel Command (NAVPERSCOM) [Aviation Officer Distribution Division (PERS-435)] is responsible for management of Navy ACIP. Execution of the ACIP program is delegated to the Aviation Community Manager (PERS-435) who provides oversight, manages policy, and submits the budget, and an ACIP Program Manager (PERS-435C) who is responsible for the daily execution of the program. In March 2006, PERS-435 conducted a review of personnel receiving ACIP, and tested whether officers had enough months of flying to meet requirements for continuous ACIP; PERS-435 did not test flight surgeons (medical officers who received conditional ACIP). They found 43 of 13,384 officers were ineligible to receive ACIP and, as a result, stopped ACIP for those officers and recouped overpayments.

¹ Sub Activity #5: Incentive Pay, Hazardous Duty, and Aviation Career.

We provided the Deputy Assistant Secretary of the Navy (DASN) for Military Personnel Policy and the DASN for Manpower Analysis and Assessment with early status briefs and likely results on 30 November 2007. We provided the same information to PERS-435 on 13 September 2007. The findings in this report, while more detailed, are essentially the same as those briefed earlier.

Noteworthy Accomplishments

According to PERS-43, they have implemented the following ACIP program improvements since the beginning of the audit, in part as a result of our audit work. Specifically, PERS-435 conducts semi-annual internal audits to verify ACIP entitlements for all eligible designators. PERS-435 worked with programmers to develop and write a program that would allow PERS-435C to check aviators on a monthly basis who were approaching the 12- and 18-year gate, respectively, and stop the entitlement if necessary. PERS-435 also worked with programmers to link the Aviation Billet Indicator (ABI) code² and the Aviation Status Indicator (ASI)³ code to determine eligibility of conditional ACIP recipients. PERS-435C provided training on ACIP entitlement to the entire PERS-43 office. PERS-435 was working on an update to the current Bureau of Naval Personnel Instruction 7220.29A, which clarifies the responsibility of the individual and commands for ACIP entitlements including conditional ACIP entitlements. However, based on our recommendations, PERS-435 has decided to establish a Chief of Naval Operations Instruction. PERS-435 plans to release a Pay Data Information Message to all Naval Commands to provide further explanation for organizations that have individuals within their commands who have eligible ACIP designators. It will outline training requirements and better clarify the responsible parties involved in ACIP. Finally, PERS-43 has created a new billet that will be solely responsible for ACIP budget and daily execution.

Audit Results

Navy ACIP was not managed in full compliance with Federal and DoD guidelines. Specifically, we found instances of the following weaknesses in the management of ACIP:

- Navy officers receiving conditional ACIP who did not have enough flight hours to meet requirements to receive ACIP;
- Navy officers in an ACIP termination status whose ACIP stopped one or more months late; and

² ABI is a one -character alphanumeric code which indicates an aviation officer's present flying status.

³ Also referred to as Aviation Service Indicator.

- Navy officers with over 25 years of Aviation Service who received ACIP continuously while under non-flying orders.

Title 37, Chapter 5, Section 301(a) of the United States Code (37 U.S.C, Chapter 5, Section 301(a)) provides definitive guidance as to who is entitled to ACIP; the terms, conditions, and amounts of such payments; and exceptions to those stipulations.⁴

Management weaknesses mainly occurred because PERS-435 did not have access to, review, or track individual flight hours, and considered tracking flight hours to be outside of their purview. Also, contrary to statutory requirements, PERS-435's perspective was that officers should receive conditional ACIP when under flying orders, even if not satisfying minimum flight hour requirements. Insufficient Navy guidance, limited ACIP reviews, administrative paperwork delays, personnel system programming issues, and clerical errors also contributed to the above weaknesses. These conditions resulted in approximately \$1.3 million in overpayments^{5,6} between March 2005 and March 2007 to officers tested during the audit, and a possible estimated overpayment of \$3.4 million to officers not tested during the audit. If this condition continues, PERS-435 will not be able to provide assurance that ACIP payments are timely and appropriate. Correcting the weaknesses noted could allow PERS-435 to avoid a possible estimated \$14 million in overpayments over the 6-year Future Years Defense Plan. However, because our calculations were based on the information available during the audit, were made using a judgmental sample, and because of the variables in overpayments, we are not claiming the possible estimated \$14 million as a benefit.

A detailed discussion of each of the above weaknesses follows in the "Methodology" section below. Because the reasons these weaknesses existed and their impacts were similar, we discuss all of the reasons together in a separate section and did the same for impacts. We also found minor weaknesses in the management of one Navy warrant officer receiving ACIP, Navy officers at the 12-year gate,⁷ and incorrect or blank Aviation Status Indicator (ASI)⁸ codes, which are discussed under "Additional ACIP Issues." Additional details pertaining to the pertinent guidance, overall background information, scope and methodology, and activities contacted and/or visited, are contained in Exhibits A through D respectively. Exhibits E through L provide ACIP definitions and graphs.

⁴ A list of comprehensive guidance can be found in Exhibit A.

⁵ Approximately \$24,000 was recouped (taken back from the officers) and \$574 was reimbursed (officer was provided compensation otherwise entitled to) during the course of the audit.

⁶ The exact amount overpaid would have to be determined and Navy management would have to decide to recoup that amount.

⁷ Aviation career screening points based on the date an officer first became eligible for ACIP.

⁸ Also referred to as Aviation Service Indicator.

Methodology

To audit the ACIP program, we obtained personnel and pay data from PERS-435 and the Defense Finance and Accounting Service-Cleveland (DFAS-CL), respectively. We combined both data sets to develop a total universe of 12,573 Navy officers eligible for, and receiving, ACIP as of 28 March 2007. We sorted the combined data by ASI code^{9,10} and then for additional categories not covered by a particular code (e.g., warrant officers). We tested the categories¹¹ in which a change (manual or automatic) would be necessary in order for the officers to receive the correct ACIP. We did not test approximately 94 percent (11,826) of the officers in the universe because they were automatically entitled to receive continuous ACIP until they reached the 12- and 18-year gates,¹² and through 22 or 25 years of aviation service, depending on the number of months of flying accumulated at the 18-year gate.¹³ We statistically sampled and tested officers reaching the 12- and 18-year gates, respectively.

Navy Officers Receiving Conditional ACIP

We found that 172 of 196 (88 percent) conditional ACIP recipients did not have enough flight hours to meet requirements to receive ACIP, as shown in the chart following.

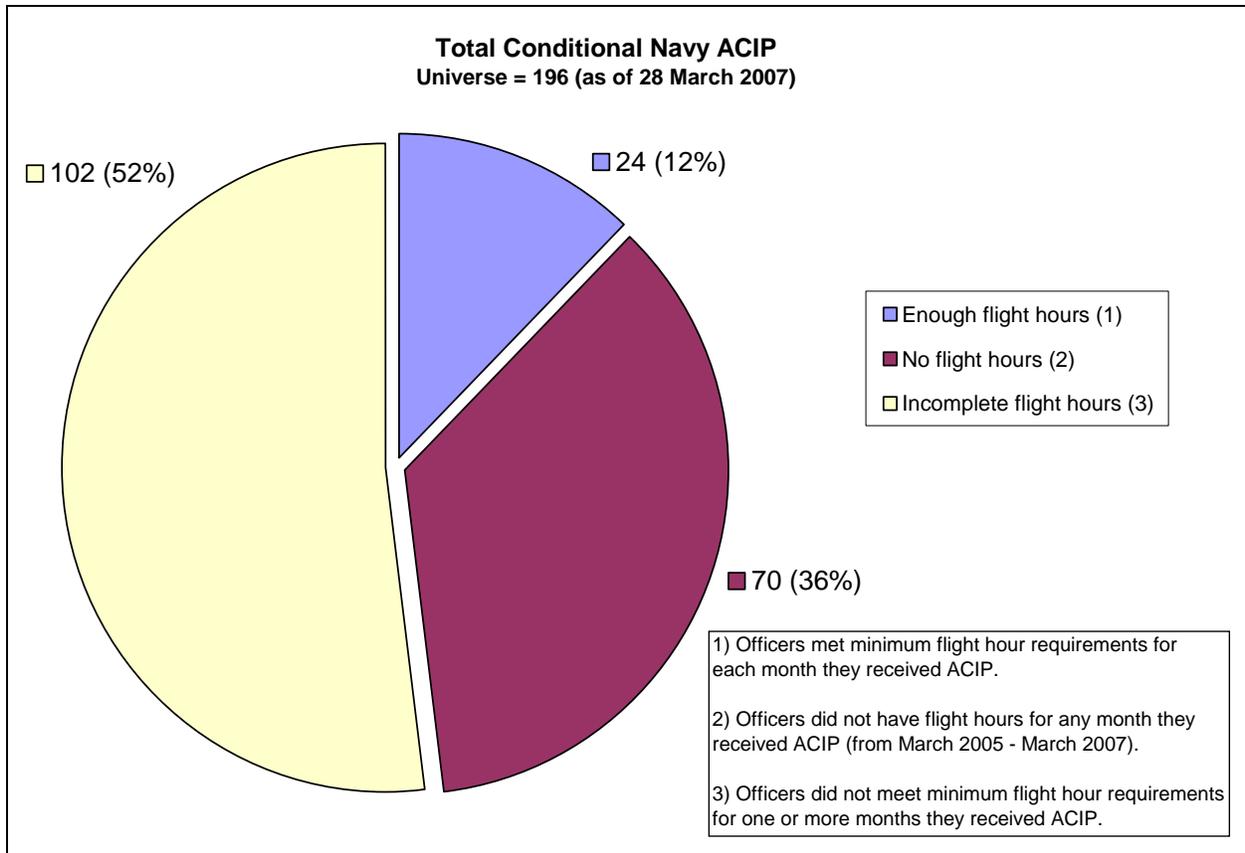
⁹ ASIs are one character codes that are used to indicate an aviation officer's ACIP entitlement status. See Exhibit E.

¹⁰ Exhibit F provides details regarding the number of officers within each ASI code category as of 28 March 2007.

¹¹ See Exhibit C for details.

¹² DoD FMR Volume 7a, Chapter 22, paragraph 220201.A.1.a states that an officer qualified for aviation service is entitled to continuous ACIP starting when they enter flight training leading to the original rating or when appointed as an officer, whichever is later, and continues until they complete 12 years of aviation service. Paragraph 220201.A.1.b states that an officer qualified for aviation service, who has performed at least 8 years of operational flying duty upon completion of 12 years of aviation service, is entitled to continuous ACIP for the first 18 years of aviation service.

¹³ DoD FMR Volume 7a, Chapter 22, paragraph 220201.A.1.c states that an officer who has performed at least 10 (but less than 12) years of operational flying duty upon completion of 18 years of aviation service is entitled to continuous ACIP for the first 22 years of aviation service. Paragraph 220201.A.1.d states that an officer who has performed at least 12 years of operational flying duty upon completion of 18 years of aviation service, is entitled to continuous ACIP for the first 25 years of aviation service.



The DoD FMR Volume 7a, Chapter 22, paragraph 220203, states that an officer shall meet the minimum flight requirements (4 hours of aerial flight¹⁴ during 1 calendar month) to be entitled to monthly (conditional) ACIP. According to Bureau of Naval Personnel Instruction (BUPERSINST) 7220.29A, paragraph 4a5, an officer must be under orders to duty in a flying status involving operational or training flights (DIFOPS) and logged into a billet that is designated to be eligible for conditional ACIP.

Conditional ACIP¹⁵ recipients made up less than 2 percent of the total ACIP population (196 of 12,573) as of 28 March 2007. We tested 100 percent of the officers in this category. See Exhibit G for the percentage of officers within each conditional ACIP ASI code.

¹⁴ Term meaning flights in military aircraft or spacecraft, and also flights in nonmilitary aircraft when required by competent orders to fly in such aircraft. A flight begins when the aircraft or spacecraft takes off from rest at any point of support located on the surface of the earth and terminates when it next comes to a complete stop at a point of support located on the surface of the earth.

¹⁵ ASI codes (C, F, G, I, and J). See Exhibit E.

We obtained flight hour data from the Logistics Management Decision Support System (LMDSS)¹⁶ and from individual officer log books (where available) and determined whether officers were eligible to receive ACIP based on the flight hours listed each month,¹⁷ using carry forward/carry back rules outlined in DoD FMR. We used each officer's pay data start and stop dates to determine in which months the officers received ACIP. We then compared flight hours to pay data from March 2005 through March 2007 to determine if officers were eligible to receive ACIP for the months they were paid. See Exhibit H for conditional ACIP results by ASI code.

When we sorted the total population by ASI code to review conditional ACIP, we found 454 officers with blank ASI codes who were receiving ACIP. We determined that 430¹⁸ of the 454 officers were medical officers based on the officer's designator (2100, 2105, 2300) (see Exhibit K). If these officers had had an ASI code, we would have included them in the conditional ACIP category to determine whether they were eligible to receive ACIP. The effect of this is discussed in the "Impact" section of this report.

Navy Officers in an ACIP Termination Status

We found that 55 of the 97 (57 percent) officers in an ACIP termination status had their ACIP stopped one or more months late,¹⁹ or they were coded incorrectly in the system²⁰ as shown in the following chart.

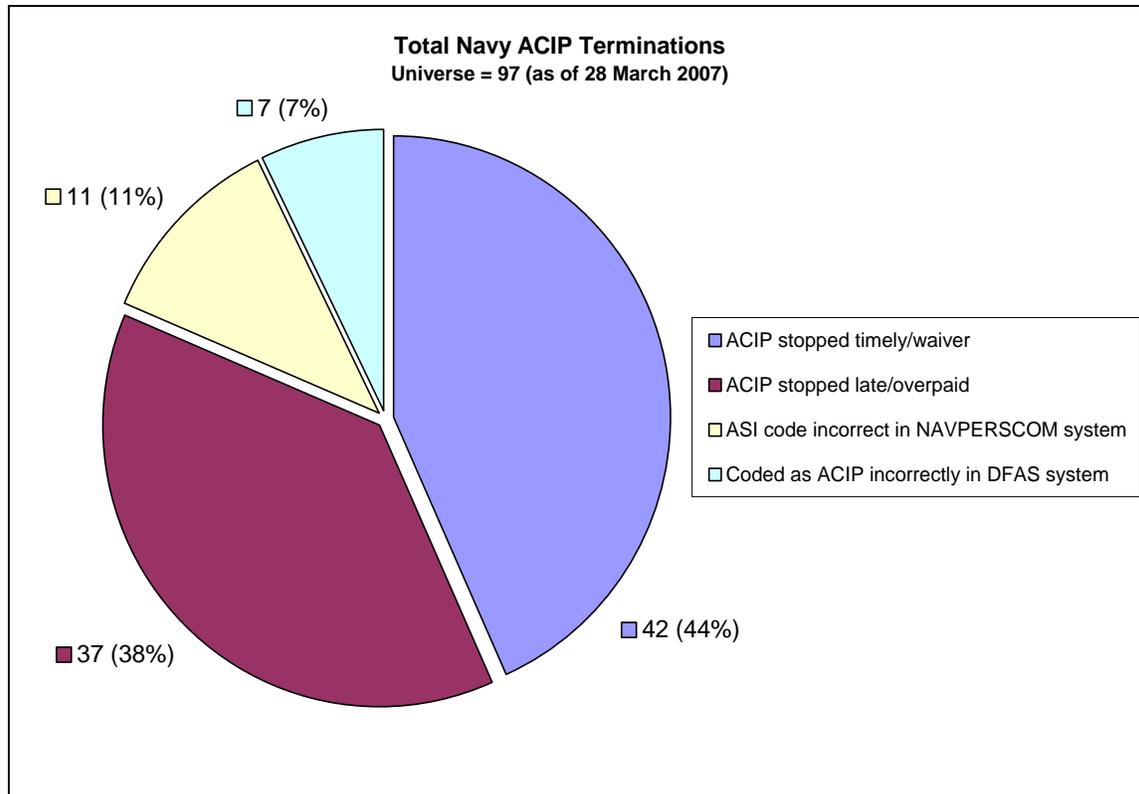
¹⁶ According to the Naval Air Systems Command (NAVAIR), LMDSS owner, flight data is transmitted to NAVAIR and loaded into the Logistics Management Decision Support System (LMDSS) and Decision Knowledge Programming for Logistics Analysis and Technical Evaluation (DECKPLATE) data warehouses. These systems are the central repositories. If an officer did not have flight hours listed in LMDSS, then they did not fly, used the Sierra Hotel Aviation Readiness Program to input flight hours, or were flying with the personnel exchange program and LMDSS would not have their flight hours.

¹⁷ We used the source that provided the largest number of flight hours for the ACIP recipient.

¹⁸ Designator 2100 = 356, designator 2105 = 5, and designator 2300 = 69.

¹⁹ Seven of 37 (19 percent) officers' ACIP stopped more than three months late.

²⁰ See Incorrect or Blank Aviation Status Indicator Code section of the report for details regarding incorrect ASI codes.



According to DoD FMR Volume 7a, Chapter 22, paragraph 220201.A.2, officers above pay grade O-6, with over 25 years of aviation service, are not entitled to ACIP, either continuous or conditional. Also, paragraph 220206 states that disqualification due to medical incapacity shall be effected on the first day following a period of 365 days that commences on the date of incapacitation, or on the date a competent medical authority determines the medical incapacitation to be permanent, whichever is earlier. No entitlement to ACIP exists during a period of disqualification.

BUPERSINST 7220.29A, dated 17 June 2002, paragraph 5e, states that aviation officers whose naval aviation qualifications are under Field Naval Aviator Evaluation Board evaluation will be suspended from all duties involving flying, and that COs [Commanding Officers] will take action to suspend ACIP entitlement until a final determination has been made. Paragraph 5f states that aviation officers who voluntarily terminate flight status will be suspended immediately from all duties involving flying. The date of suspension of flight status will be the effective date for termination of ACIP.

Officers in a termination status²¹ made up less than 1 percent of the total ACIP population (97 of 12,573) as of 28 March 2007. We tested 100 percent of the officers in this category. See Exhibit I for the percentage of officers within each ACIP termination ASI code.

²¹ ASI codes (H, K, L, and M). See Exhibit E.

We tested 7 officers (ASI code H) to determine if their ACIP stopped when the officers reached 25 years of aviation service and O-7 rank. We found:

- All 7 officers were incorrectly coded in the DFAS system as, and receiving ACIP. They should have been coded as, and receiving Hazardous Duty Incentive Pay.²²

We tested 19 officers (ASI code K) to determine if their ACIP stopped on or before the officers' disqualification date. While 15²³ of 19 (79 percent) officers' ACIP was terminated on or before their required ACIP disqualification date, we found:

- 4 of 19 (21 percent) officers received ACIP, but had an incorrect ASI code.²⁴ See "Incorrect or Blank Aviation Status Indicator Codes" section for details.

We also tested 71 officers (ASI code L) to determine if their ACIP stopped within 30 days of their required ACIP stop date. We compared the required stop date to the listed stop date/entry date on the screenshots²⁵ (provided by PERS-435) and to the entry closed date in the DFAS data. While 27 of 71 (38 percent) officers' ACIP stopped within 30 days of the required stop date, we found:

- 37 of 71 (52 percent) officers' ACIP stopped one or more months late.²⁶
- 7 of 71 (10 percent) officers received ACIP, but had an incorrect ASI code.²⁷ See "Incorrect or Blank Aviation Status Indicator Codes" section for details.

See Exhibit J for Termination ACIP results by ASI code.

Navy Officers with over 25 years of Aviation Service

We found that 6 of 161 (less than 4 percent) officers with over 25 years of aviation service received ACIP continuously while under non-flying orders. We also found 136 of 161 (84 percent) officers with over 25 years of aviation service received ACIP, but had incorrect ASI codes.²⁸

²² Officers above pay grade O-6 with over 25 years of aviation service are not entitled to ACIP, either continuous or conditional. An officer who is not receiving continuous or conditional ACIP is entitled to Hazardous Duty Incentive Pay if minimum flight requirements are met.

²³ One officer whose ACIP was terminated on time was a medical officers (flight surgeon) who was only eligible for conditional ACIP prior to the officer's ACIP being terminated. We compared flight hours to pay data from March 2005 to March 2007 and found that this officer received ACIP when not entitled (they did not have enough flight hours). This officer was not discussed in previous sections of this report.

²⁴ One officer should have been coded as ASI code P [Continuous ACIP (18-25 years)], two officers should have been coded as ASI code Q [Continuous (18-22 years)], and one officer should have been coded as ASI code J [Conditional ACIP (designated flight surgeon)].

²⁵ A screenshot is an image taken by the computer to record the visible items displayed on the computer monitor. PERS-435 printed copies of those screenshots.

²⁶ Seven of 37 (19 percent) officers' ACIP stopped more than three months late.

²⁷ Seven officers should have been coded as ASI code N [Continuous ACIP (0-12 years)].

²⁸ One hundred and thirty-six officers should have been coded as ASI code I [Conditional ACIP (over 25 years)].

According to BUPERSINST 7220.29A, paragraph 4a5, an officer who has completed 25 years of aviation service is no longer eligible for continuous ACIP. The officer is eligible for conditional ACIP only while performing operational flying, provided that an aeronautical designation is retained and that OPNAVINST 3710.7T and DoD FMR Volume 7A, Chapter 22 requirements are met. The officer must be under DIFOPS (flying) orders and logged into a billet that is designated to be eligible for conditional ACIP.

Officers with over 25 years of aviation service made up less than 2 percent of the total ACIP population (161 of 12,573) as of 28 March 2007. We tested 100 percent of the officers in this category. We sorted by Aviation Service Entry Date (ASED) and tested those officers whose ASED was on or before 28 March 1982.²⁹ We sorted by Aviation Billet Indicator (ABI) code to determine if the officers were under flying or non-flying orders, and by ASI code to determine whether the officers had the correct entitlement status.

Additional ACIP Issues

In addition to the weaknesses found in the conditional ACIP, terminations, and officers with over 25 years of aviation service categories noted above, we found minor weaknesses in one Navy warrant officer receiving ACIP, Navy officers at the 12-year gate, and incorrect or blank ASI codes. These are discussed below and the causes are addressed in the “Reasons” section that follows.

Navy Warrant Officers receiving ACIP

We found one warrant officer whose ACIP rate did not update on time. We sorted the total population by rank and designator. Warrant officers receiving ACIP made up less than 1 percent of the total population (32 of 12,573) as of 28 March 2007. We tested 100 percent of the officers in this category. We determined the number of years of aviation service for each warrant officer and reviewed whether warrant officers had the correct entitlement. We interviewed PERS-435 and DFAS personnel and gathered screenshots³⁰ and e-mails.

Navy Officers at the 12-year gate

While officers had accumulated enough months of flying and had the correct rate of pay, we found 3 of 44³¹ (less than 7 percent) officers that had incorrect or blank ASI codes³² (see “Incorrect or Blank Aviation Status Indicator Codes” section of

²⁹ Officers whose ASED was on or before 28 March 1982 would have reached 25 years of aviation service by 28 March 2007 at the latest.

³⁰ An image taken by the computer to record the visible items displayed on the monitor.

³¹ Based on a statistical sample of Navy officers at the 12 year gate; 44 sampled from universe of 366 (366 is less than 3 percent of the total population).

³² Two officers with incorrect ASI codes should have been coded as ASI code O [Continuous ACIP (12-18 years)] and one officer with a blank ASI code should have been coded as ASI code J [Conditional ACIP (designated flight surgeon)].

this report below for details). We sorted the total population by Aviation Service Entry Date and tested those officers who reached their 12-year gate³³ (officers with an ASED between 28 March 1994 and 28 March 1995). We reviewed the ASI code, months of flying, and rate of pay attributes. We interviewed PERS-435 personnel and gathered screenshots and e-mail messages concerning officers who reached their 12-year gate between 28 March 1994 and 28 March 1995.

Incorrect or Blank Aviation Status Indicator Codes

We tested all of the categories discussed in this report and found 603^{34,35} officers who had incorrect or blank ASI codes. Of these officers, 430 were discussed in the Conditional ACIP section of this report. ASI codes are single-character codes that indicate officer entitlement status. These incorrect or blank codes limited our testing because had these officers been coded correctly, the population of each category may have been larger. Specifically, two medical officers (as determined by their designator during the audit) had incorrect or blank codes³⁶ and were only eligible for conditional ACIP. However, we compared their flight hours to their pay data (March 2005 to March 2007) and found that these officers received, but were not entitled to, ACIP (they did not have enough flight hours).

Reasons

The weaknesses found in the conditional ACIP, terminations, and officers with over 25 years of aviation service categories mainly occurred because PERS-435, while aware of conditional flight hour requirements, did not have access to, review, or track individual flight hours and considered tracking flight hours to be outside of their purview. PERS-435's perspective was that officers should receive conditional ACIP when under flying orders, even if not satisfying minimum flight hour requirements. PERS-435 assumed flight surgeons (medical officers) were meeting flight hour requirements because they were governed by OPNAVINST 3710.7T and could get a waiver of flight hour requirements. However, this instruction only provides guidance regarding the annual and semiannual minimum number of flying hours, not the number of monthly flight hours required for conditional ACIP, and states that waivers are not authorized for personnel on conditional ACIP. Commander, Naval Air Forces Command (CNAF), while responsible for all Naval Aviation programs, personnel, and assets, did not track conditional flight hours either. Lastly, according to PERS-435 staff, more personnel were needed to manage the work because PERS-435 was only comprised of an Aviation

³³ See Exhibit A for an explanation of gates.

³⁴ One hundred and forty-nine officers had incorrect ASI codes and 454 officers had blank ASI codes.

³⁵ Five hundred and sixty-seven officers who were receiving conditional ACIP and 36 officers who were receiving continuous ACIP.

³⁶ The one officer with a blank ASI code is part of the 430 officers with blank ASI codes discussion in the "Conditional ACIP" section of this report. The one officer with an incorrect ASI code was not previously discussed.

Community Manager and the ACIP Program Manager, who provide ACIP oversight, manage policy, and submit the budget.³⁷

Current Navy guidance does not articulate responsibility for maintaining and managing conditional ACIP flight hours. Although BUPERSINST 7220.29A governs ACIP program management and requires COs to conduct monthly flight audit boards for conditional ACIP eligibility, PERS-435 does not have the authority to hold COs accountable. Additionally, CNAF did not have any guidance for tracking conditional flight hours for ACIP purposes.

The weaknesses found in the conditional ACIP, terminations, and officers with over 25 years of aviation service categories were also caused by clerical errors such as entering the wrong pay entitlement in the system; administrative paperwork delays; personnel system programming issues, such as the system automatically changing ASI codes incorrectly; incorrect ASI codes, which allowed the system to incorrectly pay officers; and PERS-435 not having the information or resources to oversee the payments or reviewing ACIP categories on a regular basis.

Impact

These weaknesses resulted in a total of approximately \$1.3 million³⁸ in overpayments to 180³⁹ officers between March 2005 and March 2007, and could have continued to have been overpaid indefinitely. We brought the above conditions to management's attention in August 2007 and PERS-435 initiated recoupments for 6⁴⁰ of the 180 officers, for a total of approximately \$24,400.⁴¹ Also, one officer was underpaid about \$574 and when this was brought to management's attention in August 2007, PERS-435 immediately took action to pay the officer what was owed.

In addition, we did not test flight hours for the 429⁴² of the 430 additional medical officers⁴³ because their ASI code was blank (see Exhibit K) and 136 officers with over 25 years of aviation service because their ASI code was incorrect; all of these officers should have been coded as conditional ACIP recipients. As noted earlier, 88 percent of the conditional ACIP recipients we reviewed did not have enough flight hours to meet requirements to receive ACIP and were overpaid. Although there are variables⁴⁴ that may affect ACIP overpayments, if the conditions for the untested population were the

³⁷ On 8 September 2008, PERS-435 provided a Military Community Management Manpower Validation Study (dated 17 December 2007), which addressed the minimum manpower requirements to perform community management functions based on directed mission, functions, and tasks. We did not audit the information in this study.

³⁸ Total amount includes one underpayment of \$574.

³⁹ One hundred and seventy-one officers not entitled to conditional ACIP, 2 officers in a termination status, 6 officers with over 25 years of aviation service, and 1 officer tested as part of the 12-year gate category.

⁴⁰ PERS-435 only took action for those officers where they had access to flight information.

⁴¹ When brought to PERS-435 attention, PERS-435 had already recouped about \$14,000. An additional approximately \$10,400 was recouped as a direct result of our audit work.

⁴² One officer was tested as part of the 12-year gate category.

⁴³ We determined that these were medical officers by the officer's designator (2100, 2105, 2300).

⁴⁴ Variables include pay rate schedule, years of aviation service, number of flight hours flown per month, etc.

same as those noted for population we did review, the possible exists that these 565⁴⁵ officers were overpaid. To compute possible overpayments for these 565 officers, we used the average overpayment for medical officers⁴⁶ and for officers with over 25 years of aviation service. We multiplied the average overpayment by 429 medical officers with blank ASI codes and 136 officers with over 25 years of aviation service with incorrect ASI codes, respectively, for a total possible estimated overpayment of \$3.4 million to 565 officers not tested during the audit.

To estimate the possible future impact to the Navy, we combined the overpayments to officers tested during the audit,⁴⁷ and the possible estimated overpayments to officers not tested during the audit, and extrapolated that amount over the 6-year Future Years Defense Plan.⁴⁸ We estimate that, if the conditions noted remain the same for the entire population, a total of \$14 million in future funds could potentially be made available for other use.⁴⁹

Incorrect pay entitlement coding resulted in officers being paid from the ACIP budget instead of being paid from the Hazardous Duty Incentive Pay budget, which could affect future budgets. We brought this issue to DFAS' attention and they immediately took action to correct these officers' accounts. Officers with incorrect ASI codes could receive the wrong entitlement, possibly resulting in over- or under-payments.

Recommendations and Corrective Actions

We made recommendations to the Deputy Chief of Naval Operations (DCNO) (Total Force) (N1) and Naval Personnel Command (NAVPERSCOM) (PERS-435). NAVPERSCOM's responses were submitted by DCNO (Total Force) (N1). Management responses to each recommendation are summarized below, along with our comments on the responses. The complete texts of management responses are contained in the appendix.

DCNO (Total Force) (N1) concurred with all of our recommendations, and their actions meet the intent of the recommendations. However, in comments not related to a specific recommendation, DCNO (Total Force) (N1) expressed concern that our \$14 million estimate of overpayments over a future 6-year period was overstated due to our method of calculation. We disagree, and present both DCNO's position and ours in Exhibit M.

⁴⁵ Four hundred and twenty-nine medical officers with blank ASI codes and 136 officers with over 25 years of aviation service.

⁴⁶ We added the total overpayments for 134 medical officers tested and the overpayment calculated for one officer tested as part of the 12-year gate category. We divided the total overpayment by 135 officers to calculate the total average overpayment for medical officers.

⁴⁷ Two-year period (March 2005 to March 2007).

⁴⁸ Two-year audit period multiplied by 3 to get to 6-year Future Years Defense Plan.

⁴⁹ Because these estimates are based on a judgmental sample, and because of the variables that affect ACIP overpayments, we are not claiming this as funds potentially available for other use.

Also, recognizing that the \$14 million was an estimate, we did not identify the funds as being potentially available for other use.

We recommend that the Deputy Chief of Naval Operations (Total Force) (N1):

Recommendation 1. Establish Chief of Naval Operations guidance for managing Navy Aviation Career Incentive Pay (ACIP).

Management response to Recommendation 1. Concur. An additional Chief of Naval Operations (OPNAV) instruction will be issued to enforce existing legislation and regulations concerning the ACIP program. It will include how conditional ACIP will be managed, who will be responsible for flight hour tracking, annual flight hour verification, and annual payment of conditional flight pay. A Naval Administration (NAVADMIN) [Message] will be released concurrent with approval of the OPNAV instruction to communicate the new flight hour verification process to conditional flight pay recipients throughout the fleet. The target completion date for the OPNAV Instruction and NAVADMIN is 31 January 2010.

Naval Audit Service comment. Actions planned satisfy the intent of the recommendation. Because the target completion date is more than 6 months from the date of publication, we are establishing an interim date of 28 August 2009. DCNO (Total Force) (N1) will need to provide a status update at that time.

Recommendation 2. Develop and implement metrics for tracking and testing Navy ACIP.

Management response to Recommendation 2. Concur. The Defense Finance and Accounting Service (DFAS) now provides all payments under Format Identifier (FID) 12 to the ACIP Program Manager monthly which are matched with all officers in the Navy. Conditional ACIP recipients, who are not under duty in a flying status involving operational or training flights (DIFOPS) orders, as well as those who are not in a DIFOPS billet are identified, followed by continuous ACIP recipients who are no longer aeronautically designated. Once identified, subject officers are contacted, and pay is stopped and recouped (when appropriate). Annual flight hour verification for conditional ACIP recipients will begin at the end of fiscal year (FY) 09 for that fiscal year. FY09 will be the transition year to the new annual payment system, requiring recoupment if individuals do not meet the flight hour requirements. The new annual payment system will be fully established in FY10, monthly installments of conditional ACIP will no longer be offered, and conditional ACIP will only be paid after flight hour verification is complete at the end of FY10. Development of metrics for tracking and testing

Navy ACIP is complete and full implementation of metrics for tracking and testing Navy ACIP will be complete on 31 January 2010.

Naval Audit Service comment. Actions planned satisfy the intent of the recommendation. Because the target completion date is more than 6 months from the date of publication, we are establishing an interim date of 28 August 2009. DCNO (Total Force) (N1) will need to provide a status update at that time.

Recommendation 3. Assess current Naval Personnel Command (NAVPERSCOM) (PERS-43) manpower requirements with regard to the management of Navy ACIP and, if needed, increase manning.

Management response to Recommendation 3. Concur. Funding has been directed to establish the ACIP Program Action Officer position as a full-time billet under the direction of the ACIP Program Manager. In addition, a manpower analysis study has been directed to determine if additional manpower is required to manage the program to the degree required by current regulations. The target completion date for the manpower study is 30 September 2009.

Naval Audit Service comment. Actions planned satisfy the intent of the recommendation.

We recommend that NAVPERSCOM (PERS-435):

Recommendation 4. Determine ACIP eligibility for officers in a conditional ACIP Aviation Status Indicator code. For officers found to be ineligible, determine amounts of any overpayments, and initiate necessary recoupment actions.

Management response to Recommendation 4. Concur. For any officers found not to be in receipt of DIFOPS orders or not assigned to a DIFOPS billet, conditional ACIP is stopped and recouped from the date of their last eligibility. At the end of FY09, eligible officers will be required to submit their flight hours to the ACIP Program Manager, endorsed by their commanding officer. Flight hours will be loaded into a conditional flight pay determination algorithm (currently under development), which will calculate the qualifying conditional ACIP amount by month for each officer. For officers found to be ineligible, the amounts of any overpayments will be determined and necessary recoupment actions initiated. Beginning in FY10, all conditional ACIP will be paid on an annual basis after submission of annual flight hour accumulation for verification. The current Bureau of Naval Personnel instruction will be replaced by an OPNAV instruction, codifying the changes in management of conditional ACIP, and the release of a

NAVADMIN will communicate this plan to the fleet. Target completion date is 31 January 2010.

NAVPERSCOM (PERS-435) also concurs with the Funds Potentially Available for Other Use in the amount of \$10,400 resulting from this audit.

Naval Audit Service comment. Actions planned satisfy the intent of the recommendation. Because the target completion date is more than 6 months from the date of publication, we are establishing an interim date of 28 August 2009. NAVPERSCOM (PERS-435) will need to provide a status update at that time.

Recommendation 5. Determine ACIP eligibility for officers with incorrect and blank Aviation Status Indicator codes. For officers found to be ineligible, determine the amounts of any overpayments, and initiate necessary recoupment actions.

Management response to Recommendation 5. Concur. In some cases, officers with incorrect Aviation Status Indicator (ASI) codes have been redesignated or have received waivers and are currently being evaluated to determine ACIP eligibility. For officers found to be ineligible, overpayments are being calculated and recoupment initiated. Annual flight hour verification will begin at the end of FY09. A new annual payment system will be fully established in FY10, monthly installments of conditional ACIP will no longer be made, and conditional ACIP will only be paid after flight hour verification is complete at the end of FY10. Determination of ACIP eligibility for officers with incorrect and blank ASI codes, overpayment amounts, and initiation of necessary recoupment action will be complete by 31 January 2010.

Naval Audit Service comment. Actions planned satisfy the intent of the recommendation. Because the target completion date is more than 6 months from the date of publication, we are establishing an interim date of 28 August 2009. NAVPERSCOM (PERS-435) will need to provide a status update at that time.

Recommendation 6. Develop modifications to the personnel systems to facilitate reviews of ACIP payments to Navy officers to ensure the systems show the correct Aviation Status Indicator codes for the officers.

Management response to Recommendation 6. Concur. The ACIP Program Manager is working with programmers on correcting ASI codes for officers without improperly affecting pay. The target completion date is 31 January 2010.

Naval Audit Service comment. Actions planned satisfy the intent of the recommendation. Because the target completion date is more than

6 months from the date of publication, we are establishing an interim date of 28 August 2009. NAVPERSCOM (PERS-435) will need to provide a status update at that time.

Recommendation 7. Establish scheduled reviews of Navy ACIP data to ensure officers are receiving ACIP as entitled, and are not being paid inappropriately.

Management response to Recommendation 7. Concur. Monthly and annual reviews have been established. DFAS now provides all payments under Format Identifier (FID) 12 to the ACIP Program Manager monthly and the ACIP Program Action Officer reviews them. Conditional ACIP recipients who are not under DIFOPS orders, conditional ACIP recipients who are not in a DIFOPS billet, and continuous ACIP recipients who are no longer aeronautically designated are identified. Once identified, officers are contacted; pay is stopped, and when appropriate, recouped for officers not entitled. Annual flight hour verification for conditional ACIP recipients will begin at the end of FY09 for that fiscal year. Action on this recommendation is considered complete.

Naval Audit Service comment. Actions taken satisfy the intent of the recommendation. This recommendation is considered closed as of the date of the management response letter, 17 February 2009.

Recommendation 8. Establish controls that provide oversight to ensure: (1) existing improper over- and under-payments are promptly ceased; (2) recoupments of overpayments are initiated as necessary; (3) under-payments are identified and reimbursed as necessary; and (4) future and improper payments are prevented.

Management response to Recommendation 8. Concur. Existing improper over and under payments are identified by a comprehensive review of conditional ACIP installments each month. The monthly reviews conducted by the ACIP Program Management Office include action by the Action Officer with oversight by the Program Manager. Recoupment is initiated by the ACIP Program Management Office. Changes to legacy computer systems used to manage and track ACIP entitlement have been submitted and when implemented, will force an automated stop of ACIP entitlement for officers losing eligibility. At the end of FY09, a retroactive review of flight hours will correct any possible over and under payments. Beginning in FY10, conditional ACIP entitlement will no longer be awarded monthly. The ACIP Program Manager and Program Action Officer will be responsible for annual flight hour verification and annual payment of conditional flight pay. Once entitlement is verified, the ACIP Program Management Office will contact DFAS to award an annual lump sum payment of the entitlement for which they qualify. Future and improper payments have been reduced by allowing only a limited number

of people to start, stop, and make adjustments to ACIP. These controls are in development and are expected to be completed by 31 January 2010.

Naval Audit Service comment. Actions planned satisfy the intent of the recommendation. Because the target completion date is more than 6 months from the date of publication, we are establishing an interim date of 28 August 2009. NAVPERSCOM (PERS-435) will need to provide a status update at that time.

Section B:

Status of Recommendations and Funds Potentially Available for Other Use

Recommendations								FUNDS POTENTIALLY AVAILABLE (In \$000s)				
Finding ⁵⁰	Rec. No.	Page No.	Subject	Status ⁵¹	Action Command	Target or Actual Completion Date	Interim Target Completion Date ⁵²	Category ⁵³	Claimed Amount	Agreed To	Not Agreed To	Appropriation ⁵⁴
1	1	13	Establish Chief of Naval Operations guidance for managing Navy Aviation Career Incentive Pay (ACIP).	O	DCNO (Total Force) (N1)	01/31/10	08/28/09					
1	2	13	Develop and implement metrics for tracking and testing Navy ACIP.	O	DCNO (Total Force) (N1)	01/31/10	08/28/09					
1	3	14	Assess current Naval Personnel Command (NAVPERSCOM) (PERS-43) manpower requirements with regard to the management of Navy ACIP and, if needed, increase manning.	O	DCNO (Total Force) (N1)	9/30/09						

⁵⁰ / + = Indicates repeat finding.

⁵¹ / O = Recommendation is open with agreed-to corrective actions; C = Recommendation is closed with all action completed; U = Recommendation is undecided with resolution efforts in progress.

⁵² If applicable.

⁵³ / A = One-time potential funds put to other use; B = Recurring potential funds put to other use for up to 6 years; C = Indeterminable/immeasurable.

⁵⁴ / = Includes appropriation (and subhead if known).

SECTION B: STATUS OF RECOMMENDATIONS AND FUNDS POTENTIALLY AVAILABLE FOR OTHER USE

Recommendations								FUNDS POTENTIALLY AVAILABLE (In \$000s)				
Finding ⁵⁰	Rec. No.	Page No.	Subject	Status ⁵¹	Action Command	Target or Actual Completion Date	Interim Target Completion Date ⁵²	Category ⁵³	Claimed Amount	Agreed To	Not Agreed To	Appropriation ⁵⁴
1	4	14	Determine ACIP eligibility for officers in a conditional ACIP Aviation Status Indicator code. For officers found to be ineligible, determine amounts of any overpayments, and initiate necessary recoupment actions.	O	NAVPERS COM	01/31/10	08/28/09	A C ⁵⁵	10.4	10.4		
1	5	15	Determine ACIP eligibility for officers with incorrect and blank Aviation Status Indicator codes. For officers found to be ineligible, determine the amounts of any overpayments, and initiate necessary recoupment actions.	O	NAVPERS COM	01/31/10	08/28/09	C ⁵⁶				
1	6	15	Develop modifications to the personnel systems to facilitate reviews of ACIP payments to Navy officers to ensure the systems show the correct Aviation Status Indicator codes for the officers.	O	NAVPERS COM	01/31/10	08/28/09					
1	7	16	Establish scheduled reviews of Navy ACIP data to ensure officers are receiving ACIP as entitled, and are not being paid inappropriately.	C	NAVPERS COM	02/17/09		C ⁵⁷				

⁵⁵ We noted approximately \$1.3 million in past overpayments. However we are not claiming the amount because NAVPERSCOM needs to determine whether they will attempt to recoup the overpayments.

⁵⁶ We estimated approximately \$3.4 million in past overpayments for officers with incorrect and blank Aviation Status Indicator Codes. However we are not claiming the amount because the estimate is based on a judgmental sample, and because of the variables associated with ACIP overpayments. Further, NAVPERSCOM needs to determine whether they will attempt to recoup the overpayments.

⁵⁷ We estimated that future overpayments over the 6-year Future Years Defense Plan could be \$14 million. However, because our calculations were based on the information available during the audit, were made using a judgmental sample, and because of the variables in overpayments, we are not claiming the possible estimated \$14 million as a benefit.

SECTION B: STATUS OF RECOMMENDATIONS AND FUNDS POTENTIALLY AVAILABLE FOR OTHER USE

Recommendations								FUNDS POTENTIALLY AVAILABLE (In \$000s)				
Finding ⁵⁰	Rec. No.	Page No.	Subject	Status ⁵¹	Action Command	Target or Actual Completion Date	Interim Target Completion Date ⁵²	Category ⁵³	Claimed Amount	Agreed To	Not Agreed To	Appropriation ⁵⁴
1	8	16	Establish controls that provide oversight to ensure: (1) existing improper over- and under-payments are promptly ceased; (2) recoupments of overpayments are initiated as necessary; (3) under-payments are identified and reimbursed as necessary; and (4) future and improper payments are prevented.	O	NAVPERS COM	01/31/10	08/28/09					

Exhibit A:

Pertinent Guidance

Title 37, United States Code § 301(a) “Incentive Pay: Aviation Career,” states that a member of a uniformed service who is entitled to basic pay is also entitled to Aviation Career Incentive Pay (ACIP) for the frequent and regular performance of operational or proficiency flying duty required by orders. Entitlement shall be restricted to regular and reserve officers who hold, or are in training leading to, an aeronautical rating or designation, and who engage and remain in aviation service on a career basis. A Flight Surgeon or other medical officer who is entitled to basic pay, holds an aeronautical rating or designation, and is qualified for aviation service, is not entitled to continuous monthly incentive pay, but is entitled to monthly incentive pay for the frequent and regular performance of operational flying duty.

To be entitled to continuous monthly incentive pay, an officer must perform the prescribed operational flying duties for 8 of the first 12, and 12 of the first 18 years of the aviation service. Upon completion of 12 years of aviation service, if it is determined that an officer has failed to perform the minimum prescribed operational flying duty requirements during the prescribed periods of time, his entitlement to continuous monthly incentive pay ceases. Entitlement to continuous monthly incentive pay ceases for an officer upon completion of 25 years of aviation service, but such an officer in a pay grade below O-7 remains entitled to monthly incentive pay for the performance of operational flying duty. The rate prescribed for officers with over 14 years of aviation service shall continue to apply to warrant officers with over 22, 23, 24, or 25 years of aviation service who is qualified.

The Department of Defense Financial Management Regulation, Volume 7A, Chapter 22 (February 2001), Paragraph 220201.A.1, states that qualification for entitlement to continuous ACIP is earned by completing a prescribed minimum number of operational flying years before reaching a specific control or “gate” year of aviation service. Paragraph 220201.A.2 states that qualification for entitlement to conditional ACIP is earned by completing a prescribed minimum number of operational or proficiency flying hours per month. Flight surgeons and other medical officers who have aeronautical ratings or designations and are qualified for aviation service, as well as other aviation officers who do not qualify for continuous ACIP because of missed gate year requirements or aviation duty in excess of 25 years, may qualify for entitlement to conditional ACIP.

The Bureau of Naval Personnel Instruction 7220.29A (17 June 2002), states that months of flying requirements for the 12-year, 15-year, and 18-year screening gates may be waived by the Secretary of the Navy and will be considered in circumstances in which an aviation officer has failed to meet a flight gate due to fulfilling critical non-flying

billets. Paragraph 4a5 states that an officer who has failed a gate/not been granted a flight gate waiver, is eligible for conditional ACIP until the next gate regardless of the months of flying total. Paragraph 4g states that aviation officers who are medically incapacitated will be considered qualified for aviation service until disqualified on the first day following a period of 365 days that commences on the date of initial incapacitation, or on the date Naval Personnel Command (PERS-435) determines the medical incapacitation to be permanent, whichever is earlier. ACIP and Months of Flying will not be authorized for any period during which an officer is disqualified for aviation service. An Aviation Billet Indicator is a one-character alphanumeric code which indicates an aviation officer's present flying status.

Chief of Naval Operations Instruction 3710.7T, Chapter 11, "General Instructions on Duty Involving Flying and Annual Flight Performance Requirements" (1 March 2004), Paragraph 10.5.1.1, states that all naval aviators and naval flight officers (NFO) shall possess a currently maintained Aviators Flight Log Book as the primary individual flight activity record. The continued submission of flight data is mandatory. Paragraph 11.2.2 stated that warrant officers who are aeronautically designated and wear Naval Aviation Observer wings shall meet the flight time requirements for NFOs and flight surgeons. Paragraph 11.3.2 c states that the number of years of aviation service for computing the appropriate rate of pay is computed beginning with the effective date of the initial order to perform aviation service as an officer. The Aviation Service Entry Date (ASED) is the day, month, and year an individual first reports, on competent orders, to the aviation facility having aircraft in which members will receive their flight training leading directly to the award of an aeronautical designation, and continues to accumulate from the date, without exception, as long as their flight designation remains in effect. Paragraph 11.3.3.1 states that ASI [Aviation Status/Service Indicator] are one character codes that are used to indicate an aviation officer's ACIP entitlement status. Paragraph 11.5.1 states that Commander Naval Air Forces, and all type commanders, may waive any or all of the minimum annual requirements except flight pay requirements. Waivers are not authorized for personnel on conditional ACIP.

Military Personnel Manual 1610-020, "Disqualification of Officers for Duty Involving Flying" (22 August 2002), Paragraph 2, states that termination of orders to duty involving flying is an administrative action designed to ensure that only those officers who can safely and competently perform assigned flying duties are so assigned. Qualification for aviation service is conditional and dependent upon an officer maintaining current physical and professional qualifications, and continually displaying the potential for utilization in operational flying billets.

The Federal Managers Financial Integrity Act of 1982 requires internal controls be established to provide reasonable assurance that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and ongoing evaluations and reports of adequacy in internal accounting and administrative controls.

Office of Management and Budget Circular A-123 (21 December 2004) states that management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations; and managers must take systematic and proactive measures to develop and implement appropriate, cost-effective internal controls for results-oriented management, and assess and adequacy of internal controls in programs and operations.

Department of Defense (DoD) Instruction 5010.38 (26 August 1996) and DoD Instruction 5010.40 (28 August 1996) require the implementation of a comprehensive strategy for management controls that provides reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation.

Exhibit B:

Background

Aviation Career Incentive Pay (ACIP) is a financial incentive for members to serve as military aviators throughout a military career. ACIP payments range from \$125 to \$840 per month, determined by years of aviation service (see Exhibit L). The Department of the Navy budgeted \$76.6 million for ACIP for Fiscal Year 2007, which is the largest (43 percent) of all of the Incentive, Hazardous Duty, and Aviation Career Pays.

The Naval Personnel Command [Aviation Officer Distribution Division (PERS-43)] is responsible for management of Navy ACIP. Execution of the ACIP program is delegated to the Aviation Community Manager (PERS-435) who provides oversight, manages policy, and submits the ACIP budget; and an ACIP Program Manager (PERS-435C) who is responsible for daily execution of the program.

The following commands/activities are also involved in different aspects of ACIP:

- The Personnel Support Detachments have the capability to turn ACIP on and off.
- Squadrons consist of pilots, naval flight officers, and aeromedical officers who maintain flight log books in which flight hours are recorded.
- N10 Financial Management Division handles the ACIP budget.
- The Defense Finance and Accounting Service ensures that ACIP is properly posted to the Military Master Pay Account.
- Commander, Naval Air Forces is the principle advisor on all aviation issues and is responsible for all Naval Aviation program, personnel, and assets.

ACIP personnel and pay data are contained in multiple systems, including the Officer Assignment Information System, the Officer Personnel Information System, the Navy Standard Integrated Personnel System, the Defense MilPay Office, and the Defense Joint Military System. The Naval Aviation Logistics Command Management Information System, the Sierra Hotel Aviation Readiness Program, Logistics Management Decision Support System (LMDSS), and individual log books capture individual flight hours.

Exhibit C:

Scope and Methodology

Scope

We conducted the audit from 14 November 2006 to 28 November 2008. Conditions noted existed from March 2005 through March 2007. This report summarizes information regarding our audit of Navy Aviation Career Incentive Pay (ACIP). Exhibit D contains a list of commands and activities visited and/or contacted. The audit focused on active duty Navy officers eligible for, entitled to, and/or receiving continuous and conditional ACIP. We collected personnel data⁵⁸ from the Naval Personnel Command (NAVPERSCOM) and pay data⁵⁹ from the Defense Finance and Accounting Service (DFAS). We collected individual flight hour data from the Logistics Management Decision Support System (LMDSS)⁶⁰ initially covering the period from March 2005 through July 2007 and subsequently covering the period from January 2000 through July 2007. We also collected copies of individual log books and monthly flight audit boards, where available.

Methodology

To accomplish our audit, we researched and reviewed public law, Department of Defense, and Department of the Navy guidance applicable to ACIP. We evaluated internal controls and assessed compliance with regulations pertaining to ACIP. We made inquiries and held discussions with key personnel at the commands and activities listed in Exhibit D. We documented the Navy ACIP process and the systems used to track and monitor ACIP, months of flying, and conditional flight hours. We interviewed knowledgeable command personnel responsible for processing and reviewing ACIP information. We obtained and reviewed the NAVPERSCOM's management control program and Fiscal Year 2007 Navy ACIP budget.

We imported the personnel data⁶¹ and pay data⁶² obtained into IDEA version 7,⁶³ and combined it using the Social Security Number (SSN) (the common field in both data

⁵⁸ As of 28 March 2007.

⁵⁹ As of the weekend of 31 March 2007, provided 2 April 2007.

⁶⁰ According to the Naval Air Systems Command (NAVAIR), LMDSS owner, flight data is transmitted to NAVAIR and loaded into the Logistics Management Decision Support System (LMDSS) and Decision Knowledge Programming for Logistics Analysis and Technical Evaluation (DECKPLATE) data warehouses. These systems are the central repositories. If an officer did not have flight hours listed in LMDSS, then they did not fly, used the Sierra Hotel Aviation Readiness Program to input flight hours, or were flying with the personnel exchange program and LMDSS would not have their flight hours.

⁶¹ As of 28 March 2007.

⁶² As of the weekend of 31 March 2007, provided 2 April 2007.

sets), which resulted in a universe of 12,573 unique SSNs of Navy officers eligible for and receiving ACIP for testing purposes. We also extracted the unmatched records in the original pay data and found 1,980 unique SSNs that did not match the original personnel data (Navy officers receiving ACIP but not in eligible designators). We did not review the unmatched records in the personnel file that were in eligible designators but not receiving ACIP.

We first sorted the combined 12,573 individuals by Aviation Status Indicator⁶⁴ (ASI) code to determine the population of each code or group of codes⁶⁵ (see Exhibit F). We then sorted the combined the 12,573 individuals by the following characteristics:

- Warrant officers;
- Over 25 years of aviation service;
- 12-year gate;
- 18-year gate; and
- -0 Aviation Service Entry Date.

In addition, we considered the 1,980 individuals who were receiving ACIP but not in eligible designators (as of 28 March 2007) as a category that could be tested.

This resulted in 18⁶⁶ different testable ACIP categories. We chose to test the following 12 categories based on the most manual intervention required to modify pay:

⁶³ IDEA version 7 Data Analysis Software is a tool that can import, join, analyze, sample and extract data from almost any source, including reports printed to a file.

⁶⁴ Also referred to as Aviation Service Indicator - a one character code that indicates an aviation officer's ACIP entitlement status (see Exhibit E).

⁶⁵ As of 28 March 2007, 94 percent of the universe of Navy officers (12,573) received continuous ACIP.

⁶⁶ There were 20 risk areas total, 2 two of which had 0 officers; therefore they could not be tested.

Table 1

#	Category	ASI Code	No. of officers	Testing Method
1	Conditional 12-18 years of aviation service	C	21	100%
2	Conditional over 18 years of aviation service	F	28	100%
3	Conditional over 25 years of aviation service	I	13	100%
4	Conditional Aeromedical Officers	J	134	100%
5	Termination (rank)	H	7	100%
6	Termination (temporary medical)	K	19	100%
7	Termination (Field Naval Aviation Evaluation Board, Voluntary Termination)	L	71	100%
8	Warrant officers	none	32	100%
9	Over 25 years of aviation service	none	161	100%
10	12-year gate	none	366	Sampled
11	18-year gate	none	358	Sampled
12	Officers receiving ACIP, but not in eligible designators	none	1,980	Sampled

Although 94 percent (11,826) of the officers in the universe were receiving continuous ACIP, we did not test that these officers; they were automatically entitled to receive continuous ACIP until they reach the 12- and 18-year gates,⁶⁷ and through 22 or 25 years of aviation service, depending on the number of months of flying accumulated at the 18-year gate.⁶⁸

We used statistical sampling – specifically, Discovery Acceptance Sampling through E-Z Quant – to sample the 12-year gate, 18-year gate, and officers receiving ACIP but not in eligible designators categories. We determined the sample size for each test by using the confidence level and critical error rates shown in the following table:

⁶⁷ The Department of Defense Financial Management Regulation (DoD FMR), Volume 7a, Chapter 22, Paragraph 220201.A.a states that an officer qualified for aviation service is entitled to continuous ACIP starting when they enter flight training leading to the original rating or when appointed as an officer, whichever is later, and continues until they complete 12 years of aviation service. Paragraph 220201.A.1.b states that an officer qualified for aviation service, who has performed at least 8 years of operational flying duty upon completion of 12 years of aviation service, is entitled to continuous ACIP for the first 18 years of aviation service.

⁶⁸ DoD FMR Volume 7a, Chapter 22, paragraph 220201.A.1.c states that an officer who has performed at least 10 (but less than 12) years of operational flying duty upon completion of 18 years of aviation service is entitled to continuous ACIP for the first 22 years of aviation service. Paragraph 220201.A.1.d states that an officer who has performed at least 12 years of operational flying duty upon completion of 18 years of aviation service, is entitled to continuous ACIP for the first 25 years of aviation service.

Table 2

Test	Confidence Level (percent)	Critical Error Rate (percent)	Sample Size
12-year gate	90	4.9	44
18-year gate	90	5.0	43
Officers receiving ACIP but not in eligible designators	90	5.0	45

We specifically tested the accuracy of the Aviation Status Indicator, the months of flying, and rate of pay for the 12- and 18-year gate tests. We analyzed each randomly selected sample in each test to determine the number of errors that occurred, and projected them to their universe.

To determine the total possible overpayment and potential recoupment, we used a spreadsheet DFAS provided, which they used to calculate recoupments. For each officer, we input the dates they did not meet ACIP flight hour requirements, along with the monthly rate or entitlement amount, into the spreadsheet. The spreadsheet automatically calculated the possible overpayment and potential recoupment amounts. DFAS computed the amounts recouped and reimbursed during the audit based on PERS-435 direction.

We relied on computer-generated data from the systems above; however, we did not evaluate the adequacy of the systems' general and application controls.

We reviewed an Air Force Audit Agency report, issued 19 January 2007, addressing ACIP, and considered it when conducting this audit. We did not identify any Naval Audit Service, Department of Defense Inspector General, or Government Accountability Office reports issued within the past 5 years addressing the same or similar objectives as this audit. Therefore, we did not perform a followup.

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.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act of 1982, as codified in Title 31, United States Code, requires each Federal Agency head to annually certify the effectiveness of the agency's internal and accounting system controls. Recommendations 1 through 7 address issues related to the internal control over Aviation Career Incentive Pay. In our opinion, the weaknesses noted in this report may warrant reporting in the Auditor General's annual FMFIA memorandum identifying management control weaknesses to the Secretary of the Navy.

Exhibit D:

Activities Visited and/or Contacted

- Office of the Assistant Secretary of the Navy, Military Personnel Policy – Pentagon, Arlington, VA*
- Office of the Deputy Assistant Secretary of the Navy, Manpower Analysis and Assessment – Pentagon, Arlington, VA*
- Deputy Chief of Naval Operations (N10) Financial Management Division – Arlington, VA*
- Commander, Naval Personnel Command – Millington, TN*
- Defense Finance and Accounting Service – Cleveland, OH*
- Commander, Fleet Forces Command – Norfolk, VA
- Commodore, Airborne Command Control and Logistics Wing – Norfolk, VA
- Commander Naval Air Forces Atlantic – Norfolk, VA*
- Commander Naval Air Forces – San Diego, CA
- Force Inspector General, Commander, Naval Air Force and Commander, Naval Surface Forces San Diego, CA
- Carrier Airborne Early Warning Squadron 124 (VAW 124) – Norfolk, VA*
- Carrier Airborne Early Warning Squadron 120 (VAW 120) – Norfolk, VA*
- Helicopter Sea Combat Squadron 2 (HSC 2) – Norfolk, VA*
- Helicopter Sea Combat Squadron 28 (HSC 28) – Norfolk, VA*
- Field Examination Group, Atlantic – Norfolk, VA*
- Afloat Training Group, Atlantic – Norfolk, VA*
- Naval Air Systems Command
- Defense Contract Audit Agency – Boston, MA
- Commander Naval Installations Command Headquarters, Anacostia Annex, Washington DC
- PSA Atlantic⁶⁹ – Norfolk, VA*
- Personnel Support Detachment, Oceana – Virginia Beach, VA*
- Personnel Support Detachment, Pensacola – Pensacola, FL

* Denotes activity visited.

⁶⁹ PSA Atlantic has been renamed the Navy Pay and Personnel Support Center Atlantic Personnel Support Detachment/Customer Service Desk (PSD/CSD) as of 1 October 2007.

Exhibit E:

Aviation Status Indicator Codes

CODE	DEFINITION
A	Continuous ACIP (0 to 12 years) — An aeronautically designated officer or aviation student with ASED prior to 3 Oct 79 or an aeronautically designated officer whose ASED is 2 Oct 79 through 2 Oct 85 who had completed at least 72 MOF as of 2 Oct 91.
B	Continuous ACIP (12 to 18 years) — An aeronautically designated officer with 12 to 18 years of aviation service who has met all criteria for code A and has completed at least 72 MOF prior to 12 years aviation service.
C	Conditional ACIP (12 to 18 years) — An aeronautically designated officer with 12 to 18 years of aviation service who has not performed the required MOF outlined for codes B and T. NOTE To be entitled to receive ACIP this officer must: (1) meet DOD Pay Manual flying requirements of 4 hours per month and (2) be under DIFOPS orders and (3) be in an operational flying billet (billet designator ending in 1 or 2).
D	Continuous ACIP (18 to 25 years) — An aeronautically designated officer with from 18 to 25 years aviation service who has met all criteria for code B and subsequently completed 132 MOF prior to 18 years aviation service.
E	Continuous ACIP (18 to 22 years) — An aeronautically designated officer with from 18 to 22 years of aviation service who has met all criteria for code B and subsequently completed at least 108 but less than 132 MOF prior to 18 years aviation service.
F	Conditional ACIP (over 18 years) — An aeronautically designated officer with from 18 to 22 years of aviation service who has met all criteria of code B but did not complete at least 108 MOF prior to 18 years aviation service. (Note under code C applies).
G	Conditional ACIP (over 22 years) — An aeronautically designated officer who has met all criteria of code E and has reached 22 years of commissioned service. (Note under code C applies).
H	ACIP Terminated — An aeronautically designated officer who has been promoted to the paygrade of 0-7 or above and has reached 25 years of commissioned service.
I	Conditional ACIP (over 25 years) — An aeronautically designated officer who has met all criteria for code D and has reached 25 years of commissioned service. (Note under code C applies).
J	Conditional ACIP — Designated flight surgeons aerospace medical physiologists and aerospace physiologists. These officers have completed a course of study in aerospace medicine and are entitled to conditional ACIP only. (Note under code C applies).
K	ACIP Termination — An aeronautically designated officer who has had flight status temporarily terminated because of medical incapacitation.
L	ACIP Termination — An aeronautically designated officer who has had flight status permanently terminated through attrition, voluntary termination, or naval aviator evaluation board.
M	ACIP Termination — An aeronautically designated officer who has had flight status permanently terminated because of medical incapacitation.
N	Continuous ACIP (0 to 12 years) — An aeronautically designated officer or aviation student with ASED on or after 1 Oct 85 with less than 12 years aviation service.
O	Continuous ACIP (12 to 18 years) — An aeronautically designated officer with from 12 to 18 years of aviation service who has met all criteria for code N and has completed at least 96 MOF prior to 12 years of aviation service.

CODE	DEFINITION
P	Continuous ACIP (18 to 25 years) — An aeronautically designated officer with from 18 to 25 years aviation service who has met all criteria for code O or T and completed 144 MOF prior to 18 years aviation service.
Q	Continuous ACIP (18 to 22 years) — An aeronautically designated officer with from 18 to 22 years of aviation service who has met all criteria for code O or T and completed at least 120 but less than 144 MOF prior to 18 years aviation service.
R	Continuous ACIP (0 to 12 years) — An aeronautically-designated officer with ASED prior to 1 Oct 85 who had less than 72 MOF as of 1 Oct 91.
S	Continuous ACIP (12 to 18 years) — An aeronautically designated officer with from 12 to 15 years Aviation service who has met all criteria for code R and completed 72 MOF prior to 12 years aviation service.
T	Continuous ACIP (12 to 18 years) — An aeronautically designated officer with from 15 to 18 years aviation service who has met all criteria for code S and completed 108 MOF prior to 15 years aviation service.

Exhibit F:

Navy Aviation Career Incentive Pay Aviation Status Indicator Code Categories

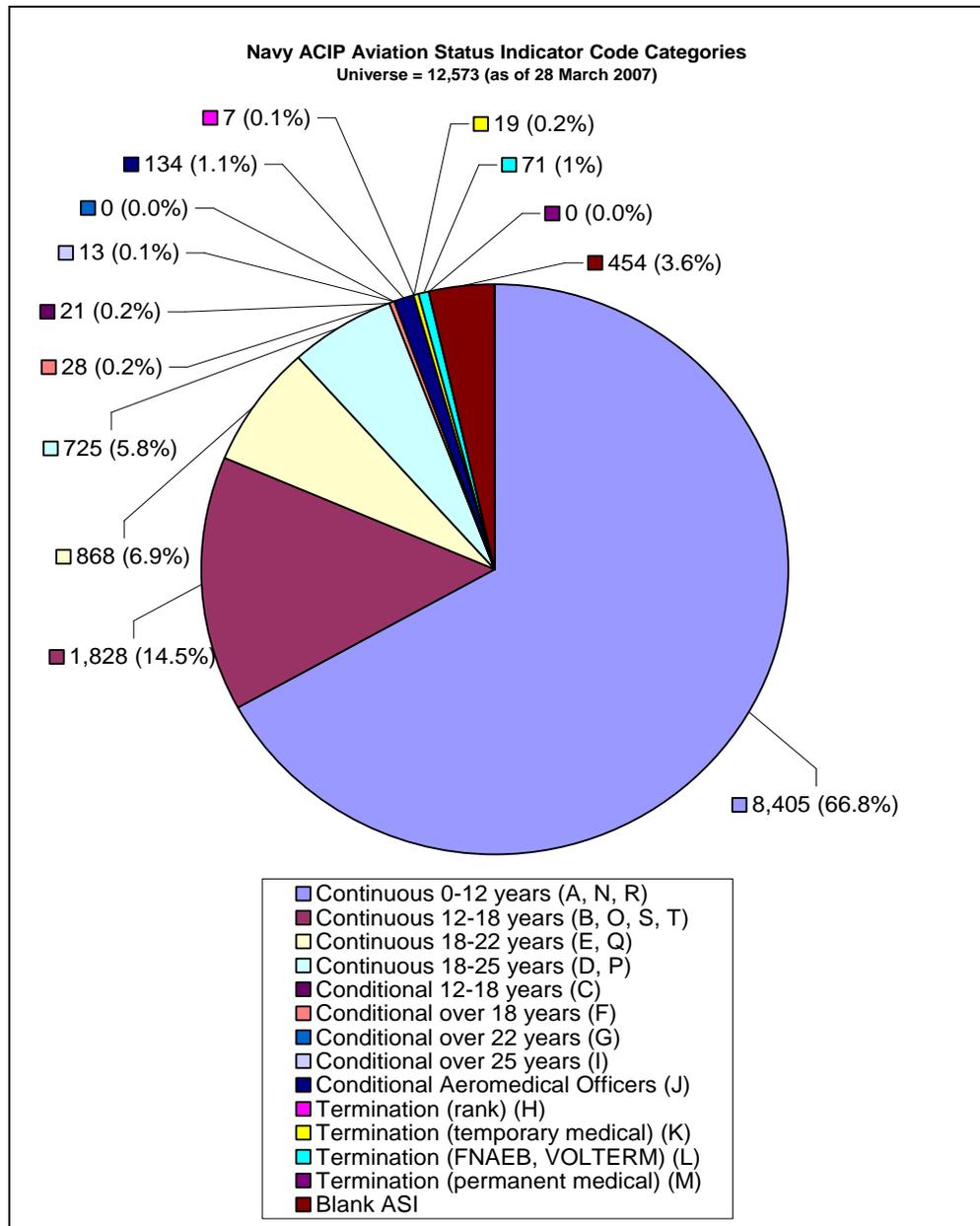


Exhibit G:

Conditional Navy Aviation Career Incentive Pay Categories

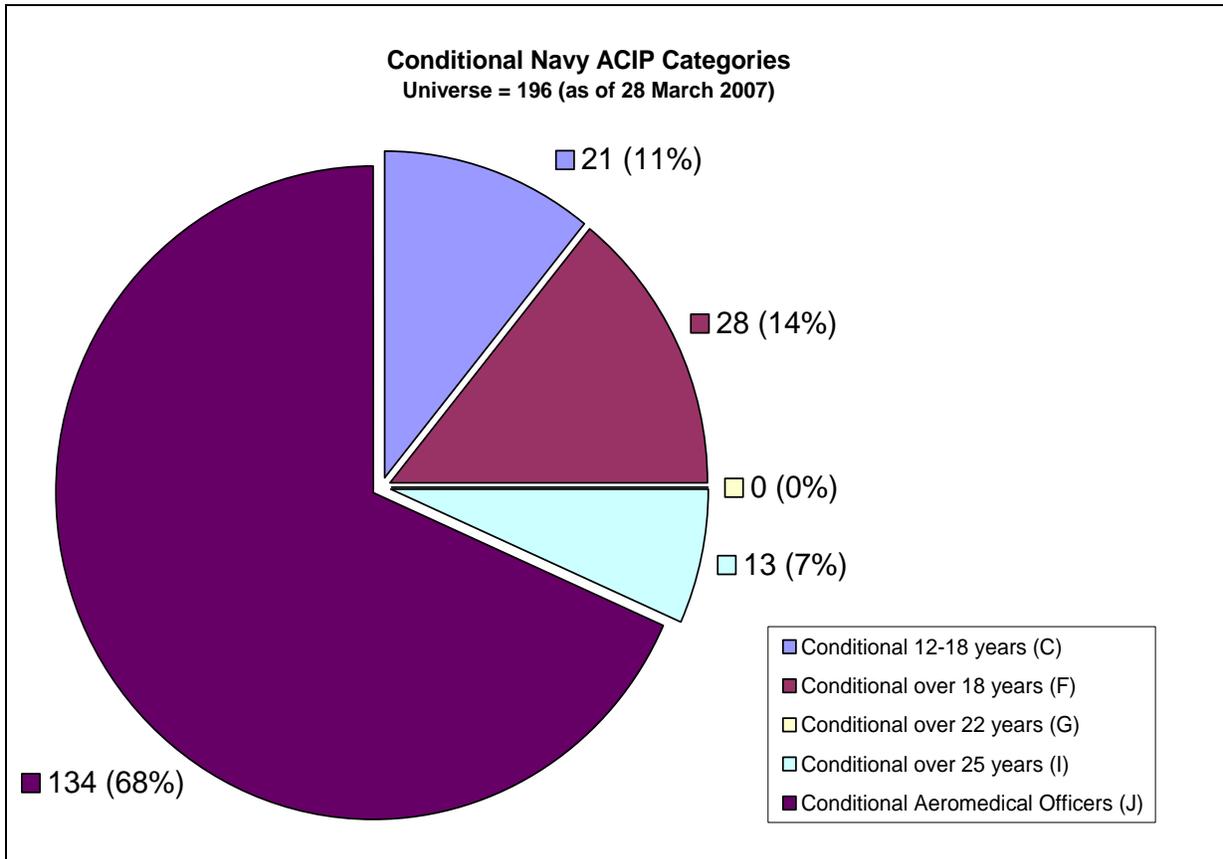
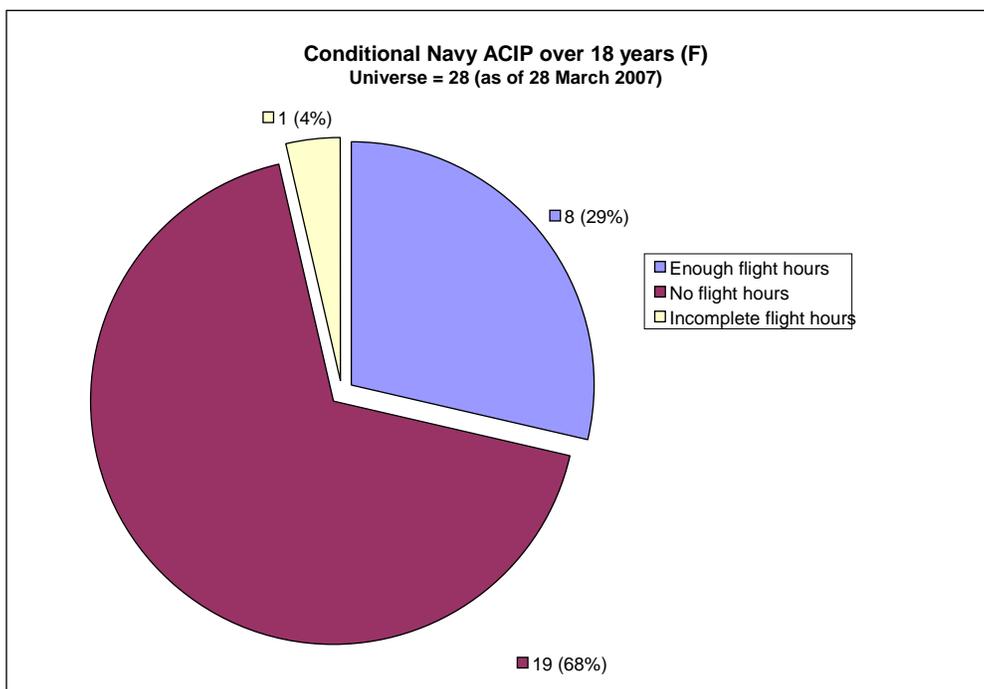
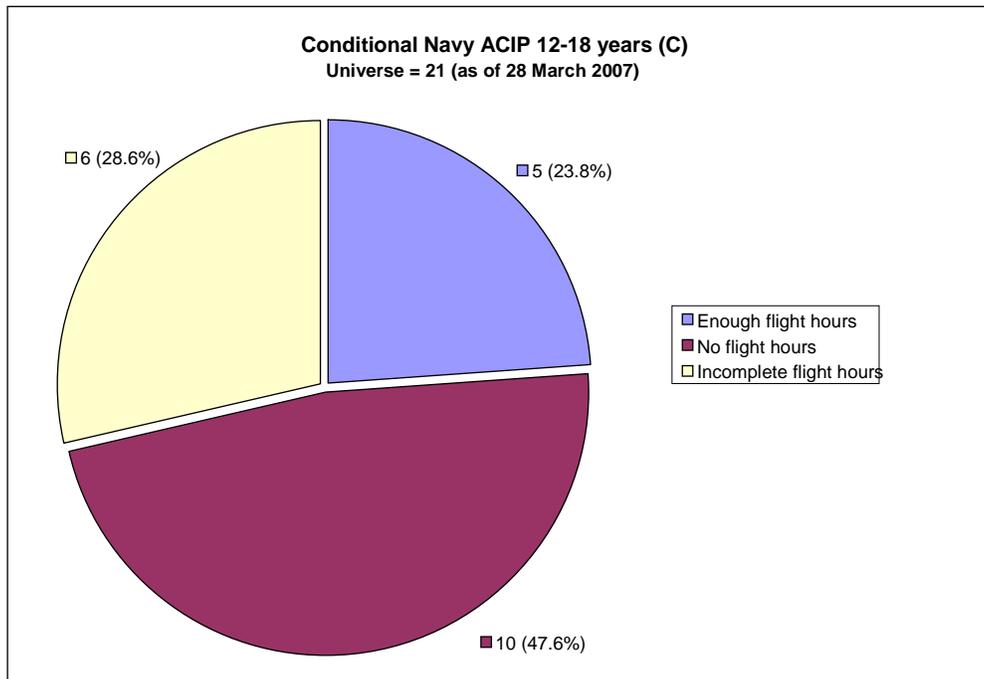


Exhibit H:

Navy Aviation Career Incentive Pay Conditional Breakout Results



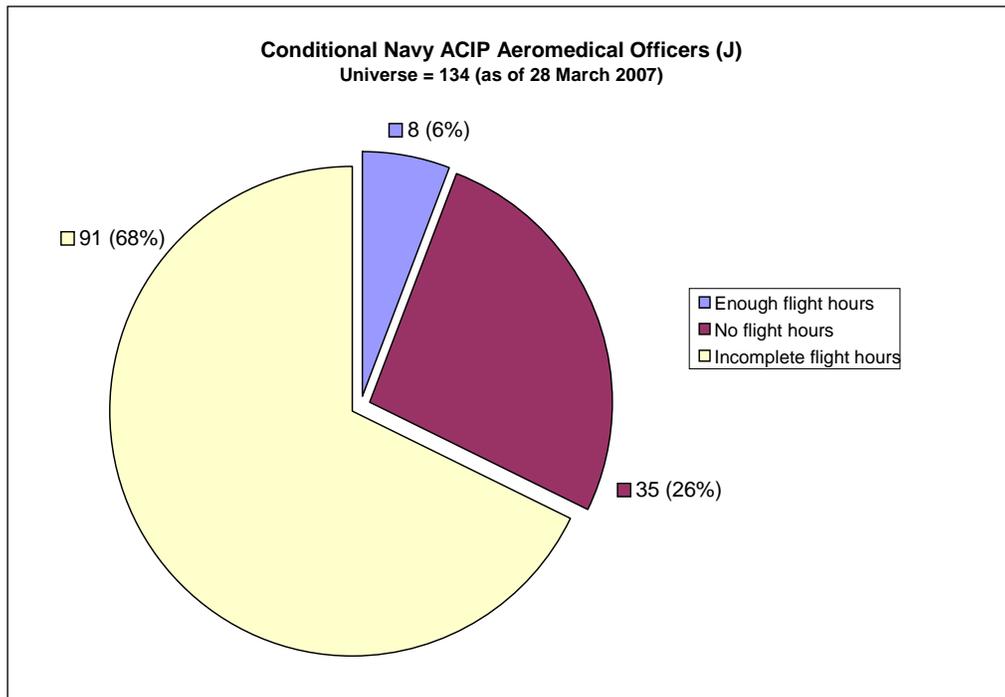
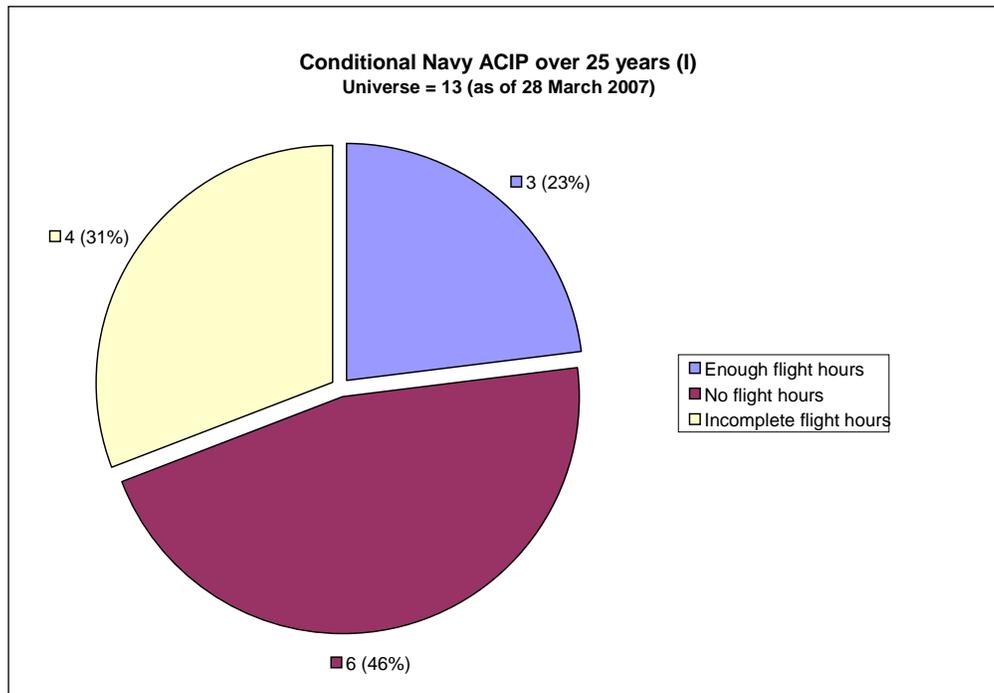


Exhibit I:

Termination Navy Aviation Career Incentive Pay Categories

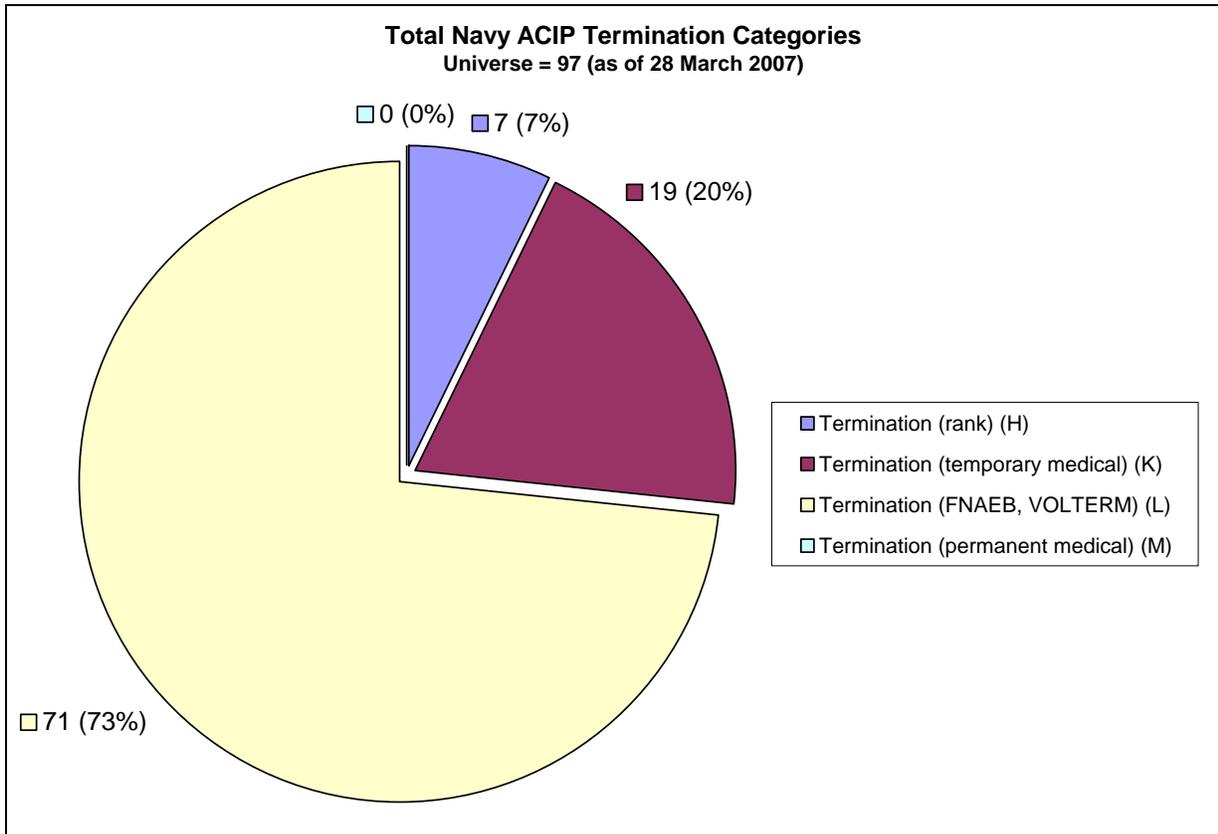
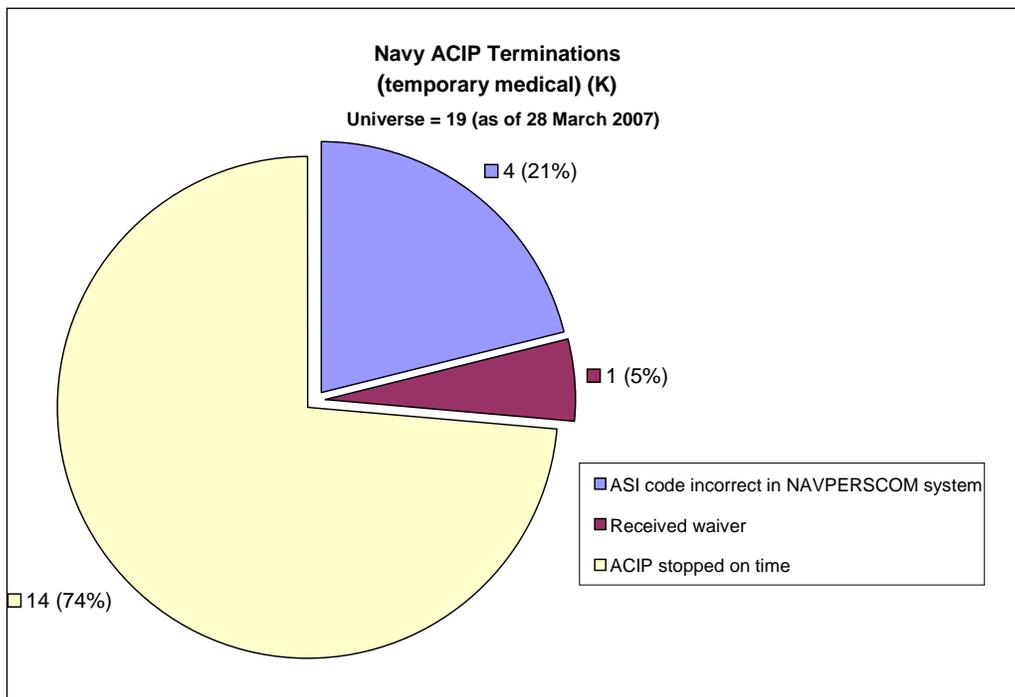
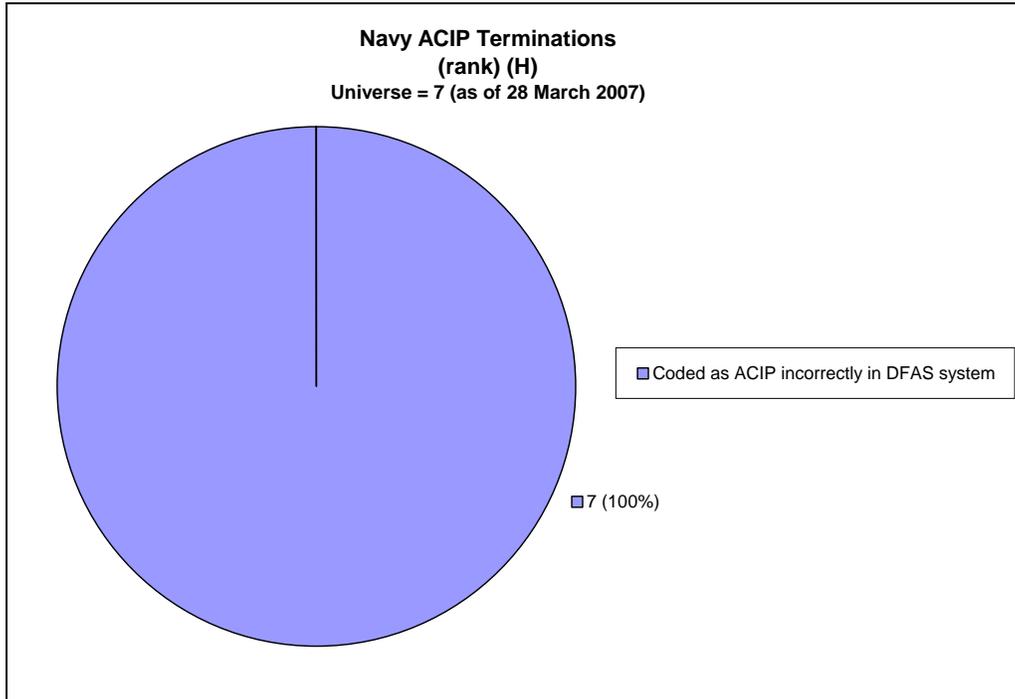


Exhibit J:

Navy Aviation Career Incentive Pay Termination Breakout Results



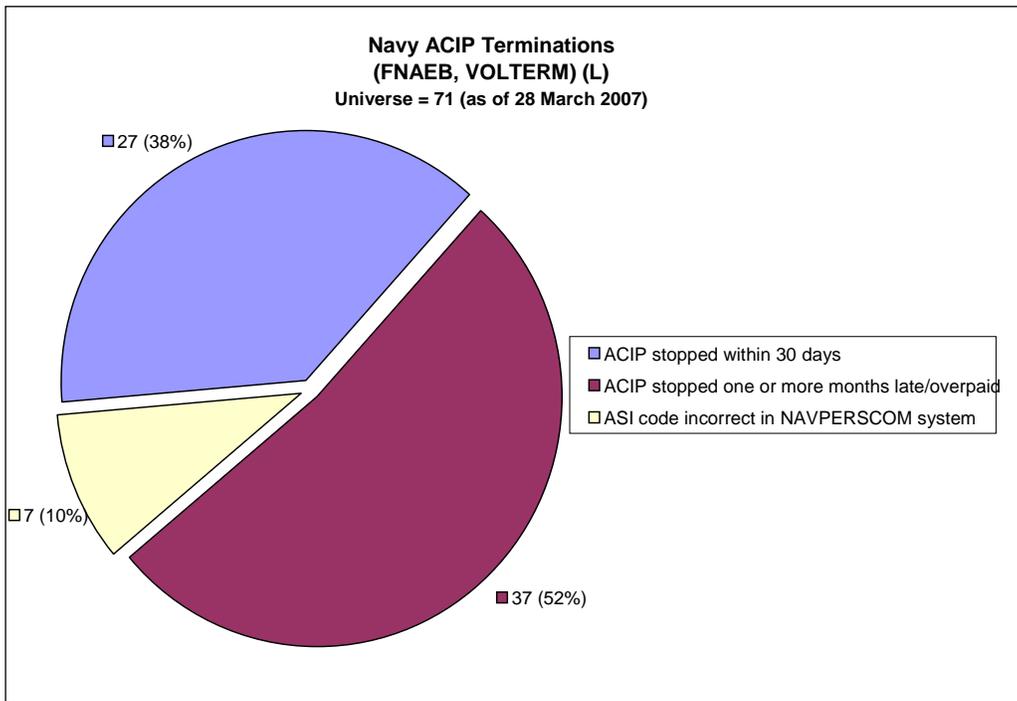


Exhibit K:

Navy Aviation Career Incentive Pay Blank Aviation Status Indicator Codes by Designator

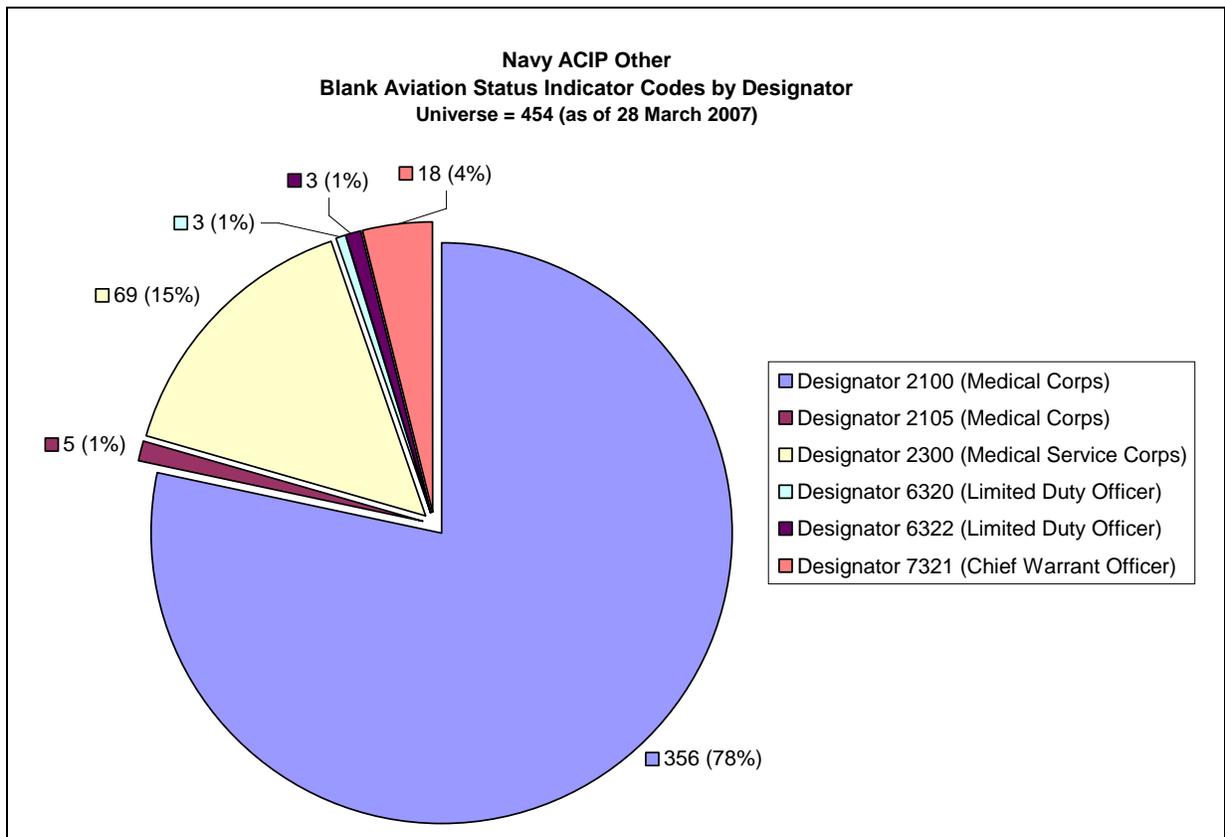


Exhibit L:

Monthly Aviation Career Incentive Pay Rates for Officers

MONTHLY AVIATION CAREER INCENTIVE PAY (ACIP) RATES FOR OFFICERS (EFFECTIVE OCTOBER 17, 1998) (notes)	
Years of Aviation Service (Including Flight Training) as an Officer	Monthly Rate
2 or less	\$125
Over 2	156
Over 3	188
Over 4	206
Over 6	650
Over 14	840
Over 22	585
Over 23	495
Over 24	385
Over 25	250

NOTES:

1. A rated officer in pay grade O-7 may not be paid incentive pay at a rate greater than \$200 per month.
2. A rated officer in pay grade O-8 or above may not be paid incentive pay at a rate greater than \$206 per month.
3. A rated officer in pay grade above O-6 may not be paid incentive pay after completion of 25 years of aviation service.
4. A rated warrant officer with over 22, 23, 24, or 25 years of aviation service, will continue to receive the rate prescribed for officers with over 14 years of aviation service.

Exhibit M:

Discussion on Management Concerns

The Deputy Chief of Naval Operations (DCNO) (Total Force) (N1) signed out the responses for all eight recommendations. He concurred that the ACIP program was not managed in full compliance with Federal and Department of Defense (DoD) guidelines, concurred with all eight recommendations, and planned for actions to be taken to improve the Aviation Career Incentive Pay (ACIP) program. DCNO (Total Force) (N1) also expressed concern that the estimated overpayments of \$14 million over the future 6-year period were overstated due to assumptions made during the audit.

After reexamining our analysis, we remain confident that our assumptions were appropriate for the intended purpose of providing a future period estimate. We based our calculations on the information available during the audit and used a judgmental sample to extrapolate our results. Because of the variables⁷⁰ in overpayments, we did not claim the possible estimated overpayments as a specific benefit, but in our opinion, it is important to quantify the possible future monetary impact to the Navy. As stated in the report, correcting the weaknesses noted, could allow Naval Personnel Command (PERS-435) to avoid a possible estimated \$14 million in overpayments over the 6-year Future Years Defense Plan.

DCNO (Total Force) (N1) had specific concerns about the following:

- Calculations for determining qualifying months for conditional flight pay recipients;
- Use of the average overpayment for aeromedical officers; and
- Reliance on Naval Aviation Logistics Command/Management Information System (NALCOMIS)/Logistics Management Decision Support System (LMDSS) data.

Calculations for Determining Qualifying Months for Conditional Flight Pay

DCNO (Total Force) (N1) concern: Calculations for determining qualifying months for conditional flight pay recipients were simplified for the purposes of the audit.

Naval Audit Service comments: We disagree. We used the carry forward/carry back rules outlined in the DoD Financial Management Regulation (FMR), specifically the rules (and exceptions) regarding application of flight hours [carry forward rules (hours flown during the last 5 preceding months may be applied) and carry back rules (application of hours flown to the prior month or months if the officer entered a grace

⁷⁰ Variables include pay rate schedule, years of aviation service, number of flight hours flown per month, etc.

period)] in determining eligibility for each officer's unique circumstances. In those instances where we obtained flight hours from log books and LMDSS, we used the larger number of monthly flight hours to give the officer credit for flying.

Use of the Average Overpayment for Aeromedical Officers

DCNO (Total Force) (N1) concern: The average overpayment for aeromedical officers with ASI codes was assumed to be the average overpayment for aeromedical officers without ASI codes; this is not an accurate assumption because the audit's average overpayment estimate for aeromedical officers with ASI codes is greater than the current⁷¹ average payment to aeromedical officers without ASI codes.

Naval Audit Service comments: We disagree. The audit focused on the flight hours and corresponding ACIP payments for officers from March 2005 through March 2007, which was the most current data at the time. We did not audit current payments. We compared flight hours to pay data from March 2005 through March 2007 to determine if officers were eligible to receive ACIP for the months they were paid. Officers, both with and without an ASI code, received ACIP from March 2005 through March 2007 in amounts ranging from \$125-\$840 a month (monthly ACIP rates are based on years of aviation service). We noted in the report that although there are variables⁷² (monthly payment is one of those variables) that may affect ACIP overpayments, if the conditions for the untested population were the same as those for the population we did test, the possibility exists that officers were overpaid. Therefore we quantified the possible future monetary impact to the Navy if weaknesses noted were not corrected. Since our calculations were based on information available during the audit, were made using a judgmental sample, and because of the variables in overpayments, we did not identify the funds as being available for other use.

Reliance on NALCOMIS/LMDSS Data

DCNO (Total Force) (N1) concern: The audit made an assumption to primarily rely on NALCOMIS/LMDSS data for conditional ACIP. NALCOMIS is not a perfect method of determining flight hour accumulation for conditional ACIP recipients. In these cases, the individual is responsible for maintaining a personal flight log. Since flight logs were difficult for the audit team to obtain, the decision was made to primarily rely on incomplete NALCOMIS/LMDSS data for the entire conditional ACIP population.

⁷¹ Based on November 2008 ACIP payments.

⁷² Variables include pay rate schedule, years of aviation service, number of flight hours flown per month, etc.

Naval Audit Service comments: We agree that we did rely on LMDSS data to obtain flight hours. We did so because log book flight hour information was not provided to us for each officer, and because LMDSS⁷³ is the central repository for flight hours. As stated in the report, we based our analysis on the flight hour information available for each month from March 2005 through March 2007. In those instances where we obtained flight hours from log books and LMDSS, we used the larger number of monthly flight hours to give the officer credit for flying.

⁷³ According to the Naval Air Systems Command (NAVAIR), LMDSS owner, and loaded into the Logistics Management Decision Support System (LMDSS) and Decision Knowledge Programming for Logistics Analysis and Technical Evaluation (DECKPLATE) data warehouses. These systems are the central repositories. If an officer did not have flight hours listed in LMDSS, then they did not fly, used the Sierra Hotel Aviation Readiness Program to input flight hours, or were flying with the personnel exchange program and LMDSS would not have their flight hours.

Appendix:

Management Response Letter from Deputy Chief of Naval Operations (DCNO) (Total Force) (N1)



DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
2000 NAVY PENTAGON
WASHINGTON, D.C. 20350-2000

7000
Ser N1/127012
17 Feb 09

From: Deputy, Chief of Naval Operations (Manpower, Personnel,
Training and Education) (N1)
To: Assistant Auditor General for Manpower and Reserve
Affairs Audits
Subj: NAVY AVIATION CAREER INCENTIVE PAY (ACIP) (DRAFT AUDIT
REPORT N2007-NFO000-0029)
Ref: (a) NAVAUDSVC memo N2007-NFO000-0029 of 28 November
2008
(b) SECNAV Instruction 7510.7F, "Department of the Navy
Internal Audit"
Encl: (1) Response to Navy Aviation Career Incentive Pay (ACIP)
Draft Audit Report (N2007-NFO000-0029)

1. This letter is submitted in response to reference (a) and per the requirements of reference (b).
2. I concur with the findings and recommendations of the Navy Aviation Career Incentive Pay Draft Audit Report, reference (a), as noted in enclosure (1).
3. My point of contact for questions regarding Aviation Career Incentive Pay is [REDACTED] PERS-435/BUPERS-313, Aviation Officer Community Manager at [REDACTED]

[REDACTED]

FOIA (b)(6)

FOIA (b)(6)

**MANAGEMENT RESPONSE TO NAVAL AUDIT SERVICE (NAVAUDSVC) DRAFT
AUDIT REPORT NAVY AVIATION CAREER INCENTIVE PAY (ACIP) (N2007-
NF0000-0029 DATED 28 NOVEMBER 2008**

- Ref: (a) Draft Audit Report of Navy Aviation Career Incentive Pay, dated 28 NOV 08
 (b) DOD Financial Management Regulation (FMR) 7000.14-R, Volume 7a, Chapter 22:
 Aerial Flights
 (c) Defense Joint Military Pay System MMPA Guide, Flying Duty and Hazardous Duty
 Incentive Pay
 (d) U. S. Code, Title 37, Chapter 5, Section 301a. Incentive Pay: Aviation Career
 (e) OPNAV Instruction 3710.7T, Chapter 11: General Instructions on Duty Involving Flying
 and Annual Flight Performance Requirements
 (f) BUPERS Instruction 7220.29A, Aviation Career Incentive Pay (ACIP)

FINDING 1: NAVY AVIATION CAREER INCENTIVE PAY COMPLIANCE

1. I concur that the Aviation Career Incentive Pay (ACIP) program was not managed in full compliance with Federal and DOD guidelines as stated in reference (a); however, I do not concur with the estimated overpayments of \$14 million over a 6 year period. This estimate is overstated due to a number of assumptions made during the execution of the audit.

a. Calculations for determining qualifying months for conditional flight pay recipients were simplified from the DOD Financial Management Regulation (FMR) Volume 7a, Chapter 22, paragraph 220203, reference (b), for the purposes of this audit. In the draft audit report, the eligibility requirement to receive conditional flight pay is summarized as four (4) hours in a one month period, using carry-forward and carry-back rules as outlined in DOD FMR. The actual requirement is during one calendar month, 4 hours of aerial flight; however, if an officer does not meet this requirement, then the hours flown in the preceding 5 months which have not been used already to qualify for ACIP may be applied to meet the 4 hour requirement, or the officer may fly 8 hours in two consecutive months, or he may fly 12 hours in three consecutive months. Additional exceptions to these requirements are outlined in the DOD FMR.

b. Inaccurate Aviation Status Indicator (ASI) codes are a known weakness in the computer systems used to manage ACIP. Due to this known weakness, the ACIP program is not managed using ASI codes. According to the Defense Joint Military Pay System (DJMPS) Procedures Training Guide (PTG), reference (c), members under Format Identifier (FID) 12 are receiving either ACIP under crew status (1) for crew members or Hazardous Duty Incentive Pay (HDIP) for flying under a crew status of (2) or (3), which is for non-crew members or non-rated officer crew members, respectively. Currently, blank ASI codes are possessed by 377 officers who are receiving ACIP or HDIP under FID 12. Of these, 335 officers with blank ASI codes and 22 officers with incorrect ASI codes are flight surgeons, aerospace experimental psychologists, aerospace physiologists, or aerospace optometrists (aeromedical officers) who receive conditional flight pay. These members should have an ASI code of "J" and are all currently managed by their designator and not by their ASI code. In the audit's calculation of estimated overpayments, the average overpayment for aeromedical officers with an ASI code was assumed, without sampling, to be the average overpayment for aeromedical officers without an ASI code.

1

UNCLASSIFIED

Enclosure (1)

This is not an accurate assumption in that the audit's average overpayment estimate for aeromedical officers with an ASI code is greater than the current average payment to aeromedical officers without an ASI code. In recent monthly reviews of ACIP payments, aeromedical officers without an ASI code have accumulated significantly less aviation service compared to aeromedical officers with an ASI code and therefore qualify for significantly lower ACIP entitlement rates. Based on all November 2008 ACIP payments, the current average monthly payment to aeromedical officers with an ASI code is \$545, while the average monthly payment to aeromedical officers without an ASI code is approximately \$235. Additionally, 42 officers receiving HDIP for flying duty have blank ASI codes because they are not aeronautically designated and do not require an ASI code. No Pilot, Naval Flight Officer, Aerospace Engineering Duty Officer, or Aviation Operations Officer currently receiving FID 12 incentive pay has a blank ASI code.

c. Finally, the audit concentrated on six (6) percent of all ACIP-eligible recipients, the majority of whom receive conditional flight pay and are required to meet a monthly flight hour benchmark to maintain their eligibility for the incentive. The audit made the assumption that if an individual's flight hours were not recorded in the Logistics Management Decision Support System (LMDSS) then they did not fly. See footnote (17) of reference (a). LMDSS data is collected via Naval Aviation Logistics Command Management Information System (NALCOMIS) at the operational level. Since conditional ACIP recipients may fly as a guest aircrew (not on a regular basis with any given unit), their social security number may not be resident in NALCOMIS or entered into NALCOMIS by the mission commander during the maintenance debrief. Therefore, NALCOMIS is not a perfect method of determining flight hour accumulation for conditional ACIP recipients. In these cases, the individual is responsible for maintaining his or her personal flight log. Since flight logs were difficult for the audit team to obtain, the decision was made to primarily rely on incomplete NALCOMIS/LMDSS data for conditional ACIP recipients and to extrapolate their findings within the tested sample set to the entire conditional ACIP population. This assumption contributed to the audit's estimated overpayment of \$14 million over a six year period.

d. Due to these assumptions, some of the weaknesses expressed in the audit are overstated, which resulted in an overstated impact.

Recommendation 1: Establish Chief of Naval Operations guidance for managing Navy Aviation Career Incentive Pay (ACIP).

Management Response: Concur. Current guidance for ACIP is contained in Title 37 U.S. Code, Section 301a - Incentive Pay: Aviation Career (reference (d)); DOD Financial Management Regulations 7000.14-R, Volume 7a, Chapter 22 Aerial Flights (reference (b)); OPNAV Instruction 3710.7T, Chapter 11: General Instructions on Duty Involving Flying and Annual Flight Performance Requirements (reference (e)), and BUPERS Instruction 7220.29A, Aviation Career Incentive Pay (ACIP) (reference (f)). An additional OPNAV instruction will be issued to enforce existing legislation and regulations concerning the ACIP Program. In addition, this instruction will include how conditional ACIP will be managed, as well as who will be responsible for flight hour tracking, annual flight hour verification, and annual payment of conditional flight pay. A NAVADMIN will be released concurrent with approval of the OPNAV

instruction to communicate the new flight hour verification process to conditional flight pay recipients throughout the fleet.

Projected completion date for this OPNAV instruction and NAVADMIN is 31 January 2010.

Recommendation 2: Develop and implement metrics for tracking and testing Navy ACIP.

Management Response: Concur. All payments under FID 12 are now provided monthly to the ACIP Program Manager by DFAS and matched with all officers in the Navy. The result is a spreadsheet of all officers receiving FID 12 pay regardless of ASI code or designator. Subsequently, the spreadsheet is sorted first by designator, then by Aviation Service Entry Date (ASED), and finally by Months of Flying (MOF). Using these criteria, Hazardous Duty Incentive Pay recipients, conditional ACIP recipients, and continuous ACIP recipients are identified. For non-aeronautically designated officers, detailers and community managers are contacted to ensure that the officer in question is authorized to receive Hazardous Duty Incentive Pay for flying, and the ACIP Program Action Officer ensures that the pay is the correct amount. Then conditional ACIP recipients who are not under Duty in a Flying Status involving Flying (DIFOPS) orders are identified, followed by conditional ACIP recipients who are not in a DIFOPS billet. Finally, continuous ACIP recipients who are no longer aeronautically designated are identified. Once identified, subject officers are contacted, pay is stopped, and when appropriate, recouped for officers not entitled to ACIP. An annual flight hour verification for conditional ACIP recipients will commence at the end of FY-09 for that fiscal year. The ACIP Program Management Office has neither the authorized manpower to track flight hours monthly nor does the DOD FMR facilitate conditional ACIP calculation on a monthly basis. Therefore, an annual validation of flight hours and payment of conditional ACIP entitlement is the most practical approach, producing the most accurate results with the additional man-hours proposed. FY-09 will be a transition year to this new annual payment system, requiring recoupment if individuals do not meet the flight hour requirements detailed in the DOD FMR. However, the new annual payment system will be fully established in FY-10, monthly installments of conditional ACIP will no longer be offered, and conditional ACIP will only be paid after flight hour verification is complete at the end of FY-10. Completion of development of metrics for tracking and testing Navy ACIP is complete. Full implementation of metrics for tracking and testing Navy ACIP will be complete on 31 January 2010.

Recommendation 3: Assess current Navy personnel Command (NAVPERSCOM) (PERS-43) manpower requirements with regard to the management of Navy ACIP and, if needed, increase manning.

Management Response: Concur. Prior to the discussion draft audit report received by the ACIP Program Manager in August 2008, one officer held the collateral duty of ACIP Program Management, with oversight by the Aviation Officer Community Manager (BUPERS-313/PERS-435). Due to the increased requirements placed on the ACIP Program Manager as a result of this audit, NAVPERSCOM (PERS-43) is currently managing the program with one full time officer, the ACIP Program Action Officer. The Navy Lieutenant assigned as the ACIP Program Action Officer is a temporary fill and transfers in a few months. Oversight continues to be provided by the Aviation Officer Community Manager (BUPERS-3/PERS-435) but will

transition to the ACIP Program Management Office (PERS-435). The requirement to review the flight hours for approximately 600 to 800 conditional ACIP recipients on an annual basis is not possible with the current manning levels and systems available to the ACIP Program Manager. Funding has been directed to establish the ACIP Program Action Officer position as a full-time billet under the direction of the ACIP Program Manager so that this billet is not gapped upon the transfer of the current action officer. In addition, a manpower analysis study has been directed to determine if additional manpower is required to manage the program to the degree required by current regulations with an expected study completion date of 30 September 2009.

Recommendation 4: Determine ACIP eligibility for officers in a conditional ACIP Aviation Status Indicator code. For officers found to be ineligible, determine the amounts of any overpayments, and initiate necessary recoupment actions.

Management Response: Concur. Due to the known weaknesses in the accuracy of ASI codes, officers meeting the following criteria are currently being evaluated for their entitlement to conditional ACIP:

- a. with a conditional ASI code;
- b. eligible for conditional flight pay due to their 2100 (flight surgeons) or 2300 (aerospace experimental psychologists, aerospace physiologists, and aerospace optometrists) designation;
- c. not meeting their months of flying (MOF) requirement at their 12 or 18 year gate and do not have SECNAV-approved waiver;
- d. and non-flag (O6 pay grade and junior) aviators with over 25 years of aviation service.

For any officers found not to be in receipt of DIFOPS orders or not assigned to a DIFOPS billet, conditional ACIP is stopped and recouped from the date of their last eligibility for ACIP under these rules.

(1) At the end of FY-09, to ensure officers eligible to receive conditional flight pay are meeting their flight hour requirements as stated in the DOD FMR, eligible officers will be required to submit their flight hours to the ACIP Program Manager, with an endorsement from their commanding officer. These flight hours will be loaded into a conditional flight pay determination algorithm which will calculate the qualifying conditional ACIP amount by month for each officer. The algorithm is currently under development as a joint effort between the ACIP Program Manager and the Director of the Institute for Force Management Sciences at Navy Personnel Research, Studies, and Technology (NPRST). For officers found to be ineligible, the amounts of any overpayments will be determined, and necessary recoupment actions initiated.

(2) Beginning in FY-10, all conditional ACIP will be paid on an annual basis, after officers have submitted their annual flight hour accumulation for verification to the ACIP Program Manager. This significant change in the management of conditional ACIP is currently being promulgated to detailers of the affected communities, such as aviators, flight surgeons, aerospace experimental psychologists, aerospace physiologists, and aerospace optometrists. The current BUPERS Instruction 7220.29A will be replaced by an OPNAV instruction which will codify the

changes in management of conditional ACIP. The strategic communication plan to announce the execution changes to the fleet will be promulgated through the release of a NAVADMIN. The NAVADMIN will be published upon approval of the new OPNAV instruction. Target completion date is 31 January 2010.

Recommendation 5: Determine ACIP eligibility for officer with incorrect and blank Aviation Status Indicator codes. For officers found to be ineligible, determine the amounts of any overpayments, and initiate necessary recoupment actions.

Management Response: Concur. A review has determined that officers with blank ASI codes are predominately 2100 (flight surgeons) or 2300 (aerospace experimental psychologists, aerospace physiologists, and aerospace optometrists) designated officers, or officers being paid Hazardous Duty Incentive Pay (HDIP) for flying. Officers being paid HDIP for flying are not required to have ASI codes. The HDIP rate for flying is based on the officer's rank or, if the officer is a non-crew member, then HDIP for flying is a flat rate of \$150 per month. Aviation service is not tracked, nor is it required to be tracked, for non-aeronautically designated officers receiving HDIP for flying. In some cases, officers with incorrect ASI codes have been redesignated or have received a waiver for MOF at their 12 or 18 year gate. These officers are currently being evaluated to determine their eligibility for ACIP at this time. For officers found to be ineligible, overpayments are being calculated and recoupment initiated.

Annual flight hour verification for conditional ACIP recipients will commence at the end of FY-09 for that fiscal year. The ACIP Program Management Office has neither the manpower to track flight hours monthly nor does the DOD FMR facilitate the conditional ACIP calculation on a monthly basis. Therefore, an annual validation of flight hours and payment of conditional ACIP entitlement is the most practical approach, producing the most accurate results with the additional man-hours proposed. FY-09 will be a transition year to this new annual payment system, requiring recoupment if individuals do not meet the flight hour requirements detailed in the DOD FMR. However, the new annual payment system will be fully established in FY-10, monthly installments of conditional ACIP will no longer be made, and conditional ACIP will only be paid after flight hour verification is complete at the end of FY-10. Please see section (1) and responses to Recommendations (2) and (4) in this enclosure for additional explanation of incorrect and blank ASI codes. Determination of ACIP eligibility for officers with incorrect and blank ASI codes as well as determination of amounts of overpayments for officers found to be ineligible and initiation of necessary recoupment action will be complete by 31 January 2010.

Recommendation 6: Develop modifications to the personnel systems to facilitate reviews of ACIP payments to Navy officers to ensure the systems show the correct aviation Status Indicator codes for the officers.

Management Response: Concur. The ACIP Program Manager is working with programmers on correcting ASI codes for officers without improperly affecting pay. Previous attempts to correct ASI codes caused pay to be incorrect. The ACIP Program Manager is targeting a 31 January 2010 completion date for this action.

Recommendation 7: Establish scheduled reviews of Navy ACIP data to ensure officers are receiving ACIP as entitled, and are not being paid inappropriately.

Management Response: Concur. Both monthly and annual scheduled reviews have been established. All payments under FID 12 are now provided monthly to the ACIP Program Manager by DFAS and reviewed by the ACIP Program Action Officer. The resulting spreadsheet of all officers receiving FID 12 pay regardless of ASI code or designator is analyzed. The spreadsheet is sorted first by designator, then by Aviation Service Entry Date (ASED), and finally by Months of Flying (MOF). Using these criteria, Hazardous Duty Incentive Pay recipients, conditional ACIP recipients, and continuous ACIP recipients are identified. For non-aeronautically designated officers, detailers and community managers are contacted to ensure that the officer in question is authorized to receive Hazardous Duty Incentive Pay for flying, and the ACIP Program Action Officer ensures that the pay is the correct amount. Then conditional ACIP recipients who are not under DIFOPS orders are identified, followed by conditional ACIP recipients who are not in a DIFOPS billet. Finally, continuous ACIP recipients who are no longer aeronautically designated are identified. Once identified, subject officers are contacted, pay is stopped, and when appropriate, recouped for officers not entitled to ACIP. Annual flight hour verification for conditional ACIP recipients will commence at the end of FY-09 for that fiscal year. Action on this recommendation is considered complete.

Recommendation 8: Establish controls that provide oversight to ensure: (1) existing improper over-and under-payments are promptly ceased; (2) recoupments of overpayments are initiated as necessary; (3) under-payments are identified and reimbursed as necessary, and (4) future and improper payments are prevented.

Management Response: Concur. The monthly reviews conducted by the ACIP Program Management Office include action by the Action Officer with oversight by the Program Manager. Future and improper payments have been reduced by allowing only a limited number of people to start, stop, and make adjustments to ACIP. Existing improper over and under payments are identified by a comprehensive review of conditional ACIP installments each month. Recoupment, when appropriate, is initiated by the ACIP Program Management Office. Changes to legacy computer systems used to manage and track the ACIP entitlement have been submitted and when implemented will force an automated stop of ACIP entitlement for officers losing eligibility based on rules regarding years of aviation service and months of flying. At the end of FY-09, a retro-active review of flight hours will correct any potential over and under payments.

At the end of FY-09, all officers that meet the requirements for the conditional ACIP entitlement will be required to submit their flight hours. Flight hour verification will be provided in the form of a letter from the member, endorsed by the Commanding Officer, which states the member's flight hours for the previous 18-month period as 18 months of flight hour data is required to accurately verify FY-09 flight pay entitlement in accordance with the DOD FMR. Since FY-09 is a transition year to the new conditional ACIP management system, monthly installments will continue to be awarded throughout FY-09. Individuals that received the entitlement via monthly installment but are not able to verify their flight hours will have overpayments recouped. Beginning in FY-10, the conditional ACIP entitlement will no longer be awarded monthly. Once

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entitlement is verified, the ACIP Program Management Office will contact DFAS to award an annual lump sum payment of the entitlement for which they qualify. Annual verification of flight hour data will ensure accurate implementation of DOD FMR regulations and eliminate the requirement to schedule recoupments for unearned installments. The ACIP Program Manager and Program Action Officer will be responsible for annual flight hour verification and annual payment of conditional flight pay.

The key to implementing controls will be the establishment of a hierarchy of control for ACIP-related system inputs with the ACIP Program Management Office maintaining the top tier of control. This will prevent other entities in the pay system overriding the ACIP Program Manager's input based on the desires of an ACIP constituent. Discrepancies with individual recipients will therefore be answered directly by the ACIP Program Manager for the over 12,000 ACIP recipients. In addition to the current comprehensive monthly review of ACIP recipients and the annual flight hour verification for conditional ACIP recipients, the ACIP Program Manager has initiated reviews of ACIP requests for officers reporting to Pensacola and Corpus Christi Personnel Support Detachments (PSD) for accuracy. All aviators and flight surgeons begin their aviation careers at these locations and the PSDs receive the ACIP start requests for these officers. These controls are in development and are expected to be established by 31 January 2010.

2. Funds Potentially Available for Other Use: \$10,400. NAVPERSCOM (PERS-435) concurs with the statement of "Funds Potentially Available for Other Use," page (13) of reference (a), in the amount of \$10,400 that resulted from this audit.

3. Information to be Withheld from Release Under the Freedom of Information Act (FOIA). NAVPERSCOM (PERS-435) recommends, and I concur, that the statements contained in the report on page (3) under 'Audit Results,' "Also, contrary to statutory requirements, PERS-435 believed that officers should receive conditional ACIP when under flying orders, even if not satisfying minimum flight hour requirements" and on page (9) under 'Reasons,' "PERS-435's perspective was that officers should receive conditional ACIP when under flying orders, even if not satisfying minimum flight hour requirements" be withheld from release to the press or public under the Freedom of Information Act (FOIA) under exemption number (5) due to it containing information considered privileged in litigation under the deliberative process privilege. Specifically, these statements are non-factual portions of a report that contained staff evaluations and opinions. These statements are also part of an audit that pertained to the internal management and administration of a DOD Component.

Naval Audit Service does not agree that the information contained on the pages noted above, should be withheld from release under the Freedom of Information Act. The information noted is standard for a report of this type, and has in the past, been released under the discretion of the Auditor General of the Navy. Should this report be requested under the Freedom of Information Act, the noted information will be available to the requestor.

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