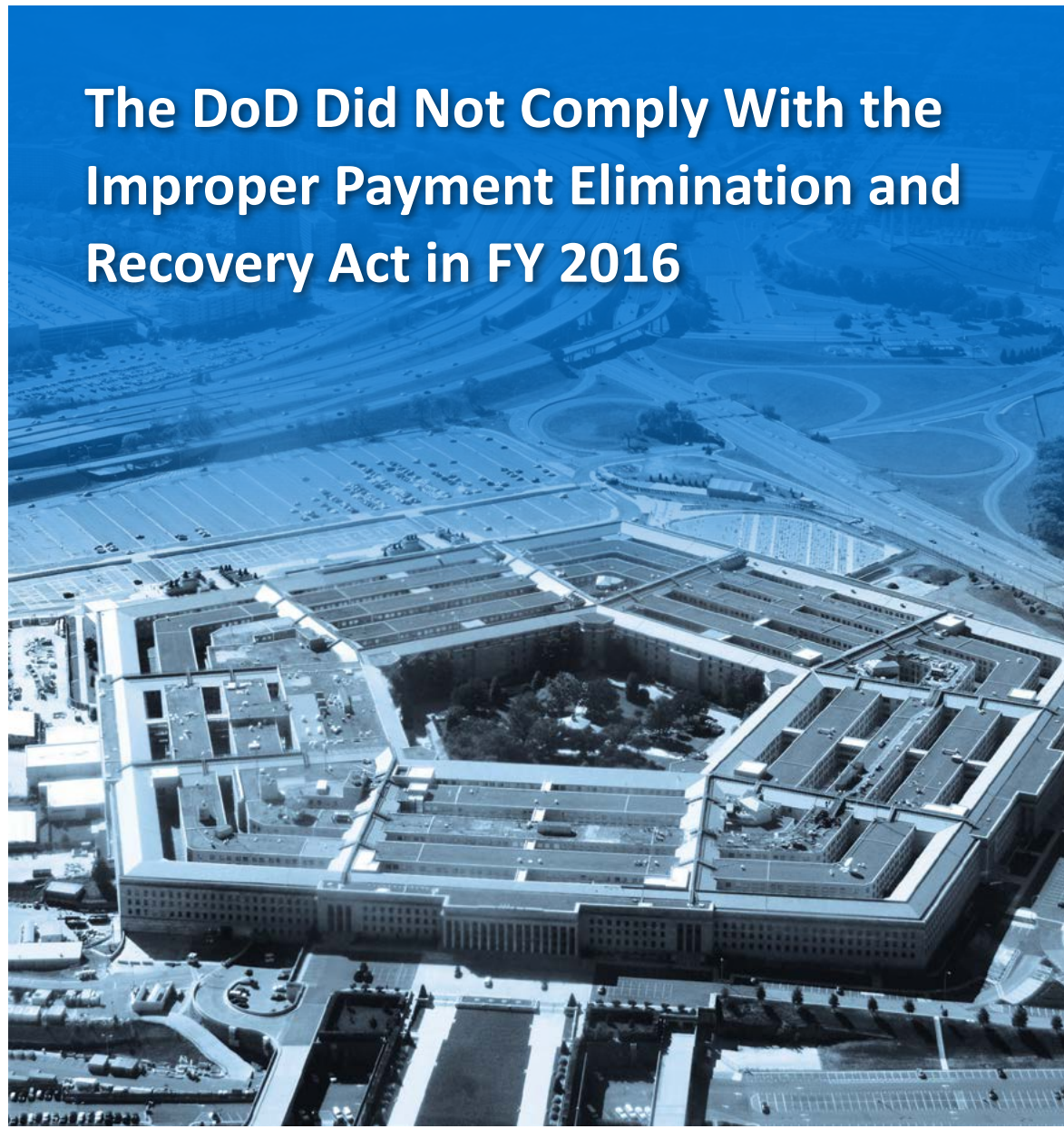




INSPECTOR GENERAL

U.S. Department of Defense

MAY 8, 2017



The DoD Did Not Comply With the Improper Payment Elimination and Recovery Act in FY 2016

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Results in Brief

DoD Did Not Comply With the Improper Payment Elimination and Recovery Act in FY 2016

May 8, 2017

Objective

Our objective was to determine whether the 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, in its FY 2016 improper payment reporting. The audit is required by the IPERA, which states that the Office of Inspector General (OIG) must annually review and determine agency compliance with IPERA.

The DoD must meet all six of the following requirements to be compliant with IPERA¹:

- publish an annual financial statement for the most recent fiscal year and post that report and any accompanying materials required under Office of Management and Budget (OMB) guidance on the agency website;
- conduct a program-specific risk assessment for each program or activity (if required);
- publish improper payment estimates for all programs and activities in the accompanying materials to the annual financial statement (if required);
- publish programmatic corrective action plans for programs that report improper payment estimates;

¹ Public Law 111-204, "Improper Payments Elimination and Recovery Act of 2010," July 22, 2010, Section 3(a).

Objective (cont'd)

- publish, and meet, improper payments reduction targets; and
- report an improper payment rate of less than 10 percent for each program and activity for which an estimate is published.

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD(C)/CFO) published the Improper Payment and Payment Recapture Programs section of the FY 2016 Agency Financial Report (AFR) on November 15, 2016, which identified 10 programs that report improper payments.

We reviewed the DoD improper payment programs reported in the Improper Payment and Payment Recapture Program section of the FY 2016 AFR to determine compliance with IPERA. To assess DoD Compliance with IPERA, we obtained, reviewed, and analyzed the DoD improper payment programs against Public Law, OMB guidance, and DoD guidance on improper payments. Additionally, we discussed with DoD personnel reduction targets, sampling plans, program completeness, and corrective action plans.

Finding

The DoD complied with one of the six requirements of IPERA by reporting improper payment rates of less than 10 percent.

The DoD did not comply with five of the six requirements of IPERA: Specifically, the DoD did not:

- publish the AFR by March 1, 2017, due to unresolved discussions between the DoD OIG and DoD management over the accounting treatment of certain transactions; however, the DoD did publish the Improper Payment and Payment Recapture Programs section of the FY 2016 Agency Financial Report on November 15, 2016;
- conduct a risk assessment for the Navy Commercial Bill Pay Office–Singapore payment program and did not report a risk assessment of each program's susceptibility to significant improper payments in accordance with OMB guidance;



Results in Brief

DoD Did Not Comply With the Improper Payment Elimination and Recovery Act in FY 2016

Finding (cont'd)

- publish statistically valid improper payment estimates for two programs—DoD Travel Pay and U.S. Army Corps of Engineers Travel Pay—and did not ensure that all payments required to be tested were included in the sample plans used to estimate improper payments;
- include planned or actual completion dates for corrective actions for all programs that report improper payments, and did not include information required by the OMB for four programs; or
- meet the requirements to achieve the reduction target for two of the nine programs—DoD Travel Pay and U.S. Army Corps of Engineers Travel Pay—with established targets.

USD(C)/CFO personnel stated they relied on internal controls at the Component level and did not comply with all requirements in the DoD Financial Management Regulation in completing their oversight and compilation of the Components' improper payment reporting, such as reviewing the Components statistical sampling plans to ensure completeness. IPERA establishes congressional reporting requirements when agencies are deemed noncompliant with the law. As a result of DoD's noncompliance with IPERA, the USD(C)/CFO must submit a report to Congress describing the actions the DoD will take to become compliant with IPERA.

Recommendations

We recommend that the USD(C)/CFO coordinate with DoD IPERA reporting Components to verify and report improper payment results that comply with the requirements of IPERA. In addition, we recommend that the USD(C)/CFO evaluate the actions taken to address prior DoD OIG recommendations and make sure future agency financial reports address the specific instances of noncompliance with OMB guidance. Finally, we recommend that USD(C)/CFO submit a plan to Congress, in compliance with IPERA Section 3, describing the actions the DoD will take to become compliant with IPERA requirements.

We recommend that the Chief Financial Officer, U.S. Army Corps of Engineers, Civil Works, develop procedures to maintain sufficient documentation to support the U.S. Army Corps of Engineers improper payment estimates.

Management Comments and Our Response

The Deputy CFO, responding for the USD(C)/CFO, and the Chief, Finance and Accounting Policy Division, Directorate of Resource Management, responding for the CFO, U.S. Army Corps of Engineers, Civil Works, addressed all the specifics of the recommendations; therefore, the recommendations are resolved but remain open. We will close the recommendations after verifying that the actions presented by management have been implemented.



Results in Brief

DoD Did Not Comply With the Improper Payment Elimination and Recovery Act in FY 2016

Management Comments (cont'd)

The Deputy CFO agreed to coordinate with DoD Components by November 15, 2018, to verify that all programs are assessed for risk and include all payments made for the DoD improper payment programs, and that sample designs are stratified by an appropriate variable. The Deputy CFO also agreed to coordinate with DoD Components by November 15, 2017, to ensure that reduction targets for DoD Travel Pay and USACE Travel Pay programs are achievable, are reported accurately, and are developed in coordination with corrective action plans.

The Deputy CFO agreed to provide guidance to DoD Components on reporting sufficient corrective action plans and to consult with OMB personnel, to include attending OMB meetings related to IPERA, to ensure compliance with OMB guidance in future AFRs. In addition, the Deputy CFO agreed to submit a plan to Congress by November 15, 2017, describing actions taken by the DoD to become compliant with IPERA.

The Chief Finance and Accounting Policy Division, Directorate of Resource Management, agreed with the recommendation, stating that USACE maintains supporting documentation for the estimates and results of improper payment audits. He stated that the data has been modified and reformatted to satisfy auditor requirements.

Please see the Recommendations Table on the following page for the status of the recommendations.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD		1.a.1, 1.a.2, 1.a.3, 1.a.4, 1.b, 1.c, 1.d	None
Chief Financial Officer, U.S. Army Corps of Engineers, Civil Works		2	None

Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – OIG verified that the agreed upon corrective actions were implemented.



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

May 8, 2017

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
CHIEF FINANCIAL OFFICER, U.S. ARMY CORPS OF ENGINEERS,
CIVIL WORKS

SUBJECT: DoD Did Not Comply With the Improper Payment Elimination and
Recovery Act for FY 2016 (Report No. DODIG-2017-078)

We are providing this final report for information and use. The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, did not comply with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The DoD complied with one of the six requirements of IPERA. However, the DoD did not publish the agency financial report by March 1, 2017, perform a risk assessment for one program, publish improper payment estimates that were statistically valid, publish corrective actions to reduce improper payments with planned or actual completion dates, or meet the reduction targets for the DoD and USACE Travel Pay programs. USD(C)/CFO must submit a report to Congress describing the actions the DoD will take to become compliant with 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 Deputy Chief Financial Officer, responding on behalf of the USD(C)/CFO, and from the Chief Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Chief Financial Officer, U.S. Army Corps of Engineers, Civil Works, 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, appearing to read "M. Roark", is positioned above the typed name.

Michael J. Roark
Assistant Inspector General
Contract Management and Payments

Contents

Introduction	1
Objective	1
Background	1
Review of Internal Controls	3
Finding. The DoD Did Not Comply With Five of the Six Improper Payment Elimination and Recovery Act Requirements	5
The DoD Reported Improper Payment Rates Below the Improper Payments Elimination and Recovery Act Established Threshold	6
DoD FY 2016 Agency Financial Report Not Published by Deadline	6
The DoD Did Not Conduct a Risk Assessment for One Program and Report Risk Assessments in Compliance with OMB Guidance	7
The DoD Did Not Comply With IPERA and OMB Requirements for Publishing Statistically Valid Improper Payment Estimates	8
The DoD Published Corrective Actions but Excluded Required Completion Dates	14
The DoD Did Not Meet Improper Payment Reduction Targets for the DoD and USACE Travel Pay Programs	15
Oversight of Improper Payment Reporting Needs Improved	16
The DoD Must Submit a Report to Congress on Noncompliance With IPERA	17
The DoD Took Actions to Improve the DoD Travel Pay Program	18
Recommendations, Management Comments, and Our Response	19
Appendixes	24
Appendix A. Scope and Methodology	24
Use of Computer-Processed Data	25
Use of Technical Assistance	25
Prior Coverage	26
Appendix B. Status of DoD OIG IPERA Recommendations	29
Management Comments	
Under Secretary of Defense (Comptroller)/Chief Financial Officer	38
U.S. Army Corps of Engineers, Civil Works	42
Acronyms and Abbreviations	43

Introduction

Objective

Our objective was to determine whether the 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. We reviewed the DoD improper payment programs reported in the Improper Payment and Payment Recapture Program section of the FY 2016 AFR to determine compliance with IPERA. To assess DoD Compliance with IPERA, we obtained, reviewed, and analyzed the DoD improper payment programs against public law, OMB guidance, and DoD guidance on improper payments. Additionally, we discussed with DoD personnel reduction targets, sampling plans, program completeness, and corrective action plans. See Appendix A for our scope and methodology and prior coverage.

Background

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 guidance for agencies to implement the requirements of IPERA.² This 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. Additionally, improper payments include payments when an agency’s review is unable to determine whether the payments were proper as a result of missing or insufficient documentation.

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);

² OMB Circular No. A-123, “Management’s Responsibility for Internal Controls,” appendix C, parts I and II, October 20, 2014.

- 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 for programs which reported improper payment estimates;
- published, and met, improper payments reduction targets; and
- reported an improper payments rate of less than 10 percent for each program and activity for which an estimate was published.

The DoD must meet all six requirements in order to be compliant with IPERA.

IPERA section 3(b) requires the Office of Inspector General (OIG) to annually review and determine agency compliance with IPERA. OMB Circular A-123, requires the agency's OIG to submit a report within 180 days of the Agency Financial Report (AFR) issuance.³ 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.

Office of Management and Budget Requirements

OMB Circular No. A-123, appendix C, consolidates and streamlines reporting requirements of IPERA for agencies and Inspectors General. Additionally, it provides guidance to agencies to strengthen the statistical validity of improper payment estimates and provides an internal control framework to ensure payments are made in the right amount, to the right entity, and for the right purpose.

OMB Circular No. A-136 establishes a central point of reference for all Federal financial reporting guidance. Section II of this Circular defines the form and content for a Federal AFR, which includes IPERA-related reporting requirements.⁴

DoD Financial Management Regulation

The DoD Financial Management Regulation (FMR) requires the quantification and estimation of improper payments for reporting purposes, consolidates departmental reporting requirements, and provides implementation of plans to identify, estimate, reduce, and eliminate future improper payments.⁵

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

⁴ OMB Circular A-136 Revised, "Financial Reporting Requirements," October 7, 2016.

⁵ DoD 7000.14-R, "Financial Management Regulations," volume 4, chapter 14, "Improper Payments," June 2015.

DoD Agency Financial Report

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD(C)/CFO) identified six programs (10 reporting programs) in the Improper Payment and Payment Recapture Program section of the DoD FY 2016 AFR.

- Military Health Benefits
- Military Pay
- Civilian Pay
- Commercial Pay
 - Defense Finance and Accounting Service (DFAS) Commercial Pay
 - U.S. Army Corps of Engineers (USACE) Commercial Pay
 - Navy Enterprise Resource Planning Commercial Pay
 - Navy Commercial Bill Pay Office–Naples
- Military Retiree and Annuitant Benefit Payments (Military Retirement)
- Travel Pay
 - DoD Travel Pay
 - USACE Travel Pay

Review of Internal Controls

DoD Instruction 5010.40 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.⁶ The DoD did not perform a risk assessment for one program, publish estimates that were statistically valid, publish corrective actions with planned or actual completion dates, or meet the reduction targets for the DoD and USACE Travel Pay programs. We will provide a copy of the report to the senior official responsible for internal controls for the USD(C)/CFO.

The DoD self-identified internal control weaknesses related to financial reporting and integrated financial management systems in its FY 2016 Statement of Assurance. Specifically, the DoD as an agency cannot yet produce auditable financial statements and management provides no assurance as to the effectiveness of the Department's internal controls over financial reporting. The DoD stated in its FY 2016 Statement of Assurance that it is far from reaching an unqualified

⁶ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

statement of reasonable assurance on its financial statements.⁷ Additionally, the DoD provides no assurance that its internal controls over its integrated financial management systems are compliant with Federal guidance.⁸ However, we are not making a recommendation to correct the internal control weakness because the DoD already has efforts underway to improve the financial processes, including the Financial Improvement and Audit Readiness initiative.

⁷ An unqualified statement of assurance is an informed judgment by management as to the overall adequacy and effectiveness of internal controls, based upon available information, that the systems of internal controls are operating as intended with no material weaknesses reported.

⁸ Federal Financial Management Improvement Act (FFMIA) and OMB Circular No. A-123, Appendix D.

Finding

The DoD Did Not Comply With Five of the Six Improper Payment Elimination and Recovery Act Requirements

The USD(C)/CFO published the Improper Payment and Payment Recapture Programs section of the DoD FY 2016 AFR but did not comply with IPERA. The DoD complied with one of the six requirements of IPERA by reporting improper payment rates of less than 10 percent.

However, the DoD did not comply with five of the six IPERA requirements. Specifically, the DoD did not:

- publish the Annual Financial Report by March 1, 2017, due to unresolved discussions between the DoD OIG and DoD management over the accounting treatment of certain transactions; however, the DoD did publish the Improper Payment and Payment Recapture Programs section of the FY 2016 AFR on November 15, 2016;
- conduct a risk assessment for the Navy Commercial Bill Pay Office–Singapore payment program⁹ and did not report a risk assessment of each program’s susceptibility to significant improper payments in accordance with Office of Management and Budget guidance;
- publish statistically valid improper payment estimates for two programs—DoD Travel Pay and U.S. Army Corps of Engineers Travel Pay—and did not ensure that all payments required to be tested were included in the sample plans used to estimate improper payments;
- include planned or actual completion dates for corrective actions for all programs that report improper payments, and did not include information required by the Office of Management and Budget for four programs; and
- meet the requirements to achieve the reduction target for two of the nine programs—DoD Travel Pay and U.S. Army Corps of Engineers Travel Pay—with established targets.¹⁰

USD(C)/CFO personnel stated they relied on internal controls at the Component level and did not comply with their responsibilities as listed in the DoD FMR to ensure compliance with IPERA and OMB requirements. As a result, USD(C)/CFO must submit a report to Congress describing the actions the DoD will take to become compliant with IPERA.¹¹

⁹ The DoD FY 2016 IPERA section of the AFR identified the Navy Commercial Bill Pay Office–Singapore as a program to review for improper payments and report results in the FY 2017 AFR.

¹⁰ Navy Commercial Bill Pay Office–Naples was excluded from this requirement because the DoD began reviews and reporting in FY 2016; therefore, the DoD did not publish reduction targets for this program during the prior year.

¹¹ Public Law 111-204, “Improper Payments Elimination and Recovery Act of 2010,” July 22, 2010, Section 3(c).

The DoD Reported Improper Payment Rates Below the Improper Payments Elimination and Recovery Act Established Threshold

The USD(C)/CFO met the IPERA requirement to report improper payment rates that did not exceed 10 percent for each program that reported estimated improper payments. The DoD reported that none of the 10 programs that estimated improper payments had improper payment rates above 10 percent. For example, 7 of the 10 programs had improper payment rates at 0.74 percent or lower, with two programs reporting zero percent. The DoD Travel Pay program had the highest reported improper payment rate at 7.23 percent. Although the improper payment rates reported by the DoD were below the 10 percent threshold, we identified deficiencies in the completeness of the data used to calculate the improper payment rates and opportunities to improve the precision of the estimates, as noted later in the report.

DoD FY 2016 Agency Financial Report Not Published by Deadline

As of March 1, 2017, the DoD FY 2016 AFR remained unpublished due to unresolved discussions between the DoD OIG and DoD management over the accounting treatment of certain material transactions; however, the USD(C)/CFO issued the Improper Payment and Payment Recapture Programs section of the FY 2016 AFR on November 15, 2016.¹² IPERA requires that agencies publish an AFR for the most recent fiscal year and post the report on the agency website. OMB guidance required that agencies issue the AFR by November 15, 2016.¹³ On January 13, 2017, the Deputy Controller of OMB stated that pursuant to his authority under Section 303 of the Chief Financial Officers Act, the deadline for DoD to release and publish the FY 2016 AFR was extended to March 1, 2017. The USD(C)/CFO did not meet the March 1, 2017, deadline for publishing the AFR, but did issue the IPERA section of the AFR on November 15, 2016. In accordance with IPERA, the USD(C)/CFO must submit a report to Congress describing the actions the DoD will take to become compliant with IPERA requirements for publishing the AFR.

¹² For the remainder of the report, the Improper Payment and Payment Recapture Programs section of the FY 2016 AFR will be referred to as the IPERA section of the AFR.

¹³ OMB Circular A-136 revised, "Financial Reporting Requirements," October 7, 2016.

The DoD Did Not Conduct a Risk Assessment for One Program and Report Risk Assessments in Compliance with OMB Guidance

The USD(C)/CFO did not comply with the IPERA requirement to conduct a risk assessment for one program. IPERA requires the head of the agency, in accordance with OMB guidance, to periodically review all programs and activities and identify all programs and activities that may be susceptible to significant improper payments. OMB guidance requires agencies to perform risk assessments on all programs and activities except for those that are already reporting improper payment estimates or are in the process of reporting an improper payment estimate.¹⁴ The DoD FY 2016 IPERA section of the AFR identified the Navy Commercial Bill Pay Office–Singapore as a program to review for improper payments and report results in the FY 2017 AFR. However, the Navy did not perform a risk assessment in FY 2016 to determine if the program was susceptible to improper payments. Specifically, Navy personnel stated that in FY 2016 they began reviewing the program and developing a sampling plan to test for improper payments. Navy personnel stated that they will perform improper payment testing for FY 2017, and plan to use the results as the risk assessment in the FY 2017 AFR. USD(C)/CFO should coordinate with all DoD IPERA reporting Components to verify that all payments are assessed for the risk of improper payments or are reporting estimated improper payments.

In addition, the DoD did not adequately address the risk assessments for the 10 programs that reported improper payments in the IPERA section of the AFR. OMB guidance requires agencies to list and briefly describe all the programs assessed for risk during the fiscal year, to include the risk factors examined.¹⁵ Furthermore, the guidance requires that agencies provide the year in which an improper payment rate and amount will be reported for newly identified risk susceptible programs. The DoD FY 2016 IPERA section of the AFR provided a brief description of risk assessments of each DoD reporting Component, but did not address the 10 programs assessed for risk, to include the risk factor examined for each program.

In May 2016, the DoD OIG recommended that the USD(C)/CFO coordinate with the reporting activities to ensure that future AFRs contain all required improper payment reporting information.¹⁶ The USD(C) Deputy CFO agreed

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

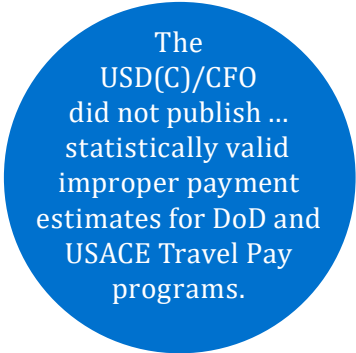
¹⁵ OMB Circular A-136 Revised, "Financial Reporting Requirements," October 7, 2016.

¹⁶ DoD OIG Report No. DoDIG-2016-086, "DoD Met Most Requirements of Improper Payment Elimination and Recover Act in FY 2015, but Improper Payment Estimates Were Unreliable," May 3, 2016.

to the recommendation and provided an estimated completion day of January 30, 2017. Because management had agreed to the recommendation we consider it to be resolved; however, it remains open because the corrective action was not completed prior to the FY 2016 reporting period. We will close this recommendation after receiving and reviewing supporting documentation that confirms that the USD(C)/CFO included all required information in the FY 2017 AFR. See Appendix B for the status of DoD OIG IPERA recommendations. The USD(C)/CFO should evaluate the actions taken regarding the May 2016 DoD OIG recommendation to ensure compliance with OMB reporting requirements and make sure future AFRs include all reporting requirements.

The DoD Did Not Comply With IPERA and OMB Requirements for Publishing Statistically Valid Improper Payment Estimates

The USD(C)/CFO did not comply with IPERA requirements to publish statistically valid improper payment estimates for DoD and USACE Travel Pay programs.¹⁷ The USD(C)/CFO did comply with the IPERA requirements for the remaining eight programs. Furthermore, the DoD did not ensure that all required payments were included in the DoD Travel Pay, DoD Commercial Pay, and Military Health Benefits improper payment estimates. As a result, the DoD published unreliable estimates of improper payments and rates for the sixth consecutive year.¹⁸ In May 2016, the DoD OIG recommended that the USD(C)/CFO determine the source of all payments not reviewed for improper payments and whether those payments are subject to improper payment reporting requirements. Because management had agreed to the recommendation we consider it to be resolved; however, it remains open because management did not complete the action during the FY 2016 reporting period. We will close this recommendation once USD(C)/CFO provides evidence that they have identified all payments and subjected those payments to improper payment testing.



The USD(C)/CFO did not publish ... statistically valid improper payment estimates for DoD and USACE Travel Pay programs.

¹⁷ IPERA states that agencies may use an estimating methodology that is appropriate and approved by OMB.

¹⁸ Although we assessed the statistical validity of the estimates, we did not assess the accuracy of improper payment testing results or the completeness of the payment universes used when calculating the estimated improper payments and improper payment rates.

Furthermore, the DoD did not adhere to OMB guidance when reporting improper payment estimates.¹⁹ OMB guidance requires the DoD to report the total DoD payments, estimated improper payments, and the overall DoD improper payment rate. In addition, the guidance requires the DoD to indicate when the improper payment estimates are calculated using payment activity that is different than the current fiscal year. The DoD did not:

- include DoD improper payment totals and an overall DoD improper payment rate in the IPERA section of the AFR; and
- disclose that improper payment results for the Navy Enterprise Resource Planning Commercial Pay and Navy Commercial Bill Pay-Naples programs were based on samples from a period other than FY 2016.

The USD(C)/CFO should make sure future AFRs comply with OMB guidance regarding all required improper payment reporting information, to include addressing reporting deficiencies related to improper payment estimates.

The DoD Did Not Produce Statistically Valid Estimates for DoD and USACE Travel Pay

The USD(C)/CFO did not use statistically valid estimates for the USACE Travel Pay program or for the DoD Travel Pay program when reporting Navy Integrated Automated Travel System (IATS) improper payments. In addition, the USD(C)/CFO did not include travel pay improper payment estimates disbursed by the Air Force and Army when reporting the DoD Travel Pay program. IPERA requires agencies to produce statistically valid estimates, or an estimate that is otherwise approved by the OMB, for all programs that are susceptible to significant improper payments, and include those estimates in the annual financial statements. The USD(C)/CFO should coordinate with DoD IPERA reporting Components for each DoD improper payment program to report consistent, accurate, complete, and statistically-valid improper payment estimates in compliance with all IPERA and OMB requirements.

The USACE Travel Pay program developed a statistically valid sample plan that met all requirements and criteria set forth in the OMB guidance. However, the USACE Travel Pay program officials did not use the method outlined in their sample plan or an appropriate method to calculate a statistically valid improper payment estimate. OMB guidance requires agency sampling and estimation plans to generally provide sufficient documentation of the sample design so that a qualified statistician would be able to replicate what was done.²⁰ As of February 21, 2017, USACE Travel Pay program officials were unable

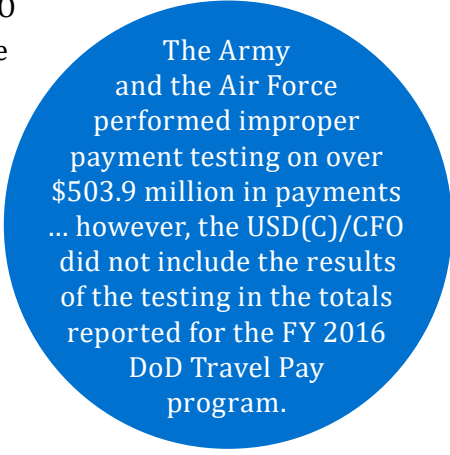
¹⁹ OMB Circular A-136 Revised, "Financial Reporting Requirements," October 7, 2016, Section II.5.8.

²⁰ OMB Circular A-123, appendix C, part IA.

to provide sufficient documentation of their improper payment testing results to allow a qualified statistician to recreate their improper payment estimate. The USACE CFO should develop procedures to maintain sufficient documentation to support the USACE improper payment estimates.

The Navy reported \$729 million in payments and \$3.7 million in improper payments as part of the DoD Travel Pay program in the IPERA section of the FY 2016 AFR. However, Navy officials stated that their sampling plans were not statistically valid. Furthermore, Navy did not have a written sampling plan for FY 2016.²¹ Navy personnel stated that commands use three different methods to sample and test for IATS improper payments: (1) test 100 percent of transactions, (2) use old sampling plans that most likely have higher sample numbers than currently required, or (3) rely on the IATS audit tool to select transactions. Navy and DFAS personnel are in the process of taking corrective action for the FY 2017 IPERA reporting cycle and intend to include the Navy IATS payments in the DFAS travel pay sampling plan.

The FMR defines the DoD Travel Pay program as all DoD Components that compute entitlements for travel pay, and requires those Components to report improper payment data to the USD(C)/CFO quarterly.²² In FY 2016, the Army and the Air Force performed improper payment testing on over \$503.9 million in payments and an estimated \$8.1 million in improper payments; however, the USD(C)/CFO did not include the results of the testing in the totals reported for the FY 2016 DoD Travel Pay program. USD(C)/CFO personnel stated that due to a lack of continuity during a transition in staff, they were unaware that Army and Air Force were testing and reporting improper payment data related to travel.



The Army and the Air Force performed improper payment testing on over \$503.9 million in payments ... however, the USD(C)/CFO did not include the results of the testing in the totals reported for the FY 2016 DoD Travel Pay program.

²¹ OMB Circular A-123, appendix C, part IA requires that agencies document their sampling and estimation plan.

²² DoD FMR, volume 4, chapter 14.

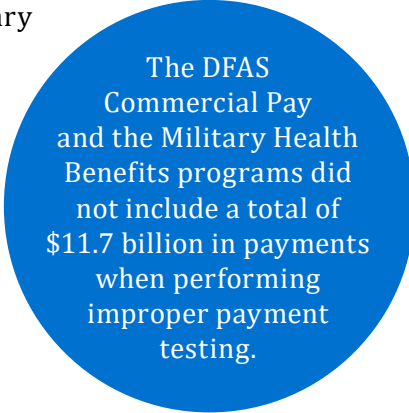
The DoD Did Not Test All Payments For Improper Payments When Developing Statistical Estimates

When testing for improper payments, the DoD did not include payments for 2 of the 10 programs required to report improper payments and, therefore, did not comply with IPERA. IPERA requires agencies to produce statistically valid estimates in compliance with OMB guidance, which states that agencies should design the sample to include the total amount of all payments for a program.²³ The DFAS Commercial Pay and the Military Health Benefits programs did not include a total of \$11.7 billion in payments when performing improper payment testing.²⁴

The USD(C)/CFO reported \$248.5 billion in payments for the DFAS Commercial Pay program in the IPERA section of the FY 2016 AFR. However, DFAS personnel did not include \$6.6 billion in payments when performing improper payment testing because the quantitative analysis DFAS performed indicated the three commercial pay systems were a low risk for significant improper payments. Specifically, DFAS did not include:

- \$0.7 billion in payments from the Financial Accounting and Budget System,
- \$5.6 billion in payments from the Standard Automated Voucher Examination System, and
- \$0.3 billion in payments from the Transportation Financial Management System.

The DoD FMR defines DFAS Commercial Pay as one of the programs that report improper payments.²⁵ USD(C)/CFO personnel acknowledged that all commercial pay transactions should be subject to improper payment testing under the DFAS Commercial Pay program, including the three commercial pay systems with \$6.6 billion in payments. During the course of the audit, USD(C)/CFO personnel stated that they began coordinating with DFAS to ensure all payments within commercial pay are included in improper payment testing.



The DFAS Commercial Pay and the Military Health Benefits programs did not include a total of \$11.7 billion in payments when performing improper payment testing.

²³ OMB Circular A-123, appendix C, part IA.

²⁴ The \$6.6 billion excluded from DFAS Commercial Pay are FY 15 payments.

²⁵ DoD FMR, volume 4, chapter 14.

In addition, the USD(C)/CFO did not include \$5.1 billion in payments made under the Military Health Benefits Program when performing improper payment testing. Of the \$20.5 billion in payments reported for the Military Health Benefits program, the Defense Health Agency did not include \$0.8 billion in payments when performing improper payment testing due to system constraints with the TRICARE Pharmacy and Active Duty Dental payment activities and a TRICARE Pharmacy contractor opting out of low dollar audits.²⁶ Furthermore, the Defense Health Agency did not include an additional \$4.3 billion in payments in five payment activities when performing improper payment testing. Specifically, of the \$4.3 billion, Defense Health Agency personnel stated that they did not include:

- \$2.4 billion in payments for the Mail Order Pharmacy payment activity because the Defense Contract Audit Agency monitors and audits bulk payments for these claims;
- \$1.1 billion in payments for administrative costs, such as contract award fees and claim processing fees, because the payments are part of external audits, including the annual financial statement audit;
- \$528.1 million in premium payments for the Designated Provider (Uniformed Services Family Health Plan) payment activity because the contractor is 100 percent responsible for improper payments and the Defense Contract Audit Agency conducts reconciliations to validate correct payment for the enrolled providers;
- \$331.6 million in premium payments for the TRICARE Dental and the TRICARE Retiree Dental payment activities because the contractor carries 100 percent of the risk for improper payments and the Defense Contract Audit Agency conducts eligibility audits annually; and
- \$8.9 million in payments for the Women, Infant, and Children Overseas payment activity because the payment activity is audited by the Defense Contract Audit Agency.

While external audits by the Defense Contract Audit Agency, sharing the risk of improper payments with the contractor, and performing risk assessments are good internal controls related to improper payments, these controls do not alleviate the requirements of IPERA. The DFAS Commercial Pay and Military Health Benefits programs did not comply with IPERA requirements to follow OMB guidance when producing statistically valid estimates, including subjecting all payments to improper payment testing. The USD(C)/CFO should coordinate with DoD

²⁶ Defense Health Agency personnel stated that they have resolved the system constraints with the TRICARE Pharmacy and Active Duty Dental payment activities. They further stated that the TRICARE Pharmacy contractor opted out of low-dollar testing because the contractor is not required to perform the testing under the current contract with the Defense Health Agency. Defense Health Agency personnel stated they are working with the contractor to modify the contract and implement low dollar testing.

IPERA reporting Components to ensure Components include all payments for DoD improper payment programs when reporting consistent, accurate, complete, and statistically-valid improper payment estimates in compliance with all IPERA and OMB requirements.

Statistical Sampling Method Could Be Improved

The DoD could improve the statistical sampling method through the use of sample plans that group similar payment items, such as dollar value of the payment or invoice amount. This type of sample plan, a stratified variable sample design, ensures that the sample contains items from that group, or stratum, and generally improves the overall precision of the statistical projection.

The Government Accountability Office (GAO) states that simple random samples, which are equal-probability samples, are unlikely to capture large invoices when a population contains a smaller number of large invoices and a larger number of small invoices.²⁷ Simple random sample payments are selected without regard to the payment dollar value and all items in the universe have an equal probability of being selected.²⁸ Additionally, higher-dollar payments generally involve more complex transactions and are therefore at higher risk of being improper payments. Therefore, by not designing more complex sampling methods, such as a stratified variable sample, DoD's improper payment estimates could be significantly misstated.

The DoD determined the sample size based on a simple random sample for 7 of the 10 programs. OMB guidance states that agencies may use a simple random sample if appropriate, but a stratified, multi-stage, or clustered sample²⁹ can produce results that allow agencies to better understand underlying causes of improper payment and create corrective actions.³⁰ Only three DoD programs—Military Health Benefits, DFAS Civilian Pay and DFAS Commercial Pay—used a stratified design for reporting improper payments in the IPERA section of the FY 2016 AFR.

In May 2016, the DoD OIG recommended that the USD(C)/CFO coordinate with DoD Components to develop sample designs that are stratified by an appropriate variable for each program that uses a simple random sample design. The

²⁷ GAO Report No. GAO-13-227, "Significant Improvements Needed in Efforts to Address Improper Payment Requirements," May 13, 2013.

²⁸ In a simple random sample design, each item has an equal probability of being selected.

²⁹ "Multi-stage" sampling divides a population into groups, or clusters, from which one or more groups are chosen at random and all elements of that group are sampled. "Cluster" sampling is used with natural but relatively similar groups that are evident in a statistical population; the total population is divided into groups, or clusters, and a simple random sample of the groups is selected.

³⁰ OMB Circular A-123, appendix c, part 1a.

USD(C)/CFO agreed, stating that he would coordinate with DoD Components to develop sample designs that are stratified by payment amount, and set a completion date of January 30, 2017. Because management had agreed to the recommendation we consider it to be resolved; however, it remains open because only three programs used a stratified design for reporting improper payments in the IPERA section of the FY 2016 AFR. We will close this recommendation after we receive and confirm sample designs, for all programs reporting improper payment estimates, that are statistically valid and stratified using an appropriate variable. The DoD is in the process of addressing this recommendation in the FY 2017 sampling plans; however, not all plans will use stratified variable sampling in FY 2017. The USD(C)/CFO, in coordination with DoD IPERA reporting Components, should verify sample designs are stratified by an appropriate variable for each DoD improper payment program that currently uses a simple random sample design.

The DoD Published Corrective Actions but Excluded Required Completion Dates

The USD(C)/CFO did not comply with all IPERA requirements for publishing corrective action plans in the IPERA section of the FY 2016 AFR. IPERA requires programs reporting improper payment estimates to identify the cause of the improper payments, what actions the agency is taking to reduce improper payments, and planned or actual completion dates. The USD(C)/CFO published the causes of improper payments and corrective action plans in the IPERA section of the FY 2016 AFR for each of the programs where the DoD identified improper payments but excluded the planned or actual completion dates.

In addition, DFAS statisticians stated that the corrective action plans they developed, for the five programs they report on, were “more like suggestions” because they did not have the authority to implement corrective actions for other DoD Components.³¹ The USD(C)/CFO should review corrective action plans and coordinate with DoD IPERA reporting Components to establish planned or actual completion dates for corrective actions.



DFAS statisticians stated that the corrective action plans they developed ... were “more like suggestions.”

Furthermore, OMB has additional reporting requirements for programs that report significant improper payments.³² The DoD did not include the additional reporting requirements for the four programs reporting significant

³¹ DFAS developed corrective action plans for Military Pay, Civilian Pay, Military Retirement, DoD Travel Pay, and DFAS Commercial Pay.

³² 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 payments 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).

improper payments in the IPERA section of the FY 2016 AFR: Military Health Benefits, Military Pay, DoD Travel Pay, and DFAS Commercial Pay. Specifically, the USD(C)/CFO did not link all the corrective actions to root causes, or include the programs in the status of internal controls table as required by OMB Guidance. The USD(C)/CFO should make sure future AFRs comply with OMB guidance regarding all required improper payment reporting information, to include addressing reporting deficiencies related to corrective actions and internal controls.

The DoD Did Not Meet Improper Payment Reduction Targets for the DoD and USACE Travel Pay Programs

The DoD did not meet the requirements to achieve the reduction target for the DoD Travel pay program for the fifth consecutive year and did not meet the requirements for the USACE Travel Pay program for the first year.³³ 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. OMB Circular A-123 further clarifies that a program will meet a reduction target if the improper payment rate for that program in the current fiscal year falls within plus or minus 0.1 percentage points of the reduction target set in the previous year's AFR.³⁴

The DoD did not meet the requirements to achieve the reduction target for the DoD Travel pay program for the fifth consecutive year.

In the IPERA section of the FY 2016 AFR, the DoD Travel Pay program had an estimated improper payment rate of 7.23 percent, a decrease from the 7.9 percent in the FY 2015 AFR, but above the 4.46 percent reduction target established for FY 2016. The IPERA section of the FY 2016 AFR set the DoD Travel pay reduction target at 4.46 percent for FY 2017. DFAS personnel stated they did not know the origin of the FY 2017 reduction target of 4.46 percent nor did they know they could modify reduction targets published in previous years AFRs. While the FY 2017 reduction target is aggressive, reduction targets should be reviewed during each reporting cycle to ensure they are realistic and developed in coordination with plans to reduce improper payments. USD(C)/CFO officials should coordinate with DoD IPERA reporting Components to review reduction targets and verify that they are aggressive and realistic and that reduction targets are developed in coordination with corrective action plans to reduce improper payments.

³³ Navy Commercial Bill Pay Office—Naples was excluded from this requirement because the DoD began reviews and reporting in FY 2016; therefore, DoD did not publish reduction targets this program during the prior year.

³⁴ OMB Circular A-123, appendix C, part IIA.

Furthermore, the USACE Travel Pay program missed its reduction target for the first year. In the IPERA section of the FY 2016 AFR, the USACE Travel Pay program had an estimated improper payment rate of 0.2 percent, an increase from the 0.02 percent reported in FY 2015, and above the 0.01 percent reduction target set for FY 2016. USACE personnel stated that the reduction target published in the FY 2015 AFR was a typographical error that resulted in the non-compliance for FY 2016. USD(C)/CFO officials should coordinate with DoD IPERA reporting Components to review reduction targets and verify they are reported accurately.

In addition, the USD(C)/CFO did not provide adequate reduction target disclosures in the IPERA section of the FY 2016 AFR for 3 of the 10 programs. OMB requires an explanation in the AFR for any reduction target that does not decrease from the current year's improper payment percentage. The Military Pay, Civilian Pay, and Military Retirement Pay programs all had reduction targets that were higher than the FY 2016 improper payment percentage. USD(C)/CFO personnel stated that they were unaware of the requirement to include a footnote when reduction targets are higher than reported improper payment percentages and planned to include the footnote in future AFRs. The USD(C)/CFO should make sure future AFRs comply with OMB guidance regarding all required improper payment reporting information, to include addressing reporting deficiencies related to reduction targets.


Oversight of Improper Payment Reporting Needs Improved

The USD(C)/CFO could improve oversight of the DoD's programs that report improper payments. DoD policy designated the USD(C)/CFO, Accounting and Finance Policy, as the responsible office for the DoD's improper payment reporting.³⁵ According to the policy, the USD(C)/CFO, Accounting and Finance Policy, is responsible for the following:

- reviewing, editing, and consolidating the reporting Component level information into a summary level report for management review and for inclusion in the AFR;
- reviewing the Components' statistical sampling plans to ensure completeness, and forwarding the plans to OMB for review if substantive changes have been made;
- reviewing quarterly Travel Pay submissions and annual AFR submissions from the reporting Components to ensure reporting requirements are met; and
- preparing all DoD-wide improper payment reports.

³⁵ DoD FMR volume 4, chapter 14.

USD(C)/CFO personnel stated that they did not comply with all their responsibilities as listed in the DoD FMR. USD(C)/CFO personnel stated that due to the limited staff in their office, they rely on internal controls at the Component level to ensure compliance with IPERA and OMB requirements. For example, USD(C)/CFO personnel relied on Component controls and did not review statistical sampling plans or risk assessments to ensure that all programs complied with IPERA, and that estimated improper payments were calculated using statistically valid methods and included all payments.



USD(C)/CFO personnel stated that they did not comply with all their responsibilities as listed in the DoD FMR.

Furthermore, the USD(C)/CFO, Accounting & Finance Policy, lacked continuity during a recent transition in staff. For example, USD(C)/CFO personnel stated that the lack of continuity resulted in their office not including Army and Air Force improper payment estimates in the IPERA section of the FY 2016 AFR. As a result, USD(C)/CFO did not comply with IPERA, OMB guidance, and DoD policy in FY 2016 as discussed earlier in the report. We are not making a recommendation in this section as the recommendations outlined earlier in the report will address the non-compliances.

The DoD Must Submit a Report to Congress on Noncompliance With IPERA

The USD(C)/CFO published the IPERA section of the DoD FY 2016 AFR, but the DoD did not comply with five of the six requirements of IPERA. IPERA establishes congressional reporting requirements when agencies are deemed noncompliant.³⁶ For agencies deemed noncompliant in a fiscal year, the head of the agency must submit a plan to Congress describing the actions that the agency will take to come into compliance. The DoD did not comply with IPERA requirements to publish the AFR by March 1, 2017, perform a risk assessment for one identified program that did not report an improper payment estimate, provide planned or actual completion dates for corrective actions, report statistically valid estimates for two programs, and meet the reduction target for the USACE Travel Pay program for the first time. The USD(C)/CFO should submit a plan to Congress describing the actions that the DoD will take to come into compliance with IPERA requirements for publishing the AFR, risk assessments, corrective action plans, improper payment estimates, and reduction targets.

³⁶ Public Law 111-204, Section 3.

IPERA states that if an agency is noncompliant for more than 3 consecutive years for the same program, the head of the agency, no later than 30 days after such determination, must submit to Congress a reauthorization proposal for each noncompliant program or proposed statutory changes necessary to bring the program or activity into compliance. In addition to its non-compliance in FY 2016, the DoD Travel Pay program did not comply with the IPERA requirement to meet, improper payments reduction targets for FYs 2012, 2013, 2014, and 2015. In May 2015 and May 2016 the DoD OIG recommended that the USD(C)/CFO coordinate with OMB and DFAS to review the DoD Travel Pay program and submit a report to Congress due to the DoD Travel Pay programs continued noncompliance with IPERA reduction target requirements. On March 1, 2017, the USD(C)/CFO submitted a letter and remediation plan to Congress for the DoD Travel Pay program. Actions taken by the USD(C)/CFO closed prior years' recommendations and address the current year non-compliance. Therefore, no additional recommendations are needed.

The DoD Took Actions to Improve the DoD Travel Pay Program

The USD(C)/CFO issued a memorandum and a DoD Travel Pay improper payments remediation plan on October 7, 2016, expressing the need for the DoD to place greater emphasis on strengthening front-end controls and improving traveler and approving official attention to detail. The remediation plan requires the establishment of senior accountable officials at the senior executive service, general officer, or flag officer level. The remediation plan requires that the senior accountable officers, on a quarterly basis, review travel improper payment reports, identify root causes for the improper payments, recommend corrective actions, and provide estimated completion dates for the corrective actions to the USD(C)/CFO.

In addition to the remediation actions taken by the USD(C)/CFO, DFAS and Navy personnel have implemented corrective actions to reduce travel-related improper payments. DFAS developed the postpay audit compliance tool. DFAS stated that the tool is designed to assist in gathering detailed information to better identify root causes. Additionally, the Navy has coordinated with DFAS to develop a written Navy IATS statistical sampling plan stratified by an appropriate variable.

Recommendations, Management Comments, and Our Response

Recommendation 1

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

- a. Coordinate with DoD Improper Payment Elimination and Recovery Act reporting Components to:**
 - 1. Verify that all payments are assessed for the risk of improper payments or are reporting estimated improper payments.**
 - 2. Report consistent, accurate, complete, and statistically-valid improper payment estimates in compliance with all Improper Payment Elimination and Recovery Act and Office of Management and Budget requirements.**
 - 3. Verify that sample designs are stratified by an appropriate variable for each DoD program that currently uses a simple random sample design.**
 - 4. Ensure that the reduction targets are accurate, aggressive, and realistic and are developed in coordination with correction action plans to reduce improper payments.**

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

The Deputy Chief Financial Officer (CFO), responding for the USD(C)/CFO, agreed with the recommendation. In response to Recommendation 1.a.1, he stated USD(C)/CFO personnel will ensure that all payments associated with newly identified reportable improper payment programs are assessed for the risk of improper payments, and if necessary report an improper payment estimate. Furthermore, he stated that USD(C)/CFO personnel will review any program that is determined to be low risk of improper payments and ensure it is assessed for risk once every 3 years in accordance with IPERA and OMB guidance. The estimated completion date is November 15, 2018.

In response to Recommendation 1.a.2, the Deputy CFO stated that his office will continue to work to ensure the completeness of the DoD improper payment programs. Specifically, USD(C)/CFO personnel will work with DFAS and the Defense Health Agency to design the samples for Commercial Pay and Military Health Benefits program to include all payments for their specific program. The Deputy CFO stated that USD(C)/CFO personnel will ensure the travel improper payment estimates for the Army and Air Force are included in the DoD Travel Pay program estimate. Furthermore, he stated that as part of the overall DoD audit

strategy, the validation of the DoD's universe of transactions combined with planned reconciliations of trial balance and transactional data from entitlement systems will support a more thorough and comprehensive review in the future. The estimated completion date is November 15, 2018.

In response to Recommendation 1.a.3, the Deputy CFO stated his office, in coordination with DFAS, will work to ensure that sample designs are stratified by an appropriate variable for each DoD improper payment program currently using a simple random sample design. The estimated completion date is November 15, 2018.

In response to Recommendation 1.a.4, the Deputy CFO stated that USD(C)/CFO personnel, in coordination with IPERA reporting Components, will work to ensure the reduction targets for the DoD Travel Pay program and the USACE Travel Pay program are achievable as well as comparable to other Federal IPERA travel programs, reported accurately, and developed in coordination with corrective action plans. The Deputy CFO stated while he will review corrective action plans when developing reduction targets, it is difficult to quantify the impact specific corrective actions have on estimated improper payment rates. The estimated completion date is November 15, 2017.

Our Response

Comments from The Deputy CFO addressed all the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close Recommendation 1.a upon verifying that USD(C)/CFO has assessed all programs and payments for risk of improper payment; reported consistent, accurate, complete, and statistically valid improper payment estimates; developed sample designs that are stratified by an appropriate variable; and reported reduction targets that are accurate, aggressive, and realistic and developed in coordination with corrective action plans to reduce improper payments. We expect receipt no later than November 15, 2018.

- b. Evaluate the actions taken regarding prior DoD Office of the Inspector General recommendations and determine whether further actions should be taken to ensure that future agency financial reports comply with Office of Management and Budget reporting requirements.**

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

The Deputy CFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that USD(C)/CFO personnel continually monitor and evaluate the progress the DoD is making to close audit recommendations related to IPERA. He stated that USD(C)/CFO personnel will consult with OMB, attend OMB meetings related to IPERA reporting, and ensure that IPERA reporting Components adhere to OMB guidance when reporting improper payment information in future AFRs. The estimated completion date is November 15, 2017.

Our Response

Comments from The Deputy CFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close Recommendation 1.b once we verify that the USD(C)/CFO has complied with OMB guidance when reporting improper payments in the FY 2017 AFR. We expect receipt no later than November 15, 2017.

- c. Review existing corrective action plans and coordinate with the appropriate reporting Components to establish planned or actual completion dates and determine if actions can be modified or updated to further reduce improper payments.**

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

The Deputy CFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that USD(C)/CFO personnel will provide guidance to Components on developing sufficient corrective action plans. He stated that he will inform the Components of the FY2016 Corrective Action Assessment conducted by OMB and advocate for adopting the proposed recommendations, including establishing planned or actual completion dates. The estimated completion date is November 15, 2017.

Our Response

Comments from the Deputy CFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close Recommendation 1.c upon verification that corrective action plans were coordinated with the appropriate reporting component and planned or actual completion dates are reported in the FY 2017 AFR. We expect receipt no later than November 15, 2017.

- d. Submit a plan to Congress, in compliance with the Improper Payment Elimination and Recovery Act Section 3, describing the actions taken by the DoD to become compliant with Improper Payment Elimination and Recovery Act requirements to:**
- 1. Publish the Agency Financial Report.**
 - 2. Perform risk assessments for all programs.**
 - 3. Meet established reduction targets.**
 - 4. Report planned or actual completion dates for corrective actions.**
 - 5. Include all payments made under a program when reporting improper payment estimates.**

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

The Deputy CFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the USD(C)/CFO will submit a plan to Congress describing the actions the DoD will take to perform risk assessments for all new and low risk programs; meet annual reduction targets for the noncompliant DoD Travel Pay program, including actions to improve the programs corrective action plans; and ensure all payments made under each program are included when reporting improper payment estimates. The Deputy CFO stated that the DoD met the intent of IPERA by publishing the Improper Payments sections of the FY 2016 AFR on November 15, 2016, reporting estimated improper payments for all programs determined to be susceptible to significant improper payments, providing corrective actions for all susceptible programs, publishing and meeting annual reduction targets for five of the six susceptible programs, and reporting improper payment rates below the statutory threshold of 10 percent for all programs. As a result, DoD senior leadership considers the improper payment programs, as a whole, to be fundamentally sound and engaged and committed to improving the program. The estimated completion date is November 15, 2017.

Our Response

Comments from the Deputy CFO addressed all the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close Recommendation 1.d upon receipt of the USD(C)/CFO's letter to Congress describing actions taken to address non-compliances identified in the DoD OIG's FY 2016 IPERA compliance report. We expect receipt no later than November 15, 2017.

Recommendation 2

We recommend that the Chief Financial Officer, U.S. Army Corps of Engineers, Civil Works, develop procedures to maintain sufficient documentation to support the U.S. Army Corps of Engineers improper payment estimates.

U.S. Army Corps of Engineers, Civil Works Comments

The Chief, Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Chief Financial Officer, U.S. Army Corps of Engineers, Civil Works, agreed with the recommendation, stating that USACE maintains supporting documentation for the estimates and results of improper payment audits. He stated that the data has been modified and reformatted to satisfy auditor requirements.

Our Response

Comments from the Chief, Finance and Accounting Policy Division, Directorate of Resource Management, addressed all the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation upon receipt of USACE policy for retention of documents related to improper payments and supporting documentation that would allow a qualified statistician to replicate the USACE Travel Pay improper payment estimate for FY 2016.

Appendix A

Scope and Methodology

We conducted this performance audit from November 2016 through April 2017 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 obtain information and source documents on IPERA compliance, we interviewed or visited personnel from:

- Office of Management and Budget, Washington, D.C.;
- Defense Finance and Accounting Service, Indianapolis, Indiana;
- Under Secretary of Defense (Comptroller)/Chief Financial Officer, Arlington, Virginia;
- Defense Health Agency, Aurora, Colorado;
- U.S. Air Force Accounting and Finance Office, Indianapolis, Indiana; and
- Assistant Secretary of the Navy (Financial Management and Comptroller), Washington, D.C.

During our site visit to DFAS, we discussed reduction targets, sampling plans, program completeness, and corrective action plans. We also examined documents provided by DFAS that relate to our audit objective.

We obtained, reviewed, and analyzed public law, OMB guidance, and DoD guidance on improper payments. We focused our review on the following.

- 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 No. A-123, Appendix C, “Requirements for Effective Estimation and Remediation of Improper Payments,” October 20, 2014
- OMB Circular A-136 Revised, “Financial Reporting Requirements,” October 7, 2016
- DoD Financial Management Regulation, volume 4, chapter 14, “Improper Payments,” June 2015

We requested and received documentation that supports improper payments reporting from programs at the DoD, including:

- improper payment reporting as published in the IPERA section of the DoD FY 2016 AFR;
- information relevant to program sampling and projections;
- FY 2016 documentation used to support the risk assessments;
- documentation supporting improper payment rates and estimates reported in the IPERA section of the DoD FY 2016 AFR;
- corrective action plans; and
- reduction targets.

Use of Computer-Processed Data

We relied on computer-processed data included in the IPERA section of the DoD FY 2016 AFR and supporting documents to perform this audit. Specifically, we relied on the estimates of improper payments included in the IPERA section of the DoD FY 2016 AFR and the data used to develop those estimates. However, the lack of auditable financial statements led us to conclude that the data and the resulting estimates were unreliable. The reliability of the data did not affect our ability to answer the audit objective because the objective was to determine compliance with reporting requirements, not to assess the accuracy or reliability of the reported results. Therefore, we did no further audit work on the systems that processed and produced the data.

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 10 programs that reported improper payment estimates in the IPERA section of the DoD FY 2016 AFR to determine whether the sampling methodology and results were statistically valid and appropriate in accordance with OMB guidance. While Quantitative Methods Division analysts assessed the estimates to ensure they were statistically valid, we did not assess the accuracy of improper payment testing results or the completeness of payment universes used when calculating the estimated improper payments and improper payment rate for any of the DoD programs.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the DoD Office of Inspector General (DoD OIG) issued nine reports discussing compliance with improper payment identification and reporting requirements. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.DoDig.mil/pubs/index.cfm>. See Appendix B for a summary of prior year DoD OIG recommendations.

GAO

Report No. GAO-16-554, “CFO Act Agencies Need to Improve Efforts to Address Compliance Issues,” June 2016

For FY 2014, 15 of the 24 Chief Financial Officers Act agency inspectors general determined that their agencies did not comply with criteria in the Improper Payments Elimination and Recovery Act of 2010. Agency noncompliance for FY 2014 was largely due to agencies failing to meet improper payment reduction targets or failing to report improper payment error rates at less than 10 percent for all programs.

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

The DoD did not adequately implement key provisions of the Improper Payments Information Act of 2002 and the Improper Payment Elimination and Recovery Act of 2010 and Office of Management and Budget requirements for FY 2011. GAO found that the DoD’s improper payment estimates reported in its FY 2011 Agency Financial Report were neither reliable nor statistically valid because of long-standing and pervasive financial management weaknesses and significant deficiencies in the department’s procedures to estimate improper payments.

DoD OIG

Report No. DODIG-2016-086, “DoD Met Most Requirements of the Improper Payments Elimination and Recovery Act in FY 2015, but Improper Payment Estimates Were Unreliable,” May 3, 2016

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, published the DoD FY 2015 Agency Financial Report showing that the DoD met five of the six requirements of the IPERA; however, the improper payment estimates were not reliable. The DoD did not meet the requirement to achieve the reduction target for one of the eight programs with established targets and, therefore, did not comply with IPERA in FY 2015.

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

DoD Component actions were not adequate to reduce estimated improper payments in the DoD Travel Pay program. As a result, the DoD will continue to be at high risk for making improper payments for travel.

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

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, published the DoD FY 2014 Agency Financial Report showing that the DoD met five of the six requirements of the IPERA; however, the improper payment estimates were not reliable. The DoD could not ensure that all required payments were reviewed, which resulted in unreliable estimates and rates. The DoD did not meet the requirement to achieve the reduction target for the DoD Travel Pay program and, as a result, the DoD did not comply with IPERA in FY 2014.

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 Defense Health Agency and the Defense Finance and Accounting Service developed methodologies that did not fully capture improper payment estimates and did not fully disclose recovered overpayments in the FY 2013 DoD Agency Financial Report. The inadequate methodologies resulted in unreliable improper payment estimates, and limit the DoD's ability to identify and report improper payments, determine underlying weaknesses that cause the improper payments, and initiate corrective actions to reduce the improper payments.

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

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, met five of the six requirements of IPERA. The DoD's inability to ensure that all required payments were reviewed resulted in unreliable estimates and rates. The DoD did not meet the reduction targets for five of its eight programs with established targets.

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

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, published the FY 2012 Agency Financial Report showing that the DoD met five of the six requirements of IPERA. The DoD did not meet the established reduction target for one of its eight programs. The DoD did not fully comply with IPERA in FY 2012.

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

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, met the requirements of the Improper Payments Elimination and Recovery Act of 2010, but stated that there were problems with the completeness and accuracy of the DoD’s improper payment review and the information reported.

Appendix B

Status of DoD OIG IPERA Recommendations

The table shows the status of the DoD OIG recommendations from reports issued between March 15, 2012, and May 3, 2016. The DoD OIG considers the status of recommendations as either unresolved, resolved, or closed. An unresolved recommendation occurs when management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation. When management agreed to implement the recommendation or has proposed actions that will address the underlying finding, but the actions agreed to have not yet been completed, we consider the recommendation resolved but open until corrective actions are completed. A recommendation is closed when the DoD OIG verifies that the agreed upon corrective actions were implemented.

Table. Status of DoD OIG Recommendations

Report No	Recommendations		Status
DODIG-2012-065		No Recommendations	N/A
DODIG-2013-054	1	The USD(C)/CFO work with Military Departments and Defense Agencies to develop metrics and quality assurance goals as well as programmatic corrective action plans for authorizing/certifying officials certifying vouchers that result in an improper payment, including holding those officials financially liable where appropriate.	Resolved and Closed: Travel Pay improper payment metrics were established in the Financial Operations area and began on October 1, 2013. The Deputy CFO reviews the metrics on a quarterly basis. All Components were required to submit training plans to ensure sufficient oversight. Holding officials financially liable remains part of the Federal Travel Regulation and the Joint Federal Travel Regulation and will be used where appropriate.
	2	The USD(C)/CFO work with Military Departments and Defense Agencies to develop and submit the required remediation plan to the appropriate congressional committees within 90 days of this report	Resolved and Closed: The Travel Pay Remediation Plan was submitted to the appropriate congressional members on June 10, 2013.

Table. Status of DoD OIG Recommendations (cont'd)

Report No	Recommendations		Status
DODIG-2014-059	1	The USD(C)/CFO coordinate with Military Departments and Defense Agencies to address errors in the Military Pay program. Specifically:	
		a Develop metrics and quality assurance goals as well as programmatic corrective action plans to reduce errors related to separation debts, including holding those officials financially liable where appropriate.	Resolved and Open: The Military Services continue to work to develop quality assurance goals and programmatic corrective action plans to reduce errors related to separation debt, including holding responsible officials financially liable where appropriate. The USD(C)/CFO is implementing a strategy to identify root causes, assess training requirements, and focus on quality assurance goals. We will close this recommendation after we receive and analyze the quality assurance goals and programmatic corrective action plans.
		b Develop and submit the required remediation plan to the appropriate congressional committees within 90 days of this report.	Resolved and Closed: In March 2015, Audit Follow-up determined this part of the recommendation was closed because OMB allows for agencies to miss their reduction target by 1/10 of a percent before requiring mandated reports to congressional committees.
	2	The USD(C)/CFO coordinate with Military Departments and Defense Agencies to address errors in the Civilian Pay program. Specifically:	
		a Develop metrics and quality assurance goals as well as programmatic corrective action plans for input errors by personnel in the human resources offices, including holding those officials financially liable where appropriate.	Resolved and Open: The Military Services continue to work to develop quality assurance goals and programmatic corrective action plans to reduce input errors by human resource personnel. We will close this recommendation after we receive and analyze the quality assurance goals and programmatic corrective action plans.
		b Develop and submit the required remediation plan to the appropriate congressional committees within 90 days of this report.	Resolved and Closed: In March 2015, Audit Follow-up determined this part of the recommendation was closed because OMB allows for agencies to miss their reduction target by 1/10 of a percent before requiring mandated reports to congressional committees.

Table. Status of DoD OIG Recommendations (cont'd)

Report No	Recommendations		Status
3		The USD(C)/CFO coordinate with Military Departments and Defense Agencies to address errors in the Defense Finance and Accounting Service Commercial Pay program. Specifically:	
	a	Develop metrics and quality assurance goals as well as programmatic corrective action plans for input errors, including holding those officials financially liable where appropriate.	Resolved and Closed: DFAS updated the DFAS Commercial Pay sampling plan to include invoice dollar amount strata pursuant to both GAO and DoD OIG recommendations. This new plan was reviewed by OMB and no problems were noted. The OMB updated guidance allows agency programs to miss their out-year targets by up to 1/10 of a percent, which means DFAS Commercial Pay attained their goals in FY 2013.
	b	Develop and submit the required remediation plan to the appropriate congressional committees within 90 days of this report.	Resolved and Closed: In March 2015, Audit Follow-up determined this part of the recommendation was closed because OMB allows for agencies to miss their reduction target by 1/10 of a percent before requiring mandated reports to congressional committees.
4		The USD(C)/CFO coordinate with the Military Departments and Defense Agencies to address errors in the U.S. Army Corps of Engineers Travel Pay program. Specifically:	
	a	Develop metrics and quality assurance goals as well as programmatic corrective action plans for authorizing/certifying officials certifying vouchers that result in improper payment, including holding those officials financially liable where appropriate.	Resolved and Closed: USACE modified the USACE Travel Pay sample plan to include the correct number of sampled items and to include updated charts reflecting the payment universe. USACE strengthened the training program to include more frequent refresher courses for both travelers and approving officials.

Table. Status of DoD OIG Recommendations (cont'd)

Report No	Recommendations		Status
	b	Develop and submit the required remediation plan to the appropriate congressional committees within 90 days of this report.	Resolved and Closed: As a result of the corrective actions taken, the USACE Travel Pay error rate decreased from 1.43 percent in FY 2013 to 0.40 percent in FY 2014. In March 2015, Audit Follow-up determined this part of the recommendation was closed because OMB allows for agencies to miss their reduction target by 1/10 of a percent before requiring mandated reports to congressional committees.
5		The USD(C)/CFO coordinate with the Director of Office of Management and Budget to review the Defense Finance and Accounting Service Travel Pay program and determine whether additional funding would help the agency comply with Public Law 111-204 to meet payment reduction targets.	Resolved and Closed: (see updated recommendation in DODIG-2015-121, Recommendation 1): The USD(C)/CFO agreed to work with OMB to review the DoD Travel Pay program and determine if additional funding would help the agency comply with Public Law 111-204 to meet payment reduction targets. As of June 2016, the USD(C)/CFO, in coordination with Defense Travel Management Office (DTMO), was working with OMB to review the DoD Travel Pay program and determine the scope and amount of funding needed to expand the DTMO Compliance Tool queries and integrate the DFAS manual post-pay review process with the automated tool capabilities. This recommendation was closed and replaced with Recommendation 1 in DODIG-2015-121.
DODIG-2015-068	1	We recommend that the Director, Defense Health Agency:	
	a	Include all Defense Health Agency health care payments when assessing risk and document the justification for excluding any type of program payments in the risk assessment and the Agency Financial Report.	Resolved and Open: Defense Health Agency agreed to include all health care payments when assessing risk and clearly document and justify any type of contract or program payment(s) excluded in the risk assessment and the Agency Financial Report. We will close upon seeing the FY 2017 risk assessment and statistical sample plan and results to ensure all payments are included in either the risk assessment or sample plan.

Table. Status of DoD OIG Recommendations (cont'd)

Report No	Recommendations	Status
	b Develop a methodology to assess risk for all contracts that is not limited to prior year sampling results but also considers other risk factors, such as the risk of fraud.	Resolved and Open: The Director, Defense Health Agency agreed with the recommendation in the comments to the final report. In the FY 2016 risk assessment, the Defense Health Agency made significant progress in assessing the risks of contracts that was not limited to prior year sampling. However, for programs that were assessed as low-risk, Defense Health Agency failed to provide sufficient detail on the factors considered. Therefore, we will close the recommendation after we receive and analyze a new risk assessment of all payment types that includes a list of factors considered.
	c Develop procedures to calculate the improper payment error rate based on amount paid in accordance with Office of Management and Budget guidance.	Resolved and Closed: The Defense Health Agency completed the change to “calculate the improper payment error rate based on the amount paid in accordance with OMB guidance.” The Defense Health Agency now utilizes the total Paid amount (rather than the total Billed amount) in the formula to calculate the Improper Payments Information Act (IPIA) Error Rate. Audit Follow-up concluded that all agreed-upon corrective actions on this recommendation have been completed and were verified through a review of supporting documentation.
	d Develop procedures to properly apply the stratified sample design and project the results only to the sample universe.	Resolved and Closed: The Defense Health Agency developed procedures to properly apply the stratified design by using sampling weights to calculate the error rates. In addition, the Defense Health Agency started internally reviewing low-dollar claims in FY 2014 audits, results of which were reported in the FY 2015 AFR. Audit Follow-up concluded that all agreed-upon corrective actions on this recommendation have been completed and were verified through a review of supporting documentation.
2	The USD(C)/CFO:	
	a Review improper payment risk assessments, sampling plans, and input to the DoD Agency Financial Report for the DoD programs not discussed in this report.	Resolved and Open: The DoD developed and implemented the required systematic methodologies to assess risk in accordance with OMB guidance with the exception of USACE. USACE has also developed and implemented a systematic methodology to assess risk; however, USACE does not currently have a statistician in place as required by OMB guidance. The estimated completion date for USACE to comply with the statistician requirement is March 2017.

Table. Status of DoD OIG Recommendations (cont'd)

Report No	Recommendations		Status
	b	<p>Coordinate with the Office of Management and Budget to obtain guidance on the testing and reporting requirements of fraudulent payments or indicators of potentially fraudulent payments and issue Department-wide guidance.</p>	<p>Resolved and Closed: The USD(C)/CFO met with the OMB on March 16, 2016, to discuss the evaluation of the DoDs testing and reporting requirements related to fraudulent payments. The DoD outlined several proactive efforts underway, such as changes to the DFAS and Navy sampling methodologies that include testing criteria adjustments and implementation of a travel remediation plan which was issued on October 7, 2016. The plan strengthens the USD(C)/CFO fraudulent payment reporting by departmental identification of root causes utilizing automated reports generated by DTMO and DFAS. These reports will be used within each Military Department to generate quarterly discussions that will classify root causes for currently identified improper payments, recommend corrective actions and provide estimated completion dates. The first quarterly report was developed in January 2017.</p>
DODIG-2015-121	1	<p>The USD(C)/CFO 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.</p>	<p>Resolved and Open (replaces recommendation from DODIG-2014-059, Recommendation 5): The USD(C)/CFO agreed to work with the OMB to review the DoD Travel Pay program and determine if additional funding would help the agency comply with Public Law 111-204 to meet payment reduction targets. As of September 2016, the USD(C)/CFO, in coordination with DTMO, was working with OMB to review the DoD Travel Pay program and determine the scope and amount of funding needed to expand the DTMO Compliance Tool queries and integrate the DFAS manual post-pay review process with the automated tool capabilities. We will close the recommendation after we receive and analyze the final determination made by the USD(C)/CFO.</p>

Table. Status of DoD OIG Recommendations (cont'd)

Report No	Recommendations	Status
2	The Assistant Secretary of the Navy (Financial Management and Comptroller) evaluate Navy commands for risk of improper payments before exclusion from improper payment testing.	Resolved and Open: The Assistant Secretary of the Navy (Financial Management and Comptroller) agreed to include all Navy Enterprise Resource Planning commands in annual sampling plans for commercial pay. During FY 2016, Navy identified Navy ERP, Navy CBPO-Naples, and Navy CBPO-Singapore. Navy officials confirmed they have efforts in FY 2017 to validate that all programs that are subject to review have been assessed. This recommendation will be closed after the audit team obtains and reviews supporting documentation that Navy has conducted their review and all assessments have been completed.
3	The Director, Defense Health Agency, subject all payments to improper payment sampling for those contracts identified as at-risk for improper payments.	Resolved and Open: The Defense Health Agency agreed to implement procedures to conduct internal reviews of low-dollar claims (i.e. healthcare claims with government paid amounts equal to or less than \$99.99) in 2015. The Defense Health Agency incorporated low-dollar testing in 2015, with the exception of the TRICARE Pharmacy purchased care contractor. The Defense Health Agency was still unable to include these claims in FY 2016 because the TRICARE Pharmacy contracting officer allowed the TRICARE Pharmacy contractor to “opt-out” of participating in this low-dollar audit. This recommendation will be reviewed again during the FY 2017 audit. We will close this recommendation if we determine that the Defense Health Agency has taken actions to subject all payments at risk for improper payment to testing.
4	The USD(C)/CFO, 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 program that currently uses a simple random sample design.	Resolved and Closed (see updated recommendation in DODIG-2016-086, Recommendation 1.c): This recommendation was closed and replaced with Recommendation 1.c in DODIG-2016-086.

Table. Status of DoD OIG Recommendations (cont'd)

Report No	Recommendations	Status
DODIG-2016-060	1	The USD(C)/CFO:
	a Update the 2013 Remediation Plan to require DoD Components to determine the root causes for certifying officials' approval of improper payments identified by the Defense Finance and Accounting Service and develop corrective actions to address those root causes.	Resolved and Closed: On October 7, 2016, the USD(C)/CFO issued a memorandum and remediation plan for the prevention of travel pay improper payments. The remediation plan requires the establishment of senior accountable officials and requires senior accountable officials to review quarterly reports to identify root causes and develop corrective action. The actions taken address the recommendation.
	b Include in the DoD Agency Financial Report a summary of DoD Components' root causes and corrective actions for improper payments identified in Recommendation 1.a.	Resolved and Open: The USD(C)/CFO agreed to include a summary of DoD Components' root causes and corrective actions for travel pay improper payments in the DoD AFR. The remediation plan was issued on October 7, 2016. Therefore, we will close this recommendation after reviewing the FY 2017 AFR and ensuring the summary is included and complete.
	c Require the Defense Finance and Accounting Service to submit quarterly voucher detail error reports to each DoD Component with identified improper payments.	Resolved and Closed: On October 7, 2016, the USD(C)/CFO issued a memorandum and remediation plan for the prevention of travel pay improper payments. DFAS provided us the quarterly report template. USD(C)/CFO confirmed the first quarterly meeting of Senior Accountable Officials was held in January 2017. The actions taken address the recommendation.
DODIG-2016-086	1	The USD(C)/CFO:
	a Coordinate with the reporting activities to ensure future Agency Financial Reports contain all required improper payment reporting information.	Resolved and Open: The USD(C)/CFO agreed stating that it will coordinate with reporting activities to ensure future AFRs contain all required improper payment reporting information. The USD(C)/CFO did not complete this during the FY 2016 reporting period. We will close this recommendation after receiving and reporting supporting documentation that confirms that the USD(C)/CFO included all required information in the FY 2017 AFR.

Table. Status of DoD OIG Recommendations (cont'd)

Report No	Recommendations	Status
	<p>b Determine the source of all disbursed obligations not reviewed for improper payments and whether those disbursements are subject to improper payment reporting requirements.</p>	<p>Resolved and Open: The USD(C)/CFO agreed stating that it 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 USD(C)/CFO did not complete this during the FY 2016 reporting period. We will close this recommendation after receiving and reporting supporting documentation which confirms that the USD(C)/CFO has determined the source of all disbursed obligations and determined the requirements for improper payment reporting.</p>
	<p>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 program that currently uses a simple random sample design.</p>	<p>Resolved and Open (replaces recommendation from DODIG-2015-121, Recommendation 4): The USD(C)/CFO agreed to coordinate with DoD Components that use a simple random sample design to develop sample designs that are stratified by an appropriate variable. DoD has made significant progress based on draft sample plans for FY 2017; however, Military Health Benefits continues to use a simple random sample. We will close this recommendation after we receive and confirm sample designs that are statistically valid and stratified using an appropriate variable.</p>
	<p>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.</p>	<p>Resolved and Closed: The USD(C)/CFO agreed stating that it will coordinate with OMB and DFAS to review the DoD Travel Pay program and determine whether reauthorization proposals or proposed statutory changes are necessary to bring the mandatory program into compliance, submit a report to Congress as required by Public Law 111-204 and meet payment reduction targets. On March 1, 2017, the USD(C)/CFO submitted a letter and remediation plan to Congress for the DoD Travel Pay program. Actions taken by the USD(C)/CFO closed this recommendation.</p>

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 20 2017

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

SUBJECT: Department of Defense Inspector General Draft Audit Report, "The DoD Did Not
Comply With the Improper Payment Elimination and Recovery Act in FY 2016"
(Project No. D2017-D000CL-0035.000), April 13, 2017

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

Overall, the Department met the intent of the Improper Payments Elimination and
Recovery Act of 2010 by publishing the Improper Payments section of the DoD Agency
Financial Report for Fiscal Year 2016 on November 15, 2016. We reported estimated improper
payments for all programs determined to be susceptible to significant improper payments,
provided corrective actions for all susceptible programs, published and met annual reduction
targets for five of the six susceptible programs, and reported improper payment rates below the
statutory threshold of ten percent for all programs. We consider the improper payments
program, as a whole, to be fundamentally sound, and senior leadership remains engaged and
committed to improving the program. This report identifies specific areas that had not been
identified in earlier reviews where our methodology and documentation need to be improved.
Actions and timelines will be expeditiously pursued, as specified in the attachment.

We appreciate your very rigorous review of this program and thank you for the
opportunity to review and comment on the draft audit report. My staff point of contact is
[REDACTED]. Please reach him at [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 13, 2017
Project No. D2017-D000CL-0035.000

“THE DOD DID NOT COMPLY WITH THE IMPROPER PAYMENT ELIMINATION AND
RECOVERY ACT IN FY 2016”

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

RECOMMENDATION 1a.1. Verify that all payments are assessed for the risk of improper payments or are reporting estimated improper payments.

OUSD(C) RESPONSE: Concur. OUSD(C) will ensure that all payments associated with new reportable programs are assessed for risk of improper payments prior to reporting, if necessary, an improper payments estimate. In addition, OUSD(C) will ensure that any program that is determined to be low risk of significant improper payments, is assessed for risk once every three years in accordance with IPERA and OMB guidance. At present, the DoDIG and OMB consider all DoD improper payment programs to be susceptible to significant improper payments; therefore, in accordance with IPERA, all programs reported estimated improper payments. Estimated completion date is November 15, 2018.

RECOMMENDATION 1a.2. Report consistent, accurate, complete, and statistically-valid improper payment estimates in compliance with all Improper Payment Elimination and Recovery Act and Office of Management and Budget requirements.

OUSD(C) RESPONSE: Concur. OUSD(C) will continue to work to ensure the completeness of the DoD improper payments program. Specifically, OUSD(C) will work with DFAS and DHA to design their samples for Commercial Pay and Military Health Benefits, respectively, to include the total amount of all payments for their specific programs. Additionally, OUSD(C) will ensure that travel improper payment estimates disbursed by the Army and the Air Force are included in the DoD Travel Pay program estimate. Moreover, the validation of DOD's universe of transactions, through the overall DoD audit strategy, combined with planned reconciliations with the DDRS trial balance and transactional data from entitlement systems, will support a more thorough and comprehensive review in the future. Estimated completion date is November 15, 2018.

RECOMMENDATION 1a.3. Verify that sample designs are stratified by an appropriate variable for each DoD program that currently uses a simple random sample design.

OUSD(C) RESPONSE: Concur. OUSD(C), in coordination with DFAS, will work to ensure that sample designs are stratified by an appropriate variable for each DoD improper payments program currently using a simple random sample design (i.e., Military Retiree and Annuitant Pay, DoD Travel Pay, Navy Commercial and Travel Pay, and USACE Commercial and Travel Pay). Estimated completion date is November 15, 2018.

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

RECOMMENDATION 1a.4. Ensure that the reduction targets are accurate, aggressive, and realistic and are developed in coordination with correction action plans to reduce improper payments.

OUSD(C) RESPONSE: Concur. OUSD(C), in coordination with IPERA reporting Components, will work to ensure the reduction targets for the DoD Travel Pay program and the USACE Travel Pay program are achievable as well as comparable to other Federal IPERA travel programs, reported accurately, and developed in coordination with corrective action plans to reduce improper payments. OUSD(C), however, acknowledges that it is difficult to quantify the impact specific corrective actions have on estimated improper payment rates. Estimated completion date is November 15, 2017.

RECOMMENDATION 1.b. Evaluate the actions taken regarding prior DoD Office of the Inspector General recommendations and determine whether further actions should be taken to ensure that future agency financial reports comply with Office of Management and Budget reporting requirements.

OUSD(C) RESPONSE: Concur. OUSD(C), through its NFR Tracker, continually monitors and evaluates the progress the Department is making to close audit recommendations regarding IPERA. OUSD(C) will consult with OMB, attend OMB meetings related to IPERA reporting, and ensure that IPERA reporting Components adhere to OMB A-136, Section II.5.8. IPIA guidance when reporting improper payments information in future AFRs. Estimated completion date is November 15, 2017.

RECOMMENDATION 1.c. Review existing corrective action plans and coordinate with the appropriate reporting Components to establish planned or actual completion dates and determine if actions can be modified or updated to further reduce improper payments.

OUSD(C) RESPONSE: Concur. OUSD(C) will provide guidance to Components on developing sufficient corrective action plans. Specifically, OUSD(C) will inform the Components of the FY 2016 Corrective Action Assessment conducted by OMB and advocate for adopting the proposed recommendations, including the establishment of planned or actual completion dates in corrective action plans. Estimated completion date is November 15, 2017.

RECOMMENDATION 1.d. Submit a plan to Congress, in compliance with the Improper Payment Elimination and Recovery Act Section 3, describing the actions taken by the DoD to become compliant with Improper Payment Elimination and Recovery Act requirements to:

- Publish the Agency Financial Report.
- Perform risk assessments for all programs.
- Meet established reduction targets.
- Report planned or actual completion dates for corrective actions.
- Include all payments made under a program when reporting improper payment estimates.

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

OUSDC(C) RESPONSE: Concur. Overall, DoD met the intent of IPERA by publishing the Improper Payments section of the FY 2016 AFR on November 15, 2016, reporting estimated improper payments for all programs determined to be susceptible to significant improper payments, providing corrective actions for all susceptible programs, publishing and meeting annual reduction targets for five of the six susceptible programs, and reporting improper payment rates below the statutory threshold of 10 percent for all programs. Moreover, based on these facts, DoD senior leadership considers the improper payments program, as a whole, to be fundamentally sound and remains engaged and committed to improving the program. As such, OUSDC(C) will submit a plan to Congress describing the actions DoD will take to perform risk assessments for all new and low risk programs, meet annual reduction targets for the noncompliant DoD Travel Pay program, including actions to improve the program's corrective action plans, and ensure all payments made under each program are included when reporting improper payment estimates. Estimated completion date is November 15, 2017.

U.S. Army Corps of Engineers, Civil Works



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
441 G STREET, NW
WASHINGTON, DC 20314-1000

CERM-F

April 20, 2017

Project: No. D2017-D000CL-0035.000
Inspector General, U.S. Department of Defense

Title: The DoD Did Not Comply With the Improper Payment Elimination and Recovery Act in
FY 2016

Recommendation 2

We recommend that the Chief Financial Officer, U.S. Army Corps of Engineers, Civil Works, develop procedures to maintain sufficient documentation to support the U.S. Army Corps of Engineers improper payment Estimates.

Response:

CONCUR with Comment: USACE maintains supporting documentation for the estimates and results of the improper payment audits. The data has been modified and reformatted to satisfy auditor requirements.

A handwritten signature in black ink, appearing to read "Mike Walsh".

Mike Walsh
Chief Finance and Accounting Policy Division
Directorate of Resource Management

Acronyms and Abbreviations

AFR	Agency Financial Report
CFO	Chief Financial Officer
DFAS	Defense Finance and Accounting Service
FMR	Financial Management Regulation
GAO	Government Accountability Office
IATS	Integrated Automated Travel System
IPERA	Improper Payment Elimination and Recovery Act of 2010
OIG	Office of Inspector General
OMB	Office of Management and Budget
USACE	U.S. Army Corps of Engineers
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD



Whistleblower Protection

U.S. DEPARTMENT OF DEFENSE

The Whistleblower Protection Ombudsman's role is to educate agency employees about prohibitions on retaliation and employees' rights and remedies available for reprisal. The DoD Hotline Director is the designated ombudsman. For more information, please visit the Whistleblower webpage at www.dodig.mil/Components/Administrative-Investigations/DoD-Hotline/.

For more information about DoD OIG reports or activities, please contact us:

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