

# Inspector General

United States  
Department of Defense



The Navy Commercial Bill Pay Office, in Naples, Italy,  
Needs to Identify and Report Improper Payments

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## Acronyms and Abbreviations

ASN (FM&C)	Assistant Secretary of the Navy (Financial Management and Comptroller)
BAM	Business Activity Monitoring
CBPO	Commercial Bill Pay Office
CNIC	Commander, Navy Installations Command
DFAS	Defense Finance and Accounting Service
DoD FMR	DoD Financial Management Regulation
IPERA	Public Law 111-204, "Improper Payments Elimination and Recovery Act of 2010," July 22, 2010



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

April 30, 2013

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

SUBJECT: The Navy Commercial Bill Pay Office, in Naples, Italy, Needs to Identify and Report Improper Payments (Report No. DODIG-2013-077)

We are providing this report for your review and comment. The Naples Commercial Bill Pay Office did not comply with the requirements of the Improper Payments Elimination and Recovery Act and the implementing DoD Regulation. The Naples Commercial Bill Pay Office did not perform reviews to identify and report improper payments from the 18,688 payments, valued at approximately \$712.7 million, processed through the One Pay system from July 1, 2011 through June 30, 2012.

DoD Directive 7650.3 requires that recommendations be resolved promptly. The Assistant Secretary of the Navy (Financial Management and Comptroller) and the Director of Operations, Defense Finance and Accounting Service, did not provide comments to the draft report. Therefore, we request comments on those recommendations by May 30, 2013.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send a Microsoft Word (.doc) file and a .pdf file containing your comments to [audclev@dodig.mil](mailto:audclev@dodig.mil). Comments provided to the final report must be marked and portion-marked, as appropriate, in accordance with DoD Manual 5200.01. Copies of management comments must contain the actual signature of the authorizing official. We are unable to accept the /Signed/symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 664-5945).

A handwritten signature in cursive script that reads "Lorin T. Venable".

Lorin T. Venable, CPA  
Acting Assistant Inspector General  
DoD Payments and Accounting Operations





# Results in Brief: The Navy Commercial Bill Pay Office in Naples, Italy, Needs to Identify and Report Improper Payments

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## What We Did

The objective of the audit was to determine whether improper payments processed through the One Pay system at Navy activities were identified and reported.

## What We Found

The Naples Commercial Bill Pay Office did not perform a review to identify or report improper payments from any of the 18,688 payments, valued at \$712.7 million, processed through the One Pay system from July 1, 2011 to June 30, 2012. In addition, the Naples Commercial Bill Pay Office did not use the available automated tool to assist in identifying potential improper payments. This occurred because the Assistant Secretary of the Navy (Financial Management and Comptroller) did not clearly establish which organizations, offices, and personnel were responsible for identifying and reporting improper payments at this unique payment-processing location.

As a result, the Navy and DoD understated the amount of improper payments reported. From a nonstatistical review of 25 payments valued at \$2.5 million, we identified five improper payments, valued at \$158,602 that the Naples Commercial Bill Pay Office neither identified nor reported. Therefore, Navy and DoD management did not have an accurate reporting of the improper payments made through the One Pay system.

## What We Recommend

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller):

- update guidance to clarify which organizations, offices, and personnel are responsible for processing payments in One Pay;
- develop procedures for improper payment identification and reporting;
- establish roles and responsibilities with the Director Defense Finance and Accounting Service Operations for access to and the review of potential improper payments; and
- initiate review of improper payments identified by the Business Activity Monitoring tool since 2009 to identify additional improper payments.

## Management Comments Required

Management comments to the report were unofficial, which could not be considered or included in the final report. We request that the Navy and the Defense Finance and Accounting Service provide official comments to all the recommendations by May 30, 2013. Please see the recommendations table on the back of this page.

## Recommendations Table

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Assistant Secretary of the Navy (Financial Management and Comptroller)	1, 2, 3, and 4	
Director, Defense Finance and Accounting Service Operations	3	

**Please provide comments by May 30, 2013.**

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# Introduction

## Objective

The objective of the audit was to determine whether improper payments processed through the One Pay system at Navy activities were identified and reported. Specifically, we reviewed post-payment controls and reporting processes at the Naples CBPO because it was the only Navy activity that manually processed payments directly through One Pay. See the Appendix for a discussion of the scope and methodology related to the audit objective.

## Background

The Department of the Navy (Navy) established the Commercial Bill Pay Offices (CBPO) in FY 1996 to streamline fiscal responsibility and functions. In FY 2005, Navy continued streamlining operations by combining the Naples and Sigonella, Italy, CBPOs. The Navy continued to regionalize its CBPOs in FY 2006–2009, with the merger and absorption of workload from the disbursing offices in London, United Kingdom; Keflavik, Iceland; Souda Bay, Greece; Rota, Spain; Djibouti; and Bahrain. After these offices were absorbed, they became satellite offices to the Naples CBPO. The Naples CBPO reports to Commander, Navy Installations Command (CNIC) and receives financial management guidance from the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN [FM&C]).

The Naples CBPO provides disbursing support for contract payments for Navy Region Europe, Africa, Southwest Asia. This region includes Naval Station Rota (Spain), Navy Support Activities Sigonella (Italy), Souda Bay (Greece), and Bahrain; Camp Lemonnier, Djibouti; and Naval ships in the region. The offices submit payment packages to the Naples CBPO for payment. The Naples CBPO personnel process the payments in One Pay after reviewing the payment packages for completeness and accuracy.

One Pay was designed to create payment entitlements in accordance with the Prompt Pay Act, recognize and manage applicable discounts or deductions, and compute and apply interest when necessary. Entitlements are created when invoices are put into One Pay through manual or automated processes. The Naples CBPO was unique because it was the only Navy activity that manually processed payments directly through One Pay. The Naples CBPO processes approximately 80 percent of its payment transactions through One Pay. From July 1, 2011, through June 30, 2012, Naples CBPO processed 18,688 payments, valued at approximately \$712.7 million.

All other Navy activities that certify vendor payments provide invoice packages to the Defense Finance and Accounting Service (DFAS) for entry and processing through One Pay. DFAS personnel perform reviews for improper payments. One of the tools DFAS used to identify potential improper payments was the Business Activity Monitoring (BAM) tool. The BAM tool used system logic to detect potential improper payments. DFAS personnel reviewed the potential improper payments identified by



BAM and the corresponding supporting documentation to determine if the payment was proper or improper. The Naples CBPO personnel entered invoice data into One Pay on behalf of Navy Region Europe, Africa, Southwest Asia Activities. According to the DoD Regulation 7000.14-R, “DoD Financial Management Regulation” (DoD FMR), volume 4, chapter 14, “Improper Payments,” the Navy was responsible for performing reviews to identify and for reporting improper payments.

### ***Improper Payments Elimination and Recovery Act of 2010***

On July 22, 2010, the President signed Public Law 111-204, “Improper Payments Elimination and Recovery Act of 2010,” (IPERA) to prevent the loss of billions of taxpayer dollars to improper payments. IPERA defines an improper payment as any payment that “should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements.” This includes payment for an ineligible good or service, duplicate payments, payment for a good or service not received, and payment that does not account for applied discounts.

### ***DoD Financial Management Regulation***

DoD FMR volume 4, chapter 14, establishes, DoD policy for compliance with IPERA. The DoD FMR defines “erroneous payment” as an improper payment. The DoD FMR also requires DoD Components to report improper payment data annually. Some examples of improper payment categories are payments made with insufficient documentation; errors made by the Federal agency inputting, classifying, or processing applications or payments; and errors due to inaccurate invoices.

## **Review of Internal Controls**

DoD Instruction 5010.40, “Managers’ Internal Control Program (MICP) Procedures,” July 29, 2010, requires DoD organizations to implement a comprehensive system of internal controls providing reasonable assurance programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses at the Naples CBPO. The ASN (FM&C) did not establish which organizations, offices, and personnel were responsible for compliance with improper payment reporting requirements at the Naples CBPO. In addition, ASN (FM&C) and CNIC did not have procedures for identifying and reporting improper payments and for using improper-payment-identification tools. We will provide a copy of the report to the senior official responsible for internal controls in the Department of the Navy.

## **Finding. Improper Payments Were Not Identified and Reported**

The Naples CBPO did not perform reviews to identify and report improper payments from any of the 18,688 payments, valued at \$712.7 million, processed through the One Pay system from July 1, 2011 through June 30, 2012. The Naples CBPO did not do so because the ASN (FM&C) did not clearly establish which organizations, offices, and personnel were responsible for compliance with IPERA and DoD FMR improper-payment reporting requirements. In addition, the ASN (FM&C) and CNIC incorrectly interpreted who was responsible for identifying and reporting improper payments at the Naples CBPO. As a result, the Navy and DoD understated the number of improper payments reported. From a nonstatistical sample of 25 payments, valued at approximately \$2.5 million, we identified 5 payments, valued at \$158,602, that were not identified or reported as improper. Furthermore, Navy and DoD management lacked visibility of the potential improper payments made through the One Pay system.

## **Procedures Needed to Identify and Report Improper Payments**

The Naples CBPO did not have procedures to review, identify, and report improper payments. The Naples CBPO processed 18,688 payments, valued at \$712.7 million, through the One Pay system from July 1, 2011 through June 30, 2012, but in that same time period, it did not identify or report any improper payments. In addition, the Navy did not perform risk assessments or post-payment reviews for the payments processed at this location. The DoD FMR volume 4, chapter 14 requires the Navy to perform risk assessments, perform post-payment reviews, and report improper payment data annually for payments processed by Navy personnel in One Pay. IPERA requires DoD Activities to report on what actions the Activity is taking to reduce improper payments. Identifying and reporting improper payments as required by the IPERA and DoD FMR is intended to reduce improper payments and establish and maintain sufficient internal controls, including a control environment that effectively prevents improper payments. In addition, an improved control environment will allow the Naples CBPO to promptly identify, report, and recover improper payments.

Although the Naples CBPO stated its standard operating procedures are to review payments prior to queuing them for release, it did not have standard operating procedures for identifying and reporting improper payments.

*The Naples CBPO did not have standard operating procedures for identifying and reporting improper payments.*

Naples CBPO personnel stated they randomly reviewed paid invoices and supporting documentation for duplicate payments and other errors. Although the Naples CBPO had procedures for reviewing invoice packages both before and after they were paid, the procedures were not designed to identify and report improper payments, as required by IPERA and the

DoD FMR. For example, when payments were returned by the vendor or rejected by the receiving financial institution, the Naples CBPO standard operating procedures instructed

personnel to record the return in the Collection Voucher Control Log<sup>1</sup>. The Naples CBPO did not determine whether the returned payments should be classified as improper payments; therefore, it did not report any improper payments or determine the cause of the improper payments.

In addition, the Naples CBPO did not use an available automated improper payment detection tool to assist in identifying potential improper payments processed through One Pay. DFAS used BAM, an automated improper-payment detection tool, for all payments processed through One Pay including those processed at the Naples CBPO. Although BAM identified over 2,000 payments as potential improper payments between July 1, 2011 and June 30, 2012, neither DFAS nor the Naples CBPO reviewed them. By using the BAM tool, the Naples CBPO could improve the efficiency and effectiveness of identifying improper payments.

## **Responsibility for Identifying and Reporting Improper Payments Needs to Be Established**

The ASN (FM&C) did not establish which organizations, offices, and personnel were responsible for identifying and reporting improper payments. The ASN (FM&C) provided guidance in 2003 that was not updated to include IPERA and DoD FMR

*ASN (FM&C) and CNIC incorrectly interpreted information about who was responsible for identifying and reporting improper payments.*

reporting requirements and was unclear regarding who was responsible for compliance. The ASN (FM&C) and CNIC did not develop procedures to perform post-payment reviews to identify improper payments or report improper payments when the Navy established the Naples CBPO. In addition, the ASN (FM&C) and the DFAS Indianapolis BAM program manager did not establish roles and responsibilities for accessing and using the BAM tool on One Pay payments processed at the Naples CBPO. The Naples CBPO is the only

Navy site that enters invoices into One Pay without DFAS intervention. ASN (FM&C) and CNIC incorrectly interpreted information about who was responsible for identifying and reporting improper payments processed through One Pay at the Naples CBPO. Specifically, ASN (FM&C) and CNIC assumed no responsibility for identifying and reporting improper payments processed through One Pay.

## **Impact of Noncompliance With Improper Payment Reporting Requirements**

As a result of unidentified and unreported improper payments, the improper payment reports for the Navy and DoD have been understated. Navy and DoD management did not have an accurate reporting of the improper payments made through the One Pay

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<sup>1</sup> Collection voucher logs are disbursing accountability reports prepared by the Activity to record payments the Navy needed to collect. Payments to be recorded include reimbursements from Navy personnel, overpayments, and electronic funds transfer cancellations.

system. By not identifying or reporting improper payments, the Navy did not comply with IPERA and DoD FMR reporting requirements.

The Navy does not know how many improper payments were processed by the Naples CBPO through One Pay since it reached its current operating structure in 2009. We reviewed a nonstatistical sample of 25 payments valued at \$2.5 million processed through One Pay from July 1, 2011 through June 30, 2012, that were reported on the collection log or identified by the BAM tool as potential improper payments. We identified five unreported improper payments, valued at \$158,602. Specifically:

- Three improper payments totaling \$152,399 were made through electronic funds transfer and sat in suspense at foreign banks due to incorrect bank routing or account numbers.
- Two improper overpayments totaling \$6,203 were the result of a contract modification and an input error.

The Naples CBPO took appropriate action to collect the \$158,602 of improper payments. The ASN (FM&C) should perform risk assessments and update guidance to include IPERA and DoD FMR requirements and to clearly establish which organizations, offices and personnel are responsible for identifying and reporting improper payments. In addition, the ASN (FM&C) and CNIC should develop and implement procedures to identify and report improper payments in accordance with reporting requirements.

Because the Navy did not review the potential improper payments identified by the BAM tool, the risk of additional unreported improper payments is increased. As a result of this audit, personnel from the DFAS Indianapolis BAM Program Management Office contacted the Naples CBPO and are working to provide access to the BAM tool. The Navy should work with the DFAS Operations Office to establish roles and a process for the Naples CBPO to receive the BAM data from DFAS and research the potential improper payments. The Navy should review the more than 2,000 payments identified by BAM between July 1, 2011 and June 30, 2012. The Naples CBPO office should also use the BAM tool to help identify and report improper payments made before July 1, 2011 and after June 30, 2012 to the present and initiate collection action as necessary.

## **Recommendations**

We recommend the Assistant Secretary of the Navy (Financial Management and Comptroller):

1. update guidance that clarifies the organizations, offices and personnel responsible for processing payments in One Pay and are further responsible for identifying and reporting improper payments input by the Naples Commercial Bill Pay Office in accordance with DoD Financial Management Regulation volume 4, "Accounting Policies and Procedures," chapter 14, "Improper Payments," October 2011;
2. develop and implement procedures at the Naples Commercial Bill Pay Office for performing reviews, identifying, and reporting improper payments to comply with DoD Financial Management Regulation volume 4, "Accounting Policies and Procedures," chapter 14, "Improper Payments," October 2011, and identify areas in which controls can be strengthened;
3. in conjunction with the Director, Defense Finance and Accounting Service Operations develop roles and responsibilities for Naples Commercial Bill Pay Office to access and review potential improper payments identified by the Business Activity Monitoring tool; and
4. initiate a review of the potential improper payments identified by the Business Activity Monitoring tool from 2009 to the present to identify if other improper payments were made by the Naples Commercial Bill Pay Office and initiate appropriate corrective actions if improper payments are found.

## **Management Comments Required**

The Assistant Secretary of the Navy (Financial Management and Comptroller), provided unofficial comments to the draft report, which could not be considered or included in the final report.

The Defense Finance and Accounting Service Director, Enterprise Solutions and Standards, responding for the Director of Operations, Defense Finance and Accounting Service, provided unofficial comments to the draft report, which could not be considered or included in the final report.

We request the Assistant Secretary of the Navy (Financial Management and Comptroller) and the Director of Operations, Defense Finance and Accounting Service, provide formal comments to the final report.

## **Appendix. Scope and Methodology**

We conducted this performance audit from August 2012 through March 2013 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.

### **One Pay Payments**

To determine whether the Naples CBPO identified and reported improper payments processed through One Pay, we collected information from an internal control questionnaire and interviews with personnel. Additionally, we reviewed public laws and DoD policies for identifying and reporting improper payments and Navy standard operating procedures for processing payments. We confirmed with ASN (FM&C) and DFAS personnel that the Naples CBPO was the only Navy site entering and processing payments in One Pay.

We requested One Pay data from DFAS to determine how many payments were processed at the Naples CBPO, and we reviewed the invoice data. DFAS provided a universe of 18,688 payments, valued at \$712,737,822.22, to vendors processed by Naples CBPO through One Pay between July 1, 2011 and June 30, 2012. The text file provided by DFAS included all payments during this period for the five sites for which CBPO processed payments: Naples, London, Djibouti, Rota, and Bahrain. We imported the data from the text file into an Excel file and confirmed the data totals with the DFAS. Additionally, we confirmed the universe totals with Naples CBPO personnel.

After we determined no improper payments were identified or reported by the Naples CBPO, we determined whether any improper payments were made. To do this, we selected a nonstatistical sample of payments reported on the collection log or identified by the BAM tool as potential improper payments to compare with supporting documentation. We reviewed the collection voucher logs provided by Naples CBPO for common characteristics of improper payments. For example, we looked for log entries marked “overpayment” and “electronic funds transfer cancellation.” We then selected eight payments recorded on the collection voucher logs, based on professional judgment. Additionally, we reviewed the BAM exception lists of over 2,000 potential improper payments and selected 9 unique payments with the characteristics of duplicate payments. We identified 10 payments that contained matching document numbers, procurement-instrument-identification numbers, supplementary-instrument-identification numbers, invoice numbers, and amounts certified for payment; these matched the 9 previously selected potential duplicate improper payments, for a total of 19 payments. We requested supporting documentation for 8 payments from the collection log plus 19 payments from BAM, for a total of 27 potential improper payments. One payment was identified on both the collection voucher logs and the BAM exception lists, and another payment, upon review of the supporting documentation, was not processed through One Pay. As a

result, our sample consisted of 25 unique potential improper payments, of which we found 5 to be improper.

## **Use of Computer-Processed Data**

We obtained computer-processed data from DFAS, extracted from One Pay, a subsystem of the Standard Accounting and Reporting System. We did not evaluate the reliability of One Pay data, because we used the data primarily to support background and contextual information; the data did not materially affect findings. However, we confirmed the data totals with the DFAS One Pay system manager and Naples CBPO personnel; reviewed existing information about the system and its data; and interviewed agency officials knowledgeable about the data.

## **Prior Coverage**

During the last 5 years, the Government Accountability Office (GAO) and the DoD IG have issued five reports discussing identifying and reporting improper payments. Unrestricted GAO reports can be accessed at [www.gao.gov](http://www.gao.gov). Unrestricted DoD IG reports can be accessed at [www.dodig.mil/audit/reports](http://www.dodig.mil/audit/reports).

### **GAO**

GAO Report No. GAO-99-442, “Improper Payments: Significant Improvements Needed in DoD's Efforts to Address Improper Payment and Recovery Audit Requirements,” July 29, 2009

### **DoD IG**

DoD IG Report No. D-2012-130, “DFAS Controls over Duplicate Payments in One Pay Were Generally Effective, But There Were Opportunities for Improvement,” September 14, 2012

DoD IG Report No. D-2012-065, “DoD Compliance With the Requirements of the Improper Payments Elimination and Recovery Act,” March 15, 2012

DoD IG Report No. D-2011-050, “DoD Needs to Improve High Dollar Overpayment Review and Reporting,” March 16, 2011

DoD IG Report No. D-2008-096, “Identification and Reporting of Improper Payments by the Defense Logistics Agency,” May 20, 2008



# Inspector General Department of Defense

