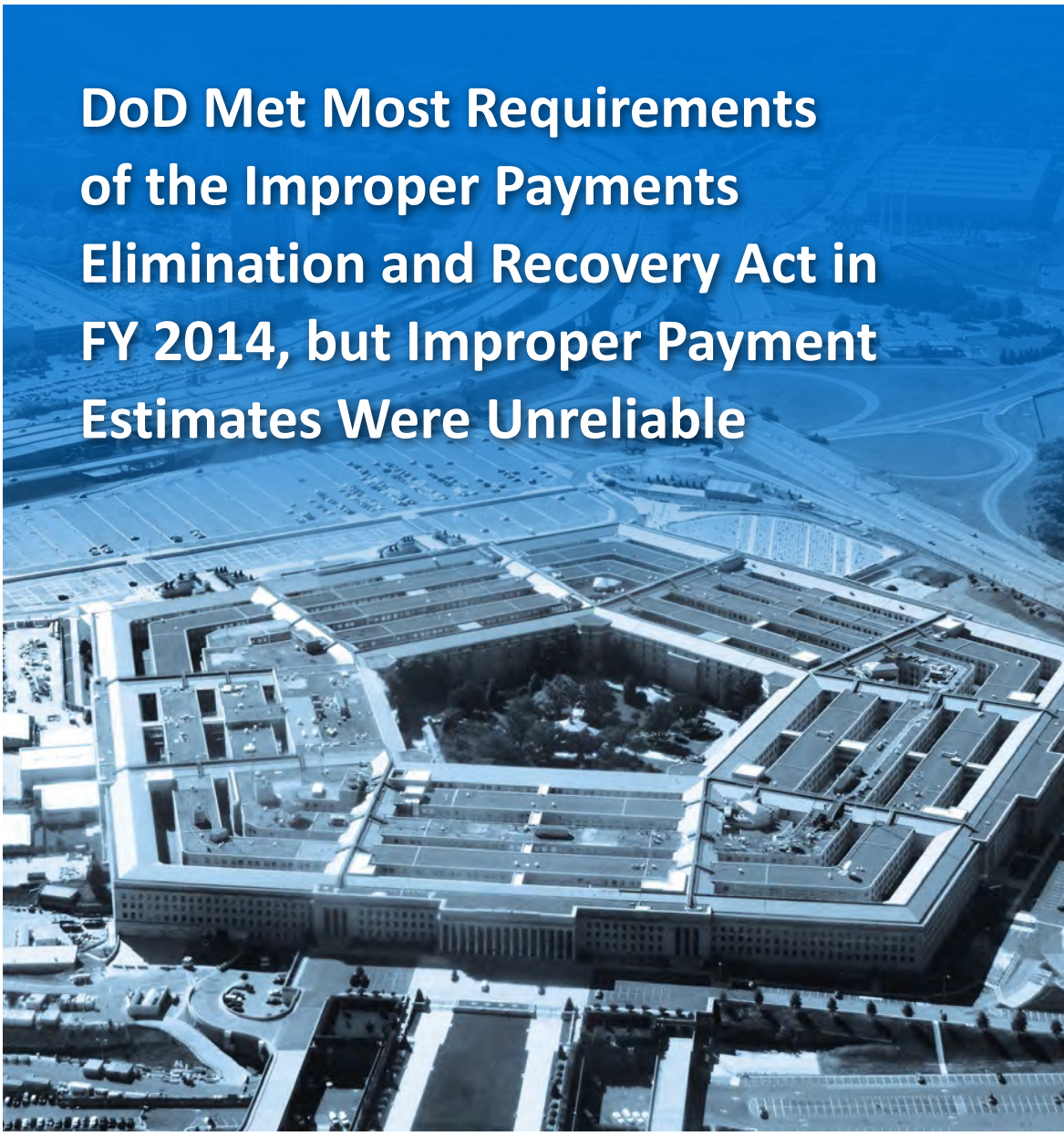
Report No. DODIG-2015-121

INSPECTOR GENERAL

U.S. Department of Defense

MAY 12, 2015

DoD Met Most Requirements of the Improper Payments Elimination and Recovery Act in FY 2014, but Improper Payment Estimates Were Unreliable



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Results in Brief

DoD Met Most Requirements of the Improper Payments Elimination and Recovery Act in FY 2014, but Improper Payment Estimates Were Unreliable

May 12, 2015

Objective

We determined whether DoD complied with Public Law No. 107-300, "Improper Payments Information Act of 2002," November 26, 2002, as amended by Public Law 111-204, "Improper Payments Elimination and Recovery Act of 2010," July 22, 2010 (IPERA). The audit was required by Public Law 111-204.

Finding

The Under Secretary of Defense (Comptroller/Chief Financial Officer) for DoD (USD[C]/CFO) published the DoD FY 2014 Agency Financial Report showing that DoD met five of the six requirements of the IPERA; however, the improper payment estimates were not reliable. Specifically, DoD:

- published an Annual Financial Report;
- conducted program specific risk assessments;
- published corrective action plans;
- published improper payment estimates; and
- reported improper payment rates of less than 10 percent.

However, DoD could not ensure that all required payments were reviewed, which resulted in unreliable estimates and rates. Furthermore, DoD did not meet the requirement to achieve the reduction target for the DoD Travel Pay program. As a result, DoD did not comply with IPERA in FY 2014.

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Recommendations

We recommend that the USD(C)/CFO, coordinate with the Director, Office of Management and Budget (OMB), to review the DoD Travel Pay program and determine reauthorization proposals or proposed statutory changes that are necessary to bring the program into compliance with Public Law 111-204, and, in coordination with DoD Components, develop stratified sample designs for each DoD payment program that currently uses a simple sample design.

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) evaluate Navy commands for risk of improper payments before excluding them from improper payment testing.

We also recommend that the Director, Defense Health Agency, subject all payments to improper payment sampling for those contracts identified as at risk for improper payments.

Management Comments and Our Response

The Deputy Chief Financial Officer, responding for the USD(C)/CFO, did not address the specifics of the recommendations to review the DoD Travel Pay Program and to develop stratified sample designs. The Assistant Secretary of the Navy (Financial Management and Comptroller) did not respond because we redirected a recommendation to the Assistant Secretary after we issued the discussion draft. The Deputy Chief Financial Officer, responding for the Director, Defense Health Agency, addressed all specifics of the recommendation to subject all payments to improper payment sampling. We request additional comments from USD(C)/CFO and from the Assistant Secretary of the Navy (Financial Management and Comptroller). Please see the Recommendations Table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD	1, 4	
Assistant Secretary of the Navy (Financial Management and Comptroller)	2	
Director, Defense Health Agency		3

Please provide Management Comments by June 11, 2015.

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

May 12, 2015

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER, DOD
DIRECTOR, DEFENSE HEALTH AGENCY
NAVAL INSPECTOR GENERAL

SUBJECT: DoD Met Most Requirements of the Improper Payments Elimination and Recovery Act in FY 2014, but Improper Payment Estimates Were Unreliable (Report No. DODIG-2015-121)

We are providing this report for review and comment. The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, (OUSD[C]/CFO) met five of the six requirements of Public Law 111-204, "Improper Payments Elimination and Recovery Act of 2010." However, DoD did not meet the reduction target for the DoD Travel Pay program. In addition, DoD could not ensure that all required payments were reviewed, which resulted in unreliable improper payment estimates and rates. We conducted this audit in accordance with generally accepted government auditing standards.

We considered comments from the OUSD(C)/CFO on a discussion draft of this report. DoD Instruction 7650.03 requires that all recommendations be resolved promptly. The OUSD(C)/CFO did not address the specifics of Recommendations 1 and 4. Additionally, as a result of management comments to a discussion draft of this report, we redirected Recommendation 2 to the Assistant Secretary of the Navy (Financial Management and Comptroller). Therefore, we request that the OUSD(C)/CFO and the Assistant Secretary of the Navy (Financial Management and Comptroller) comment by June 11, 2015.

Please send a PDF file containing your comments to audyorktown@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot 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) 604-9187 (DSN 664-9187).

Michael J. Roark
Assistant Inspector General
Contract Management and Payments

Contents

Introduction

Objective

Our objective was to determine whether DoD complied with Public Law No. 107-300, "Improper Payments Information Act of 2002," November 26, 2002, as amended by Public Law 111-204, "Improper Payments Elimination and Recovery Act of 2010," July 22, 2010. The audit was required by the 2010 Act. See the appendix for our scope and methodology and prior coverage.

We plan to perform a future audit on corrective actions taken by DoD to reduce improper payments in the DoD Travel Pay program.

Background on the Improper Payments Elimination and Recovery Act

On July 22, 2010, the President signed Public Law 111-204, "Improper Payments Elimination and Recovery Act of 2010" (IPERA), which amended the "Improper Payments Information Act of 2002." The Office of Management and Budget (OMB) issued Federal guidance for agencies to implement the requirements of IPERA.[1]

IPERA Compliance Requirements

IPERA section 3(a) states that the term "compliance" means that the agency:

- published an annual financial statement for the most recent fiscal year and posted that report and any accompanying materials required under OMB guidance on the agency website;
- conducted a program-specific risk assessment for each program or activity (if required);
- published improper payments[2] estimates for all programs and activities in the accompanying materials to the annual financial statement (if required);
- published programmatic corrective action plans;
- published, and is meeting, improper payments reduction targets; and
- reported an improper payment rate of less than 10 percent for each program and activity for which an estimate was published.

[1] OMB Circular No. A-123, "Management's Responsibility for Internal Controls," Appendix C, April 14, 2011 (Appendix C, 2011). OMB modified implementing guidance and issued an updated Appendix C on October 20, 2014 (Appendix C, 2014).

[2] An "improper payment" is any payment that should not have been made or was made in an incorrect amount under legally applicable requirements. Incorrect amounts are overpayments or underpayments made to eligible recipients, which also include payments made to ineligible recipients or for ineligible goods or services, or payments for goods or services not received. Improper payments also include payments when an agency's review is unable to determine whether the payments were proper as a result of insufficient or lack of documentation.

IPERA section 3(b) requires the Inspector General to annually review and determine agency compliance with IPERA. Implementing guidance requires the agency's inspector general office to submit a report with its determination on the agency's compliance to the head of the agency, Senate Homeland Security and Governmental Affairs Committee, House Committee on Oversight and Governmental Reform, Comptroller General, and OMB Controller on an annual basis within 180 days of the Agency Financial Report (AFR) issuance.

If an agency did not meet one or more of these requirements, then the agency was not compliant with IPERA. IPERA implementing guidance encourages the agency's inspector general office to evaluate, as part of its review of these improper payment elements, the accuracy and completeness of agency reporting and evaluate the agency's ability to reduce and recapture improper payments. The guidance also encourages the office, as part of its report, to include any recommendations for actions to improve the agency's performance in reducing improper payments.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provide reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. DoD did not meet the reduction target for the DoD Travel Pay program. We will provide a copy of the report to the senior official responsible for internal controls for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD [USD(C)/CFO].

DoD self-identified internal control weaknesses related to improper payment identification and reporting in its "FY 2014 Agency Financial Report." Specifically, DoD reported that until it has an auditable Statement of Budgetary Resources, it would not be able to fully reconcile outlays (account for all disbursements) to ensure that all required payments are reviewed for reporting purposes. We are not making a recommendation to correct the internal control weakness because DoD already has efforts underway to improve the financial processes, including the Financial Improvement and Audit Readiness initiative and systems modernization.

Finding

DoD Complied With Five of the Six Improper Payments Elimination and Recovery Act Requirements, but Estimates Were Unreliable

The Under Secretary of Defense (Comptroller/Chief Financial Officer) for DoD (USD[C]/CFO) published the DoD FY 2014 AFR that showed DoD met five of the six requirements of the IPERA; however, the improper payment estimates were not reliable. Specifically, DoD:

- published an AFR;
- conducted program specific risk assessments;
- published corrective action plans;
- published improper payment estimates; and
- reported improper payment rates of less than 10 percent.

However, DoD could not ensure that all required payments were reviewed, which resulted in unreliable estimates and rates. Furthermore, DoD did not meet the requirement to achieve the reduction target[3] for one of eight payment programs with established targets. Specifically, DoD did not meet the reduction target for the DoD Travel Pay program for the third consecutive year. According to the DoD FY 2014 AFR, DoD Travel Pay program errors occurred because approving officials' reviews of travel vouchers were not adequate to prevent improper payments.

Because of the DoD Travel Pay program errors, DoD did not achieve the improper payment reductions intended in IPERA for the DoD Travel Pay program and did not comply with IPERA in FY 2014.

[3] Appendix C, 2011, defined "compliance" as having published and met annual reduction targets for each program assessed to be at risk for improper payments.

DoD Published an Agency Financial Report for FY 2014

USD(C)/CFO complied with the IPERA requirement to publish an AFR. DoD issued its FY 2014 AFR on November 13, 2014, and published the AFR on its website. Appendix C, 2014, requires agencies to report to the President and Congress an estimate of the annual amount of improper payments for all programs and activities determined to be susceptible to significant improper payments. OMB Circular No. A-136, "Financial Reporting Requirements," September 18, 2014, requires DoD to issue the report by November 15, 2014.

DoD Identified Nine Payment Programs Susceptible to Improper Payments

The USD(C)/CFO complied with the IPERA requirement to conduct a program-specific risk assessment. Appendix C, 2011, required agencies to perform risk assessments on all programs and activities. However, agencies are not required to develop a risk assessment the year after IPERA was enacted (2011) if the:

- agency already measured and reported improper payments in a program or activity;
- agency would measure the program and activity by an established date; or
- program or activity was already identified through agency risk assessments as susceptible to significant improper payments.

Because DoD identified and reported the year of IPERA enactment (2010) on the types of payments susceptible to significant improper payments covered by the nine payment programs listed in the DoD FY 2014 AFR, DoD was not required to perform a risk assessment on the programs. However, USD(C)/CFO included a discussion on risk in the DoD FY 2014 AFR and identified the following nine programs, with combined outlays totaling about $578.75 billion, as susceptible to improper payments.

- Military Health Benefits
- Military Pay
- Civilian Pay
- Military Retirement
- DoD Travel Pay
- Defense Finance and Accounting Service (DFAS) Commercial Pay
- U.S. Army Corps of Engineers (USACE) Travel Pay
- USACE Commercial Pay
- Navy Enterprise Resource Planning Commercial Pay

DoD Published Corrective Action Plans to Further Reduce Improper Payments

USD(C)/CFO complied with the IPERA requirement to publish corrective actions plans in the DoD FY 2014 AFR. Appendix C, 2014, requires all programs and activities identified under the risk assessment that are susceptible to significant improper payments to have a corrective action plan put in place to reduce the risk of improper payments and publish the corrective action plan in the AFR.

USD(C)/CFO published corrective action plans in the DoD FY 2014 AFR for each of the seven programs where DoD found improper payments. The DoD FY 2014 AFR included corrective action plans for the identified primary root causes of improper payments identified for each payment program. DoD used various improper payment identification and reporting processes to implement corrective actions through the year. For example, DFAS provided the Defense Travel Management Office and DoD Components with error trend reports on the DoD Travel Pay program on a quarterly basis and forwarded any identified improper payments to the appropriate Debt Management Monitor to establish a debt and recover the improper payments.

DoD Published Improper Payment Estimates, but Improper Payment Estimates Were Unreliable

DoD improper payments estimates in the DoD FY 2014 AFR were unreliable.

USD(C)/CFO met the IPERA requirement to publish improper payment estimates for programs identified as susceptible to significant improper payments. However, because DoD lacked an auditable Statement of Budgetary Resources, DoD could not provide assurance that the estimates were based on accurate and complete data. This lack of an auditable Statement of Budgetary Resources made it impossible for DoD to fully reconcile outlays to ensure that all required payments were reviewed for reporting purposes. Therefore, DoD improper payments estimates in the DoD FY 2014 AFR were unreliable.

We also identified deficiencies in the methodologies for two of the nine payment program areas that could further affect the reliability of DoD's improper payment estimates. In addition, DoD could improve the statistical precision of improper payments estimates in seven of the DoD payment programs through the use of stratified sample designs.

Deficiencies That Affect the Reliability of Estimates

The Navy performed improper payment testing for the Navy Enterprise Resource Planning Commercial Pay program at the command level but excluded two commands and one sub-command from testing without assessing the risk of improper payments within those commands. Without performing improper payment testing the Navy cannot be assured that controls to prevent and detect improper payments are effective within those commands. The Navy should evaluate commands for risk of improper payments before exclusion from improper payment testing.

The Defense Health Agency (DHA) projected sample results to payments not subject to sampling, which made the results statistically invalid. We made a recommendation to correct this problem in a previous report;[4] therefore, we did not make a recommendation in this report.

DHA excluded a high volume of contract payments from sampling because they were below a certain dollar threshold, which made the result of the improper payment estimate unreliable. For example, DHA excluded over half the claims from three TRICARE managed care support contracts and the TRICARE pharmacy contract. See the Table below for a summary of claims excluded from sampling.

Table. TRICARE Claims Excluded from IPERA Sampling

TRICARE Contract	Number of excluded claims	Paid value of excluded Claims (millions)
North	10,571,966	$485.3
South	12,002,102	577.6
West	7,304,632	353.7
Overseas	60,585	2.6
Pharmacy	30,898,677	1,728.2
Total	**60,837,962**	**$3,147.5***

*Total does not equal the actual sum because of rounding.

DHA acknowledged that it sometimes excluded low-dollar payments to ensure efficient utilization of resources. However, OMB guidance requires activities to obtain an estimate of improper payments in programs susceptible to significant improper payments. The guidance also states that the improper payment rate is calculated by dividing the total improper payment amount by total program payments.

[4] DoD OIG Report No. DODIG-2015-068, "DoD Methodologies to Identify Improper Payments in the Military Health Benefits and Commercial Pay Programs Need Improvement," January 14, 2015.

The DHA improper payment estimate of $184.4 million reported in the FY 2014 AFR revealed that Military Health Benefit program contracts were susceptible to significant improper payments.[5] By excluding a high volume of claims from contracts that DHA determined were at risk of improper payment, DHA could not reliably calculate the error rate for the universe of payments in those contracts. Additionally, DHA was inconsistent in sampling from some contracts, sometimes excluding strata (group) in one part of the year that it had sampled from in another. In contracts selected for improper payment testing, DHA should subject all payments to improper payment sampling for those contracts identified as at risk for improper payments.

Statistical Precision Could Be Improved

DoD could improve the statistical precision of improper payments estimates through the use of stratified sample designs. Seven of the nine DoD programs reporting improper payment estimates used a simple random sample as the basis for statistical sampling. IPERA implementing guidance permits the use of simple random samples, but stated that when appropriate, more complex stratified designs can produce more actionable results.

DoD could improve the statistical precision of improper payments estimates through the use of stratified sample designs.

A simple random sample design is the simplest and least efficient type of design and, in general, the achieved precision will be less than that of a stratified design. DoD program payments often encompass a wide range of payment amounts. For example, payments in one USACE commercial payment sample ranged from $0.01 to over $9.5 million. Payments over $1 million were only 2 percent of the annual sample, while payments under $10,000 represented 74 percent of the sample. Similarly, the highest-dollar Navy commercial payments, representing 78 percent of total payments, were included in only 8 percent of the sample.

The Government Accountability Office[6] (GAO) has stated that equal probability sampling is unlikely to capture large invoices when a population contains a few large invoices and many smaller invoices. Additionally, higher dollar payments generally involve more complex transactions and are, therefore, at higher risk of being an improper payment. GAO further stated that by not designing more complex sampling methods that use more statistically valid sampling units, DoD's improper payment estimates could be significantly understated.

[5] "Significant improper payments" is defined as gross annual improper payments in the program exceeding (1) both 1.5 percent of program outlays and $10 million of all program or activity payments during the fiscal year reported or (2) $100 million (regardless of the improper payment error rate).

[6] Report No. GAO-13-227, "Significant Improvements Needed in Efforts to Address Improper Payment Requirements," May 13, 2013.

Sample designs stratified by an appropriate variable, such as invoice or payment amount, would result in estimates with greater precision. Only the DFAS Commercial Pay and Military Health Benefits programs used a variable sample design that was stratified by invoice or payment amount. DoD should develop, if appropriate, sample designs that are stratified by an appropriate variable, such as invoice or payment amount.

Reported Improper Payment Rates Were Below the Office of Management and Budget Established Threshold but Were Based on Unreliable Data

USD(C)/CFO met the IPERA requirement to report improper payment rates of less than 10 percent for each program that reported estimated improper payments. Although the improper payment rates reported by DoD in the FY 2014 AFR were under the required threshold, we identified deficiencies in the reliability of the estimates used to calculate the improper payment rates and opportunities to improve the precision of the estimates, as noted in the previous section.

Appendix C, 2014, requires agencies to report a gross improper payment rate of less than 10 percent for each program with an improper payment estimate. DoD did not report any payment programs with improper payment rates above 10 percent. Specifically, six of the nine payment programs had improper payment rates at 0.23 percent or lower. The DoD Travel Pay program had the highest reported improper payment rate at 7.0 percent. DoD reported that the USACE Travel Pay program had a 0.40 percent improper payment rate and the Military Health Benefits program had an improper payment rate of 0.87 percent.

DoD Did Not Meet the Improper Payment Reduction Target for DoD Travel Pay Program

DoD did not meet the reduction target for the DoD Travel Pay program for the third consecutive year.

DoD did not meet the FY 2014 reduction targets for one of the eight payment programs with established reduction targets. Specifically, DoD did not meet the reduction target for the DoD Travel Pay program for the third consecutive year. The number of years the payment program was delinquent determines the required course of action that DoD must take. Appendix C, 2011, stated that an agency complied if it "published, and has met, annual reduction targets for each program assessed to be at risk and measured for

improper payments." Updated in 2014, Appendix C further clarifies that a program will meet a reduction target if the improper payment rate for that program in the current year falls within plus or minus 0.1 percentage points of the reduction target set in the previous year's AFR.

DoD published FY 2014 reduction targets for eight of the nine payment programs in the DoD FY 2013 AFR. The DoD FY 2014 AFR showed that DoD met seven of the eight reduction targets; however, the DoD Travel Pay program had actual improper payments of 7 percent, which was above the published reduction target of 3.25 percent. DoD reported the Navy Enterprise Resource Planning Commercial Pay program as a separate ninth program during FY 2013. The DoD FY2013 AFR cited that DoD did not establish a reduction target for FY 2014 because of partial year testing and no identified improper payments.

DoD Travel Pay Program Continued to Face Challenges

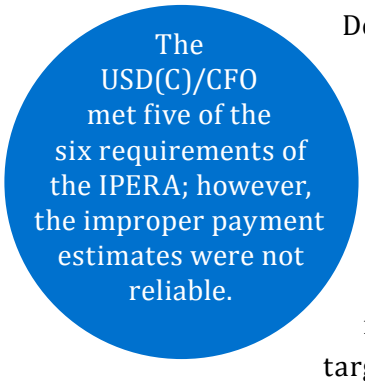
In accordance with OMB Circular A-136, DoD reported in the FY 2014 AFR that DoD Travel Pay errors occurred because travelers made mistakes when they completed their vouchers. DoD also reported that approving officials did not identify travelers' errors before DoD reimbursed the travelers. DoD's stated corrective actions included error-trend report reviews and DFAS post-payment reviews by personnel who presented preventive measure training sessions. DoD should determine reauthorization proposals or proposed statutory changes that are necessary to bring the DoD Travel Pay program into compliance with Public Law 111-204.

Improper Payments Increased for DoD Travel Pay Program

As a result of the travel voucher mistakes, the improper payment rate increased in the DoD Travel Pay program, and DoD did not achieve the improper payment reductions intended in IPERA and did not comply with IPERA in FY 2014. According to the DoD FY 2014 AFR, DoD made these improper payments because the authorizing or certifying officials did not conduct adequate reviews of travel vouchers before payment. We plan to perform a future audit on corrective actions taken by DoD to reduce improper payments in the DoD Travel Pay program.

Conclusion

The USD(C)/CFO met five of the six requirements of the IPERA; however, the improper payment estimates were not reliable. Specifically, DoD published an AFR, corrective action plans, improper payment estimates, and conducted program specific risk assessments. DoD also reported improper payment rates of less than 10 percent. However, DoD could not ensure that all required payments were reviewed, which resulted in unreliable estimates and rates. Furthermore, DoD did not meet the reduction targets for one of its eight payment programs with established targets. As a result, DoD did not achieve the improper payment reductions intended in IPERA for the DoD Travel Pay program and did not comply with IPERA in FY 2014.



Remediation for Noncompliance

Appendix C, 2014, states that agencies that are not compliant with IPERA for 3 consecutive fiscal years for the same program or activity will, within 30 days of the determination of noncompliance, submit to Congress:

- reauthorization proposals for each (discretionary) program or activity that has not been in compliance for 3 or more consecutive fiscal years; or
- proposed statutory changes necessary to bring the mandatory program or activity into compliance.

For the third consecutive fiscal year, DoD was not compliant with the requirement to meet the reduction target for the DoD Travel Pay program.

Recommendations, Management Comments, and Our Response

Redirected Recommendation

As a result of management comments to a discussion draft of this report, we redirected Recommendation 2 to the Assistant Secretary of the Navy (Financial Management and Comptroller).

Recommendation 1

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, coordinate with the Director of the Office of Management and Budget to review the DoD Travel Pay program and determine reauthorization proposals or proposed statutory changes that are necessary to bring the mandatory program into compliance with Public Law 111-204 to meet payment reduction targets.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, disagreed, stating that the corrective actions for errors in the travel pay program must come from within DoD. The Deputy Chief Financial Officer said that DoD will take the steps necessary to implement and enforce existing internal controls.

Our Response

Comments from the Deputy Chief Financial Officer did not address the specifics of the recommendation. Reauthorization proposals or proposed statutory changes are required by Public Law 111-204, Section 3, Compliance, sub-section (3)(c) for programs that have not been in compliance for 3 or more consecutive years. DoD did not meet the reduction target for the DoD Travel Pay program for the third consecutive year. We request that the Deputy Chief Financial Officer provide us with more information on how he plans to comply Public Law 111-204, Section 3, Compliance, sub-section (3)(c).

Recommendation 2

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) evaluate Navy commands for risk of improper payments before exclusion from improper payment testing.

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

The Assistant Secretary of the Navy (Financial Management and Comptroller) did not formally respond to Recommendation 2 because it was redirected from the discussion draft version of this report.

Our Response

We request that Assistant Secretary of the Navy (Financial Management and Comptroller) provide comments on the final report. The Assistant Secretary of the Navy (Financial Management and Comptroller) personnel provided informal comments to a discussion draft of this report. Formal comments were not required to the discussion draft. However, we redirected Recommendation 2, and we request that Assistant Secretary of the Navy (Financial Management and Comptroller) provide comments on the final report.

Recommendation 3

We recommend that the Director, Defense Health Agency, subject all payments to improper payment sampling for those contracts identified as at risk for improper payments.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

Financial Officer, DoD, responding for the Director, Defense Health Agency, agreed, stating that efforts are underway to conduct statistically valid reviews of low-dollar claims to ensure compliance with improper payment reporting requirements and to validate that low-dollar claims are at low risk for improper payments.

Our Response

Comments from the Deputy Chief Financial Officer addressed all specifics of the recommendation, and no further comments are required.

Recommendation 4

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with DoD components, develop, if appropriate, sample designs that are stratified by an appropriate variable, such as invoice or payment amount, for each DoD payment program that currently uses a simple random sample design.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, Comments

The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, disagreed, stating that three of the nine DoD programs have sampling plans that are stratified by dollar amount, and determined a simple random sample design was appropriate for the remaining six programs.

Our Response

Comments from the Deputy Chief Financial Officer did not address the specifics of the recommendation. As stated in this report, high-dollar payments are at higher risk of improper payment, but equal probability sampling using a simple random sample design is unlikely to capture the highest-dollar payments when the population contains many smaller payments. Sample designs stratified by an appropriate variable, such as invoice or payment amount, would result in estimates with greater precision. We request that the Deputy Chief Financial Officer provide support for the conclusion that a simple random sample design is appropriate or reconsider his position on the recommendation and provide comments on the final report.

Appendix

Scope and Methodology

We conducted this performance audit from November 2014 through April 2015 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.

Review of Documentation and Interviews

To determine DoD compliance with IPERA requirements, we obtained and reviewed:

- Improper payment reporting as published in DoD FY 2014 AFR;
- Public Law 107-300, "Improper Payments Information Act of 2002," November 26, 2002;
- Public Law 111-204, "Improper Payments Elimination and Recovery Act of 2010," July 22, 2010;
- OMB Circular A-123, "Management's Responsibility for Internal Controls," Appendix C, April 14, 2011;
- OMB Circular A-123, "Management's Responsibility for Internal Controls," Appendix C, October 20, 2014; and
- OMB Circular A 136 Revised, "Financial Reporting Requirements," September 18, 2014.

We interviewed personnel from:

- USD(C)/CFO;
- DFAS;
- DHA;
- Navy; and
- USACE.

We reviewed:

- information relevant to payment program sampling and projection;
- FY 2014 documentation used to support the risk assessments;
- documentation supporting improper payment rates and estimates reported in the DoD FY 2014 AFR;
- corrective action plans;
- reduction targets; and
- gross improper payment rates reported in the DoD FY 2014 AFR.

Use of Computer-Processed Data

We relied on computer-processed data included in the DoD FY 2014 AFR to perform this audit. Specifically, we relied on the estimates of improper payments included in the DoD FY 2014 AFR. However, the lack of an auditable Statement of Budgetary Resources led us to conclude that the data and the resulting estimates were unreliable. The unreliable data and estimates are discussed in the finding of this report. The reliability of the data did not affect other areas of compliance.

Use of Technical Assistance

During the audit, we requested and received technical assistance from the DoD Office of Inspector General Quantitative Methods Division. Quantitative Methods Division analysts reviewed the sampling plans for five of the nine programs that reported improper payment estimates in the DoD FY 2014 AFR to determine whether their sampling methodology was statistically valid and appropriate in accordance with OMB guidance.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the Department of Defense Inspector General (DoD IG) issued seven reports discussing compliance with improper payment identification and reporting requirements. Unrestricted GAO reports can be accessed at http://www.gao.gov. Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/pubs/index.cfm.

GAO

Report No. GAO-13-227, "Significant Improvements Needed in Efforts to Address Improper Payment Requirements," May 13, 2013

Report No. GAO-09-442, "Significant Improvements Needed in DOD's Efforts to Address Improper Payment and Recovery Auditing Requirements," July 29, 2009

DoD IG

Report No. DODIG-2015-068, "DoD Methodologies to Identify Improper Payments in the Military Health Benefits and Commercial Pay Programs Need Improvement," January 14, 2015

Report No. DODIG-2014-059, "DoD Efforts to Meet the Requirements of the Improper Payments Elimination and Recovery Act in FY 2013," April 15, 2014

Report No. DODIG-2013-054, "DoD Efforts to Meet the Requirements of the Improper Payments Elimination and Recovery Act in FY 2012," March 13, 2013

Report No. DODIG-2012-065, "DoD Compliance With the Requirements of the Improper Payments Elimination and Recovery Act," March 15, 2012

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

Management Comments

Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD

OFFICE OF THE UNDER SECRETARY OF DEFENSE
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COMPTROLLER

APR 7 2015

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL, CONTRACT MANAGEMENT AND PAYMENTS, DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Comments on Discussion Draft of a Proposed Report, "Audit of DoD FY 2014 Compliance with the Improper Payments Elimination and Recovery Act Requirements (IPERA)," Project No. D2015-D000CJ-0071.000

This memorandum provides the Office of the Under Secretary of Defense (Comptroller) response to the Department of Defense Office of Inspector General (DoD IG) discussion draft received March 23, 2015. The DoD IG determined that the Department met five of the six IPERA compliance criteria, because one of eight payment programs (DoD Travel Pay) missed its reduction target goal.

Management provided technical comments directly to the DoD IG's audit team on March 24, 2015. The attachment included with this memorandum provides our formal response to four recommendations and one response from the Defense Health Agency. We note that you are planning a future audit that on corrective actions taken by the Department to reduce improper payments in the DoD Travel Pay program. As part of our Financial Improvement and Audit Readiness initiative, we continue to strengthen controls that will further reinforce this important program.

Thank you for the opportunity to respond to the discussion draft. My staff contact for this matter is [redacted].

Mark. E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD (cont'd)

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C))
RESPONSES TO RECOMMENDATIONS

DEPARTMENT OF DEFENSE (DOD) OFFICE OF INSPECTOR GENERAL (OIG)
PROJECT NO. D2015-D000CJ-0071.000

"AUDIT OF DOD FY 2014 COMPLIANCE WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT REQUIREMENTS"

OIG RECOMMENDATION 1: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, coordinate with the Director of the Office of Management and Budget (OMB) to review the DoD Travel Pay program and determine reauthorization proposals or proposed statutory changes that are necessary to bring the mandatory program into compliance with Public Law 111-204 to meet payment reduction targets.

OUSDC RESPONSE: Non-concur. The root causes of errors in the DoD Travel Pay program are covered by existing internal controls and regulations; therefore, the corrective actions must come from within DoD. The Department will take necessary steps to implement and enforce existing internal controls.

OIG RECOMMENDATION 2: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Navy, evaluate Navy commands for risk of improper payments before exclusion from improper payment testing.

OUSDC RESPONSE: Non-concur. This recommendation is more appropriately addressed to the Assistant Secretary of the Navy (Financial Management and Comptroller), not to OUSD(C). We will continue to work closely with the Department of the Navy in support of the Improper Payments Elimination and Recovery Act.

OIG RECOMMENDATION 3: We recommend that the Director, Defense Health Agency, subject all payments to improper payment sampling for those contracts identified as at risk for improper payments.

DHA RESPONSE: Concur. Efforts are currently underway to conduct statistically valid internal reviews on low-dollar claims excluded from the standard sampling and compliance review process. The reviews are being conducted to 1) ensure compliance with IPIA reporting requirements, and 2) validate that the low dollar claim population is at low risk for improper payments. The Defense Health Agency (DHA) continues to strongly contend that resources are better served reviewing claims above the low-dollar thresholds that have the potential for significant government risk of improper payment.

Attachment

Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD (cont'd)

OIG RECOMMENDATION 4: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with DoD components, develop, if appropriate, sample designs that are stratified by an appropriate variable, such as invoice or payment amount, for each DoD payment program that currently uses a simple random sample design.

OUSDC RESPONSE: Non-concur. Three of the nine DoD reporting programs' sampling plans are stratified by dollar amount (Defense Finance and Accounting Service Commercial Pay, DHA Military Health Benefits, and U.S. Army Corps of Engineers Travel Pay.) The remaining six programs have thus far determined that a simple, random sample design is appropriate.

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Acronyms and Abbreviations

AFR	Agency Financial Report
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DoD IG	Department of Defense Inspector General
GAO	Government Accountability Office
IPERA	Improper Payment Elimination and Recovery Act
OMB	Office of Management and Budget
USACE	U.S. Army Corps of Engineers
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer

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