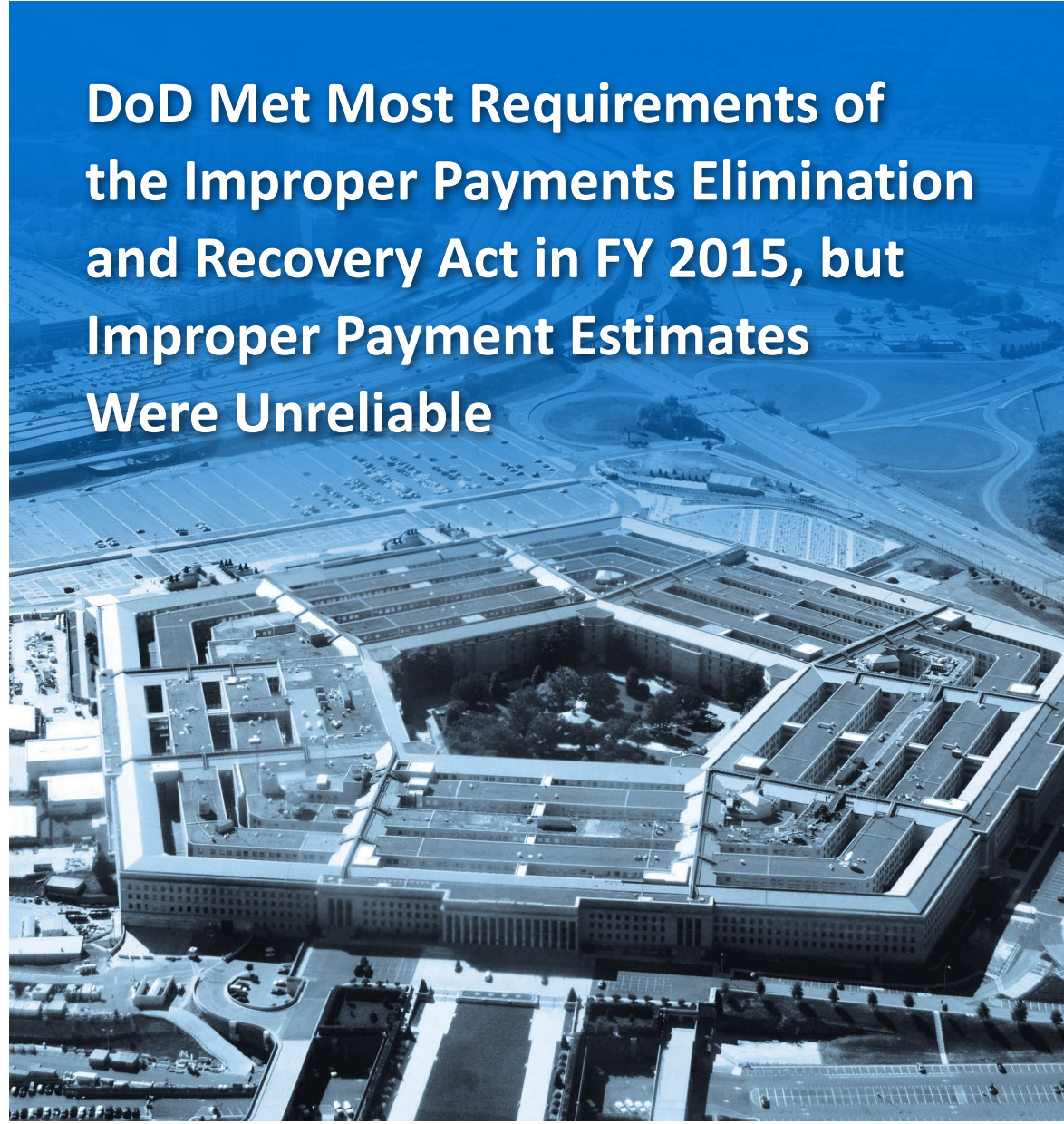




INSPECTOR GENERAL

U.S. Department of Defense

MAY 3, 2016



DoD Met Most Requirements of the Improper Payments Elimination and Recovery Act in FY 2015, but Improper Payment Estimates Were Unreliable

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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Results in Brief

DoD Met Most Requirements of the Improper Payments Elimination and Recovery Act in FY 2015, but Improper Payment Estimates Were Unreliable

May 3, 2016

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" (IPERA), July 22, 2010. The audit was required by the 2010 Act.

Finding

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD(C)/CFO), published the DoD FY 2015 Agency Financial Report (AFR) showing that DoD met five of the six requirements of IPERA; however, we determined that the improper payment estimates were not reliable. Specifically, DoD:

- published an AFR;
- conducted program-specific risk assessments;
- published corrective action plans; however, DoD excluded required information for four payment programs;
- published improper payment estimates; however, DoD could not ensure that all required payments were reviewed, which resulted in unreliable estimates and rates; and
- reported improper payment rates of less than 10 percent.

DoD did not meet the requirement to achieve the reduction target for one of the eight payment programs with established targets, and therefore did not comply with IPERA in FY 2015. Specifically, DoD did not meet the

Finding (cont'd)

reduction target for the DoD Travel Pay program for the fourth consecutive year. According to the DoD FY 2015 AFR, DoD Travel Pay errors occurred because of administrative errors, traveler input errors, and inadequate reviews by approving officials. As a result of the DoD Travel Pay program errors, DoD did not achieve the improper payment reductions intended in IPERA for the DoD Travel Pay program.

Recommendations

We recommend the USD(C)/CFO:

- Coordinate with the reporting activities to ensure future AFRs contain all required improper payment reporting information.
- Determine the source of all disbursed obligations not reviewed for improper payments and whether those disbursements are subject to improper payment reporting requirements.
- Coordinate with DoD components to develop sample designs that are stratified by an appropriate variable for each DoD payment program that currently uses a simple random sample design.
- Coordinate with the Directors of the Office of Management and Budget and the Defense Finance and Accounting Service 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, and submit a report to Congress as required by Public Law 111-204.

Management Comments and Our Response

The Deputy Chief Financial Officer, responding for the USD(C)/CFO, agreed with all recommendations and addressed all specifics of the recommendations. No further comments are required. Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD		1.a, 1.b, 1.c, and 1.d



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

May 3, 2016

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD

SUBJECT: DoD Met Most Requirements of the Improper Payments Elimination and
Recovery Act in FY 2015, but Improper Payment Estimates Were Unreliable
(Report No. DODIG-2016-086)

We are providing this report for your information and use. The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, published the DoD FY 2015 Agency Financial Report showing that DoD met five of the six requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA). We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. Comments from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9187.

A handwritten signature in black ink that reads "Michael J. Roark".

Michael J. Roark
Assistant Inspector General
Contract Management and Payments

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Acronyms and Abbreviations

Introduction

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” (IPERA), July 22, 2010. The audit was required by the 2010 Act. See the appendix for our scope and methodology and prior coverage.

Background on the Improper Payments Elimination and Recovery Act

On July 22, 2010, the President signed 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 This Federal guidance states that 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. Improper payments 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 a lack of documentation or documentation that was insufficient.²

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 payment estimates for all programs and activities in the accompanying materials to the annual financial statement (if required);
- published programmatic corrective action plans;

¹ OMB Circular No. A-123, “Management’s Responsibility for Internal Controls,” appendix C, parts I and II, April 14, 2011. OMB modified implementing guidance and issued an updated appendix C on October 20, 2014.

² OMB Circular A-123, appendix C, part IA.

- published, and is meeting, improper payments reduction targets (if required); and
- reported that each program and activity for which an estimate was published had improper payment rates below 10 percent.

If an agency did not meet one or more of these requirements, then the agency was not compliant with IPERA.

IPERA section 3(b) requires the Office of Inspector General (OIG) to annually review and determine agency compliance with IPERA. Federal guidance³ requires the agency's OIG to submit a report within 180 days of the Agency Financial Report (AFR) issuance. This guidance encourages the agency's OIG 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 OIG, 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 Instruction⁴ requires DoD organizations to implement a comprehensive system of internal controls that provides 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 for the fourth consecutive year. 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 2015 AFR. Specifically, DoD reported that problems producing auditable financial statements still persist, and management cannot provide unqualified assurance as to the effectiveness of their internal controls over financial reporting, operations, and financial management systems. 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.

³ OMB Circular A-123, appendix C, part IIA.

⁴ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

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

The USD(C)/CFO published the DoD FY 2015 AFR showing that DoD met five of the six requirements of IPERA; however, we determined that the improper payment estimates were not reliable. Specifically, DoD:

- published an AFR;
- conducted program-specific risk assessments;
- published corrective action plans; however, DoD excluded required information for the four payment programs that exceeded statutory thresholds for significant improper payments;
- published improper payment estimates; however, DoD could not ensure that all required payments were reviewed, which resulted in unreliable estimates and rates; and
- reported improper payment rates of less than 10 percent.

DoD did not meet the requirement to achieve the reduction target for one of the eight payment programs with established targets, and therefore did not comply with IPERA in FY 2015. Specifically, DoD did not meet the reduction target for the DoD Travel Pay program for the fourth consecutive year. According to the DoD FY 2015 AFR, DoD Travel Pay errors occurred because of administrative errors, traveler input errors, and inadequate reviews by approving officials. As a result of the DoD Travel Pay program errors, DoD did not achieve the improper payment reductions intended in IPERA for the DoD Travel Pay program.

DoD Published an Agency Financial Report for FY 2015

USD(C)/CFO complied with the IPERA requirement to publish an AFR. DoD issued its FY 2015 AFR on November 13, 2015, and published the AFR on its website. Federal guidance⁵ requires that agencies report to the President and Congress an estimate of the annual amount and rate of improper payments for all programs and activities determined to be susceptible to significant improper payments. Federal guidance⁶ required that DoD issue the report by November 15, 2015.

⁵ OMB Circular A-123, appendix C, part IA.

⁶ OMB Circular A-136 Revised, "Financial Reporting Requirements," August 4, 2015.

DoD Identified Nine Payment Programs Susceptible to Improper Payments

USD(C)/CFO complied with the IPERA requirement to conduct a program-specific risk assessment. Federal guidance⁷ requires agencies to perform risk assessments on all programs and activities.

DoD previously determined that the types of payments made by the nine payment programs listed in the DoD FY 2015 AFR were susceptible to significant improper payments and already reported estimates for the programs; therefore, DoD was not required to perform a risk assessment on these programs in FY 2015. However, USD(C)/CFO proactively included a discussion on risk in the DoD FY 2015 AFR and identified the following nine programs, with combined outlays totaling about \$560.8 billion, as susceptible to improper payments:

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

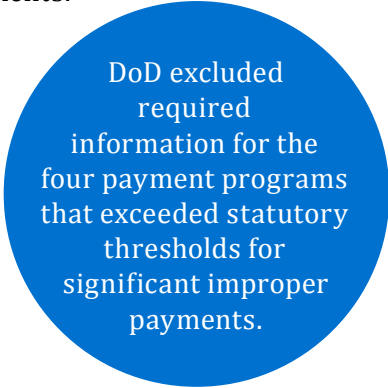
DoD Published Corrective Action Plans to Further Reduce Improper Payments

USD(C)/CFO complied with the IPERA requirement to publish corrective action plans in the DoD FY 2015 AFR. Federal guidance⁸ 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.

⁷ OMB Circular A-123, appendix C, part IA.

⁸ OMB Circular A-123, appendix C, part IA.

USD(C)/CFO published corrective action plans in the DoD FY 2015 AFR for each of the payment programs where DoD found improper payments. However, DoD excluded required information for the four payment programs that exceeded statutory thresholds for significant improper payments:⁹ Military Health Benefits, Military Pay, DoD Travel Pay, and Defense Finance and Accounting Service Commercial Pay. Specifically, the corrective action plans did not include planned or actual completion dates as required by Federal guidance.¹⁰ Additionally, DoD did not include an assessment of the status of internal controls for the Military Pay, DoD Travel Pay, and Defense Finance and Accounting Service Commercial Pay programs as required.¹¹ USD(C)/CFO should coordinate with the reporting activities to ensure future AFRs contain all required improper payment reporting information.



DoD excluded required information for the four payment programs that exceeded statutory thresholds for significant improper payments.

DoD Published Improper Payment Estimates, but Estimates Were Unreliable

USD(C)/CFO met the IPERA requirement to publish improper payment estimates for programs identified as susceptible to significant improper payments. However, DoD could not provide assurance that the estimates were based on accurate and complete data because DoD lacked an auditable Statement of Budgetary Resources and was unable to verify that approximately \$327 billion in disbursed obligations were assessed for risk of improper payments. As a result, the improper payment estimates and rates were unreliable.

Deficiencies That Affect the Reliability of Estimates

DoD was unable to verify that approximately \$327 billion in disbursed obligations were assessed for risk of improper payments. DoD reported in the FY 2015 AFR that it disbursed \$887.8 billion in budgetary resources. However, DoD only reviewed \$560.8 billion in outlays for improper payments. USD(C)/CFO could not provide assurance that the approximately \$327 billion difference was included in the nine payment programs reviewed for improper payments or explain why the \$327 billion was not assessed for improper payments in accordance with IPERA. USD(C)/CFO should determine the source of all disbursed obligations not reviewed for improper payments and whether those disbursements are subject to IPERA reporting requirements.

⁹ OMB Circular A-123, appendix C, part IA, defines “significant improper payments” 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).

¹⁰ OMB Circular A-123, appendix C, part IA.

¹¹ OMB Circular A-136, section II.5.8.

In addition, DoD did not adhere to Federal guidance¹² when reporting the results of IPERA sampling. Specifically, DoD did not:

- include agency improper payment totals and an overall agency improper payment rate in the FY 2015 AFR;
- report the sampling error of the improper payment sample results for eight of the nine programs; and
- disclose that the improper payment results for the Navy Enterprise Resource Planning Commercial Pay program were based on samples from a period other than FY 2015.

When implementing Recommendation 1a, the USD(C)/CFO should also include these items in future AFRs.

Statistical Sampling Method Could Be Improved

DoD could improve the statistical sampling method through the use of sample plans that are stratified by an appropriate variable, such as payment or invoice amount. DoD determined the sample size to calculate improper payment estimates for seven of nine DoD payment programs¹³ using a simple random sample design. Federal guidance¹⁴ permits the use of simple random samples, but states that when appropriate, more complex stratified designs can produce more actionable results. Only two DoD programs—Military Health Benefits and Defense Finance and Accounting Service Commercial Pay—used a stratified variable design.

DoD could improve the statistical sampling method through the use of sample plans that are stratified by an appropriate variable, such as payment or invoice amount.

A stratified variable design based on payment or invoice amount is appropriate to determine improper payment rates because those rates are based on dollars rather than occurrences, and are determined by dividing the amount of improper payments by the amount of program outlays for a given program. The Government Accountability Office (GAO) reported¹⁵ 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

¹² OMB Circulars A-136, section II.5.8, and A-123, appendix C, part IA.

¹³ The seven DoD payment programs are: Military Pay, Civilian Pay, Military Retirement, DoD Travel Pay, U.S. Army Corps of Engineers Travel Pay, U.S. Army Corps of Engineers Commercial Pay, and Navy Enterprise Resource Planning Commercial Pay.

¹⁴ OMB Circular A-123, appendix C, part IA.

¹⁵ Report No. GAO-13-227, "Significant Improvements Needed in Efforts to Address Improper Payment Requirements," May 13, 2013.

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.

In May 2015, the DoD OIG reported¹⁶ that DoD could improve the statistical precision of improper payment estimates through the use of stratified sample designs. We stated that 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. Sample designs stratified by an appropriate variable, such as invoice or payment amount, would result in estimates with greater precision. In the comments to the May 2015 report, USD(C)/CFO disagreed, stating that DoD had determined that a simple random sample design was appropriate for the programs using that design. However, USD(C)/CFO was unable to provide documentation to support that determination and did not take action to improve the sample designs. USD(C)/CFO, in coordination with DoD components, should develop 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.

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

USD(C)/CFO met the IPERA requirement to report improper payment rates that did not exceed 10 percent for each program reporting estimated improper payments. Although the improper payment rates reported by DoD in the FY 2015 AFR were under the required threshold, we identified deficiencies in the reliability of the data used to calculate the improper payment rates and opportunities to improve the precision of the estimates, as noted in the previous section.

DoD reported that none of the nine payment programs estimating improper payments had improper payment rates above 10 percent. For example, eight of the nine payment programs had improper payment rates at 0.80 percent or lower, with two programs reporting zero. The DoD Travel Pay program, which does not include U.S. Army Corps of Engineers travel, had the highest reported improper payment rate at 7.9 percent.

¹⁶ Report No. DODIG-2015-121, "DoD Met Most Requirements of the Improper Payments Elimination and Recovery Act in FY 2014, but Improper Payment Estimates Were Unreliable," May 12, 2015.

DoD Did Not Meet Improper Payment Reduction Targets for DoD Travel Pay Program

DoD did not meet the FY 2015 reduction target for the DoD Travel Pay program for the fourth consecutive year, making DoD not compliant with IPERA. The number of years the payment program was delinquent determines the required course of action that DoD must take. IPERA states that an agency has complied if it has published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments. Federal guidance¹⁷ 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 did not meet the FY 2015 reduction target for the DoD Travel Pay program for the fourth consecutive year, making DoD not compliant with IPERA.

DoD reported in the FY 2015 AFR that the DoD Travel Pay program had actual improper payments of 7.9 percent, an increase from the 7.0 percent rate reported in the FY 2014 AFR, and above the last established reduction target of 3.24 reported in the FY 2013 AFR.¹⁸ USD(C)/CFO should coordinate with the Directors of OMB and Defense Finance and Accounting Service 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, and submit a report to Congress as required by Public Law 111-204.

Challenges in the DoD Travel Pay Program

In March 2016, the DoD OIG reported¹⁹ that DoD corrective actions for the DoD Travel Pay program were not adequate because they did not include steps to identify the reasons why approving officials approved deficient vouchers for payment. DoD reported in the FY 2015 AFR that the primary reasons for travel improper payments were traveler input errors or approving officials' failure to identify errors prior to payment. According to the AFR, administrative errors resulting from incorrect per diem reimbursements and incorrect reimbursements due to traveler input errors accounted for 48 percent of the errors, and missing documentation accounted for 49 percent of the errors. The AFR reported that

¹⁷ OMB Circular A-123, appendix C, part IIA.

¹⁸ DoD did not publish reduction targets in the FY 2014 AFR for the DoD Travel Pay program, stating that modified out-year reduction targets were under development and would be included in the FY 2015 AFR. Therefore, we used the FY 2015 reduction target published in the FY 2013 AFR to determine compliance.

¹⁹ Report No. DODIG-2016-060, "DoD Actions Were Not Adequate to Reduce Improper Travel Payments," March 10, 2016.

corrective actions for Defense Travel System errors include providing trend reports to DoD components and giving presentations at Defense Travel System training sessions. However, the corrective actions included in the FY 2015 AFR did not include steps to determine why the errors occurred. Among other recommendations, the DoD OIG recommended USD(C)/CFO to update a remediation plan to require DoD Components to determine root causes for improper payments and develop corrective actions. The Deputy Chief Financial Officer, responding for the USD(C)/CFO, agreed, stating that the 2013 Remediation Plan will be updated to include a requirement for DoD Components to determine actual root causes for certifying officials' approvals of improper payments and to develop corrective actions to address those root causes.

Conclusion

The USD(C)/CFO met five of the six requirements of IPERA. Specifically, DoD published an AFR, published corrective action plans, published improper payment estimates, conducted program-specific risk assessments, and reported improper payment rates of less than 10 percent. However, DoD did not meet the reduction targets for the DoD Travel Pay program, and therefore did not comply with IPERA. In addition, DoD did not comply with all reporting requirements, and DoD's inability to ensure that all required payments were reviewed resulted in estimates and rates that were unreliable.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. Coordinate with the reporting activities to ensure future Agency Financial Reports contain all required improper payment reporting information.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer

The Deputy Chief Financial Officer, responding for the USD(C)/CFO, agreed, stating that coordination will occur with reporting activities to ensure future AFRs contain all required improper payment reporting information. The Deputy Chief Financial Officer provided an estimated completion date of January 30, 2017.

- b. Determine the source of all disbursed obligations not reviewed for improper payments and whether those disbursements are subject to improper payment reporting requirements.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer

The Deputy Chief Financial Officer, responding for the USD(C)/CFO, agreed, stating that the Office of the USD(C)/CFO will coordinate with all reporting activities to determine the source of all disbursed obligations not reviewed for improper payments and whether they are subject to improper payment reporting requirements. The Deputy Chief Financial Officer provided an estimated completion date of January 30, 2017.

- c. Coordinate with DoD components to develop 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

The Deputy Chief Financial Officer, responding for the USD(C)/CFO, agreed, stating that the Office of the USD(C)/CFO will coordinate with DoD components that currently use a simple random sample design to develop sample designs that are stratified by an appropriate variable. The Deputy Chief Financial Officer provided an estimated completion date of January 30, 2017.

- d. Coordinate with the Directors of the Office of Management and Budget and the Defense Finance and Accounting Service 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, and submit a report to Congress as required by Public Law 111-204.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer

The Deputy Chief Financial Officer, responding for the USD(C)/CFO, agreed, stating that the Office of the USD(C)/CFO will coordinate with OMB and the Defense Finance and Accounting Service to review the DoD Travel Pay program to determine whether reauthorization proposals or proposed statutory changes are necessary to bring the mandatory program into compliance with Public Law 111-204 and meet payment reduction targets. The Deputy Chief Financial Officer provided an estimated completion date of December 30, 2016.

Our Response

The Deputy Chief Financial Officer addressed all specifics of the recommendations and no further comments are required.

Appendix

Scope and Methodology

We conducted this performance audit from November 2015 through April 2016 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 2015 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, October 20, 2014;
- OMB Circular A-136 Revised, "Financial Reporting Requirements," August 4, 2015;
- information relevant to payment program sampling and projection;
- FY 2015 documentation used to support the risk assessments;
- documentation supporting improper payment rates and estimates reported in the DoD FY 2015 AFR;
- corrective action plans;
- reduction targets; and
- gross improper payment rates reported in the DoD FY 2015 AFR.

We interviewed personnel from USD(C)/CFO to discuss their office's responsibility for IPERA requirements. USD(C)/CFO personnel assisted in requests for payment program information from Defense Finance and Accounting Service, Defense Health Agency, Department of the Navy, and U.S. Army Corps of Engineers.

Use of Computer-Processed Data

We relied on computer-processed data included in the DoD FY 2015 AFR and supporting documents to perform this audit. Specifically, we relied on the estimates of improper payments included in the DoD FY 2015 AFR and the data used to develop those estimates. However, the lack of an auditable Statement of Budgetary Resources led us to conclude that the data and the resulting estimates were unreliable. We discussed the unreliable data and estimates as part of the finding of this report.

Use of Technical Assistance

During the audit, we requested and received technical assistance from the DoD OIG Quantitative Methods Division. Quantitative Methods Division analysts reviewed the sampling plans and results for nine programs that reported improper payment estimates in the DoD FY 2015 AFR to determine whether their sampling methodology and results were statistically valid and appropriate in accordance with OMB guidance.

Prior Coverage

During the last 5 years, the GAO and the 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

DoD IG

Report No. DODIG-2016-060, "DoD Actions Were Not Adequate to Reduce Improper Travel Payments," March 10, 2016

Report No. DODIG-2015-121, "DoD Met Most Requirements of the Improper Payments Elimination and Recovery Act in FY 2014, but Improper Payments Estimates Were Unreliable," May 12, 2015

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

Management Comments

Under Secretary of Defense (Comptroller)/Chief Financial Officer



COMPTROLLER

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

APR 22 2016

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

SUBJECT: Department of Defense Inspector General Draft Report, "DoD Met Most
Requirements of the Improper Payments Elimination and Recovery Act in FY 2015,
but Improper Payment Estimates Were Unreliable," April 15, 2016
(Project No. D2016-D000CJ-0039.000)

We received the subject draft report and reviewed your recommendations to the
Under Secretary of Defense (Comptroller)/Chief Financial Officer. Responses to your
recommendations are attached.

We have made continued improvements over the past several years to address issues
raised by your office as well as those contained within Government Accountability Office
reports. We continue to believe that our improper payments program is fundamentally sound. It
appears there remains a lack confidence in either how well we are documenting actions that are
in place or that these actions require further remediation to enhance their effectiveness. In
response to your recommendations, we have targeted most actions to align to dates for the
fiscal year 2016 reporting cycle. Our objective will be to ensure that you see demonstrated
results in next year's audit.

With regard to DoD travel pay improper payments, we are working to develop an
improved remediation effort that will integrate post-pay audit results and the Defense Travel
Management Office compliance monitoring efforts. Changes should provide actionable
information, identify root causes, and ensure accountability for corrective actions.

Thank you for the opportunity to review and comment on the draft audit report. My staff
point of contact is [REDACTED]. Please reach her at [REDACTED] or
[REDACTED]

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated



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

DOD IG DRAFT REPORT – DATED APRIL 15, 2016
DOD IG PROJECT NO. D2016-D000CJ-0039.000

“DOD MET MOST REQUIREMENTS OF THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT IN FY 2015, BUT IMPROPER PAYMENT ESTIMATES WERE UNRELIABLE”

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTRROLLER) (OUSD(C))
RESPONSE TO RECOMMENDATIONS

RECOMMENDATION: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

RECOMMENDATION 1.a.: Coordinate with the reporting activities to ensure future Agency Financial Reports contain all required improper payment reporting information.

OUSD(C) RESPONSE: Concur. Agency Financial Reports will contain all required improper payment reporting information after formal coordination with the reporting activities. ECD: January 30, 2017

RECOMMENDATION 1.b.: Determine the source of all disbursed obligations not reviewed for improper payments and whether those disbursements are subject to improper payment reporting requirements.

OUSD(C) RESPONSE: Concur. OUSD(C) will coordinate with all reporting activities to determine the source of all disbursed obligations not reviewed for improper payments and whether they are subject to improper payment reporting requirements. ECD: January 30, 2017

RECOMMENDATION 1.c.: Coordinate with DoD components to develop 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.

OUSD(C) RESPONSE: Concur. OUSD(C) will coordinate with DoD components that currently use a simple random sample design to develop sample designs that are stratified by an appropriate variable. ECD: January 30, 2017

RECOMMENDATION 1.d.: Coordinate with the Directors of Office of Management and Budget and the Defense Finance and Accounting Service 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, and submit a report to Congress as required by Public Law 111-204.

OUSD(C) RESPONSE: Concur: OUSD(C) will coordinate with the Office of Management and Budget and the Defense Finance and Accounting Service to review the DoD Travel Pay Program to determine whether reauthorization proposals or proposed statutory changes are necessary to bring the mandatory program into compliance with Public Law 111-204 and meet payment reduction targets. ECD: December 30, 2016

Attachment

Acronyms and Abbreviations

AFR	Agency Financial Report
GAO	Government Accountability Office
IPERA	Improper Payments Elimination and Recovery Act of 2010
OIG	Office of Inspector General
OMB	Office of Management and Budget
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD

Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Enhancement Act of 2012 requires the Inspector General to designate a Whistleblower Protection Ombudsman to educate agency employees about prohibitions on retaliation, and rights and remedies against retaliation for protected disclosures. The designated ombudsman is the DoD Hotline Director. For more information on your rights and remedies against retaliation, visit www.dodig.mil/programs/whistleblower.

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