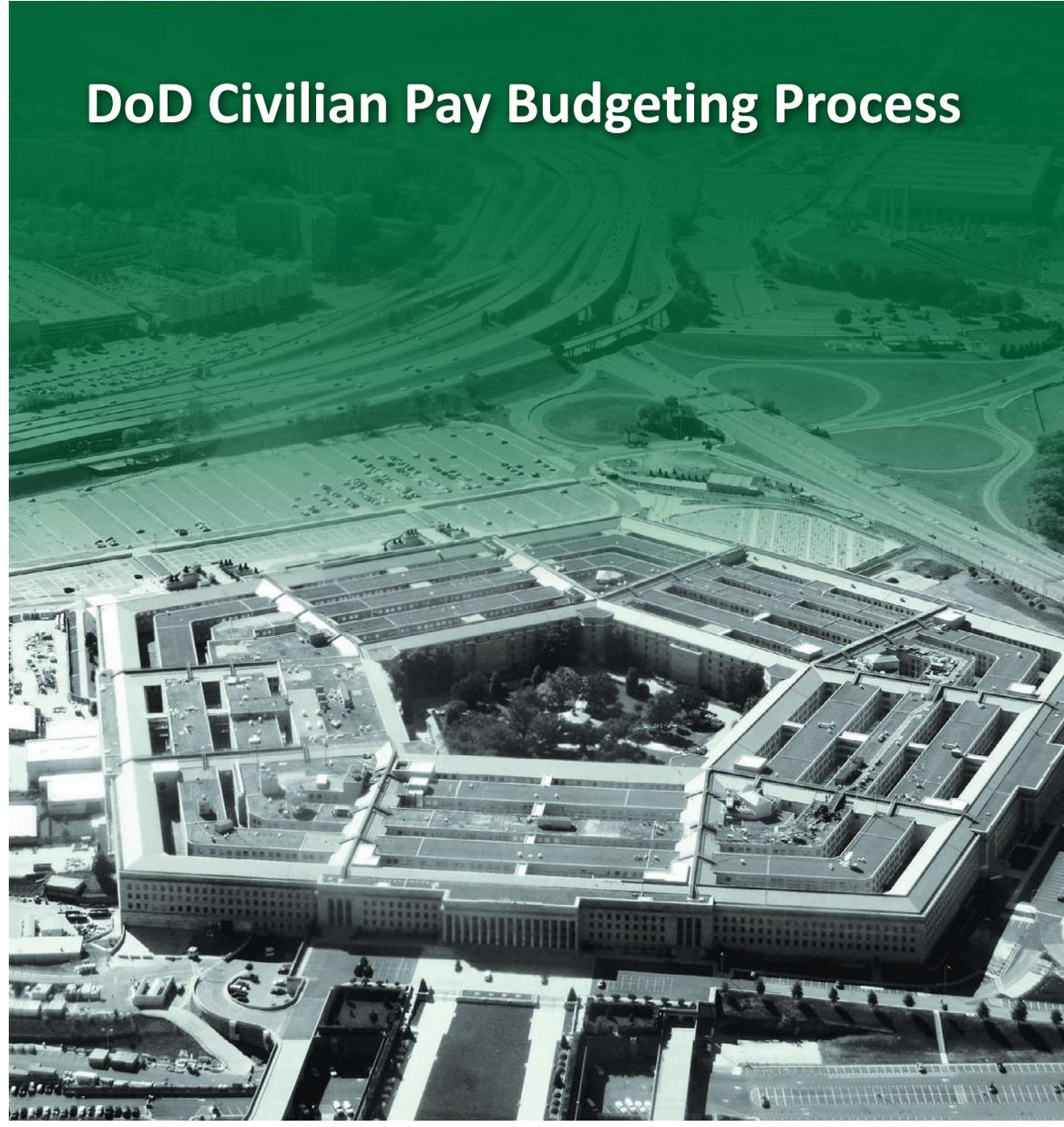


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# INSPECTOR GENERAL

*U.S. Department of Defense*

JANUARY 3, 2019



## DoD Civilian Pay Budgeting Process

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE

The document contains information that may be exempt from mandatory disclosure under the Freedom of Information Act.

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# Results in Brief

## *DoD Civilian Pay Budgeting Process*

January 3, 2019

### Objective

We determined whether the Office of the Under Secretary of Defense (Comptroller)'s (OUSD[C]) management and oversight of the Military Services' civilian pay (CIVPAY) budget process assured that the Services' budgets represented the actual cost of their civilian workforce.

### Background

This is the last of four audits in response to congressional direction that accompanied Public Law 114-113, "Consolidated Appropriations Act, 2016," December 18, 2015. The direction requires the DoD Office of Inspector General to report on the Military Services' civilian compensation program and civilian Full-Time Equivalents (FTE) levels. Budget estimates relating to personnel requirements are determined in terms of FTEs. FTEs are the total number of regular straight-time hours worked, or to be worked, divided by the total number of hours that agencies can pay employees in a fiscal year, which are called compensable hours. The Senate Appropriations Committee, Subcommittee on Defense, and the House Appropriations Committee, Subcommittee on Defense, were concerned that the Military Services consistently overestimate the number of civilians that would be employed during a fiscal year, while underestimating the civilian personnel funding requirements. The congressional committees requested that the DoD Office of Inspector General issue a report with recommendations that would improve the management of the Services' CIVPAY program and identify best practices.

The OUSD(C) is the principal advisor to the Secretary of Defense for budgetary and fiscal matters, which includes budget formulation and execution. The OUSD(C) oversees and manages the DoD's budget development processes.

### Background (cont'd)

The Services submit their budget requests to the OUSD(C) for review and approval. The OUSD(C) assigns budget analysts who review and analyze the budgets to verify compliance with Office of Management and Budget (OMB) Circular No. A-11, "Preparation, Submission, and Execution of the Budget," and DoD policy.

### Finding

The OUSD(C) provided guidance for developing budgets and reviewed and analyzed the Services' CIVPAY budget submissions for compliance with OMB Circular No. A-11 and DoD policy. However, as reported in our previous audits, the Services deviated from OMB and DoD policy when preparing their CIVPAY budgets. This deviation occurred because the OUSD(C) has not fully implemented its internal controls or best practices to reduce the risk of noncompliance and improve the DoD's budget development procedures. Specifically, the OUSD(C) has not:

- updated the DoD Financial Management Regulation (DoD FMR) budget development sections to provide a single source of clear and consistent guidance to the DoD. For example, OUSD(C) has not updated the DoD FMR to include the repetitive supplemental guidance published annually by the OUSD(C), a guide on how to use pay codes to populate the budget exhibits, clarification of straight-time hours worked and the calculation of FTEs, and a requirement to accurately and completely budget for variable costs, such as overtime and holiday pay;<sup>1</sup>
- developed a CIVPAY budget analyst career path or required CIVPAY budget development training;
- documented its budget review procedures to include its lessons learned and standard lists of reports for analysis, retain corporate knowledge and competencies, and ensure consistency and repeatability of the OUSD(C) budget reviews and oversight;

<sup>1</sup> The DoD FMR states that the annual budget guidance is only supposed to contain special instructions and nonrecurring requirements unique to a specific year.



# Results in Brief

## *DoD Civilian Pay Budgeting Process*

### **Finding (cont'd)**

- required the Services and Defense agencies to document their procedures to ensure continuity if budget analysts in key positions leave their positions; or
- created and required the use of a budget development checklist to function as a reminder of important tasks that the Services and Defense agencies should complete during the budget development process.

As a result, the Services' budget requests did not always accurately represent the actual cost of their workforce. Specifically, the Services' CIVPAY budgeted cost per FTE did not represent the actual cost of their workforce, as the Services' actual costs fluctuated from their budgets.

### **Recommendations**

We recommend that the Under Secretary of Defense (Comptroller) update the CIVPAY budget development sections of the DoD FMR, develop and require CIVPAY budget development training as part of the Defense Financial Management Certification program, require the OUSD(C) analysts and the Services to document their procedures and lessons learned, and develop and require a budget submission checklist.

### **Management Comments and Our Response**

The Director of the OUSD(C) Operations Directorate, responding for the Under Secretary of Defense (Comptroller), agreed with the recommendations to require the OUSD(C) analysts to document their procedures and to develop a budget development checklist. Therefore, these recommendations are resolved but will remain open. We will close the recommendations once we verify that the OUSD(C) officials documented their procedures, and developed and required a budget development checklist.

The Director partially agreed with the recommendation to update the DoD FMR, but the Director's comments did not address the specifics of the recommendation; therefore, the recommendation is unresolved.

The Director partially agreed with the recommendation to develop a career path and CIVPAY budget development training. Although the Director stated that the Under Secretary of Defense (Comptroller) started developing CIVPAY budget development training, the Director did not address the development of a CIVPAY budget analyst career path. However, the intent of the recommendation was to develop a formal training program for CIVPAY budget analysts since the OUSD(C) budget analysts explained that CIVPAY budget development is mostly learned on-the-job. Creating CIVPAY budget development training meets the intent of the recommendation. Therefore, this recommendation is resolved but remains open. We will close the recommendation once we verify that CIVPAY budget development training was developed and required.

The Director agreed with the recommendation to require the Services and Defense agencies to document their budget development procedures. The Director stated that OUSD(C) officials would share their standard operating procedures with the Components and facilitate the sharing of best practices for CIVPAY budget development. However, these actions will not assure that the Services and Defense agencies document their procedures, in accordance with GAO's internal control guidance. Therefore, the Director did not address the specifics of the recommendation and the recommendation is unresolved.

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

## **Recommendations Table**

<b>Management</b>	<b>Recommendations Unresolved</b>	<b>Recommendations Resolved</b>	<b>Recommendations Closed</b>
Under Secretary of Defense (Comptroller)	1.a, 1.d	1.b, 1.c, 1.e	None

Please provide Management Comments by February 2, 2019.

**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**

January 3, 2019

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

SUBJECT: DoD Civilian Pay Budgeting Process (Report No. DODIG-2019-041)

We are providing this report for your review and comment. We conducted this audit in accordance with generally accepted government auditing standards. We considered management comments from the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO) on the draft of this report when preparing the final report. DoD Instruction 7650.03 requires that all recommendations be resolved promptly. Comments from the USD(C)/CFO did not address Recommendations 1.a and 1.d; therefore, the recommendations are unresolved. We request additional comments on Recommendations 1.a and 1.d by February 2, 2019.

Please send a PDF file containing your comments on the recommendations to [audacs@dodig.mil](mailto:audacs@dodig.mil) by February 2, 2019. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET). Copies of your comments must have the actual signature of the authorizing official for your organization.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me at [Theresa.Hull@dodig.mil](mailto:Theresa.Hull@dodig.mil), (703) 604-9312 (DSN 664-9312).

A handwritten signature in cursive script that reads "Theresa S. Hull".

Theresa S. Hull  
Assistant Inspector General  
Acquisition, Contracting, and Sustainment

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# Introduction

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## Objective

We determined whether the Office of the Under Secretary of Defense (Comptroller)'s (OUSD[C]) management and oversight of the Military Services' civilian pay (CIVPAY) budget process assured that the Services' budgets represented the actual cost of their civilian workforce.

This is the final of four audits in response to congressional direction that accompanied Public Law 114-113, "Consolidated Appropriations Act, 2016," December 18, 2015. The previous three reports focused on the processes and source data that the Air Force, Army, Navy, and Marine Corps used to determine their CIVPAY requirements in the Operation and Maintenance (O&M) appropriation for their Budget Estimate Submissions (BES).<sup>2</sup> See the Appendix for a discussion of the scope, methodology, and prior audit coverage relating to this audit.

## Background

### ***Congressional Reporting Requirement***

The Senate Appropriations Committee, Subcommittee on Defense, and the House Appropriations Committee, Subcommittee on Defense, were concerned that the Military Services consistently overestimated the number of civilian Full-Time Equivalents (FTEs) that would be employed during a fiscal year, yet underestimated the funding requirements for those civilian personnel. Therefore, the explanatory statement accompanying Public Law 114-113 directs the DoD Office of Inspector General (DoD OIG) to issue a report with recommendations for improving the Services' management of the civilian compensation program and civilian FTEs levels. We met with congressional staffers to gain further clarification of the subcommittees' request, which included:

- an analysis of the difference between the actual cost per FTE and the Services' budgets;
- an evaluation of budget inputs that cause fluctuation in average cost per FTE; and
- identification of best practices to improve the management of CIVPAY and FTE levels.

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<sup>2</sup> Report No. DODIG-2017-039, "Requirements for the Air Force Civilian Pay Budget Still Need Improvement," January 5, 2017; Report No. DODIG-2018-055, "The U.S. Army Civilian Pay Budget Process," March 8, 2018; and Report No. DODIG-2018-129, "Department of the Navy Civilian Pay Budget Process," June 20, 2018.

## ***Guidance on Calculating Civilian Personnel Requirements***

Office of Management and Budget (OMB) Circular No. A-11, "Preparation, Submission, and Execution of the Budget," provides annually updated guidance on preparing and executing Federal budgets, including estimating employment levels and calculating CIVPAY requirements. OMB Circular No. A-11 requires agencies to estimate budgets for civilian personnel requirements in terms of FTE employment and defines FTEs as the total number of regular straight-time hours worked, or to be worked, divided by the total number of compensable hours.<sup>3</sup>

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," (DoD FMR), provides guidance on formulating the O&M budget estimates and justifying the CIVPAY budget to Congress. The DoD FMR provides instructions for presenting the summary of civilian personnel costs, which includes the OP-8 budget exhibit, "Civilian Personnel Costs."<sup>4</sup> The OP-8 budget exhibit summarizes the total number of FTEs and the total cost for basic compensation and benefits. To supplement the DoD FMR, the OUSD(C) also issues annual BES and President's Budget guidance, which provide instructions for submitting and supporting the BES and President's Budget.

## ***The OUSD(C)'s Roles and Responsibilities***

The OUSD(C) is the principal advisor to the Secretary of Defense for budgetary and fiscal matters, which include budget formulation and execution. The OUSD(C):

- provides guidance and oversight for the recruiting, retention, training, and professional development of the DoD financial management workforce;
- coordinates the budgeting phase of the Planning, Programming, Budgeting, and Execution process;
- oversees and manages the DoD's budget development;
- evaluates and analyzes the DoD Component budget submissions for financial appropriateness;
- confirms compliance with OMB Circular No. A-11 and the DoD FMR;
- prepares the DoD budget for submission to OMB; and
- justifies the DoD's budget before Congress.

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<sup>3</sup> Compensable hours are the total number of regular straight-time hours that agencies can pay employees in a fiscal year.

<sup>4</sup> Budget exhibits are defined using a unique numbering system. OP budget exhibits are for the Operations and Maintenance appropriation.

## **DoD Budget Process**

The Services submit a Program Objective Memorandum, which contains a 5-year outlook of their budget estimates, to the Secretary of Defense annually. The OUSD(C) reviews the Program Objective Memorandum and issues annual BES guidance, which provides the Services with information for the upcoming fiscal year's budget development. The Services convert the first year of the Program Objective Memorandum into the BES using the BES guidance. The Services submit the BES to the OUSD(C) for review and approval in accordance with the timelines detailed in the BES guidance. OUSD(C) budget analysts review and analyze the Services' BES to verify compliance with OMB Circular No. A-11 and DoD policy. After the OUSD(C) budget analysts review each Services' BES, the OUSD(C) develops and issues the annual President's Budget guidance. The Services update their BESs to reflect the President's Budget decisions and prepare budget justification materials to incorporate into the President's Budget. Finally, the OUSD(C), OMB, and the Services participate in a review of the Services' budget submissions, before OMB submits the President's Budget to Congress no later than the first Monday in February.

## **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.<sup>5</sup> We identified internal control weaknesses with the OUSD(C)'s management and oversight of the Services' budget development procedures. Although the OUSD(C) provided guidance for developing budgets, and reviewed and analyzed the Services' CIVPAY budgets, the OUSD(C) did not implement additional internal controls to reduce the risk of noncompliance and improve the DoD's budget development procedures. We will provide a copy of the final report to the senior official responsible for internal controls at the OUSD(C).

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<sup>5</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

## Finding

### **OUSD(C) Provided Oversight of the Services' CIVPAY Budget Development, but Improvements Are Needed**

The OUSD(C) provided guidance for developing budgets, and reviewed and analyzed the Services' CIVPAY budget submissions for compliance with OMB Circular No. A-11 and DoD policy. However, as reported in our previous audits, the Services deviated from OMB and DoD policy when preparing their CIVPAY budgets. This deviation occurred because the OUSD(C) has not fully implemented its internal controls or best practices to reduce the risk of noncompliance and to improve the DoD's budget development procedures. Specifically, the OUSD(C) has not:

- updated the DoD FMR budget development sections to provide a single source of clear and consistent guidance to the DoD;
- developed a CIVPAY budget analyst career path and required CIVPAY budget development training as part of the DoD Financial Management (FM) Certification;
- documented its budget review and analysis procedures to retain corporate knowledge by mitigating the risks of having knowledge limited to a few personnel and to ensure consistency and repeatability of the OUSD(C) budget reviews and oversight;
- required the Services and Defense agencies to document their procedures to ensure continuity if budget analysts in key positions leave their positions; and
- created and required the use of a budget development checklist to function as a reminder of important tasks that the Services and Defense agencies should complete during the budget development process.

As a result, the Services' CIVPAY budgeted cost per FTE did not always accurately represent the actual cost of their workforce. Although the DoD FMR states that the actual costs should be close to the budget estimates, the Services' actual costs significantly fluctuated from their budget requests.

## OUSD(C) Had Procedures to Manage and Oversee Budgets

OUSD(C) used several procedures to manage and oversee the Services' CIVPAY budget development. OUSD(C) assigned a dedicated budget analyst to oversee the DoD's CIVPAY budget submissions. The CIVPAY budget analyst developed annual CIVPAY budget guidance, and reviewed and analyzed the CIVPAY budget requests for each appropriation, Military Service, and Defense agency. For the FY 2019 President's Budget request, the

CIVPAY budget analyst reviewed and analyzed 56 CIVPAY budget requests valued at \$76.4 billion, or 12.4 percent of the DoD's FY 2019 base funding request.<sup>6</sup>

*For the FY 2019 President's Budget request, the CIVPAY budget analyst reviewed and analyzed 56 CIVPAY budget requests valued at \$76.4 billion.*

### **Provided Supplemental Guidance**

To provide guidance for each year's budget development, the CIVPAY budget analyst wrote the CIVPAY sections of the OUSD(C)'s annual BES and President's Budget guidance, which the OUSD(C) sends to the Services through memorandums. The BES guidance includes instructions for the data submission, justification material supporting the DoD's budget estimates, and the procedures that the OUSD(C) will use to conduct its budget review. The CIVPAY budget analyst also provided additional guidance to the Services and Defense agencies, such as Office of Personnel Management pay rate changes, OMB guidance, congressional mandates, and Presidential executive orders.

To help the DoD develop accurate CIVPAY budget estimates, the CIVPAY budget analyst held meetings, conferences, and training sessions, and developed and provided tools to address budget development and submission concerns. For example, during FY 2017, the former CIVPAY budget analyst stated that he conducted five training sessions to help the Services and Defense agencies develop and submit accurate CIVPAY budgets to the OUSD(C). In addition, the CIVPAY budget analyst developed and disseminated spreadsheet tools to help accurately calculate and apply pay raises and locality adjustments. The CIVPAY budget analyst also participated in annual BES briefings, which the OUSD(C) conducted with the Services 2 weeks after the Services submitted their BESs. During the BES briefings, the Services justified changes to their O&M budget request, which included a brief discussion about CIVPAY.

<sup>6</sup> This amount does not include the DoD's CIVPAY request for overseas contingency operations or emergency funding.

## ***Analyses of Military Services' CIVPAY Budget Submissions***

The CIVPAY budget analyst conducted several analyses to evaluate whether each CIVPAY budget request complied with OMB Circular No. A-11, DoD policy, and Federal law. Specifically, the CIVPAY budget analyst created spreadsheets and reports to examine the budget data submitted by the Services in the OUSD(C)'s budget systems. The spreadsheets helped the CIVPAY budget analyst identify unusual increases and decreases in the FTEs, costs, and rates for civilian compensation and benefits. For example, the CIVPAY budget analyst verified pay raises by comparing the cost per FTE for the budget year and the subsequent 4 years to track growth based on the expected pay raises. The CIVPAY budget analyst also compared the Services' BESs to prior year actual costs to see if the costs, FTEs, and rates "look right" compared to the previous year's actual costs. The CIVPAY budget analyst used spreadsheets to spot check issues for further review and stated that he reviewed the variable costs, such as holiday pay and overtime, for consistency from year to year. The CIVPAY budget analyst examined the Services' CIVPAY requests at the command and Sub-Activity Group level, which the CIVPAY budget analyst could then validate through other sources, such as human resource records and payroll systems. Finally, because the CIVPAY budget analyst relied on the Services to input data into the OUSD(C) computer systems, the analyst generated system reports that identified discrepancies between OUSD(C)'s two budget systems and ensured the CIVPAY numbers matched between multiple budget exhibits.<sup>7</sup>

(~~FOUO~~) When the CIVPAY budget analyst identified anomalies or possible errors, the analyst contacted the Service to address the issues. The CIVPAY budget analyst could make changes to the Services' budgets through technical adjustments or through the formal Resource Management

Decision (RMD) process. For minor changes, the CIVPAY budget analyst could make technical adjustments with the OUSD(C)'s approval. For example, in 2015 the CIVPAY budget analyst made

*When the CIVPAY budget analyst identified anomalies or possible errors, the analyst contacted the Service to address the issues.*

a technical adjustment to remove [REDACTED] FTEs that the Air Force erroneously included in its future years' personnel plan. The analyst stated that he worked with the Air Force to identify and remove the extra [REDACTED] FTEs from the system, which caused a fluctuation to the Air Force's cost per FTE in the future years. For more significant budget changes, budget analysts, the Services, or OMB prepare issue papers that can become RMDs. Issue papers go through a formal

<sup>7</sup> The Services and Defense agencies uploaded their budget information into OUSD(C)'s Program Resource Collection Process system and the Comptroller Information System. CIVPAY is reported in the OP-5, OP-8, and OP-32 budget exhibits.

(~~FOUO~~) review and approval process at the OUSD(C) before becoming an RMD that the Under Secretary of Defense (Comptroller) signs. For example, when the Office of Personnel Management changed the locality pay regions in 2015, the OUSD(C) created an issue paper, which led to a draft RMD to document the adjustment for each Service's funding to account for the millions of dollars required to implement Office of Personnel Management's changes.

Finally, the CIVPAY budget analyst monitored the Services' CIVPAY budget execution throughout the year using monthly and quarterly reports. OUSD(C) required the Services to send monthly reports with the number of people hired and the CIVPAY execution to date for the year. The CIVPAY budget analyst used the execution data to manage and oversee the Services' CIVPAY. For example, the CIVPAY budget analyst identified that the Navy was under executing its CIVPAY budget in FY 2016. The CIVPAY budget analyst explained that he informed the Navy of its shortfall, which resulted in the Navy increasing its hiring to meet execution goals. The monthly and quarterly reports provided a summary of the DoD civilian workforce, which also helped the CIVPAY budget analyst verify the end-strength numbers for the Services at the end of the fiscal year.

## **Military Services' CIVPAY Budget Requests Deviated From OMB and DoD Policy**

Although the OUSD(C) had several procedures in place to oversee the Services' budget development, OUSD(C) must rely on the Services to submit complete and accurate budgets that comply with OMB Circular No. A-11 and DoD policy. However, as we reported in our previous audits, the Army, Air Force, and Marine Corps did not fully comply with OMB Circular No. A-11 and DoD policy.

(~~FOUO~~) For example, Army budget officials inappropriately adjusted their basic compensation calculation for employees' within-grade increases, which inflated the Army's FYs 2017 and 2018 CIVPAY budget requests.<sup>8</sup> OMB Circular No. A-11 states that the net costs of within-grade increases should be offset by savings derived from the employees' greater productivity and efficiency. However, as we reported in our previous audit, the Army budget officials added an additional \$498.6 million to the FY 2017 CIVPAY budget to account for the within-grade increases, which resulted in the Army under executing its budget request by \$481.5 million. Furthermore, the Army did not budget for overtime pay for FYs 2014 through 2019, even though DoD policy states that budget estimates should reflect the most

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<sup>8</sup> Report No. DODIG-2018-055.

(FOUO) likely or expected full costs for CIVPAY, which OUSD(C) [REDACTED] in the annual President's Budget guidance issued to the Services. By not including overtime in the Army's CIVPAY budget request, the Army appeared to over execute its CIVPAY budget, while under executing its FTEs from FYs 2015 through 2016.<sup>9</sup>

(FOUO) In addition, neither the Air Force nor the Marine Corps determined their CIVPAY funding requirements from FTEs, as required by OMB. OMB Circular No. A-11 requires agencies to develop their CIVPAY budgets based on FTEs, which are a measurement of straight-time hours worked, instead of the number of people employed. However, the Air Force incorrectly used end-strength instead of FTEs to calculate its FY 2016 CIVPAY costs.<sup>10</sup> The Marine Corps developed its FY 2017 CIVPAY budget based on overall funding instead of FTE requirements.<sup>11</sup> As a result, the Air Force had to request an additional \$212.5 million from Congress to correct its FY 2016 CIVPAY budget shortfall. In addition, the Marine Corps under-budgeted its FY 2017 FTEs by [REDACTED] percent, which also resulted in the Marine Corp inaccurately representing its budgeted cost per FTE.

## Additional Internal Controls Needed to Reduce Risk of Noncompliance

The Senate Appropriations Committee, Subcommittee on Defense, and the House Appropriations Committee, Subcommittee on Defense, were concerned that the Military Services consistently overestimated the number of civilian FTEs that would be employed during a fiscal year, while underestimating the funding requirements for those civilian personnel. Therefore, we were asked to analyze the difference between the Services' actual and budgeted cost per FTE, evaluate the inputs that cause fluctuation in average cost per FTE, and identify best practices to improve the management of civilian pay and FTE levels.

Although the OUSD(C) has procedures in place to review and analyze the Services' budgets, we determined during our previous audits that the Services departed from OMB Circular No. A-11 and DoD policy when developing the CIVPAY BES. Therefore, OUSD(C)'s oversight of the CIVPAY budget development process did not sufficiently mitigate the risks of noncompliance with OMB Circular No. A-11 and DoD policy. OMB internal control guidance requires Federal managers to implement practices that effectively identify, assess, and respond to risks.<sup>12</sup> The GAO issued additional

<sup>9</sup> While the Army under executed its FTEs and total CIVPAY budget, its cost per FTE increased because it did not include overtime in its budget request.

<sup>10</sup> Report No. DODIG-2017-039.

<sup>11</sup> Report No. DODIG-2018-129.

<sup>12</sup> OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016.

internal control guidance, which defines effective internal control procedures for management and oversight.<sup>13</sup> The GAO internal control guidance states that internal controls should be based on an assessment of the risks that the program does not comply with laws and regulations. The GAO internal control guidance also states that internal control programs should include establishing, communicating, and documenting procedures to retain organizational knowledge and mitigate the risk of having the knowledge limited to a few personnel. The OUSD(C) could improve the DoD budget development process by fully implementing its internal controls and employing best practices to reduce the risk of future noncompliance. Specifically, OUSD(C) could improve the DoD budget development process by updating the DoD FMR, developing and requiring CIVPAY budget development training, documenting its procedures, requiring the Services and Defense agencies to document their procedures, and creating a budget development checklist.

*The OUSD(C) could improve the DoD budget development process by fully implementing its internal controls and employing best practices.*

**FMR Budget Development Guidance Needs Updating**

(FOUO) The OUSD(C) has not updated the DoD FMR budget development sections to provide clear and consistent guidance to the DoD in more than 7 years.

The DoD FMR is intended to be a single, DoD-wide financial management regulation

*The OUSD(C) has not updated the DoD FMR budget development sections ... in more than 7 years.*

used for budgeting and financial management education.<sup>14</sup> It is also DoD policy to update the DoD FMR Volume 2 every 2 years.<sup>15</sup> However, the OUSD(C) has not updated DoD FMR Volume 2A, Chapter 1, since

October 2008, and Chapter 3 since December 2010. Chapters 1 and 3 provide general information and guidance on O&M budget development and presentation. Instead, the OUSD(C) has been using annual BES and President’s Budget guidance to provide budget instructions, despite the DoD FMR stating that the annual BES and President’s Budget guidance are only supposed to contain special instructions and nonrecurring requirements unique to a specific year. While the OUSD(C) included unique instructions, such as the timelines for budget submission in its BES and President’s Budget guidance, the OUSD(C) also regularly included recurring year-to-year guidance and information that would more appropriately be included in the DoD FMR. For example, from FYs 2014 through 2019, the OUSD(C)’s BES

<sup>13</sup> GAO-14-704G, “Standards for Internal Control in the Federal Government,” September 2014.

<sup>14</sup> DoD Instruction 7000.14, “Department of Defense Financial Management Policy and Procedures,” September 17, 2008.

<sup>15</sup> DoD FMR.

(~~FOUO~~) guidance repeatedly stated that the [REDACTED]  
[REDACTED]  
[REDACTED] However, neither of these repetitive requirements are included in the DoD FMR.

(~~FOUO~~) In addition, the OUSD(C) also used the annual BES guidance, conferences, and e-mails to correct common errors. For example, after receiving questions from Congress, the OUSD(C) CIVPAY budget analyst determined that the Marine Corps incorrectly reported highly qualified experts on their OP-8 budget exhibit. The DoD FMR instructs the Services to report Senior Executive Service (SES) personnel and highly qualified experts separately on the OP-8 budget exhibit. However, the OUSD(C) CIVPAY budget analyst stated that he found the Marine Corps incorrectly combined the two personnel categories in its budget. The OUSD(C) CIVPAY budget analyst stated that the error caused the Marine Corps to appear to have more SES personnel than authorized. To correct the error, the OUSD(C) CIVPAY budget analyst incorporated language in the FYs 2018 and 2019 BES guidance to [REDACTED]

[REDACTED] Although the OUSD(C) published the guidance in the FYs 2018 and 2019 BES guidance, the DoD FMR states that the annual BES guidance should only include special instructions and information that is unique to a specific budget year.

The OUSD(C) CIVPAY budget analyst also addressed errors during conferences with the Services instead of OUSD(C) updating the DoD FMR. For example, when reviewing the Services' CIVPAY budget submissions, the OUSD(C) CIVPAY budget analyst identified that the Army inappropriately included compensatory hours worked in their FTE calculation, which inflated the number of FTEs calculated. To address the inaccurate FTE calculation, the OUSD(C) CIVPAY budget analyst discussed the issue during conferences with the Services in FYs 2015 and 2016. The OUSD(C) CIVPAY budget analyst also identified that the Marine Corps used the incorrect pay code to capture holiday pay. Again, the OUSD(C) CIVPAY budget analyst held a conference with the Services and the Defense Finance and Accounting Service to discuss and resolve the different interpretations of each pay code. During the conference, the OUSD(C) budget analyst discussed how the DoD had over 250 different pay codes and that each Service was using different codes to populate the budget exhibits. Afterwards, the analyst developed and issued, via

e-mail, a guide that identified the correct pay codes to populate each line item of the OP-8 budget exhibit, such as basic compensation, holiday pay, and other pay. However, the OUSD(C) has not updated the DoD FMR to incorporate the guide, which would communicate the correct procedures to all current and future DoD budget analysts and increase the accuracy of DoD’s CIVPAY budget submissions.

(FOUO) Finally, the OUSD(C) could have added language to the DoD FMR to address the noncompliance that we identified in our previous reports. DoD Directive 5118.03 states that the OUSD(C) is responsible for establishing and supervising the execution of

uniform DoD policies and procedures for budget formulation, presentation, and execution. The annual President’s Budget guidance required the Services to [REDACTED]

*The OUSD(C) is responsible for establishing and supervising . . . uniform DoD policies and procedures for budget formulation.*

[REDACTED] however, we observed that each Service did not estimate their variable CIVPAY costs, such as holiday pay, overtime, and other pay, in accordance with this guidance. Specifically, Army officials stated that the Army has not included overtime in its budget since FY 2005, and we determined that the Marine Corps did not include holiday pay from FYs 2014 through 2016. Yet, both Services included the variable costs in their budget execution data presented to Congress, which affected the consistent presentation of the DoD CIVPAY budgets and execution data and caused the Services to fund the variable costs with other money within their budgets. Without completely and accurately budgeting for the variable costs, the Army and Marine Corps did not capture the actual cost of their civilian workforce in their OP-8 budget exhibits, which limited decision makers’ ability to provide effective oversight of DoD’s CIVPAY budgets. Accordingly, the OUSD(C) could improve the consistency of DoD’s CIVPAY budget requests by updating the DoD FMR to require the Services to accurately and completely budget for CIVPAY variable costs.

(FOUO) The OUSD(C) budget analysts stated that they began updating the CIVPAY budget development sections of the DoD FMR between FYs 2015 and 2017, but that the OUSD(C) has not completed or published the updates. In particular, the OUSD(C) budget analysts proposed updates to the DoD FMR that include [REDACTED]

[REDACTED] The OUSD(C) budget analysts stated that even though OUSD(C) updates other sections of the DoD FMR regularly, updating the budget development sections are more difficult because the OUSD(C) Program/Budget directorate has different internal business rules than other OUSD(C) directorates. The budget analysts stated that updating the budget

(~~FOUO~~) sections of the DoD FMR would require additional internal coordination with other OUSD(C) stakeholders. Specifically, Volume 2A, Chapter 3, of the DoD FMR discusses budget policies for the entire O&M appropriation, not just CIVPAY budget development. Therefore, the updates must be coordinated with each OUSD(C) budget analyst for the O&M appropriation.

To inform and educate all current and future DoD budget analysts, the OUSD(C) needs to update the DoD FMR, Volume 2A, Chapters 1 and 3, to reflect a single source of clear, consistent guidance for the DoD's CIVPAY budget development.

*To inform and educate all current and future DoD budget analysts, the OUSD(C) needs to update the DoD FMR.*

The DoD FMR update should include the repetitive guidance from the annual BES and President's Budget guidance; guides for using pay codes to populate the OP-8 budget exhibit line items and the personnel categories; clarification of the definition

of straight-time hours worked and the calculation of FTEs; and a requirement to accurately and completely budget for variable costs. The OUSD(C) should also maintain and update the DoD FMR budget development sections every 2 years, in accordance with DoD Instruction 7000.14.

### ***CIVPAY Budget Training Needs to be Developed***

The OUSD(C) has not developed a CIVPAY career path or required CIVPAY budget development training as part of the DoD FM Certification program. DoD Directive 5118.03 states that the OUSD(C) must provide guidance and oversight with regard to the recruiting, retention, training, and professional development of the DoD financial management workforce. GAO's internal control guidance also states that management should demonstrate a commitment to recruit, develop, and retain competent individuals.<sup>16</sup> As such, the FY 2012 National Defense Authorization Act authorized the Secretary of Defense to establish a financial management professional certification program that is required for both DoD military and civilian employees who perform financial management functions, including budget work.<sup>17</sup> To comply, the OUSD(C) established the DoD FM Certification program to provide a standard training framework for the FM workforce across the Services and Defense agencies, which is intended to improve the functional and leadership capabilities of the workforce.

<sup>16</sup> GAO-14-704G.

<sup>17</sup> Public Law 112-81, "National Defense Authorization Act for Fiscal Year 2012," December 31, 2011.

Although the DoD’s military and civilian financial managers and budget analysts are required to obtain and maintain the DoD FM Certification, the DoD does not have a CIVPAY budget development career path or training, and the DoD FM Certification does not include training for CIVPAY budget development. Instead, the DoD FM Certification only includes broad training on budget development, justification, and execution. However, the OUSD(C) budget analysts stated that CIVPAY is unique to other budget development positions because the analyst needs to understand human resources and budgeting laws and regulations. Therefore, the OUSD(C) budget analysts explained that the Services separate the CIVPAY budget functions into multiple offices. For example, the Army develops its CIVPAY budget with input from the Army office of the Deputy Chief of Staff G-8 (Programming), who approves the civilian requirements; the Army office of the Deputy Chief of Staff G-1 (Personnel), who calculates the FTEs; and the Assistant Secretary of the Army (Financial Management and Comptroller), who calculates the total CIVPAY costs included in the budget. Without specific CIVPAY-related training, the budget analysts explained that CIVPAY budget development is predominately learned on-the-job.

*CIVPAY budget development is predominately learned on-the-job.*

Furthermore, the former OUSD(C) CIVPAY budget analyst stated that most of the CIVPAY errors and instances of noncompliance that were identified were the result of educational issues across the DoD. To ensure that OUSD(C) budget analysts had the most accurate information, the former CIVPAY budget analyst conducted five CIVPAY related training classes in FY 2017, which the OUSD(C) budget analysts stated the OUSD(C) had never done before. However, a limited number of students could attend the classes. For example, the former CIVPAY analyst taught a class that could only accommodate up to 16 students. A CIVPAY career path and training course could ensure that budget analysts across the DoD have a better understanding of CIVPAY, the impact of CIVPAY costs on the DoD’s budget, and the systems used to process civilian costs and FTEs. In addition, the CIVPAY career path could improve professional development of the CIVPAY budget analysts. Therefore, the OUSD(C) should develop a formal CIVPAY budget-development career path and add a CIVPAY budget-development training course to the DoD FM Certification program to train and develop current and future CIVPAY budget analysts.

## ***OUSD(C)'s Oversight and Analysis Procedures Need to Be Documented***

The OUSD(C) had not documented its budget review and analysis procedures to retain corporate knowledge and ensure the consistency and repeatability of the OUSD(C)'s budget reviews and oversight. GAO's internal control guidance states that documentation provides a means to preserve organizational knowledge within the organization and helps communicate that knowledge to external parties.<sup>18</sup>

⋮ *Documentation can mitigate the risk of having knowledge limited to a few personnel.*

It further states that documentation can mitigate the risk of having knowledge limited to a few personnel, which occurred with the OUSD(C) budget analysts.

(FOUO) In August 2017, the OUSD(C) CIVPAY budget analyst left the OUSD(C). OUSD(C) officials assigned a budget analyst to work temporarily on the CIVPAY responsibilities until the OUSD(C) could hire a new CIVPAY budget analyst. This analyst was tasked with reviewing the FY 2019 budget submission, which was due to OUSD(C) in [REDACTED], in addition to her normally assigned duties. The CIVPAY budget analyst vacancy was not filled until March 2018. Without documented procedures, the OUSD(C) relied on the former CIVPAY budget analyst, who no longer worked at the OUSD(C), to assist with the transition. The previous analyst provided reach-back guidance to the analyst performing temporary duties for the FY 2019 CIVPAY budget reviews, while also learning and completing work at his new DoD employer. Furthermore, OUSD(C) officials stated that the former CIVPAY budget analyst also helped OUSD(C) transition the new CIVPAY budget analyst for continuity once he arrived.

OUSD(C) officials stated that they do not have, but need to develop, written procedures for the CIVPAY budget analyst position. The OUSD(C) officials also stated that their reliance on the former OUSD(C) CIVPAY budget analyst was an anomaly because the analyst left the agency on short notice. However, if the CIVPAY budget analyst left the DoD altogether, then OUSD(C) would have lost its organizational knowledge for CIVPAY oversight. The loss of organizational knowledge would have caused the new CIVPAY budget analyst to recreate procedures and identify the nuances with each Services' budget submissions, increasing the risk of noncompliance, until the analyst learned the oversight position. Therefore, the OUSD(C) should not rely on former employees to train new employees. Instead, to mitigate the risk of having organizational knowledge

<sup>18</sup> GAO-14-704G.

limited to a single person, the OUSD(C) should require its budget analysts to document their procedures, lessons learned, and standard lists of reports and analyses, in accordance with GAO’s internal control guidance.

**Services’ Budget Development Procedures Need to Be Documented**

During our audits, we determined that the Air Force, Navy, and Marine Corps did not have documented procedures for their CIVPAY budget development. DoD Directive 5118.03 states that the OUSD(C) must establish and supervise the execution of uniform DoD procedures for budget formulation, presentation, and execution. As previously stated, the GAO internal control guidance states that agencies should document their procedures to retain organizational knowledge and help communicate procedures to external

entities.<sup>19</sup> We determined that each Service developed its CIVPAY budget differently; however, OUSD(C) officials stated that they would not direct the Services on how to develop their

*We determined that each Service developed its CIVPAY budget differently.*

CIVPAY budgets because each Service has unique missions and software that prevent uniform procedures. Specifically, the Army and Air Force develop their budgets centrally at the headquarters level with input from their commands. However, the Navy has a decentralized budget process with 19 Budget Submitting Offices, including the Marine Corps, which independently develop and submit their budgets to the Office of the Deputy Assistant Secretary of the Navy for Budget for review and approval. Because OUSD(C) will not direct the Services and Defense agencies to use consistent CIVPAY budget development procedures across the DoD, it is important for the Services and Defense agencies to document their budget development procedures to ensure their consistency from year-to-year.

We identified a best practice in the Army’s documented and repeatable procedures to calculate its CIVPAY budget that could be incorporated into DoD CIVPAY guidance. As stated in our previous audit, Army budget officials documented and uploaded their procedures and budget documentation to their website for transparency with the Army Commands, encouraging the Commands to recalculate their CIVPAY rates. As a result, we were able to recalculate the Army’s FY 2017 CIVPAY budget within 0.48 percent. Conversely, without documented procedures, we found that Air Force officials could not support or justify the FY 2016 CIVPAY budget or support their rationale for developing the FY 2016 CIVPAY requirements.

<sup>19</sup> GAO-14-704G.

During the audit we observed that the Air Force experienced staff turnover in key positions, which affected its budget development process. We also found that the Navy and Marine Corps did not have documented procedures for developing their CIVPAY budgets, which resulted in their inability to explain their pricing and FTE adjustments for their FY 2017 budget requests.

If the OUSD(C) will not require the Services and Defense agencies to follow the same procedures for CIVPAY budget development, then the OUSD(C) should require the Services and Defense agencies to document their procedures so they use consistent, repeatable procedures from one year to the next. In addition, the OUSD(C) could use these documented procedures to oversee and provide constructive feedback to the Services and Defense agencies to ensure that the DoD's budget is accurate, complete, and compliant with the OMB and DoD policies.

In the previous audits, we made recommendations to the Air Force, Navy, and Marine Corps to document their CIVPAY budget development procedures and calculations, which Service officials agreed to implement. However, the OUSD(C) should extend the requirement to document organizational procedures to mitigate the risks associated with the loss of organizational knowledge due to staff turnover

: Documenting procedures would improve  
 : the consistency and accuracy in the budget  
 : development process from year to year.

to all of the Services and Defense agencies. Documenting procedures would improve the consistency and accuracy in the budget

development process from year to year and help communicate procedures to internal or external stakeholders, similar to the Army encouraging its commands to recalculate the rates using its documented procedures.

### ***Budget Development Checklist Needs to Be Created***

The OUSD(C) and the Services could benefit from developing a checklist to help improve consistency and accuracy across the DoD's budget submissions. The budget development checklist could function as a guide to help the Services and Defense agencies ensure their budget estimates were developed in accordance with OMB Circular No. A-11 and DoD policy.

The budget development checklist could remind the Services to review the annual updates to OMB Circular No. A-11 when developing their budgets. For example, the FY 2018 update of the OMB Circular No. A-11 changed the guidance about budgeting for within-grade increases, making it clear that budgeting for within-grade increases was not permitted. However, the Army's website indicated that it still included an adjustment for within-grade increases in its FY 2018 budget request. A reminder in the budget development checklist to review the OMB update could prevent these instances of noncompliance with budget development policies.

The budget development checklist could also be used to remind the Services and Defense agencies of important tasks to complete, which could reduce errors and noncompliance in their budget submissions to the OUSD(C). For example, the DoD FMR requires the Services to electronically submit their budgets to the OUSD(C), in addition to submitting printed copies to Congress. The Services are then required to publish the printed version of the budget on their websites for public, congressional, and media viewing. However, we identified discrepancies between the Air Force's FY 2019 President's Budget request published on the Internet and the data in the OUSD(C)'s budget system. Specifically, we found that the Air Force's published budget request inaccurately reported the Air Force's FY 2017 actual CIVPAY execution and its FY 2019 CIVPAY budget request. Tables 1 and 2 show the difference between the FY 2019 President's Budget request that the Air Force published on the Internet and the data in the OUSD(C)'s budget system.

*Table 1. Comparison Between the FY 2017 Actual Costs in OUSD(C)'s Budget System and the Air Force's Published Budget*

FY 2017	Basic Comp	Overtime	Holiday Pay	Other	Benefits	Total CIVPAY	FTEs	Cost Per FTE
	In Thousands							
President's Budget Request	\$5,859,560	\$64,554	\$3,244	\$19,898	\$2,129,911	\$8,077,167	74,263	\$108,764
Published Actual Cost	5,868,492	64,554	3,244	19,898	2,129,911	8,086,099	74,263	108,885
OUSD(C) System Actual Cost	5,935,749	148,096	12,002	66,939	2,108,234	8,271,020	76,918	107,530
<b>Difference in Actual Costs</b>	<b>\$67,257</b>	<b>\$83,542</b>	<b>\$8,758</b>	<b>\$47,041</b>	<b>\$(21,677)</b>	<b>\$184,921</b>	<b>2,655</b>	<b>\$(1,355)</b>

Source: The Air Force's FYs 2017 and 2019 President's Budget requests.

Table 2. Comparison Between the Air Force's FY 2019 Published Budget Request and the Data in the OUSD(C) Budget System

FY 2019	Basic Comp	Overtime	Holiday Pay	Other	Benefits	Total CIVPAY	FTEs	Cost Per FTE for Basic Comp
	In Thousands							
Published Data	\$6,615,800	\$72,792	\$66,019	\$616,058	\$120,087	\$7,490,756	67,259	\$98,363
OUSD(C) System Data	5,320,426	62,498	10,594	125,663	1,848,383	7,367,564	67,693	78,596
<b>Difference</b>	<b>\$(1,295,374)</b>	<b>\$(10,294)</b>	<b>\$(55,425)</b>	<b>\$(490,395)</b>	<b>\$1,728,296</b>	<b>\$(123,192)</b>	<b>434</b>	<b>\$(19,767)</b>

Source: The Air Force's FY 2019 President's Budget Request.

Because Air Force officials did not identify the discrepancies between the two versions, the Air Force may have also submitted the inaccurate published information to Congress in the printed budget exhibits. A budget development checklist could include a reminder to verify that the information submitted electronically is the same information printed for Congress and published on the Internet.

(FOUO) The budget development checklist could also include a reminder to verify the accuracy of the data submitted [REDACTED]. The annual President's Budget guidance required the Services to [REDACTED]. However, the OUSD(C) CIVPAY budget analyst conducted analyses that identified errors [REDACTED]. For example, when analyzing the data [REDACTED] in FY 2017, the OUSD(C) CIVPAY budget analyst identified 134 FTE and CIVPAY cost errors in the Army, Air Force, combatant command, and Defense agencies' budgets. Consequently, the review and correction of the data [REDACTED] added to the CIVPAY budget analyst's workload. A budget development checklist could help the Services and Defense agencies catch the errors before submitting their budgets to the OUSD(C), which could make the OUSD(C)'s review of the Services' and Defense agencies' budgets more efficient.

In addition to correcting identified errors before submitting budgets to the OUSD(C) for review, the budget development checklist could also function as an easy guide for the Services and Defense agencies to develop more accurate and

complete budgets, in accordance with OMB and DoD policies. For example, among other things, the budget development checklist could remind the Services and Defense agencies to:

- compare the prior year actual CIVPAY execution data, which is included in their budgets, to the payroll data from Defense Finance and Accounting Service to ensure accuracy;
- (FOUO) ensure that their budget requests were consistent with the prior year's actual execution, [REDACTED];
- apply the OMB-directed civilian pay-raises correctly, which take effect the first full pay period of the calendar year instead of the beginning of the fiscal year;
- comply with the special instructions and nonrecurring requirements that are detailed in the BES and President's Budget guidance, applicable to that year; and
- reconcile the OP-5, OP-8, and OP-32 CIVPAY budget exhibits to verify that the data matches.

A budget development checklist is an internal control that could provide the OUSD(C) additional assurance that the DoD's budget submission accurately captures the costs of its civilian workforce, while reducing the errors the OUSD(C) must identify and correct each year. The OUSD(C) should develop and require a budget development checklist for the Services to use, which will provide further assurances that their budget submissions are accurate and complete and comply with OMB Circular No. A-11 and DoD policy.

## Services' Budgets Fluctuated From Actual Costs

For the FY 2019 President's Budget request, the CIVPAY budget analyst reviewed and analyzed 56 CIVPAY budget requests valued at \$76.4 billion, or 12.4 percent of the DoD's FY 2019 base funding request. On average, the CIVPAY budget analyst had 2 months to assess the budget requests for compliance with OMB Circular No. A-11, DoD policy, and Federal law. However, the CIVPAY budget analyst also spent significant time on other initiatives.<sup>20</sup> Shortcomings with the Services' CIVPAY budgeting process and the limitations with the OUSD(C)'s current budget review procedures led to the Services' budgeted cost per FTE fluctuating from the actual cost per FTE that was reported to Congress. Table 3 shows the differences between the Services' budgeted and actual cost per FTE for FYs 2014 through 2017.

<sup>20</sup> The CIVPAY budget analyst was also responsible for initiatives that affected multiple Services or Defense agencies, such as an FY 2016 National Defense Authorization Act requirement to reduce DoD headquarters personnel, and a requirement in Executive Order 13589, "Promoting Efficient Spending," November 15, 2011, to reduce printing and travel expenses.

Table 3. Services' FYs 2014 Through 2017 Budgeted to Actuals Cost per FTE

Fiscal Year	Budget Average Cost Per FTE	Actual Cost Per FTE	Difference
<b>Army</b>			
2014	\$98,093	\$103,734	\$5,641
2015	100,802	106,173	5,371
2016	106,260	110,836	4,576
2017	116,055	111,588	(4,467)
<b>Navy</b>			
2014	\$106,838	\$110,323	\$3,485
2015	107,353	111,889	4,536
2016	111,734	113,336	1,602
2017	113,402	116,591	3,189
<b>Air Force</b>			
2014	\$97,670	\$97,356	(\$314)
2015	99,528	103,800	4,272
2016	101,384	104,640	3,256
2017	108,764	107,530*	(1,234)
<b>Marine Corps</b>			
2014	\$98,229	\$104,144	\$5,915
2015	102,829	106,055	3,226
2016	106,633	109,978	3,345
2017	107,335	111,770	4,435

\* We used the actual costs from the OUSD(C)'s budget system instead of the data the Air Force published on its website.

Source: The DoD OIG, using the average compensation and benefit costs from the Services' FYs 2014 through 2019 President's Budgets.

(FOUO) OMB Circular No. A-11 states that current year budget estimates should be consistent with the prior year actuals and should be very close to the actual usage reported at the end of the fiscal year. The DoD FMR states that the cost of an FTE is a ratio that provides context for comparing CIVPAY across fiscal years. Finally, the OUSD(C) President's Budget guidance for FYs 2014 through 2017 required the Services to [REDACTED]

However, without a requirement to accurately and completely budget for all variable costs expected, the Army, Navy, and Marine Corps' actual cost per FTE fluctuated from their budget requests. Specifically, from FYs 2014 to 2017, the Army did not include overtime in its budget request and, from FYs 2014 to 2016, the Marine Corps did not include holiday pay in its budget request. However, the

Army and Marine Corps both included overtime and holiday pay in actual execution data reported to Congress. Therefore, the Army and Marine Corps understated the actual costs of their civilian workforce in their budget requests to Congress. For example, the Army reported that it spent \$144.9 million on overtime in FY 2016, which primarily caused its cost per FTE to increase from \$106,260 per FTE in its budget request to \$110,836 per FTE reported in its execution data. In another example, the Marine Corps did not budget for holiday pay in FY 2016 even though the Marine Corps consistently paid an average of \$2.4 million for holiday pay annually. In FY 2016, the Marine Corps paid \$2.3 million for holiday pay, which contributed to its cost per FTE increasing from \$106,633 per FTE in its budget request to \$109,978 per FTE reported in its execution data. Additionally, from FYs 2014 through 2017, the Navy reduced its budgeted overtime from \$264.0 million to \$210.0 million. However, during the same period, the Navy's actual overtime expenditures increased from \$285.4 million to \$371.9 million. As a result, the Navy's FY 2017 overtime expenditures exceeded its budget by \$161.9 million, or 77 percent. This primarily caused its cost per FTE to increase from \$113,402 per budgeted FTE to \$116,591 per FTE reported in its execution data.

The Air Force experienced significant turnover in key positions and did not have documented procedures. This led to the Air Force incorrectly reporting end-strength instead of FTEs for its actual expenditures in FY 2014 and incorrectly calculating FTEs for its FY 2016 budget request due to loss of organizational knowledge. As a result, we have little assurance that the Air Force's cost per FTE accurately reported its funding needs or expenditures in the past. For example, as we reported in our previous audit, in FY 2016 the Air Force requested an additional \$212.5 million from Congress to correct its CIVPAY budget shortfall. Without additional controls, such as documented procedures, further clarification for calculating FTEs, and CIVPAY-related training, the Air Force could not accurately capture the actual cost of its civilian workforce in its budget request to Congress.

Finally, without additional controls, the Army's FY 2017 budgeted cost per FTE exceeded its actual cost per FTE because the Army inflated its budget request with an adjustment that was not permitted by OMB Circular No. A-11. Specifically, the Army's adjustment for within-grade increases inflated its FY 2017 CIVPAY budget by \$498.6 million, which resulted in an inflated cost per FTE of \$116,055 per FTE. However, the Army under executed its budget by \$481.5 million, which affected the actual cost per FTE reported to Congress in the Army's execution data. Specifically, the Army reported that it spent \$111,588 per FTE in FY 2017, a difference of \$4,467 per FTE. Without additional internal controls, the Army did not accurately capture the actual cost of its civilian workforce in its budget request to Congress.

## Conclusion

Because the Services use different budget development procedures, the OUSD(C) must rely on the Services' internal controls. The OUSD(C) did not have the time or resources to identify or evaluate all inputs into the Services' CIVPAY budgets, which resulted in noncompliance with the laws and regulations. Therefore, the OUSD(C) needs to fully implement its internal controls to reduce the risk of noncompliance and to improve and make the DoD's budget development procedures more efficient and effective. Until the OUSD(C) further defines and documents the CIVPAY budget development procedures and implements additional controls, the DoD will remain at risk of submitting budgets that do not comply with the laws and regulations and that do not represent the actual cost of the DoD's civilian workforce.

## Recommendations, Management Comments, and Our Response

### ***Recommendation 1***

**We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer implement additional internal controls to document and communicate procedures to current and future budget officials across the Department of Defense. Specifically, we recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer:**

- a. **Update the DoD Financial Management Regulation, Volume 2A, Chapters 1 and 3, to include:**
  - **Recurring instructions from the Budget Estimate Submission guidance and President's Budget guidance that are not unique to a particular year.**
  - **A guide from the Defense Finance and Accounting Service's payroll system's gross reconciliation codes to the OP-8 and OP-32 budget exhibit line items and personnel categories.**
  - **Further clarification for calculating full-time equivalents and straight-time hours worked.**
  - **A requirement to include variable costs in the Services' and Defense agencies' budget requests.**

### ***Office of the Under Secretary of Defense (Comptroller) Comments***

The Director of the OUSD(C) Operations Directorate, responding for the Under Secretary of Defense (Comptroller), partially agreed with the recommendation. The Director stated that the OUSD(C) will continue to review the DoD FMR and recommend changes to ensure consistency with guidance in the OMB Circular A-11.

### *Our Response*

Comments from the Director did not address the specifics of the recommendation; therefore, the recommendation is unresolved. The OUSD(C) should update the DoD FMR to provide a single source of clear and consistent guidance to the DoD. During the audit, we found that the OUSD(C) had not updated the DoD FMR budget development sections in over 7 years. Instead of updating the DoD FMR, the OUSD(C) officials published recurring guidance in annual memorandums, which the DoD FMR states should only contain special instructions and nonrecurring requirements unique to a specific year. Furthermore, updating the DoD FMR will help address errors that the DoD OIG and the OUSD(C) officials identified with the Services' budget exhibits, such as incorrectly reporting personnel categories and variable costs, and incorrectly calculating FTEs. The OUSD(C) has used annual memorandums, conferences, and e-mails to address these common errors, even though the DoD FMR is intended to be a single, DoD-wide policy used for budgeting and financial management education, in accordance with DoD Instruction 7000.14. Therefore, the OUSD(C) should update the DoD FMR, Volume 2A, Chapters 1 and 3 to inform and educate all current and future DoD budget analysts.

- b. Develop a civilian pay budget analyst career path and require Department of Defense civilian pay budget development training as part of the Department of Defense Financial Management certification program.**

### *Office of the Under Secretary of Defense (Comptroller) Comments*

The Director of the OUSD(C) Operations Directorate, responding for the Under Secretary of Defense (Comptroller) partially agreed with the recommendation. The Director stated that the Under Secretary of Defense (Comptroller) is working with the Financial Management Certification program manager to develop the most appropriate solution for increasing CIVPAY budget development training for the DoD. The Director further stated that the DoD already has a level one and level two military and civilian payroll certification program as well as civilian pay training for these levels.

### *Our Response*

Comments from the Director partially addressed the specifics of the recommendation. However, the Director's comments meet the intent of the recommendation; therefore, the recommendation is resolved but will remain open. The Director stated that the Under Secretary of Defense (Comptroller) and the FM Certification program manager started developing CIVPAY budget development training. However, the Director did not address the development of a CIVPAY budget career path. Instead, the Director stated that the DoD has a payroll career-track training program. Although CIVPAY budget analysts need to

know some human resource policies and procedures, CIVPAY budget development is different from the payroll functions. For example, the FM Certification program is comprised of 18 different financial management competencies, offering three certification levels based on career development. Budget development is a separate competency from payroll in the FM Certification program. Therefore, CIVPAY budget development is not learned as part of the payroll certification program.

As stated in the report, the FY 2012 National Defense Authorization Act authorized the Secretary of Defense to establish a financial management professional certification program that is required for both DoD military and civilian employees who perform financial management functions, including budget work. To comply, the OUSD(C) established the DoD FM Certification program to provide a standard training framework for the FM workforce across the Services' and Defense agencies, which is intended to improve the functional and leadership capabilities of the workforce and provide the appropriate training at the right time. However, the DoD FM Certification program currently only provides broad training on budget development, justification, and execution. Without specific CIVPAY budget development training, it is predominately learned on-the-job.

To correct this shortcoming, the intent of the recommendation was to develop a formal training program for CIVPAY budget analysts. As such, creating CIVPAY budget development training for the DoD FM Certification meets the intent of the recommendation. Therefore, the recommendation is resolved but will remain open. We will close this recommendation once we obtain documentation that the Under Secretary of Defense (Comptroller) developed and required specific CIVPAY budget development training as part of DoD FM Certification program.

- c. Require its analysts to document their procedures, lessons learned, and standard lists of reports and analyses to mitigate the risks of having corporate knowledge limited to a single person or losing the corporate knowledge if key analysts vacate positions, in accordance with GAO-14-704G, "Standards for Internal Control in the Federal Government," September 2014.**

*Office of the Under Secretary of Defense (Comptroller) Comments*

The Director of the OUSD(C) Operations Directorate, responding for the Under Secretary of Defense (Comptroller), agreed with the recommendation. The Director stated that OUSD(C) personnel will draft standard operating procedures for the CIVPAY portfolio, which will include checklists, lessons learned, and standardized reports for specific portfolios.

*Our Response*

Comments from the Director addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation when the OUSD(C) officials provide the standard operating procedures for the CIVPAY portfolio and we verify that the documents include checklists, lessons learned, and standardized reports for overseeing the Services' and Defense agencies' CIVPAY budgets.

- d. Require the Services and Defense agencies to document their budget development procedures, calculations, and lessons learned to mitigate the risks of having the corporate knowledge limited to a single person, or losing the corporate knowledge if key officials vacate positions, in accordance with GAO-14-704G, "Standards for Internal Control in the Federal Government," September 2014.**

*Office of the Under Secretary of Defense (Comptroller) Comments*

The Director of the OUSD(C) Operations Directorate, responding for the Under Secretary of Defense (Comptroller) agreed with the recommendation. The Director stated that OUSD(C) personnel will share their standard operating procedures with the Components to help them mitigate the risks of the loss of corporate knowledge if key officials vacate positions. In addition, OUSD(C) personnel will help facilitate the sharing of best practices for CIVPAY budget development among the Services and Defense agencies.

*Our Response*

Comments from the Director did not address the specifics of the recommendation; therefore, the recommendation is unresolved. The Under Secretary of Defense (Comptroller) should require the Services and Defense agencies to document their budget development procedures, calculations, and lessons learned. Although the Director stated that OUSD(C) officials would share their standard operating procedures with the Components and facilitate the sharing of best practices for CIVPAY budget development, these actions will not create a requirement for the Services and Defense agencies to document their budget development procedures. Therefore, we are not convinced that these actions will assure that the Services and Defense agencies actually document their procedures, in accordance with the GAO internal control guidance.

As stated in our report, we determined that each Service developed its CIVPAY budgets differently. However, OUSD(C) officials stated that they would not direct the Services to develop their CIVPAY budgets uniformly because each Service has unique missions and software that prevent uniform procedures. For example, the Army and Air Force develop their budgets centrally at the headquarters level with input from their commands. The Navy has a decentralized budget process with 19 Budget Submitting Offices, including the Marine Corps. The 19 Budget Submitting Offices independently develop and submit their budgets to the Office of the Deputy Assistant Secretary of the Navy for Budget for review and approval.

Without consistent CIVPAY budget development procedures across the DoD, it is important for the Services and Defense agencies to document their CIVPAY budget development procedures to ensure consistency from year to year. GAO reiterates the importance of documenting procedures in its internal control guidance, which states that agencies should document their procedures to retain organizational knowledge, help communicate procedures to external entities, and mitigate the risk of having that knowledge limited to a few personnel.

During our audits on the Services CIVPAY processes, we determined that the Army was the only Service that had documented and repeatable procedures to calculate its CIVPAY budget, which we used to recalculate the Army's FY 2017 CIVPAY budget within 0.48 percent. We recommended that Air Force, Navy, and Marine Corps officials formally document their procedures and calculations, which the Service officials agreed to implement. Therefore, to improve the CIVPAY budget development procedures across the DoD, the OUSD(C) should extend the requirement to formally document CIVPAY budget development procedures to all of the Services and Defense agencies in order to mitigate the risks associated with the loss of organizational knowledge due to staff turnover.

- e. **Develop and require a budget submission checklist to provide additional assurance that the Services and Defense agencies accurately and completely develop their budgets in accordance with the Office of Management and Budget Circular No. A-11 and the DoD Financial Management Regulation. The checklist should include directions and reminders for the Services and Defense agencies, including, but not limited to:**
  - **Comparison of the printed budget exhibits to the data submitted to the Office of the Under Secretary of Defense (Comptroller).**

- **Verification that the data submitted in the Program Resource Collection Process system and the Comptroller Information System match and that the data in the OP-8, OP-5, and OP-32 budget exhibits match.**
- **Verification that the Service consulted the annual update of OMB Circular No. A-11.**
- **Comparison of the actual civilian pay costs reported in the OP-8 budget exhibit by object class code to payroll data obtained from Defense Finance and Accounting Service.**
- **Verification that the budgeted variable costs reported in the OP-8 budget exhibit were consistent with the actual variable costs reported in the execution data submitted to Congress.**
- **Verification that the Office of Management and Budget pay raises were correctly applied to the first full pay period of the calendar year, instead of the fiscal year.**
- **Verification of compliance with all special instructions and non-recurring requirements that are explained in the annual Budget Estimate Submission and President's Budget guidance.**

#### *Office of the Under Secretary of Defense (Comptroller) Comments*

The Director of the OUSD(C) Operations Directorate, responding for the Under Secretary of Defense (Comptroller), agreed with the recommendation. Specifically, the Director agreed to add our suggestions to their existing checklists for budget review, as well as other lessons learned or focus areas that they discover during the development of the standard operating procedures recommended in Recommendation 1.c.

#### *Our Response*

Comments from the Director addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we verify that the OUSD(C) officials incorporated the following elements into a budget development checklist that they require the Services and Defense agencies to complete prior to submission of their budgets:

- A comparison of the printed budget exhibits to the data submitted to the Office of the Under Secretary of Defense (Comptroller).
- Verification that the data submitted in the Program Resource Collection Process system and the Comptroller Information System match and that the data in the OP-8, OP-5, and OP-32 budget exhibits match.

- Verification that the Service consulted the annual update of OMB Circular No. A-11.
- Comparison of the actual civilian pay costs reported in the OP-8 budget exhibit by object class code to payroll data obtained from Defense Finance and Accounting Service.
- Verification that the budgeted variable costs reported in the OP-8 budget exhibit were consistent with the actual variable costs reported in the execution data submitted to Congress.
- Verification that the Office of Management and Budget pay raises were correctly applied to the first full pay period of the calendar year, instead of the fiscal year.
- Verification of compliance with all special instructions and non-recurring requirements that are explained in the annual Budget Estimate Submission and President's Budget guidance.

## Appendix

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### Scope and Methodology

We conducted this performance audit from January 2018 through October 2018 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.

We focused our audit on the OUSD(C)'s management and oversight of the Services' FYs 2014 through 2019 BESs and President's Budget submissions for CIVPAY to ensure compliance with OMB Circular No. A-11, the DoD FMR, and DoD policy. Specifically, we reviewed and analyzed the Services' U.S. Direct Hire budget requests for CIVPAY reported in the OP-8 exhibits of the O&M appropriation.

We reviewed and analyzed data from the prior audits in the series. Specifically, we relied on the criteria, analysis, and client meetings that supported the prior audits' findings and conclusions. We reviewed the prior audits' meetings with the OUSD(C) in which attendees discussed the criteria, budget development oversight, and calculations for the CIVPAY budget. We reviewed the prior audits' analyses of the OP-8 budget exhibits, FTE calculations, CIVPAY rates, and compensation calculations. We gathered additional criteria and conducted additional analyses on the data. The analyses included year-to-year changes, comparisons between the Services, comparisons of the BES and President's Budget to the actual execution, and the comparison of the BES to the President's Budget. The work completed for the prior audits influenced our objective, scope, and methodology.

We interviewed current and former OUSD(C) CIVPAY budget analysts about their budget review processes, development of budget criteria, and conversion of the BES to the President's Budget. During the interviews, we requested and obtained documentation on the OUSD(C)'s procedures, review processes, analysis of the Services' CIVPAY budgets, and the budget guidance provided to the Services.

We reviewed and analyzed the following applicable guidance for FYs 2014 to 2019.

- OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," August 2012, July 2014, June 2015, July 2016, and July 2017
- GAO-14-704G, "Standards for Internal Control in the Federal Government," September 2014
- DoDI 7000.14 "Department of Defense Financial Management Policy and Procedures" September 17, 2008

- DoD 7000.14-R, “Financial Management Regulation,” June 2011 and June 2017
- DoDD 5118.03 “Under Secretary of Defense (Comptroller)/Chief Financial Officer, Department of Defense (USD(C)/CFO)” April 20, 2012
- DoD Directive 7045.13, “The Planning, Programming, Budgeting, and Execution (PPBE) Process,” January 25, 2013, updated August 29, 2017
- DoDI 5010.40, “Manager’s Internal Control Program Procedures,” May 30, 2013
- OUSD(C)’s Memorandums
  - “Fiscal Year (FY) 2014–FY 2018 Integrated Program Budget Submission Guidance,” June 18, 2012
  - “Fiscal Year (FY) 2014 President’s Budget Submission,” February 5, 2013
  - “Fiscal Year (FY) 2015–FY 2019 Integrated Program/Budget Submission Guidance,” July 25, 2013
  - “Fiscal Year (FY) 2015 President’s Budget Submission,” January 29, 2014
  - “Fiscal Year (FY) 2016–FY 2020 Integrated Program/Budget Submission Guidance,” May 22, 2014
  - “Fiscal Year (FY) 2016 President’s Budget Submission,” December 15, 2014
  - “Technical Instructions for Fiscal Year (FY) 2017–FY 2021 Program Review,” May 14, 2015
  - “Fiscal Year (FY) 2017–FY 2021 Budget Estimates Submission Guidance,” June 10, 2015
  - “Fiscal Year (FY) 2017 President’s Budget Submission,” December 17, 2015
  - “Fiscal Year (FY) 2018–FY 2022 Budget Estimates Submission Guidance,” July 1, 2016
  - “Fiscal Year (FY) 2018 President’s Budget Submission,” April 10, 2017
  - “Fiscal Year (FY) 2019–FY 2023 Integrated Program/Budget Review (PRB) Guidance,” July 20, 2017
  - “Fiscal Year (FY) 2019 President’s Budget Submission,” December 22, 2017

## Use of Computer-Processed Data

We did not use computer-processed data to perform this audit.

## Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the DoD Office of Inspector General (DoD OIG) issued five reports on the CIVPAY budgeting process of the DoD and Military Services. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

### **GAO**

Report No. GAO-16-172, “Civilian and Contractor Workforces: Complete Information Needed to Assess DOD’s Progress for Reductions and Associated Savings,” December 2015

The GAO found that the DoD made civilian personnel reductions but has not achieved the savings associated with the reductions. As a result, the DoD and Congress lack the information needed to determine the savings associated with reducing FTEs.

Report No. GAO-15-10, “Defense Headquarters: DOD Needs to Reassess Personnel Requirements for the Office of Secretary of Defense, Joint Staff, and Military Service Secretariats,” January 2015

The GAO found that the DoD headquarters organizations it reviewed do not systematically determine or periodically reassess their personnel requirements. As a result, the DoD will not be well positioned to proactively identify efficiencies and limit personnel growth within these organizations. Moreover, until the DoD determines personnel requirements, Congress will not have critical information needed to reexamine statutory limits for personnel levels.

### **DoD OIG**

Report No. DODIG-2018-129, “Department of the Navy Civilian Pay Budget Process,” June 20, 2018

The DoD OIG found that, although the Navy could justify and explain the process used to develop its FY 2017 BES, Navy officials could not fully support how they developed the civilian pay requirements because budget officials did not maintain sufficient documentation to support how they developed the FY 2017 CIVPAY budget. Additionally, the Marine Corps, a budget submitting office of the Navy, could not justify or support how it determined the CIVPAY requirements in its FY 2017 BES. The Marine Corps also did not determine CIVPAY funding using FTEs calculated from projected hours to be worked, as required by OMB. As a result, the Marine Corps under budgeted its FTEs.

Report No. DODIG-2018-055, "The U.S. Army Civilian Pay Budget Process," March 8, 2018

The DoD OIG found that the Army did not fully justify the FY 2017 civilian pay request in its BES. Army budget officials applied adjustments to the basic compensation calculation that were normally not permitted by OMB policy and did not include overtime in the budget request. Therefore, the Army over estimated its FY 2017 O&M civilian pay budget request. Additionally, Army budget officials over estimated civilian FTEs in the FY 2017 BES. Army officials misused civilian pay budget policy to pay for underfunded non-pay operating expenses.

Report No. DODIG-2017-039, "Requirements for the Air Force Civilian Pay Budget Still Need Improvement," January 5, 2017

The DoD OIG found that the Air Force did not adequately support and justify the civilian pay requirements used to develop its FY 2016 BES. Air Force budget officials incorrectly calculated FTEs to estimate the cost of their civilian pay requirements. Therefore, the Air Force's F Y 2016 civilian pay budget request was not sufficient to pay its civilian personnel, resulting in the Air Force requesting additional funding to correct its civilian pay shortfall.

# Management Comments

## Office of the Under Secretary of Defense (Comptroller)



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

COMPTROLLER

(Program/Budget)

NOV 26 2018

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Comments on the Department of Defense Inspector General's draft report, (Project No. D2018-D000AG-0089.000), "The Department of Defense Civilian Pay Budgeting Process," October 17, 2018.

This is the Office of the Under Secretary of Defense (Comptroller) (OUSDC) response to the recommendations in the subject draft report, dated October 17, 2018. The OUSDC appreciates the DoDIG's work on this engagement, as well as the opportunity to review and comment on this draft report.

The OUSDC acknowledges receipt of the draft report and notes that DoDIG requests OUSDC to provide comments in response to recommendation 1a. through 1e. We reviewed your recommendations and our response is attached. My point of contact is [REDACTED] who can be reached at [REDACTED] or via email at [REDACTED]

Monique L. Dilworth  
Director, Operations Directorate

Attachment:  
As stated



## Office of the Under Secretary of Defense (Comptroller) (cont'd)

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C))  
RESPONSE TO RECOMMENDATION 1a.**

**DOD OFFICE OF INSPECTOR GENERAL DRAFT REPORT, "THE DEPARTMENT  
OF DEFENSE CIVILIAN PAY BUDGET PROCESS"  
(Project No. D2018-D000AG-0089.000)**

**Recommendation 1a.** The DoDIG recommends that the Under Secretary of Defense (Comptroller)/Chief Financial Officer update the DoD Financial Management Regulation, Volume 2A, Chapters 1 and 3, to include:

1. Recurring instructions from the Budget Estimate Submission guidance and President's Budget guidance that are not unique to a particular year.
2. A guide from the Defense Finance and Accounting Service's payroll system's gross reconciliation codes to the OP-8 and OP-32 budget exhibit line items and personnel categories.
3. Further clarification for calculating full-time equivalents and straight-time hours worked.
4. A requirement to include variable costs in the Services' and Defense agencies' budget requests.

**OUSD(C) Response:** Partially-Concur. The USD(C) will continue to review the DoD Financial Management Regulation to ensure that the policies and procedures reflected therein are consistent with the guidance in the Office of Management and Budget (OMB) Circular A-11. As changes to the Circular A-11 are published, the OUSD(C) will recommend changes be made to the DoD Financial Management Regulation accordingly.

**Attachment 1 – OUSD(C) Response on Recommendation 1a.**

## Office of the Under Secretary of Defense (Comptroller) (cont'd)

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C))  
RESPONSE TO RECOMMENDATION 1b.**

**DOD OFFICE OF INSPECTOR GENERAL DRAFT REPORT, "THE DEPARTMENT  
OF DEFENSE CIVILIAN PAY BUDGET PROCESS"  
(Project No. D2018-D000AG-0089.000)**

**Recommendation 1b.** The DoDIG recommends that the Under Secretary of Defense (Comptroller)/Chief Financial Officer develop a civilian pay budget analyst career path and require Department of Defense civilian pay budget development training as part of the Department of Defense Financial Management Certification program.

**OUSD(C) Response:** Partially-concur. The USD(C) has begun working with the Financial Management Certification program manager to develop the most appropriate solution for increasing civilian pay budget development training for the Department. The Department already has a combined military and civilian payroll track for certification levels I and II, as well as courses on civilian pay for both level I and level II.

**Attachment 1 – OUSD(C) Response on Recommendation 1b.**

## Office of the Under Secretary of Defense (Comptroller) (cont'd)

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C))  
RESPONSE TO RECOMMENDATION 1c.**

**DOD OFFICE OF INSPECTOR GENERAL DRAFT REPORT, "THE DEPARTMENT  
OF DEFENSE CIVILIAN PAY BUDGET PROCESS"  
(Project No. D2018-D000AG-0089.000)**

**Recommendation 1c.** The DoDIG recommends that the Under Secretary of Defense (Comptroller)/Chief Financial Officer require its analysts to document their procedures, lessons learned, and standard lists of reports and analyses to mitigate the risks of having corporate knowledge limited to a single person or losing the corporate knowledge if key analysts vacate positions, in accordance with GAO-14-704G, "Standards for Internal Control in the Federal Government," September 2014.

**OUSD(C) Response:** Concur. OUSD (C) personnel will work to begin drafting standard operating procedures for the civilian pay portfolio, to include checklists, lessons learned, and standardized reports for specific portfolios.

**Attachment 1 – OUSD(C) Response on Recommendation 1c.**

## Office of the Under Secretary of Defense (Comptroller) (cont'd)

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C))  
RESPONSE TO RECOMMENDATION 1d.**

**DOD OFFICE OF INSPECTOR GENERAL DRAFT REPORT, "THE DEPARTMENT  
OF DEFENSE CIVILIAN PAY BUDGET PROCESS"  
(Project No. D2018-D000AG-0089.000)**

**Recommendation 1d.** The DoDIG recommends that the Under Secretary of Defense (Comptroller)/Chief Financial Officer require the Services and Defense Agencies to document their budget development procedures, calculations, and lessons learned to mitigate the risks of having the corporate knowledge limited to a single person, or losing the corporate knowledge if key officials vacate positions, in accordance with GAO-14-704G, "Standards for Internal Control in the Federal Government," September 2014.

**OUSD(C) Response:** Concur. Once developed in accordance with recommendation 1c, OUSD(C) personnel will share their standard operating procedures with the Components to help them mitigate the risks of the loss of corporate knowledge if key officials vacate positions. OUSD(C) personnel will also help facilitate the sharing of best-practices for civilian pay budget development among the Services and Defense Agencies.

**Attachment 1 – OUSD(C) Response on Recommendation 1d.**

## Office of the Under Secretary of Defense (Comptroller) (cont'd)

**OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C))  
RESPONSE TO RECOMMENDATION 1e.**

**DOD OFFICE OF INSPECTOR GENERAL DRAFT REPORT, "THE DEPARTMENT  
OF DEFENSE CIVILIAN PAY BUDGET PROCESS"  
(Project No. D2018-D000AG-0089.000)**

**Recommendation 1e.** The DoDIG recommends that the Under Secretary of Defense (Comptroller)/Chief Financial Officer develop and require a budget submission checklist to provide additional assurance that the Services and Defense Agencies accurately and completely develop their budgets in accordance with the Office of Management and Budget (OMB) Circular No. A-11 and the DoD Financial Management Regulation. The checklist should include directions and reminders for the Services and Defense agencies, including, but not limited to:

1. Comparison of the printed budget exhibits to the data submitted to the Office of the Under Secretary of Defense (Comptroller).
2. Verification that the data submitted in the Program Resource Collection Process System and the Comptroller Information System match and that the data in the OP-8, OP-5, and OP-32 budget exhibits match.
3. Verification that the Service consulted the annual update of OMB Circular No. A-11.
4. Comparison of the actual civilian pay costs reported in the OP-8 budgeted exhibit by object class code to payroll data obtained from Defense Finance and Accounting Service.
5. Verification that the budgeted variable costs reported in the OP-8 budget exhibit were consistent with the actual variable costs reported in the execution data submitted to Congress.
6. Verification that the Office of Management and Budget pay raises were correctly applied to the first full pay period of the calendar year, instead of the fiscal year.
7. Verification of compliance with all special instructions and non-recurring requirements that are explained in the annual Budget Estimate Submission and President's Budget guidance.

**OUSD(C) Response:** Concur. OUSD(C) will incorporate these suggestions into our already extant checklists for budget review, along with other lessons learned or focus areas that are discovered during the development of the standard operating procedures as recommended in Recommendation 1e.

**Attachment 1 – OUSD(C) Response on Recommendation 1e.**

## Acronyms and Abbreviations

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<b>BES</b>	Budget Estimate Submission
<b>CIVPAY</b>	Civilian Pay
<b>DoD FMR</b>	DoD Financial Management Regulation
<b>FM</b>	Financial Management
<b>FTE</b>	Full-Time Equivalent
<b>O&amp;M</b>	Operation and Maintenance
<b>OMB</b>	Office of Management and Budget
<b>OUSDC</b>	Office of the Under Secretary of Defense (Comptroller)
<b>RMD</b>	Resource Management Decision
<b>SES</b>	Senior Executive Service



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