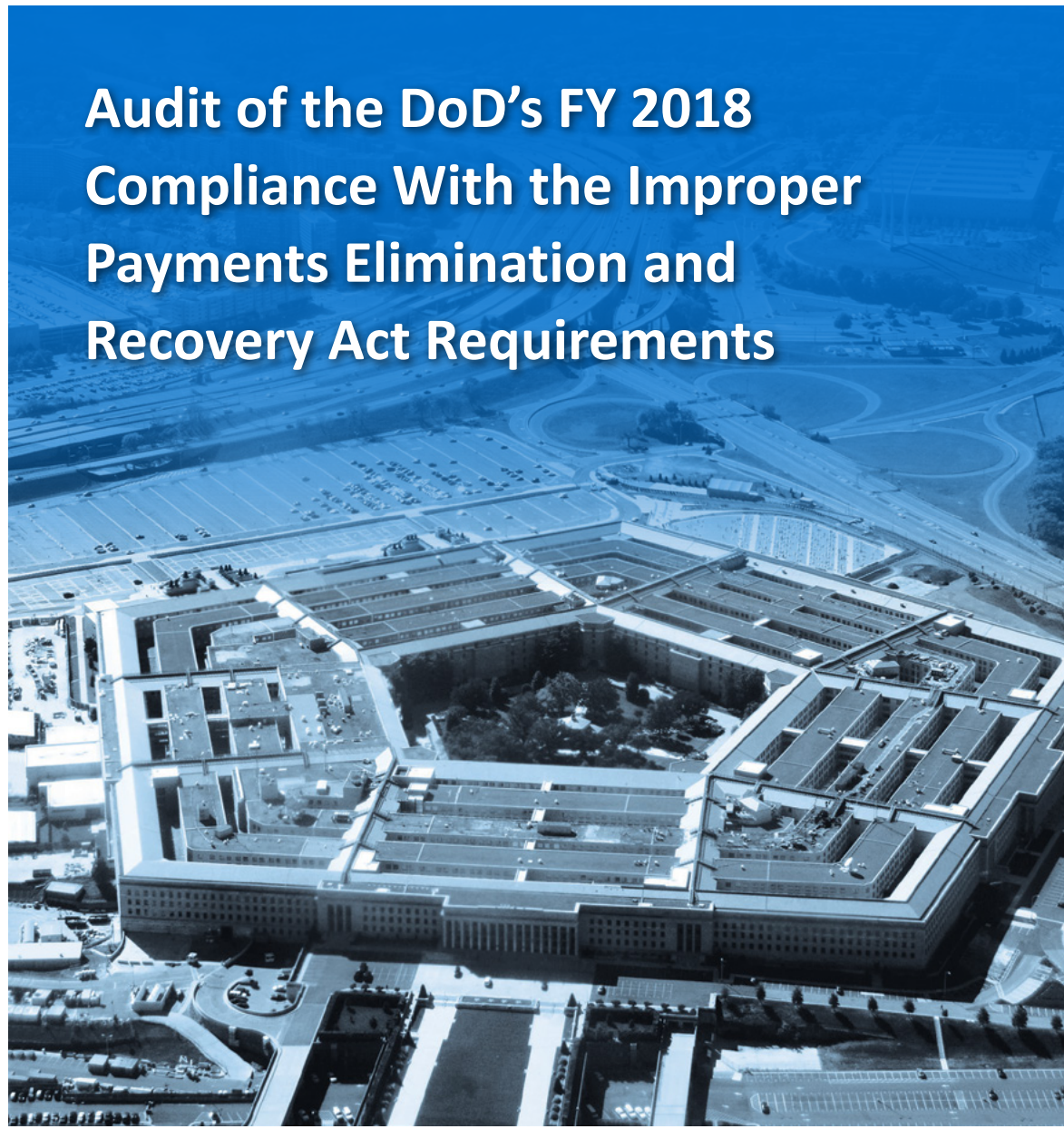




# INSPECTOR GENERAL

*U.S. Department of Defense*

MAY 15, 2019



## **Audit of the DoD's FY 2018 Compliance With the Improper Payments Elimination and Recovery Act Requirements**

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





# Results in Brief

## *Audit of the DoD's FY 2018 Compliance With the Improper Payments Elimination and Recovery Act Requirements*

May 15, 2019

### Objective

We determined whether the DoD complied with Public Law No. 107-300, "Improper Payments Information Act of 2002," November 26, 2002, as amended by Public Law No. 111-204 and Public Law No. 112-248. (In this report, we refer to the three Acts as IPERA.)

### Background

IPERA requires each Federal agency to review its programs and identify programs that may be susceptible to significant improper payments, report the amount and causes of improper payments that occurred, and report on corrective actions planned to reduce the improper payments.<sup>1</sup> IPERA also requires agency Offices of Inspector General, including the DoD Office of Inspector General (DoD OIG), to annually review and determine the agency's compliance with IPERA. To be compliant, the DoD must meet all six reporting requirements identified in IPERA.

On November 15, 2018, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO), published the Payment Integrity section of the FY 2018 Agency Financial Report (AFR), which

<sup>1</sup> IPERA states that "agency" means a department, agency, or instrumentality in the executive branch of the U.S. Government, as defined in section 102, title 31, United States Code. The Office of Management and Budget (OMB) defines an improper payment as "any payment that should not have been made or that was made in an incorrect amount under statutory contractual, administrative, or other legally applicable requirements."

### Background (cont'd)

reported improper payments for eight programs: Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, DoD Travel Pay, Commercial Pay, U.S. Army Corps of Engineers (USACE) Travel Pay, and USACE Commercial Pay.

### Finding

Although we determined that the DoD did not comply with IPERA in reporting its improper payment estimates, we also found that the DoD has made improvements in meeting the reporting requirements of IPERA by including key information that was previously missing in the AFR. The DoD complied with three of the six IPERA requirements by publishing all required information in the Payment Integrity section of the AFR; conducting program-specific risk assessments, as required; and reporting an improper payment rate of less than 10 percent for each of the eight programs that included an improper payment estimate in the FY 2018 AFR.

However, the DoD did not comply with three of the six IPERA requirements. Specifically, the DoD did not publish reliable improper payment estimates, publish all required elements for its corrective action plans, and meet improper payment reduction targets. The DoD did not publish reliable improper payment estimates for six programs because Office of the USD(C)/CFO (OUSD[C]/CFO) personnel did not ensure that Components implemented internal controls to identify accurate and complete populations, implemented effective review processes, and developed sampling plans for Army overseas locations. In addition, OUSD(C)/CFO personnel relied on the Defense Finance and Accounting Service Commercial Pay sampling plan without performing risk assessments or understanding the impact of the limited scope of the sampling plan.

In addition, the DoD did not include all required elements for the corrective action plan descriptions—specifically the results of corrective actions taken—because, according to OUSD(C)/CFO personnel, future reductions in improper payments would demonstrate the results of corrective actions.



# Results in Brief

## *Audit of the DoD's FY 2018 Compliance With the Improper Payments Elimination and Recovery Act Requirements*

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

Also, the DoD did not meet its improper payment rate reduction targets for three programs—Military Pay, Civilian Pay, and Military Retirement—because of the programs' sampling and estimation methodologies.

As a result, the DoD did not comply with improper payment reporting requirements for the 7th consecutive year. The DoD reported unreliable estimates and may not have promptly detected, prevented, and recovered improper payments from \$11.4 billion of transactions by excluding \$6.3 billion in transactions from improper payment reviews and performing inadequate improper payment reviews for an additional \$5.1 billion of transactions. Furthermore, when the DoD AFR is missing key improper payment information and improper payment estimates are unreliable, DoD leadership and Congress cannot accurately determine whether the DoD has the necessary resources and the right measures in place to reduce its improper payments.

### **Recommendations**

We recommend that the USD(C)/CFO, in coordination with the respective Components:

- Develop and implement procedures to incorporate Military Health Benefits program payments reported in the Administrative and Other categories in a sampling and estimation plan.
- Develop a process that uses the amount paid for a traveler instead of the entire amount for the Defense Travel System population in the DoD Travel Pay program, and develop and implement sufficient control measures in the population review process to ensure that DoD includes all necessary payments for Military Pay, Civilian Pay, Military Retirement, and DoD Travel Pay populations and reports accurate numbers in the AFR.

- Conduct a risk assessment of military academy cadet payments and, as necessary, implement procedures to review the payments for improper payments.

We also recommend that the USD(C)/CFO submit to OMB and Congress, within 30 days of this report's issuance, the required report and planned corrective actions based on DoD programs' noncompliance with IPERA.

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

The Deputy Chief Financial Officer (DCFO), responding for the USD(C)/CFO, agreed with eight recommendations, did not agree with one recommendation, and partially agreed with one recommendation. However, the DCFO presented planned actions that, if implemented, will address the underlying intent of our recommendations. Therefore, we consider all the recommendations resolved. We will close the recommendations once we verify that management has implemented the actions they presented. Please see the Recommendations Table on the next page for the status of recommendations.

## Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD	None	1.a, 1.b, 1.c, 1.d, 1.e, 2.a, 2.b, 3, 4, 5	None

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

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





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

May 15, 2019

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

SUBJECT: Audit of the DoD's FY 2018 Compliance With the Improper Payments Elimination  
and Recovery Act Requirements (Report No. DODIG-2019-087)

We are providing this report for your information and use. We conducted this audit in  
accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report.  
Comments from the Deputy Chief Financial Officer, responding for the Under Secretary  
of Defense (Comptroller)/Chief Financial Officer, DoD, conformed to the requirements of  
DoD Instruction 7650.03.

If you have any questions or would like to meet to discuss the audit, please contact me at  
(703) 601-5945 (DSN 329-5945). We appreciate the cooperation and assistance received  
during the audit.

*Lorin T. Venable*

Lorin T. Venable, CPA  
Assistant Inspector General for Audit  
Financial Management and Reporting

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# Introduction

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## Objective

We determined whether the DoD complied with Public Law No. 107-300, “Improper Payments Information Act of 2002,” as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, in its reporting of FY 2018 improper payments.<sup>2</sup> (In this report, we refer to the three Acts as IPERA.) IPERA requires agency Offices of Inspector General, including the DoD Office of Inspector General (DoD OIG), to complete this audit each fiscal year. See Appendix A for the audit scope and methodology and Appendix B for prior audit coverage related to the audit objective.

## Background

IPERA requires each Federal agency to review all programs and identify those that may be susceptible to significant improper payments, to estimate and report the dollar amount of improper payments in those programs, and to report on actions planned to reduce improper payments.

The Office of Management and Budget (OMB) provides guidance for agencies to implement IPERA requirements.<sup>3</sup> IPERA and OMB guidance define an “improper payment” as any payment that should not have been made or was made in an incorrect amount (overpayment or underpayment) to an eligible recipient. Improper payments also include payments made to ineligible recipients or for ineligible goods or services, or payments for goods or services that were not received. However, an improper payment does not always result in an actual monetary loss to the Government. If the recipient was paid the correct amount but the agency could not find the necessary supporting documentation when reviewing the payment for accuracy, then the reviewing agency would classify the payment as an improper payment.

## ***IPERA Compliance Requirements***

IPERA requires agencies to produce statistically valid estimates and to report on their actions to recover improper payments. In 2013, IPERA requirements expanded to improve agency prevention and determination of improper payments. To ensure that agencies complete these actions, IPERA requires each agency’s

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<sup>2</sup> Public Law No. 107-300, “Improper Payments Information Act of 2002,” November 26, 2002; Public Law No. 111-204, “Improper Payments Elimination and Recovery Act of 2010,” July 22, 2010; and Public Law No. 112-248, “Improper Payments Elimination and Recovery Improvement Act of 2012,” January 10, 2013.

<sup>3</sup> OMB Circular A-123, appendix C, “Requirement for Payment Integrity Improvement,” June 26, 2018, and OMB Circular A-136, “Financial Reporting Requirements,” July 30, 2018.

Inspector General to evaluate the agency's compliance with IPERA requirements each fiscal year. The DoD must meet all six of the following requirements to comply with IPERA.

- Publish an annual financial statement for the most recent fiscal year and post that report and any accompanying materials required under OMB guidance on the agency website.
- Conduct a program-specific risk assessment for each program or activity (if required).<sup>4</sup>
- Publish improper payment estimates for all programs and activities in the accompanying materials to the annual financial statement (if required).
- Publish programmatic corrective action plans for programs that report improper payment estimates.
- Publish and meet improper payments reduction targets.
- Report an improper payment rate of less than 10 percent for each program and activity for which an estimate is published.

### ***Office of Management and Budget Requirements***

OMB Circular A-123, appendix C, updated on June 26, 2018, consolidates and streamlines IPERA reporting requirements for agencies and Inspectors General. The Circular describes what agencies must do to comply with IPERA and identifies what the OIG should review in the Agency Financial Report (AFR) to determine whether the agency complied with the six IPERA requirements. Furthermore, the guidance requires the OIG to include an evaluation of the accuracy and completeness of agency reporting and the agency's ability to reduce and recapture improper payments.<sup>5</sup>

OMB Circular A-136, "Financial Reporting Requirements," July 30, 2018, establishes Federal financial reporting guidance for agencies that are required to issue audited financial statements and an AFR. Section II of this Circular defines the form and content for the AFR, which includes specific information agencies must include in the Payment Integrity section of the AFR to meet IPERA reporting requirements.<sup>6</sup>

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

The DoD Regulation 7000.14-R, "DoD Financial Management Regulation" (DoD FMR), requires DoD agencies to measure and estimate improper payments for reporting purposes; consolidates departmental reporting requirements; and provides guidance to implement plans to identify, estimate, reduce, and eliminate future

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<sup>4</sup> OMB does not require risk assessments from programs that report an estimate.

<sup>5</sup> Recapture efforts are an agency's actions to identify and recover overpayments.

<sup>6</sup> IPERA reporting requirements are outlined in OMB Circular A-136, section II.4.5.

improper payments.<sup>7</sup> The DoD FMR also states that the Office of the Under Secretary of Defense (Comptroller), Financial Management Policy and Reporting Director is responsible to:

- oversee the DoD’s improper payment reporting;
- review Components’ plans to ensure completeness;
- review and consolidate Components’ information for inclusion in the AFR;
- review Components’ AFR submissions to ensure that they meet reporting requirements; and
- prepare DoD improper payment reports for the AFR and for submission to OMB.<sup>8</sup>

### ***DoD Agency Financial Report***

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO), published the Payment Integrity section of the DoD FY 2018 AFR on November 15, 2018, reporting improper payments for eight programs. Table 1 shows the outlays, estimated improper payment rate, and estimated improper payment total for each of the eight programs the DoD reported.<sup>9</sup>

*Table 1. DoD FY 2018 Improper Payments Reporting*

Program Name	FY 2018 Outlays (Millions)	Estimated Improper Payment Rate* (Percent)	Estimated Improper Payment Total (Millions)
Military Health Benefits	\$23,296.55	0.39	\$91.24
Military Pay	100,285.18	0.30	305.76
Civilian Pay	61,609.67	0.14	85.01
Military Retirement	69,367.74	0.45	314.44
DoD Travel Pay	7,961.95	4.59	365.32
Commercial Pay	292,790.29	0.01	15.03
U.S. Army Corps of Engineers (USACE) Travel Pay	269.98	0.46	1.23
USACE Commercial Pay	18,610.93	0.08	15.04
<b>Total</b>	<b>\$574,192.29</b>	<b>0.21</b>	<b>\$1,193.07</b>

\* Improper payment rate is calculated by dividing the estimated improper payment total by outlays.

Source: The DoD FY 2018 AFR.

<sup>7</sup> DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 4, chapter 14.

<sup>8</sup> According to OUSD(C)/CFO personnel, Accounting and Finance Policy has changed its name to Financial Management Policy and Reporting.

<sup>9</sup> The DoD FMR defines outlays as the amount of checks issued or other payments made, including advances, net of refunds, and reimbursements.

IPERA states that a program or activity is considered to have significant improper payments when its estimated improper payments in the prior fiscal year exceeded the threshold of (1) both \$10 million of all program payments (outlays) and 1.5 percent of the program's outlays, or (2) \$100 million. The DoD determined that three of its programs had significant improper payments in FY 2018: Military Pay, Military Retirement, and DoD Travel Pay.

### ***Roles and Responsibilities***

The OUSD(C)/CFO is responsible for overseeing the DoD's IPERA reporting, including ensuring that the reporting process contains appropriate controls. The following DoD Components are responsible for sampling, reviewing, and reporting improper payments for the eight DoD programs.

- Defense Finance and Accounting Service (DFAS) reports on Military Pay, Civilian Pay, and Military Retirement.
- DFAS and the Army, Navy, Air Force, and Marine Corps report on DoD Travel and Commercial Pay.
- Defense Health Agency (DHA) reports on Military Health Benefits.
- USACE Finance Center reports on USACE Travel Pay and USACE Commercial Pay.

### ***Improper Payment Estimation Process***

For each of their programs, Components must develop an estimate of the improper payments that occurred within a program's total payments in the fiscal reporting period. To develop this estimate, Components:

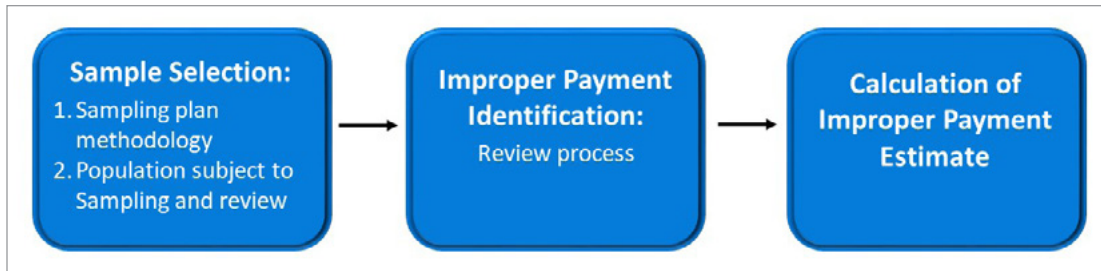
- develop a statistically valid sampling plan;
- identify a complete and accurate population of payments that will be subject to review and select a valid sample of those payments;<sup>10</sup>
- conduct accurate reviews of the sample payments and determine whether an improper payment was made; and
- calculate the improper payment estimate based on the results of the reviews.

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<sup>10</sup> A population is a set of data transactions defined in a program's sampling plan.

The Figure illustrates the process that Components follow for each program.

*Figure. DoD Improper Payment Estimates Process*



Source: The DoD OIG.

Components submit the results of their improper payment reviews, as well as their planned corrective actions to reduce and prevent future improper payments, to the OUSD(C)/CFO for inclusion in the AFR.

## 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>11</sup> The DoD did not comply with three of the six IPERA requirements when it reported its FY 2018 improper payments. Although the DoD made some improvements in its IPERA reporting, it did not implement sufficient internal controls to detect and correct the errors that prevent the DoD from becoming fully compliant with IPERA. We will provide a copy of the report to the senior official responsible for internal controls.

The DoD self-identified internal control weaknesses related to financial reporting in its FY 2018 Statement of Assurance. Specifically, the DoD provided no assurance as to the effectiveness of the DoD's internal controls over financial reporting. We are not making a recommendation to correct these weaknesses because the DoD has efforts underway to address the internal control deficiencies.

<sup>11</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

## Finding

### The DoD Did Not Comply With All IPERA Requirements

We found that the DoD did not comply with IPERA in reporting its improper payment estimates. The DoD complied with three of the six IPERA requirements by publishing all required information in the Payment Integrity section of the AFR; conducting program-specific risk assessments, as required; and reporting an improper payment rate of less than 10 percent for each of the eight programs that included an improper payment estimate in the FY 2018 AFR. However, the DoD did not comply with three of the six IPERA requirements. Specifically, the DoD did not publish reliable improper payment estimates, publish all required elements for the corrective action plans, and meet its annual improper payment reduction targets.

The first requirement DoD did not comply with was to publish reliable improper payment estimates. The DoD did not:

- identify an accurate and complete population for improper payment review. Specifically, the DoD incorrectly included at least \$0.8 billion and excluded \$6.3 billion of transactions from the populations of outlays for the Military Pay, Civilian Pay, Military Retirement, DoD Travel Pay, and Commercial Pay programs. This occurred because OUSD(C)/CFO personnel did not provide adequate oversight ensuring that the Components implemented sufficient control in the population review process to include all necessary payments for improper payment review and reporting. In addition, OUSD(C)/CFO personnel relied on the DFAS Commercial Pay sampling plan without performing risk assessments or understanding the impact of the limited scope of the plan.
- conduct adequate improper payment reviews for \$5.0 billion in Military Health Benefits transactions, and \$134 million of sampled transactions in the Military Pay and Civilian Pay programs. This occurred because OUSD(C)/CFO personnel did not provide adequate oversight to ensure that the DHA performed reviews of its complete population and that Components developed and implemented processes to obtain the detailed documentation needed to identify improper payments in the Military Pay and Civilian Pay populations.
- implement statistically valid sampling plans and complete all reviews at the Army's overseas locations for the DoD Travel Pay and Commercial Pay programs. This occurred because OUSD(C)/CFO personnel did not ensure that the Army developed and implemented the required sampling plans at its overseas locations and completed its reviews of the programs' payments.

The second requirement the DoD did not comply with was to publish corrective action plans for programs that report improper payment estimates. The DoD did not include all required elements for the corrective action plan descriptions—specifically the results of corrective actions taken—because, according to OUSD(C)/CFO personnel, future reductions in improper payments would demonstrate the results of corrective actions.

The third requirement the DoD did not comply with was to publish and meet improper payment reduction targets. The DoD exceeded the reduction targets established for FY 2018 for three programs—Military Pay, Civilian Pay, and Military Retirement—because of the sampling and estimation methodologies used.

As a result, the DoD did not comply with improper payment reporting requirements for the 7th consecutive year. The DoD reported unreliable improper payment estimates and may have missed the opportunity to promptly detect, prevent, and recover improper payments from \$11.4 billion of transactions by excluding \$6.3 billion of transactions from improper payment reviews and performing inadequate improper payment reviews for an additional \$5.1 billion of transactions. Furthermore, when the DoD AFR is missing key improper payment information and the estimates are unreliable, DoD leadership and Congress cannot accurately determine whether the DoD has the necessary resources and the appropriate measures in place to reduce its improper payments. If the DoD complies with IPERA requirements to report accurate improper payment estimates, it can better demonstrate that it has the ability to responsibly manage the funds it disburses annually.

## The DoD Complied With Three of Six IPERA Reporting Requirements

The DoD made improvements from its FY 2017 reporting of the IPERA requirements, including key information that was previously missing in the AFR, and complied with

*The DoD made improvements from its FY 2017 reporting of the IPERA requirements.*

three of the six IPERA requirements for FY 2018. Specifically, in FY 2018, the DoD published all required information in the Payment Integrity section of the AFR; conducted program-specific risk assessments; and reported an improper payment rate of less than 10 percent for each of the eight programs that included an improper payment estimate in the FY 2018 AFR. Table 2 identifies the DoD's compliance or noncompliance with the IPERA reporting requirements by program.

Table 2. IPERA Compliance by Requirement and Program

Program Name	AFR Published in Accordance With OMB Guidance <sup>1</sup>	Conducted Risk Assessment <sup>2</sup>	Published Improper Payment Estimate	Published Corrective Action Plan <sup>3</sup>	Published and Met Reduction Targets	Improper Payment Rate Under 10 Percent
Military Health Benefits		N/A	✘	N/A	✓	✓
Military Pay*		N/A	✘	✘	✘	✓
Civilian Pay		N/A	✘	N/A	✘	✓
Military Retirement*		N/A	✘	✘	✘	✓
DoD Travel Pay*		N/A	✘	✘	✓	✓
Commercial Pay		N/A	✘	N/A	✓	✓
USACE Travel Pay		N/A	✓	N/A	✓	✓
USACE Commercial Pay		N/A	✓	N/A	✓	✓
<b>Overall</b>	✓	✓	✘	✘	✘	✓

Legend: N/A = Not Applicable ✘ = Not Compliant ✓ = Compliant

\* Programs determined to be susceptible to significant improper payments.

<sup>1</sup> The OUSD(C)/CFO prepares the DoD AFR; therefore, an individual program is not considered noncompliant with this requirement unless the missing information is directly attributed to the program.

<sup>2</sup> OMB guidance requires risk assessments only for programs not reporting estimates. All DoD programs reported estimates for FY 2018.

<sup>3</sup> OMB guidance requires an agency to publish a description of its corrective action plans only for programs with significant improper payments.

Source: The DoD OIG.

### The DoD Published Required Information in the AFR

While OUSD(C)/CFO personnel complied with the IPERA requirement to publish the DoD FY 2018 AFR, the OUSD(C)/CFO can improve its reporting of the Recapture of Improper Payments Reporting section of the AFR.

The DoD met the OMB requirements to publish the AFR by November 15, 2018, and to publish complete and accurate information about the DoD’s actions to identify, correct, and prevent improper payments in each of its programs. In FY 2017, OUSD(C)/CFO did not include all the information

OMB required in the Recapture of Improper Payments Reporting, Accountability, and Agency Information Systems and Other Infrastructure segments of the AFR. Therefore, the OUSD(C)/CFO personnel implemented a Payment Integrity checklist in FY 2018 based on a previous DoD OIG audit recommendation. As a result of the



OUSD(C)/CFO's efforts to implement recommendations from prior audit reports, the FY 2018 AFR Payment Integrity section contained more detail about the DoD's programs than the FY 2017 AFR. While OUSD(C)/CFO personnel complied with the IPERA requirement to publish the DoD FY 2018 AFR by the required due date and post that report and any required accompanying materials on the agency website, the OUSD(C)/CFO can improve its reporting of the Recapture of Improper Payments Reporting section of the AFR.

In the AFR, the OUSD(C)/CFO reported each program's outlays, estimated correct and incorrect payment amounts, estimated improper payment rates, identified root causes for underpayments and overpayments, and established reduction targets for FY 2019. The AFR also described the programs' planned corrective actions, with planned and actual completion dates, and linked the actions to root causes for the improper payments.

OUSD(C)/CFO personnel excluded some of the required information from the Recapture of Improper Payments Reporting section of the AFR. IPERA requires agencies to report on all actions taken to recover improper payments, including methods used, amounts recovered, and a justification if the agency determined that it was not cost effective to perform recovery audits for any program. OMB Circular A-123, appendix C provides guidance on implementing payment recapture audit programs for programs that expend \$1 million or more annually.<sup>12</sup> OMB Circular A-136 requires an agency to describe within the AFR the actions taken or planned to recover improper payments. The agency must also report separately the value of payments recovered through payment recapture audits and payments recovered through efforts outside of a payment recapture audit.

The DoD reported that it had a payment recapture audit program for a portion of the DoD Travel Pay program, and that the other seven programs' overpayment recovery results were achieved outside of a payment recapture audit.

OMB Circular A-136 requires agencies to provide a justification and summary for any programs or activities that are excluded from review under a payment recapture audit because the agency has determined a payment recapture audit program is not cost effective. However, for the programs that the DoD did not include in its payment recapture audit program, OUSD(C)/CFO personnel did not include in the AFR their justification for excluding the programs and a summary of the analysis the DoD Components used to determine that it would not be cost effective to include the programs in the DoD's payment recapture audit program. Before FY 2011, some DoD programs used contractors to perform

<sup>12</sup> A payment recapture audit is a review and analysis of a program's records, supporting documentation, or other information supporting its payments, that is designed to identify overpayments. It is not a traditional audit covered by government auditing standards. A payment recapture audit program is an agency's overall plan for risk analysis and performing payment recapture audits and recovery activities.

*The USD(C)/CFO should ensure that the AFR includes a justification for excluding programs from its payment recapture audit program and a summary of the analysis performed.*

their payment recapture audits and recover overpayments. However, in November 2011, the OUSD(C)/CFO reported in the FY 2011 AFR and to OMB that, based on DoD's experience with several recovery audit contracts, it was not cost effective to use payment

recapture audits at that time. OUSD(C)/CFO personnel stated that, because they reported in the FY 2011 AFR the reason DoD programs were no longer using contractors to perform payment recapture audits, they did not think it was necessary to report the information every year in the AFR. Therefore, OUSD(C)/CFO personnel omitted from the FY 2018 AFR the DoD's justification for excluding seven programs from its payment recapture audit program, as required by OMB guidance. In the future, the USD(C)/CFO should ensure that the AFR Recapture of Improper Payments Reporting section includes a justification for excluding programs from its payment recapture audit program if the DoD determined that it would not be cost effective for those programs, and a summary of the analysis that Component personnel performed to determine that it would not be cost effective.

In addition, OUSD(C)/CFO personnel did not have information to show that, since FY 2011, any of the Components reexamined their programs to identify those with a higher risk of overpayments and reassessed whether a payment recapture audit program would now be cost effective. According to OMB guidance, DoD personnel, contractors, or a combination of both could perform DoD payment recapture audits. Furthermore, the DoD cannot be certain that it is using the most cost effective methods to recapture overpayments if it does not periodically analyze the options. Therefore, the USD(C)/CFO, in coordination with the Components, should analyze whether it would be cost effective to implement payment recapture audit programs for each of the DoD programs.

### ***The DoD Conducted Risk Assessments***

The DoD complied with the IPERA requirement to conduct program-specific risk assessments. IPERA requires the head of each agency to periodically review all agency programs and activities and identify those that may be susceptible to significant improper payments, in accordance with OMB guidance. OMB Circular A-123, appendix C, requires agencies to perform a risk assessment at least once every 3 years for every program and activity that is not already reporting an improper payment estimate. In the FY 2018 AFR, the DoD reported an estimate for the eight programs it identified as susceptible to improper payments. Therefore, the eight programs did not have to perform a separate risk assessment and report the results in FY 2018.

## **The DoD Reported Improper Payment Rates of Less Than 10 Percent**

The DoD met the IPERA requirement to report an improper payment rate of less than 10 percent for each program that reported an improper payment estimate in the AFR. The DoD reported that none of the eight programs that estimated improper payments had improper payment rates above 10 percent. The DoD Travel Pay program had the highest reported improper payment rate at 4.59 percent. However, as discussed in the following section, the data completeness deficiencies we identified would affect the accuracy of the reported improper payment rates.

## **The DoD Did Not Comply With Three of Six IPERA Requirements**

The DoD did not comply with three of the six IPERA requirements. Specifically, the DoD did not publish reliable improper payment estimates, include all required elements for the corrective action plan descriptions, and did not meet its improper payment reduction targets.

*The DoD did not publish reliable improper payment estimates, include all required elements for the corrective action plan descriptions, and did not meet its improper payment reduction targets.*

## **The DoD Published Unreliable Improper Payment Estimates**

Although the DoD published improper payment estimates in the FY 2018 AFR for all eight programs, it did not publish reliable estimates for six of the eight programs: Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, DoD Travel Pay, and Commercial Pay. OMB requires that all programs and activities susceptible to significant improper payments design and implement appropriate statistical sampling and estimation plans to produce statistically valid improper payment estimates.<sup>13</sup> Furthermore, OMB guidance states that agencies should ensure that their AFRs are complete and accurate, the program improper payment rate estimates are accurate, and their sampling and estimation plan is appropriate given program characteristics. Because there are multiple levels of this guidance, a program could partially meet OMB requirements by using a statistically valid sampling plan that is appropriate given the characteristics and still not report an accurate or reliable improper payment estimate because of errors in the population. To ensure that the programs met the OMB requirements in full, we reviewed the programs for: (1) an OMB-approved plan that is appropriate given the program characteristics, (2) a complete and accurate population to sample for improper payment testing, and (3) adequate reviews of

<sup>13</sup> OMB Circular A-123, appendix C, "Requirements for Payment Integrity Improvement," part I, section D.

the samples to publish a reliable estimate. Table 3 shows the six DoD programs that did not meet all requirements for publishing reliable improper payment estimates in the FY 2018 AFR.

*Table 3. Improper Payment Estimate Compliance by Requirement and Program*

Program	Statistically Valid Sampling Plan	Complete and Accurate Population Subject to Review	Adequate and Accurate Reviews of Improper Payments
Military Health Benefits	✓	✓	✗ <sup>1</sup>
Military Pay	✓	✗	✗
Civilian Pay	✓	✗	✗
Military Retirement	✓	✗	N/A <sup>2</sup>
Commercial Pay	✓	✗	N/A <sup>3</sup>
DoD Travel Pay	✓ <sup>4</sup>	✗	✗
USACE Travel Pay	✓	✓	✓
USACE Commercial Pay	✓	✓	✓

Legend: N/A = Not Applicable   ✗ = Not Compliant   ✓ = Compliant

<sup>1</sup> The DHA contractor conducted effective reviews of the Military Health Benefits portion of the population reviewed under the Military Health Benefits sampling plan, but the plan did not include reviews for the complete population.

<sup>2</sup> The audit team did not evaluate Military Retirement improper payment reviews because of the delays in receiving the population and supporting documentation.

<sup>3</sup> The audit team did not evaluate the Commercial Pay improper payment reviews because of the deficiencies reported in Report No. DODIG-2019-039, "Reporting of Improper Payments for the Defense Finance and Accounting Service Commercial Pay Program," December 21, 2018.

<sup>4</sup> DoD Travel Pay is in overall compliance with OMB sampling plan requirements; however, the Army did not submit a sampling plan for its overseas locations for approval.

Source: The DoD OIG.

### *Inaccurate and Incomplete Populations*

The DoD did not identify an accurate and complete population because the DoD inaccurately included at least \$0.8 billion and excluded \$6.3 billion of transactions from the Military Pay, Civilian Pay, Military Retirement, and Commercial Pay populations used to develop the FY 2018 improper payment estimate. Specifically, DoD personnel's calculation incorrectly:

- excluded 155,565 academy cadets transactions, totaling \$176.3 million, from the Military Pay program population;
- excluded 147,664 civilian mariners transactions, totaling \$443.6 million, from the Civilian Pay program population;

- reported \$6.2 million less in first quarter FY 2018 military retirement transactions than should have been reported in the Military Retirement population total;
- excluded \$2.2 billion in transportation payments, \$2.4 billion in government purchase card payments, and \$1.1 billion in Army payments made at selected overseas offices from review in the Commercial Pay population; and
- included \$783.6 million of intragovernmental transactions in the Commercial Pay population.<sup>14</sup>

In addition, the population DFAS personnel used to develop the FY 2018 improper payment estimate for the DoD Travel Pay program included duplicate transactions, excluded transactions, did not always use the amount paid to the traveler, and included erroneous blank rows as transactions.

### *Military Pay*

Although DFAS produced a statistically valid sampling plan for the Military Pay program, DFAS did not calculate the FY 2018 improper payment estimate using a well-defined population subject to testing, as it excluded 155,565 transactions, totaling \$176.3 million, associated with military academy cadets.

The DoD FMR specifies that cadets and midshipmen at the U.S. Military Academy, U.S. Naval Academy, and the U.S. Air Force Academy are paid a monthly stipend with entitlements, including base pay, under the Military Pay appropriation.<sup>15</sup> According to the Military Pay sampling plan, the Military Pay program includes active and Reserve military payroll payments made for 10 Components comprised of 6 Reserve and 4 active duty for Army, Air Force, Navy, and Marine Corps. The sampling plan did not identify that it was excluding any types of payments from review; however, when DFAS personnel obtained their population of Military Pay payments from the Defense Manpower Data Center, the search criteria used to obtain the population did not include payments to military academy cadets. DFAS provided a standard operating procedure (SOP) that details the processes and reviews that the DFAS statistician performed, which included reviewing the population data. Although the DFAS SOP includes a step to check the files to ensure that the data is correct, the SOP only specifies to check the formatting to ensure the data is correct. DFAS did not include sufficient control measures to ensure that DFAS received all necessary data for inclusion in the population, including military academy cadets.

<sup>14</sup> The inaccuracies for the DoD Commercial Pay Program are discussed in the Commercial Pay section of this report and in Report No. DODIG-2019-039, "Reporting of Improper Payments for the Defense Finance and Accounting Service Commercial Pay Program," December 21, 2018.

<sup>15</sup> DoD FMR, volume 2a, chapter 2, "Military Personnel Appropriation" and DoD FMR, volume 7a, chapter 38, "Service Academy Cadets, Midshipmen, and Service Academy Preparatory School Students."

When alerted to the exclusion, DFAS personnel stated that they will conduct a risk assessment and include the military academy cadets in the Military Pay population in FY 2020. DFAS personnel stated that they did not want to include academy cadets in the Military Pay program estimate because the payments are processed differently than payments to traditional active duty personnel. If the DoD decides to identify payments for military cadets as a separate program or activity, then OMB guidance requires that the DoD perform a risk assessment to determine whether the cadet payments are susceptible to significant improper payments, and, if applicable based on the risk assessment results, submit a sampling plan and an improper payment estimate for the program. OMB allows agencies to submit sampling plans and report improper payment estimates in the AFR instead of performing a risk assessment. However, the DoD did not perform a risk assessment and did not include academy cadets in a sampling plan for FY 2018.

#### *Civilian Pay*

Although the DoD used a statistically valid sampling plan, DFAS personnel did not use a well-defined population to calculate the FY 2018 Civilian Pay program estimate, which excluded 147,664 pay transactions, totaling \$443.6 million, associated with civilian mariners.

The DoD Civilian Pay program, as outlined in the DFAS sampling plan, includes civilian payroll payments for five civilian Components, including Army–Continental U.S., Air Force, Navy/Marine Corps, DoD Agencies, and overseas civilian payroll. DFAS personnel receive the population of civilian payroll transactions from the Defense Manpower Data Center; however, the search criteria the Defense Manpower Data Center used to obtain the population for DFAS did not include pay transactions for civilian mariners. DFAS personnel stated that they were not aware that the civilian mariners pay transactions were not included in the civilian pay population. DFAS provided an SOP that details the processes and reviews that the DFAS statistician performed, which include reviewing the population data. Although the DFAS SOP includes a step to check the files to ensure that the data is correct, the SOP only specifies to check the formatting to ensure the data is correct. DFAS did not include sufficient control measures to ensure that DFAS received all necessary data, including civilian mariner payments, for inclusion in the FY 2018 Civilian Pay population. DFAS personnel have included civilian mariner payments into the FY 2019 population subject to sampling and review.

### *Military Retirement*

DFAS used a statistically valid sampling plan to develop its Military Retirement estimate; however, DFAS personnel did not include the correct population amount for the Military Retirement population, resulting in a \$6.2 million understatement of the population for October 2017. DFAS personnel received the population numbers via e-mail from DFAS Retired and Annuitant personnel; however, DFAS personnel used the wrong population amount by using the population numbers included in the e-mail instead of using the amount included in the population document attached to the e-mail. The DFAS SOP that details the processes and reviews that DFAS performs when combining population files and calculating estimates does not detail additional reviews to ensure that the numbers reported for the Military Retirement population are correct. DFAS did not have adequate controls in place to ensure that the population numbers used to calculate the improper payment estimate were correct.

### *Commercial Pay*

In December 2018, the DoD OIG issued a report on the accuracy and completeness of the Commercial Pay improper payment estimate for FY 2018.<sup>16</sup> In that report, the OIG found that the DoD produced an incomplete and inaccurate improper payment estimate for the Commercial Pay program. Furthermore, the audit identified that, in the first two quarters of the FY 2018 reporting period, the improper payment estimate did not include the results of improper payment reviews for:

- \$2.2 billion of DoD transportation payments,
- \$2.4 billion in government purchase card payments, or
- \$1.1 billion in Army payments made at selected overseas offices.

In addition, the DoD OIG report found that DFAS personnel did not have sufficient controls to validate the accuracy and completeness of the commercial payments population used for developing the DFAS portion of the improper payment estimate. Specifically, DFAS personnel incorrectly included \$783.6 million in intragovernmental payments in the population of payments tested for improper payments. Furthermore, the report stated that this occurred because DFAS personnel did not coordinate with the appropriate systems personnel for each of the data systems to validate that the search criteria used for the sampling methodology was correct. DFAS also excluded \$221 million in payments when combining the payment data files from 3 of 15 systems; however, DFAS personnel

<sup>16</sup> Report No. DODIG-2019-039, "Reporting of Improper Payments for the Defense Finance and Accounting Service Commercial Pay Program," December 21, 2018.

corrected these errors by the end of FY 2018 so, although the errors occurred in the first two quarters, they did not impact the reliability of the estimate. Additionally, DFAS procedures did not include sufficient control measures to ensure that DFAS received and correctly processed all the data files the systems submitted.

#### *DoD Travel Pay*

Although the DoD used a statistically valid sampling plan for the DoD Travel Pay program, DFAS personnel did not use a well-defined population to calculate the FY 2018 DoD Travel Pay estimate. Specifically, DFAS included duplicate transactions (referred to as transactions with duplicate authorization numbers), excluded transactions, did not always include the amount paid to the traveler, and

*Although the DoD used a statistically valid sampling plan for the DoD Travel Pay program, DFAS personnel did not use a well-defined population to calculate the FY 2018 DoD Travel Pay estimate.*

included erroneous transactions in its Defense Travel System (DTS) population. DFAS personnel agreed that transactions with duplicate authorization numbers existed within the population. DFAS personnel explained that they implemented a compensating control, which is documented in their SOP, to manually remove authorization numbers in the current population that are associated with transactions from previous populations. According to DFAS personnel, they removed these transactions using a historical listing of authorization numbers, then manually deleting the transactions with duplicate authorization numbers from the population. DFAS personnel also confirmed that they did not review the transactions removed from the populations to ensure accuracy of the transactions deleted. In FY 2018, DFAS personnel removed transactions with duplicate authorization numbers for 7 of 12 months, leaving 10,277 duplicate transactions, totaling \$22.7 million, in the population for 5 of 12 months. In FY 2019, DFAS personnel implemented an automated process to remove the duplicate transactions from the populations.

Additionally, based on the search criteria DFAS personnel used to identify and eliminate duplicate transactions, DFAS personnel could have removed transactions that should have remained in the population. Because the search criteria only focused on duplicate authorization numbers, the search results would have included transactions that had the same authorization number for different days when travelers submitted supplemental transactions for amounts claimed at a later date. Although these were necessary transactions, they would have been removed due to the duplicate authorization numbers, and DFAS personnel would not have identified the error because they do not review the file of removed transactions.



Furthermore, the supplemental transactions that would have been removed due to the duplicate authorization numbers would not have reflected the actual amount paid, which would have misstated the reported outlay amounts in the AFR. DFAS personnel confirmed that the DTS portion of the DoD Travel Pay population, which DFAS sampled and reviewed, included all DTS transactions with “vouchered” amounts instead of the actual amounts paid to the traveler. For example, a traveler submitted transaction A containing the original amount of \$1,710. Several weeks later, the traveler submitted a supplemental transaction for \$5 in tolls. Because DFAS did not use the amount paid, this amendment created transaction B in the amount of \$1,715 instead of only \$5. As a result, the population included both amounts for transaction A and transaction B, totaling \$3,425, which overstated the population by \$1,710 because the transaction did not report the actual amount paid to the traveler. Furthermore, DFAS’s current processes to remove subsequent transactions with the same authorization number would remove the second transaction, the actual amount paid to the traveler, and misstate the population by \$5. Therefore, the process used by DFAS does not always reflect the actual amount paid to the traveler. DFAS personnel have coordinated with the Defense Travel Management Office to identify alternative methods for acquiring the actual paid amounts from DTS, but stated that the issue resides in how DTS operates and records payments in the system.

In addition, Report No. DODIG-2019-039 identified that the DFAS Commercial Pay program also did not always use the paid amount.<sup>17</sup> Instead, DFAS personnel used the invoice paid amount, which did not include vendor discounts. Therefore, the DoD Commercial Pay and DoD Travel Pay populations will continue to be unreliable until the DoD uses the actual amount paid for both programs.

Lastly, DFAS personnel incorrectly included 5,911 erroneous transactions in the DTS population for FY 2018. DFAS personnel stated that, during FY 2018, they made errors when compiling transactions from multiple sources, including the addition of blank rows from Excel into the population count. The DFAS SOP for combining populations and processing samples includes steps for DFAS personnel to filter out duplicate transactions that have already been included in the population; however, the SOP does not detail a second review of the population to ensure that there are no erroneous transactions.

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<sup>17</sup> “Reporting of Improper Payments for the Defense Finance and Accounting Service Commercial Pay Program,” December 21, 2018.

*OUSD(C)/CFO Needs to Improve Oversight of Sampling and Estimation Procedures Implemented Within DoD Programs*

*OUSD(C)/CFO did not provide sufficient oversight to ensure that the Components implemented internal controls in the population review process to include all necessary payments for improper payment review and reporting.*

The DoD did not publish reliable improper payment estimates because the OUSD(C)/CFO did not provide sufficient oversight to ensure that the Components implemented internal controls in the population review process to include all necessary payments for improper payment review and reporting. The Military Pay, Civilian Pay, DoD Travel Pay, and Commercial Pay

program did not have the opportunity to identify and recover Federal funds for any overpayments made from payments in populations that the DoD incorrectly excluded from improper payment reviews and IPERA reporting. Improper payment testing allows the DoD Components to identify and correct overpayments and underpayments, as well as identify the root causes of the improper payments and implement internal controls that will prevent or reduce future improper payments. OUSD(C)/CFO personnel made efforts to improve their oversight of the IPERA program, but they have not completed the necessary actions to identify and resolve the internal control weaknesses in the programs that caused the unreliable estimates.

Following the audit of the DoD's FY 2016 compliance with IPERA, the DoD OIG recommended in May 2017 that the OUSD(C)/CFO coordinate with Components to ensure that they include all payments for DoD improper payment programs when reporting estimates in accordance with all IPERA and OMB requirements.<sup>18</sup> The OUSD(C)/CFO personnel estimated that it would fully implement the recommendation by November 2018. However, the DoD did not publish reliable estimates in FY 2017 and, as of April 2019, the OUSD(C)/CFO had not completed the corrective actions necessary to implement the recommendation. To focus on the corrective actions needed within each program, the USD(C)/CFO should coordinate with the:

- DFAS Director to:
  - develop a process that uses the amount paid for Commercial Pay and DoD Travel Pay program; and

<sup>18</sup> Report No. DODIG-2017-078, "The DoD Did Not Comply With the Improper Payment Elimination and Recovery Act in FY 2016," May 8, 2017.

- develop and implement sufficient control measures in the population review process to ensure that the DoD includes all necessary payments for Military Pay, Civilian Pay, Military Retirement, and DoD Travel Pay populations and reports accurate improper payment estimates in the AFR.
- DFAS Director and the Military Services to conduct a risk assessment of the military academy cadet payments and, as necessary, develop and implement procedures to obtain the population, sample transactions, review military academy cadet payments for improper payments, and report the results to the USD(C)/CFO for the annual AFR.

In addition, the Commercial Pay estimates were unreliable because OUSD(C)/CFO personnel relied on the DFAS Commercial Pay sampling plan without performing risk assessments or understanding the impact of the limited scope of the plan on the DoD's commercial payment estimate. We have already made recommendations in previous reports to improve the accuracy of Commercial Pay program estimates that OUSD(C)/CFO and DFAS personnel have agreed to implement, so we are not making any additional recommendations in this report related to those deficiencies.<sup>19</sup>

### *Inadequate Improper Payment Reviews*

The DoD did not conduct adequate improper payment reviews for \$5.0 billion in Military Health Benefits transactions and \$134 million of sampled transactions in the Military Pay and Civilian Pay programs because the DoD did not include all transactions in its reviews and did not fully review supporting documentation to determine whether the sampled transactions were properly paid.

*The DoD did not conduct adequate improper payment reviews for \$5.0 billion in Military Health Benefits transactions and \$134 million of sampled transactions in the Military Pay and Civilian Pay programs.*

### *Military Health Benefits*

The DHA did not include \$5.0 billion of the \$23.3 billion in payments reported by the Military Health Benefits program in its sampling methodology and estimation plan. DHA personnel used a statistically valid sampling plan to sample and calculate an estimate of improper payments for \$18.3 billion of the \$23.3 billion total payments reported in the AFR. The DHA used an independent contractor to review the \$18.3 billion in medical benefits payments to identify improper payments issued by the contractors the DHA used to administer the military health

<sup>19</sup> Report No. DODIG-2019-039, "Reporting of Improper Payments for the Defense Finance and Accounting Service Commercial Pay Program," December 21, 2018.

care program. However, the DHA did not have a sampling methodology for the remaining \$5.0 billion in payments and did not submit those payments to their independent contractor for review.

The DHA reported that the \$5.0 billion included payments DHA reported in either its “Administrative” or “Other” program categories. The DHA administrative cost payments were shared among multiple contractors administering the TRICARE program, and payments the DHA reports as “other” payments were for five other contract categories (Uniformed Services Family Health Plan; Women, Infants, and Children; TRICARE Dental Program; TRICARE Retiree Dental Program; and Mail Order Pharmacy). DHA personnel stated that they reviewed the invoices for accuracy before making payments. Also, according to DHA personnel, external

*Pre-payment reviews and financial statement audits do not meet IPERA requirements to perform post-payment tests using a statistically valid methodology to estimate total improper payments in the population.*

auditors examined some of the payments as part of the DHA’s annual financial statement audit and reported no improper payments in the Administrative and Other categories. However, pre-payment reviews and financial statement audits do not meet IPERA requirements to perform post-payment tests using a statistically valid methodology to estimate total improper payments in the population.

The DoD OIG identified the same condition during the audit of the DoD’s FY 2016 compliance with IPERA. As previously recommended by the OIG, the DHA included the administrative and other payments in the total outlays reported in the AFR. However, DHA personnel did not implement procedures to ensure that they tested the complete population for improper payments in accordance with IPERA requirements.

*Military Pay and Civilian Pay Review Procedures Were Not Sufficient*

The Military Pay program review process SOP for improper payment reviews did not direct payment reviewers to obtain and review supporting documentation to verify whether service members were entitled to the pay they received. DFAS personnel stated that, in FY 2018, they reviewed the service members’ pay and compared it to leave and earnings statements. The Government Accountability Office (GAO) reported in 2018 that, based on information in the FY 2017 AFR:

for the purposes of estimating improper payments, [the] DoD has not fully assessed the risks in its Military Pay program and evaluated whether its approach for estimating improper payments effectively addresses these risks. As a result, [the] DoD’s process for estimating Military Pay improper payments may not reflect significant risks

of improper payment in the program, specifically whether service members are eligible for the special pay or allowances they receive, calling into question the improper payment estimate and its usefulness for developing effective corrective actions.<sup>20</sup>

We confirmed that, throughout FY 2018, DFAS personnel did not review supporting documentation for the \$109 million of Military Pay samples to ensure that service members were eligible for their pay. Therefore, we determined that the Military Pay estimate for FY 2018 is unreliable. For FY 2019, DFAS personnel revised the SOP, sampling plan, and review process for Military Pay. Therefore, we are not making a recommendation. Although DFAS is taking action to correct the deficiencies in its Military Pay review process for FY 2019, it did not make the corrections in FY 2018, which contributed to an unreliable Military Pay estimate.

The Civilian Pay program SOP did not direct payment reviewers to obtain and review supporting documentation for the \$25 million of Civilian Pay samples to determine whether civilian employees were eligible for the type and amount of pay they received. Instead, the Civilian Pay SOP directed the reviewer to recalculate the amount paid to civilians by comparing the pay system's recording of the amount paid to the amount reported on the employees' leave and earnings statements. Without reviewing supporting documentation, the reviewers did not ensure that employees were eligible for the pay they received. Therefore, the reviews, as defined in the SOP and described by DFAS personnel, would identify system differences instead of identifying improper payments from errors related to the underlying supporting documentation. If improper payments and their associated root causes are not identified, the DoD cannot determine the appropriate corrective actions to reduce and prevent future improper payments.

### *Inadequate Oversight of Improper Payment Review Process*

The DoD did not conduct adequate improper payment reviews for the Military Health Benefits program because the OUSD(C)/CFO's oversight did not ensure that the DHA implemented improper payment review

*The DoD did not conduct adequate improper payment reviews for the Military Health Benefits program.*

procedures for the complete population, as previously recommended. Specifically, while the DHA did include all payments in the program's population in FY 2018, the OUSD(C)/CFO did not ensure that the DHA reviewed the payments reported in the DHA Administrative and Other categories by either adding those payments to the existing Military Health Benefits sampling and estimation plan or implementing a separate sampling plan. The USD(C)/CFO should coordinate with the Defense

<sup>20</sup> Report No. GAO-18-377, "Improper Payments: Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes," May 2018.

Health Agency Director to develop and implement procedures to incorporate Military Health Benefits program payments for administrative and other payments in a statistically valid sampling and estimation plan that complies with OMB guidance for testing all payments and producing valid improper payment estimates.

The DoD did not conduct adequate improper payment reviews for the Military Pay and Civilian Pay programs because the OUSD(C)/CFO's oversight did not ensure that Components developed and implemented review procedures that included requiring reviewers to obtain the detailed documentation needed to identify improper payments. OUSD(C)/CFO personnel stated that they were aware that reviewers did not access source documentation to verify that military and civilian personnel were entitled to the pay they received. Furthermore, OUSD(C)/CFO personnel stated that they were actively working with DFAS and the Components to correct this deficiency. Because DFAS is taking action to address the GAO's recommendations to correct the inadequate reviews of Military Pay payments, we are not making additional recommendations for the program.

While DFAS is responsible for reviewing the DoD civilian payroll payments, individual DoD Components maintain the supporting documentation. DFAS personnel stated that they are not able to access the source documentation and, as a result, cannot complete the necessary detailed tests of civilian payroll transactions. Therefore, implementing an effective review process requires a coordinated effort across all Components to obtain access to the supporting documentation needed to complete sample reviews. OUSD(C)/CFO personnel have not determined which Component is responsible for Civilian Pay sample testing or developed an effective review process that will require reviewers to verify that an employee was entitled to the pay received in order to provide a reliable improper payment estimate. The USD(C)/CFO,

*• OUSD(C)/CFO personnel  
 • have not determined which  
 • Component is responsible for  
 • Civilian Pay sample testing  
 • or developed an effective  
 • review process.*

in coordination with DFAS and DoD Components, should establish an improper payment review process for the Civilian Pay program that examines supporting documentation and verifies that civilian employees are eligible for the pay they receive.

*Unreliable Estimates at Army Overseas Locations*

DFAS and the Military Services used statistically valid sampling plans for testing DoD Travel Pay and Commercial Pay at their overseas locations with the exception of the Army's overseas locations. The Army also did not complete its improper payment review of DoD Travel Pay at some overseas locations.

As of February 2019, the U.S. Army Financial Management Command (USAFMCOM) had not finished developing plans for testing improper payments at its overseas locations for DoD Travel Pay or all of its locations for Commercial Pay, as recommended by the DoD OIG in its FY 2017 IPERA compliance report.<sup>21</sup> In response to the DoD OIG's recommendation, DFAS personnel included the Army's Kuwait and Saudi Arabia locations in their FY 2019 sampling plan for the Commercial Pay program. USAFMCOM personnel stated that the FY 2019 Commercial Pay sampling plans for the 175th Financial Management Support Center (FMSC) (Korea), Italy Finance Office, and Benelux Finance Office are still under development. Furthermore, USAFMCOM personnel stated that they will include Kosovo and the 175th FMSC (Hawaii) payments in their FY 2020 IPERA sampling plan. For the DoD Travel Pay program payments, even though USAFMCOM had an original estimated completion date of August 2018, USAFMCOM personnel stated that, as of February 2019, they were still working with the overseas finance offices to develop their sampling plans for DoD Travel Pay. According to USAFMCOM personnel, they were not able to allocate sufficient resources to complete the sampling plans as originally scheduled, and they have a new estimated completion date of March 2019. We are not making additional recommendations to USAFMCOM, but will continue to follow up on the status of the recommendations from Report No. DODIG-2018-115 until USAFMCOM personnel develop and implement OMB-approved sampling plans for all overseas locations for the DoD Travel Pay and Commercial Pay programs.

In addition, some Army overseas locations did not complete their improper payment reviews in FY 2018. USAFMCOM is responsible for compiling the improper payment estimate for Army overseas travel payments made by the Italy and Benelux Finance Offices, 175th FMSC Hawaii, 175th FMSC Korea, and 266th FMSC. USAFMCOM submitted to OUSD(C)/CFO an improper payment estimate for the FY 2018 AFR, but did not include an improper payment estimate for the 266th FMSC. The DoD included a footnote in the AFR stating that a new rotational policy in Europe resulted in high turnover at the Army 266th FMSC, and the FMSC personnel were not able to complete the improper payment testing for FY 2018. However, because the Army did not complete its improper payment testing, the DoD may not have identified improper payments and the corresponding corrective actions and recoveries.

*Because the Army did not complete its improper payment testing, the DoD may not have identified improper payments and the corresponding corrective actions and recoveries.*

<sup>21</sup> Report No. DODIG-2018-115, "DoD FY 2017 Compliance With the Improper Payments Elimination and Recovery Act Requirements," May 9, 2018.

### *Sampling Plans Not Implemented for Army Overseas Locations*

OUSD(C)/CFO personnel did not ensure that the Army developed and implemented the required sampling plans at its overseas locations and completed its reviews of the programs' payments. OUSD(C)/CFO personnel were aware of USAFMCOM personnel's efforts during FY 2018 to work with the Army overseas locations to develop and implement statistically valid sampling plans. OUSD(C)/CFO personnel also knew, and disclosed in the AFR, that the Army's Travel Pay estimate was not complete due to the Army's inability to complete its reviews. The DoD Travel Pay estimate was also not reliable in FY 2017 due, in part, to some Components not using statistically valid sampling plans or not completing their test of travel payments in time for AFR reporting. In Report No. DODIG-2018-115, the DoD OIG recommended that the OUSD(C)/CFO coordinate with reporting Components to implement procedures to ensure that all improper payment testing is completed on time and estimates are based on 12 months of data, as required by OMB guidance. OUSD(C)/CFO personnel did not complete corrective actions to implement this recommendation in FY 2018. Therefore, we will continue to follow up with the OUSD(C)/CFO and will not make an additional recommendation.

### ***The DoD Excluded Required Results of Actions Taken for Corrective Actions***

The DoD published corrective action plans in the AFR for three programs—Military Pay, Military Retirement, and DoD Travel Pay

*The DoD published corrective action plans in the AFR for three programs.*

programs; however, the report did not include all of the information required by OMB guidance.<sup>22</sup> Following the issuance of the FY 2017 AFR, the DoD OIG reported that the AFR did not contain all of the required corrective actions information and recommended that the OUSD(C)/CFO implement a data call template that identifies the information Components must include in their IPERA reporting narratives for the AFR.<sup>23</sup> For FY 2018, the OUSD(C)/CFO developed and implemented a standard corrective action plan that required Components to develop corrective actions with corresponding estimated completion dates, and report the results of actions taken. Therefore, in FY 2018, the DoD programs improved their reporting of corrective actions in the AFR by outlining the root causes for the improper payments, linking

*However, the OUSD(C)/CFO did not include the results of each program's corrective actions in the AFR.*

corrective actions planned or taken to the root causes, and providing target completion dates for the corrective actions. However, the OUSD(C)/CFO did not include the results of each program's corrective actions in the AFR, as required by OMB.

<sup>22</sup> OMB Circular A-136, section II.4.5, and OMB Circular A-123 appendix C, part IV.B.2d.

<sup>23</sup> Report No. DODIG-2018-115, "DoD FY 2017 Compliance With the Improper Payments Elimination and Recovery Act Requirements," May 9, 2018.



OUSD(C)/CFO personnel stated that the results of corrective actions taken would be seen in future improper testing results, as they expect the rate of improper payments to decrease over time. Some of the corrective actions the three programs reported have estimated completion dates in FY 2019 and FY 2021. However, the Military Retirement and DoD Travel Pay programs reported corrective actions completed in FY 2018, but did not identify the results gained from those actions. OMB Circular A-123, appendix C, states that an agency should be able to measure the effectiveness and progress of each corrective action on an annual basis, by assessing the results of actions taken to address the root causes. Also, agencies should annually review their corrective actions to determine if the actions can be expanded and if the original intent of the action is still achieving its intended purpose. The OMB guidance also states that when agencies implement long-term, multi-year corrective actions that will be implemented on a continuous basis, the agencies should identify annual benchmarks to demonstrate progress implementing the corrective actions or the initial impact corrective actions had on improper payment prevention and reduction. Also, for corrective actions already in place, agencies should be able to describe how they evaluate the effectiveness of these actions and the results.<sup>24</sup> OMB Circular A-136 has required since at least 2015 that agencies report in the AFR the corrective actions planned or taken and the results of the actions. In its annual report on the DoD's compliance with IPERA, the OIG has reported since FY 2015 that the DoD did not include in the AFR all the corrective action plan information that OMB Circular A-136 has required. The DoD Components cannot demonstrate that resources expended to implement corrective actions effectively targeted the true root causes of improper payments if they cannot identify where incidents of improper payments decreased as a result of their actions. The USD(C)/CFO should ensure that, for each program, Components report the results of each corrective action and include the results in the AFR.

### ***The DoD Did Not Meet Improper Payment Reduction Targets***

Although the DoD published improper payment reduction target rates for all of its programs, the DoD did not comply with the requirement to meet its FY 2018 reduction target. Specifically, the estimated improper payment rates exceeded the reduction targets established for FY 2018 for three programs: Military Pay, Civilian Pay, and Military Retirement. DFAS personnel stated that this occurred because of their sampling and estimation methodologies. For example, DFAS personnel stated that, in FY 2018, they changed the Military Retirement program sampling methodology to further divide the population into smaller subpopulations by type of account. In addition, DFAS personnel stated that their estimation methodology for the Civilian and Military Pay programs included adding debts

<sup>24</sup> OMB Circular A-123, appendix C, part III.A.1.

⋮ *This is the 7th year that the DoD has not met its reduction targets.*

into their improper payment estimate. This is the 7th year that the DoD has not met its reduction targets. IPERA states

that an agency has complied if it published, and met, annual reduction targets for each program assessed to be at risk and measured for improper payments. The reduction target is the improper payment rate that the DoD establishes as its target for the next fiscal year for each program, with the intent to reduce the improper payment rate over time. OMB Circular A-123, appendix C, requires agencies to set reduction targets that are aggressive yet realistic for future improper payment levels and a timeline within which the targets will be reached.<sup>25</sup> Each program reporting an improper payment estimate is required to establish a reduction target for the next year. Furthermore, OMB encourages agencies to reassess and revise, as necessary, their targets each year. When establishing reduction targets, Component personnel need to take into consideration significant program or sampling methodology changes that could increase the improper payment estimate and rate. OUSD(C)/CFO personnel are responsible for the reporting of the reduction targets for components, therefore, they should ensure that DoD Components establish aggressive yet realistic improper payment reduction targets for each program.

Table 4 shows the reduction target rate each program established for FY 2018, as reported in the FY 2017 AFR, and the rate reported for FY 2018 based on its estimate.

*Table 4. FY 2018 Reduction Targets by Program*

Program Name	Reduction Target Rate Established for FY 2018 in FY 2017 (Percent)	FY 2018 Improper Payment Rate (Percent)
Military Health Benefits	1.40	0.39
Military Pay	0.20	0.30
Civilian Pay	0.10	0.14
Military Retirement	0.21	0.45
DoD Travel Pay	6.00	4.59
Commercial Pay	0.04	0.01
USACE Travel Pay	0.70	0.46
USACE Commercial Pay	1.37	0.08
<b>Total</b>	<b>0.31</b>	<b>0.21</b>

Source: The DoD OIG.

<sup>25</sup> OMB Circular A-123, appendix C, part III.A.3.

## The DoD Continues Not to Comply With IPERA

Although the OUSD(C)/CFO and its reporting Components made improvements in its IPERA reporting, the DoD did not comply with three of the six IPERA requirements. According to OMB Circular A-123, appendix C, if an agency does not meet one or more of these requirements, it does not comply with IPERA. Because the DoD did not include all transactions in its populations subject to review and did not perform adequate reviews, the DoD reported unreliable estimates and did not comply with IPERA for a 7th consecutive year. Furthermore, the DoD may not have identified and corrected improper payments. In addition, because the DoD did not subject all transactions to review for improper payments, the DoD did not implement important corrective actions necessary to correct the improper payments and initiate recoveries. By excluding \$6.3 billion in transactions from improper payment reviews and performing inadequate improper payment reviews for an additional \$5.1 billion of transactions, the DoD reported unreliable improper payment estimates and may have missed the opportunity to promptly detect, prevent, and recover improper payments from \$11.4 billion of transactions.

The DoD reported in its AFR that, through responsible stewardship and accountability, it is committed to earning the trust and confidence of Congress and the American people. For each of the 7 years that the DoD has not complied with IPERA, the DoD OIG reported that the DoD's improper payment estimates were not reliable. Unreliable improper payment estimates hinder the ability of DoD leadership and Congress to determine whether the corrective actions that the DoD implemented are, in fact, reducing improper payments. Additionally, when DoD programs report all the required information, such as accurate estimates of improper payments and actions taken to identify, prevent, and recover improper payments, DoD senior leadership can determine whether the programs' efforts have been successful or whether additional action is necessary. For instance, DoD leadership and Congress may determine that the DoD needs additional resources or to implement additional corrective actions in order to reduce its improper payments.

*Unreliable improper payment estimates hinder the ability of DoD leadership and Congress to determine whether the corrective actions are reducing improper payments.*

IPERA requires that an agency initiate corrective action when it does not comply with IPERA. If an agency is noncompliant in a fiscal year, the agency head must submit a plan to Congress and OMB describing the actions the agency will take to come into compliance. If an agency is noncompliant for 3 consecutive fiscal years for the same program, the agency must submit to Congress and OMB, within 30 days of the Inspector General's report, either a reauthorization proposal for

the program or proposed statutory changes necessary to bring the program into compliance. If an agency is noncompliant for 4 or more fiscal years for the same program, the agency must submit to Congress and OMB, within 30 days of the Inspector General's report, a report on the activities taken to complete the requirements for 1, 2, 3, and 4 years or more of noncompliance, including corrective actions taken.

The DoD has not been compliant for 3 consecutive fiscal years in the Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, and Commercial Pay programs. The DoD Travel Pay program has not been compliant for 7 fiscal years. As a result of the DoD's noncompliance, within 30 days of this report's issuance, the USD(C)/CFO should submit to OMB and the appropriate congressional committees:

- reauthorization proposals or proposed statutory changes necessary to bring the Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, and Commercial Pay programs into compliance; and
- a report detailing actions the DoD has taken to meet the requirements for 1, 2, 3, and 4 years and more of noncompliance by the DoD Travel Pay program, and describing corrective actions taken and planned to prevent and reduce improper payments.

## Recommendations, Management Comments, and Our Response

### ***Recommendation 1***

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

- a. Include annually in the Agency Financial Report the justification and summary of the analysis Component personnel performed to determine that a payment recapture audit program is not cost effective for a program that does not use one.**

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

The Deputy Chief Financial Officer (DCFO), responding for the USD(C)/CFO, agreed with the recommendation and stated that starting with the FY 2019 AFR, OUSD(C)/CFO personnel will include an annual summary of the analyses that Component personnel performed to determine that payment recapture audits are not cost effective. The DCFO expects to complete the summary by November 2019.

### *Our Response*

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify, for programs that do not use a payment recapture audit program, that the AFR includes the DoD's justification for not implementing a program and the required summary of the analysis DoD personnel performed to determine a payment recapture audit program would not be cost effective.

- b. Coordinate with the Components to analyze whether it would be cost effective to implement payment recapture audit programs for each of the DoD programs.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that OUSD(C)/CFO personnel will coordinate with the Components to re-evaluate whether payment recapture audit programs are cost effective. The DCFO expects to complete this coordination by October 2019.

### *Our Response*

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we verify that OUSD(C)/CFO and Component personnel completed their analysis and the documentation supports the USD(C)/CFO's decision about the cost effectiveness of implementing a payment recapture audit program.

- c. Ensure that, for each program reporting significant improper payments, Components report the results of corrective actions and include the results in the Agency Financial Report.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that OUSD(C)/CFO personnel will work with the Components to include the results of corrective actions and completed milestones in the AFR for each program reporting significant improper payments. The DCFO expects to complete this action by November 2019.

### *Our Response*

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that all required information about the results of corrective actions are reported in the AFR.

- d. Ensure that Components establish aggressive yet realistic improper payment reduction targets for each program.**

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

The DCFO, responding for the USD(C)/CFO, did not agree with the recommendation and stated that the DoD's improper payment reduction targets are aggressive and realistic, and that any further decreases in the reduction targets are unreasonable and would negatively impact the cost effectiveness of the program. However, the DCFO stated that OUSD(C)/CFO personnel will work with OMB to establish a realistic "floor" for the improper payment reduction targets and will define acceptable levels of risk for improper payments.

### *Our Response*

Although the DCFO did not agree with the recommendation, the proposed actions meet the intent of the recommendation; therefore, the recommendation is resolved but will remain open. We did not recommend that the DoD lower the programs' improper payment reduction targets. Instead, the recommendation is intended to ensure that Component personnel consider significant program or sampling methodology changes when establishing target improper payment rates for the next year because the changes may increase the improper payment estimate amount and rate. Therefore, actions described by the DCFO to coordinate with OMB in developing realistic reduction targets meet the intent of the recommendation. We will close the recommendation once we receive documentation that OUSD(C)/CFO and Component personnel assessed the risk of improper payments and developed realistic improper payment reduction targets. The documentation should support that personnel took into consideration anticipated sampling methodology changes or program changes that could cause a program's improper payment rate to increase or decrease.

- e. Submit to the Office of Management and Budget and Congress, within 30 days of this report's issuance:**
  - Reauthorization proposals or proposed statutory changes necessary to bring the Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, and Commercial Pay programs into compliance.**

- **A report detailing actions the DoD has taken to complete the requirements for 1, 2, 3, and 4 years of noncompliance by the DoD Travel Pay program, and describing the corrective actions taken and planned to prevent and reduce improper payments.**

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

The DCFO, responding for the USD(C)/CFO, partially agreed with the recommendation and stated that OUSD(C)/CFO personnel acknowledge that the statutory requirement supports this recommendation. However, the DCFO stated that OUSD(C)/CFO personnel believe that IPERA compliance will be achieved through internal actions, such as root cause analysis, developing corrective actions, and providing proactive oversight. The DCFO stated that OUSD(C)/CFO personnel will submit letters to OMB and the Congress stating that reauthorization and statutory changes are not necessary to bring the Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, and Commercial Pay programs into compliance with the law. In addition, OUSD(C)/CFO personnel will submit to OMB and the Congress an updated report detailing the actions that the DoD has taken to complete the requirements for 1, 2, 3, and 4 years of noncompliance by the DoD Travel Pay program, and describing the corrective actions taken and planned to prevent and reduce improper payments. The DCFO expects to complete this action in August 2019.

*Our Response*

Although the DCFO partially agreed with the recommendation, the proposed actions meet the intent of the recommendation; therefore, the recommendation is resolved but will remain open. The DCFO's planned action to submit letters to Congress and the OMB stating that reauthorization of funds or statutory changes are not necessary for the programs not in compliance with IPERA for 3 years will comply with IPERA and OMB Circular A-123, appendix C, remediation requirements. In addition, to be in compliance with IPERA remediation reporting requirements, the letters also must report on what the DoD is doing to bring the programs into compliance, and the DoD must submit the letters within 30 days of the date this report is issued.<sup>26</sup> We will close this recommendation once we verify that the USD(C)/CFO submitted the information required by IPERA to Congress and the OMB.

<sup>26</sup> Public Law No. 112-204, "Improper Payments Elimination and Recovery Act of 2010," section 3(c)(3), requires the head of the agency to submit the required information no later than 30 days after the IG determines the agency is not in compliance.

## **Recommendation 2**

**We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Defense Finance and Accounting Service Director:**

- a. Develop a process that uses the amount paid for the Commercial Pay and DoD Travel Pay programs.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that OUSD(C)/CFO personnel requested that DFAS personnel develop improper payment testing processes that use the amount paid from the Enterprise Business System and the Defense Travel System. Furthermore, DFAS personnel plan to implement testing changes for those two systems by FY 2020. The DCFO also stated that DFAS uses the amount paid for reporting outlays and testing other system payments in the Commercial Pay and Travel Pay programs. The DCFO expects that DFAS will complete work to develop the process by August 2019.

### *Our Response*

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we verify that the processes to obtain and test Commercial Pay and Travel Pay program populations use the actual amount paid from every system.

- b. Develop and implement sufficient control measures in the population review process to ensure that the DoD includes all necessary payments for Military Pay, Civilian Pay, Military Retirement, and DoD Travel Pay populations and reports accurate improper payment estimates in the Agency Financial Report.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that OUSD(C)/CFO personnel have coordinated with DFAS personnel and requested that they develop and implement sufficient control measures to ensure that the DoD includes all necessary payments for the Military Pay, Civilian Pay, Military Retirement, and DoD Travel Pay populations and report accurate improper payment estimates in the AFR. The DCFO also stated that DFAS personnel have



implemented actions to ensure that the payment populations are complete and do not include data that should not be included. The DCFO expects that DFAS will develop and implement the control measures by August 2019.

### *Our Response*

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the DoD has implemented additional control measures and is including all necessary payments in the Military Pay, Civilian Pay, Military Retirement, and DoD Travel Pay populations, and reports accurate improper payment estimates in the AFR.

### **Recommendation 3**

**We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Defense Finance and Accounting Service Director and the Military Services, conduct a risk assessment of military academy cadet payments and, as necessary, develop and implement procedures to obtain the population, sample transactions, and review military academy cadet payments for improper payments and report the results to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, for the annual Agency Financial Report.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that OUSD(C)/CFO personnel requested DFAS personnel to work with the Military Services to conduct a risk assessment and, as necessary, develop and implement procedures to obtain the population, sample transactions, and review military cadet payments for improper payments and report the results to OUSD(C)/CFO personnel for the annual AFR. The DCFO stated that DFAS personnel have started working with Military Services personnel on a review of military cadet payments, and DFAS will submit a risk assessment report to the OUSD(C)/CFO for the FY 2019 AFR. The DCFO expects that DFAS will complete this by November 2019.

### *Our Response*

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive a copy of the completed risk assessment, verify that the DoD appropriately assessed the risk of improper payments in

military academy cadet payments, and verify that the AFR includes the required information about the completed risk assessment and, if necessary, estimated improper payments.

#### ***Recommendation 4***

**We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Defense Health Agency Director, develop and implement procedures to incorporate Military Health Benefits program payments for Administrative and Other payments in a statistically valid sampling and estimation plan that complies with current Office of Management and Budget guidance for testing all payments and producing valid improper payment estimates.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that OUSD(C)/CFO personnel have started working with DHA personnel to develop and implement procedures to incorporate the Administrative and Other payments in a statistically valid sampling and estimation plan that complies with OMB guidance.

The DCFO stated that DHA personnel will implement new service contract requirements to acquire the additional workforce needed to perform internal post payment reviews and develop the necessary validation procedures by January 2020. Also, as necessary to obtain additional supporting documentation from contractors, DHA personnel will implement necessary contract modifications and policy clarification by April 2021.

#### *Our Response*

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we confirm that OUSD(C)/CFO and DHA personnel developed and implemented procedures to include Administrative and Other payments in a statistically valid sampling and estimation plan that complies with OMB guidance for reporting improper payments and that the Military Health Benefits program is reporting improper payment estimates for the Administrative and Other payments populations.

## ***Recommendation 5***

**We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Defense Finance and Accounting Service Director and other DoD Components, establish an improper payment review process for the Civilian Pay program that examines supporting documentation and verifies that civilian employees are eligible for the payments that they received.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that OUSD(C)/CFO personnel will coordinate with DFAS personnel to update the SOPs for the post-payment reviews of Civilian Pay accounts by requiring reviewers to validate the information included in pay accounts with supporting documentation and verify that civilian employees are eligible for the payments they receive. The DCFO also stated that the process will impact all DoD Components and will require extensive coordination, with an estimated completion date of October 2020.

### *Our Response*

Comments from the DCFO addressed all specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we receive an updated Civilian Pay SOP that identifies the revised post-payment review requirements, and we can verify that reviewers are testing for improper payments by examining pay account supporting documentation to validate that civilian employees were eligible for the payments they received.

## Appendix A

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### Scope and Methodology

We conducted this performance audit from August 2018 through April 2019 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 finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

### ***Review of Documentation and Interviews***

To obtain information and source documents on IPERA compliance, as well as to understand their roles for compiling and reporting in the DoD FY 2018 AFR, we interviewed personnel from:

- DFAS;
- Defense Manpower Data Center;
- OUSD(C)/CFO;
- USACE;
- USAFMCOM; and
- DHA.

During our interviews with each office's personnel, we discussed their roles and responsibilities for IPERA reporting, risk assessments, sampling plans, improper payment estimates, reduction targets, corrective action plans, recapture audits, accountability, and agency information systems and other infrastructure. We also discussed with DoD personnel how they compiled their populations of transactions used for testing and the review processes they used to determine whether a transaction is an improper payment. We tested their processes for creating the population of transactions to determine whether DoD personnel calculated accurate and complete improper payment estimates. We also examined the documentation they provided that related to our audit objective.

We reviewed the IPERA reporting requirements for FY 2018, based on the following guidance.

- Public Law 107-300, "Improper Payments Information Act of 2002," November 26, 2002
- Public Law 111-204, "Improper Payments Elimination and Recovery Act of 2010," July 22, 2010

- Public Law 112-248, “Improper Payments Elimination and Recovery Improvement Act of 2012,” January 10, 2013
- OMB Circular A-123, appendix C, “Requirements for Payment Integrity Improvement,” June 26, 2018
- OMB Circular A-136, “Financial Reporting Requirements,” July 30, 2018
- DoD FMR, volume 4, chapter 14, “Improper Payments”
- DoD FMR, volume 10, chapter 22, “Payment Recapture Audits”

We contacted OMB personnel to clarify OMB guidance in Circular A-123, appendix C, including the intent of changes that OMB incorporated in the June 2018 revision of the Circular.

We requested and received documentation that DoD programs used to support improper payments reporting, including:

- improper payment reporting as published in the Payment Integrity section of the DoD FY 2018 AFR;
- information and data relevant to program sampling including sampling plans, population, and sample data for first and fourth quarters FY 2018;
- documentation supporting improper payment rates and estimates reported in the Payment Integrity section of the DoD FY 2018 AFR;
- documentation used to support risk assessments;
- corrective action plans; and
- improper payment reduction targets.

## Use of Computer-Processed Data

We relied on computer-processed data included in the Payment Integrity section of the DoD FY 2018 AFR and supporting documents to perform this audit. Specifically, we relied on the estimates of improper payments and the data used to develop those estimates because determining the accuracy of the estimate was part of our objective. However, the FY 2018 DoD Statement of Assurance stated that there were ineffective processes and controls relating to the information within the financial statements. This led us to conclude that the financial data within the DoD FY 2018 AFR may not be reliable.

We relied on computer-processed data that DoD personnel used to develop their populations and estimates for each of the eight programs. We used first quarter FY 2018 populations for seven programs reported in the AFR and

determined completeness of the population subject to review.<sup>27</sup> We validated this data by using the system-generated data and applying the search criteria used to create the population. Furthermore, when population data was determined to be accurate, we used the program's fourth quarter sample population and re-performed the improper payment review of 25 sampled transactions for Military Health Benefits, DoD Travel Pay, USACE Travel Pay, and USACE Commercial Pay.<sup>28</sup> In this review, we obtained the supporting documentation for each of the sampled transactions to determine whether the system information was reported accurately. In addition, we obtained the review SOPs and determined whether the review process was adequate for Military Pay and Civilian Pay. We were unable to review 25 samples, including the supporting documentation, for Military Retirement, because we received the Retired and Annuitant population 4 months after it was originally requested and, therefore, did not have sufficient time to review transactional data.

In addition, the DoD OIG completed an audit of the DFAS Commercial Pay program on December 21, 2018, to determine the accuracy of the improper payment population and estimate for the first two quarters of FY 2018.<sup>29</sup> We relied on the report findings for our conclusions of the accuracy and completeness of the improper payment estimate for Commercial Pay.

The computer-processed data we used was sufficient to support the audit finding and conclusions in this report. The audit objective was to determine compliance with reporting requirements, which included assessing the accuracy and completeness of the reported improper payment estimate. Therefore, our audit work included an analysis of the data and data processes used to produce the reported results.

## Use of Technical Assistance

During this audit, we requested and received technical assistance from the DoD OIG Quantitative Methods Division. Quantitative Methods Division analysts reviewed the sampling plans for eight programs that reported improper payment estimates in the DoD FY 2018 AFR to determine whether the sampling methodologies were statistically valid and appropriate in accordance with OMB guidance.

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<sup>27</sup> The seven programs are: Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, DoD Travel Pay, USACE Travel Pay, and USACE Commercial Pay.

<sup>28</sup> We performed transaction testing on DoD Travel Pay although the population was not correct because the errors in the population were not identified until after the transaction review had begun. In addition, we reviewed a total of 58 transactions, instead of 25, for the Military Health Benefits program.

<sup>29</sup> Report No. DODIG-2019-039, "Reporting of Improper Payments for the Defense Finance and Accounting Service Commercial Pay Program," December 21, 2018.

## Appendix B

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### Prior Coverage

During the last 5 years, the GAO and the DoD OIG issued 15 reports discussing improper payment reporting requirements.

Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

### GAO

Report No. GAO-18-377, “Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes,” May 2018

DoD Military Pay and the Office of Personnel Management’s (OPM) Retirement overpayments did not include a review of aspects of eligibility in their policies and procedures. The DoD and OPM had not fully assessed whether their estimation processes effectively considered key program risks. OMB guidance does not specifically address how agencies are to test to identify improper payments, such as using a risk-based approach to help ensure that key risks of improper payments are addressed.

Report No. GAO-18-36, “Most Selected Agencies Improved Procedures to Help Ensure Risk Assessments of All Programs and Activities,” November 2017

The GAO reviewed 24 Chief Financial Officers Act of 1990 (CFO Act) agencies’ AFRs and Performance and Accountability Reports from FYs 2014 through 2016 and found that these agencies generally complied with OMB improper payment risk assessment reporting directives. However, the GAO found instances of noncompliance.

Report No. GAO-17-484, “Additional Guidance Could Provide More Consistent Compliance Determinations and Reporting by Inspectors General,” May 2017

For FY 2015, 5 years after the implementation of IPERA, 15 of the 24 CFO Act agency Inspectors General (IGs) determined that their agencies did not comply with IPERA. In addition, the inconsistent IG compliance determinations in the IGs’ FY 2015 IPERA compliance reports may have presented potentially misleading information.

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

For FY 2014, 15 of the 24 CFO Act agency IGs determined that their agencies did not comply with IPERA criteria. Agency noncompliance for FY 2014 was largely due to agencies failing to meet improper payment reduction targets or failing to report improper payment error rates at less than 10 percent for all programs.

Report No. GAO-15-269, “TRICARE Measurement and Reduction Efforts Could Benefit from Adopting Medical Record Reviews,” February 2015

Unlike Medicare, the DHA did not examine the underlying medical record documentation to discern whether each sampled payment was supported. Without examining the medical record, the DHA did not verify the medical necessity of services provided.

Report No. GAO-14-10, “The Defense Finance and Accounting Service Needs to Fully Implement Financial Improvements for Contract Pay,” June 2014

The GAO found numerous deficiencies in DFAS’s implementation of its Contract Pay Financial Improvement Plan. According to the GAO, DFAS’s ability to process, record, and maintain accurate and reliable contract pay transaction data would be questionable until DFAS corrected the deficiencies.

## ***DoD OIG***

Report No. DODIG-2019-039, “Reporting of Improper Payments for the Defense Finance and Accounting Service Commercial Pay Program,” December 21, 2018

The DoD produced an incomplete and inaccurate improper payment estimate for the DFAS Commercial Pay program for the first two quarters of the FY 2018 IPERA reporting period. The estimate calculation did not include the results of \$5.7 billion of transportation, government purchase card, and Army overseas payments. Also, DFAS personnel did not have sufficient controls in place to validate the accuracy and completeness of the commercial payments population used for developing the DFAS portion of the estimate.

Report No. DODIG-2018-115, “DoD FY 2017 Compliance With the Improper Payments Elimination and Recovery Act Requirements,” May 9, 2018

The DoD complied with two of the six IPERA requirements by conducting program-specific risk assessments and reporting an improper payment rate of less than 10 percent for each of the nine programs that included an improper payment estimate in the FY 2017 Agency Financial Report (AFR). However, the DoD did not fully comply with four of the six IPERA requirements.



Report No. DODIG-2018-073, "Completeness and Accuracy of U.S. Army Corps of Engineers Improper Payment Estimates," February 13, 2018

USACE Finance Center (UFC) personnel did not accurately report the total payments, the improper payment estimate, or the improper payment rate for the Commercial Pay program in the DoD FY 2016 AFR. As a result, the auditors projected that UFC personnel made \$2.25 million in Commercial Pay program improper payments for the 1,293 sample items reviewed by USACE. The audit also determined that UFC personnel did not accurately report the Travel Pay universe, improper payment estimate, and the improper payment rate for the USACE Travel Pay program in the DoD FY 2016 AFR. As a result, UFC personnel understated their Travel Pay program improper payment estimate by at least \$3.73 million.

Report No. DODIG-2017-078, "The DoD Did Not Comply With the Improper Payment Elimination and Recovery Act in FY 2016," May 8, 2017

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

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

The OUSD(C)/CFO published the DoD FY 2015 AFR showing that the DoD met five of the six requirements of the IPERA; however, the improper payment estimates were not reliable. The DoD did not meet the requirement to achieve the reduction target for one of the eight programs with established targets and, therefore, did not comply with IPERA in FY 2015.

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

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

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

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

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

The DHA and DFAS developed methodologies that did not fully capture improper payment estimates and did not fully disclose recovered overpayments in the DoD FY 2013 AFR. The inadequate methodologies resulted in unreliable improper payment estimates, and limited the DoD’s ability to identify and report improper payments, determine underlying weaknesses that cause the improper payments, and initiate corrective actions to reduce the improper payments.

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

The OUSD(C)/CFO met five of the six requirements of IPERA. The DoD’s inability to ensure that all required payments were reviewed resulted in unreliable estimates and rates. The DoD did not meet the reduction targets for five of its eight programs with established targets.

## Appendix C

### Status of DoD OIG IPERA Audit Recommendations

When management agrees to implement the recommendation or has proposed actions that will address the underlying finding, but the actions agreed to have not yet been completed, we consider the recommendation resolved. A recommendation is closed when the DoD OIG verifies that the agreed-upon corrective actions were implemented.

In FY 2018 the DoD took actions to improve the DoD's reporting of improper payments by: implementing a data call checklist; developing and signing a charter expanding the oversight responsibilities of the DoD Travel Pay program senior accountable official to include the DoD programs reporting significant improper payments in the FY 2018 AFR; implementing tracking procedures to ensure it receives all required improper payment reporting information from the Components, and implementing sampling and review improvements in USACE Commercial Pay and USACE Travel Pay. Because the DoD made these improvements in FY 2018, the DoD OIG closed 10 audit recommendations and replaced 1 recommendation.

Table 5 shows the status of 25 DoD OIG recommendations, including 19 recommendations reported as Resolved and Open in Report No. DODIG-2018-115, published May 9, 2018 and 6 recommendations published after May 9, 2018.

*Table 5. Status of DoD OIG IPERA Audit Recommendations*

Report No.	Recommendations		Status
DODIG-2016-086 May 3, 2016	<b>The USD(C)/CFO should:</b>		
	1.b	Determine the source of all disbursed obligations not reviewed for improper payments and whether those disbursements are subject to improper payment reporting requirements.	<p><b>Resolved:</b> The USD(C)/CFO has partially completed this recommendation, as the Department of the Navy can trace every system that processes payments to the Budget Submitting Office that generated the payment.</p> <p>We will close this recommendation once we receive supporting documentation that confirms that the USD(C)/CFO has determined the source of all disbursed obligations and determined the requirements for improper payment reporting.</p> <p>Estimated Completion Date: November 15, 2019.</p>

Table 5. Status of DoD OIG IPERA Audit Recommendations (cont'd)

Report No.	Recommendations	Status
DODIG-2017-078 May 8, 2017	<b>The USD(C)/CFO should:</b>	
	1.a.1  Coordinate with DoD IPERA reporting Components to: verify that all payments are assessed for the risk of improper payments or are reporting estimated improper payments.	<b>Resolved:</b> We will close this recommendation once we verify that the USD(C)/CFO has reported all programs by either estimates or completed risk assessment.  Estimated Completion Date: December 31, 2019.
	1.a.2  Coordinate with DoD IPERA reporting Components to: report consistent, accurate, complete, and statistically-valid improper payment estimates in compliance with all IPERA and OMB requirements.	<b>Closed:</b> This recommendation is replaced with Recommendations 1.a – 1.c in Report DODIG-2019-039 and Recommendations 2.b, 3, and 4 in the current report.
1.c  Coordinate with DoD IPERA reporting Components to: review existing corrective action plans and coordinate with the appropriate reporting Components to establish planned or actual completion dates and determine if actions can be modified or updated to further reduce improper payments.	<b>Resolved:</b> The USD(C)/CFO has partially completed this recommendation, and reported planned or actual completion dates in the FY 2018 AFR.  We will close this recommendation once we verify that the USD(C)/CFO coordinated with the appropriate reporting Component to determine if actions can be modified or updated to further reduce improper payments.  Estimated Completion Date: November 15, 2019.	

Table 5. Status of DoD OIG IPERA Audit Recommendations (cont'd)

Report No.	Recommendations	Status
DODIG-2018-073 February 13, 2018	<b>The Director, UFC should:</b>	
	A.1.a Establish standard operating procedures to identify all commercial payments required for inclusion in the improper payment estimates reported in the DoD AFR.	<b>Closed:</b> USACE personnel finalized their SOP, which identified all commercial payments. In addition, USACE personnel included all commercial payments in USACE's FY 2018 population.
	A.1.b Implement a review process to verify that accurate and complete information is reported to the USD(C)/CFO for inclusion in the DoD AFR.	<b>Closed:</b> In FY 2018, USACE personnel implemented an additional review process to verify that they reported accurate and complete information to the USD(C)/CFO.
	A.1.e Implement a review process to verify that accurate testing for improper payments is being performed by U.S. Army Corps of Engineers Finance Center personnel.	<b>Resolved:</b> We will close this recommendation once we can verify that a review process was established and documented to verify the accuracy of improper payment testing.  Estimated Completion Date: May 31, 2019.
	B.1.a Implement a process for higher-level reviews before submitting information to the USD(C)/CFO for inclusion in the DoD AFR.	<b>Closed:</b> The UFC Deputy Director performed and documented a higher-level review before USACE personnel submitted information to the USD(C)/CFO.
	B.1.b Update the SOP to include centrally billed travel payments in the USACE Travel Pay program for IPERA reporting.	<b>Closed:</b> USACE personnel included centrally billed payments in their SOP for commercial payments. In addition, USACE personnel included centrally billed payments in USACE's FY 2018 population.
	B.1.c Subject all travel payments—including centrally billed account payments, permanent change of station payments, and local travel payments—to improper payment testing.	<b>Closed:</b> USACE personnel included centrally billed account payments, permanent change of station payments, and local travel payments in the population of payments subject to improper payment testing.

Table 5. Status of DoD OIG IPERA Audit Recommendations (cont'd)

Report No.	Recommendations	Status
	<p data-bbox="521 558 574 583">B.1.f</p> <p data-bbox="607 296 915 436">Establish standard operating procedures to establish an effective IPERA review process that include procedures to:</p> <ol data-bbox="607 470 915 842" style="list-style-type: none"> <li data-bbox="607 470 915 554">1. identify a complete and accurate universe of payments.</li> <li data-bbox="607 583 915 642">2. review selected payments for improper payments.</li> <li data-bbox="607 672 915 842">3. ensure improper payments estimates for the Travel Pay program are calculated consistently, accurately, and in accordance with the approved IPERA sampling plan.</li> </ol>	<p data-bbox="959 428 1344 716"><b>Closed:</b> In FY 2018, USACE personnel established an SOP that identified a complete and accurate travel payment universe, followed the SOP when reviewing selected payments for improper payments, and calculated an accurate estimate for the Travel Pay program, in accordance with the Travel Pay program's sampling plan.</p>
<p data-bbox="272 1367 456 1423">DODIG-2018-115 May 9, 2018</p>	<p data-bbox="607 867 873 892"><b>The USD(C)/CFO should:</b></p>	
	<p data-bbox="521 1278 574 1304">1.a</p> <p data-bbox="607 913 932 1201">Use IPERA and OMB Circular No. A-136 requirements to develop a data call template that identifies the information that reporting Components must include in their reporting narratives for the Payment Integrity Section of the AFR. The template should include requirements for reporting:</p> <ol data-bbox="607 1234 915 1667" style="list-style-type: none"> <li data-bbox="607 1234 915 1436">1. All required information for the Recapture of Improper Payments Reporting, Accountability, and Agency Information Systems and Other Infrastructure segments.</li> <li data-bbox="607 1465 915 1667">2. Corrective actions information, including root causes, planned corrective actions linked to the root causes, results of actions taken, and planned or actual completion dates.</li> </ol>	<p data-bbox="959 1136 1344 1451"><b>Closed:</b> In FY 2018, USD(C)/CFO personnel provided Components with a data call template that identified all information that the Components are required to include in their narratives, including information for the Recapture of Improper Payments reporting, Accountability, Agency Information Systems and Other Infrastructure, and Corrective Actions segments.</p>
	<p data-bbox="521 1793 574 1818">1.b</p> <p data-bbox="607 1692 932 1913">Comply with IPERA and OMB Circular No. A-136 requirements for the Payment Reporting section of the Agency Financial Report to identify all estimated amounts and corresponding percentages data.</p>	<p data-bbox="959 1734 1344 1875"><b>Closed:</b> The USD(C)/CFO included all required estimates and corresponding percentages from the Payment Reporting segment of OMB Circular No. A-136.</p>

Table 5. Status of DoD OIG IPERA Audit Recommendations (cont'd)

Report No.	Recommendations	Status
1.c	Coordinate with reporting Components to implement procedures to ensure that all improper payments testing is completed on time and that estimates are based on 12 months of data, as required by OMB Circular No. A-123.	<p><b>Resolved:</b> We will close the recommendation once we obtain documentation verifying that the USD(C)/CFO implemented procedures to ensure that the Components completed 12 months of improper payment testing and submitted the results on time to the USD(C)/CFO for the AFR.</p> <p>Estimated completion date: November 15, 2019.</p>
1.d	Develop milestones for implementing its Program Management Guide requirement to develop a charter expanding the oversight responsibilities of the DoD Travel Pay program senior accountable official to include all DoD programs reporting significant improper payments.	<p><b>Closed:</b> In FY 2018 the USD(C)/CFO developed and signed a charter expanding the oversight responsibilities of the DoD Travel Pay program senior accountable official to include the DoD programs reporting significant improper payments in the FY 2018 AFR.</p>
1.e	Implement tracking procedures to ensure the USD(C)/CFO receives all required improper payment reporting information from the Components for the AFR. Procedures should include implementation of a corrective actions table to track the status of improper payments corrective actions and ensure corrective actions are implemented as planned by each DoD program.	<p><b>Closed:</b> The USD(C)/CFO implemented tracking procedures to ensure it receives all required improper payment reporting information from the Components.</p>
1.f	Take the remediation actions required by IPERA for the DoD Travel Pay, Military Health Benefits, Commercial Pay, Military Pay, Military Retirement, Civilian Pay, Commercial Bill Pay Office Naples, USACE Commercial Pay, and USACE Travel Pay programs.	<p><b>Resolved:</b> We will close this recommendation once we receive documentation verifying that the USD(C)/CFO has completed the appropriate remediation actions with OMB and Congress.</p> <p>Estimated Completion Date: April 30, 2019.</p>

Table 5. Status of DoD OIG IPERA Audit Recommendations (cont'd)

Report No.	Recommendations	Status
	<p><b>We recommend that the Director, Financial Services, USAFMCOM, develop, implement, and submit to the USD(C)/CFO:</b></p>	
	<p>2.a A statistically valid travel sampling plan that identifies the complete universe of Army Windows Integrated Automated Travel System payments and how each Army overseas paying office will test for improper payments, in accordance with OMB guidance.</p>	<p><b>Resolved:</b> We will close the recommendation once we verify that the Army has an approved travel sampling plan that identifies the complete universe of travel pay transactions from all Army overseas paying offices.  Estimated completion date: March 15, 2019.</p>
	<p>2.b A statistically valid sampling plan that identifies the complete universe of Army commercial payments and how each Army overseas paying office will test for improper payments, in accordance with OMB guidance.</p>	<p><b>Resolved:</b> We will close the recommendation once we verify that the Army has an approved sampling plan that identifies the complete universe of commercial pay transactions from all Army overseas paying offices.  Estimated completion date: June 15, 2019.</p>
DODIG-2019-039 December 21, 2018	<p><b>The USD(C)/CFO should:</b></p>	
	<p>1.a Evaluate whether the General Services Administration post-payment audits of the DoD transportation bills meet the requirements of a post-payment audit performed for IPERA purposes, and develop and implement the appropriate procedures to include transportation improper payments in the DoD estimate for the AFR.</p>	<p><b>Resolved:</b> We will close this recommendation once we review the results of the USD(C)/CFO's evaluation of the General Services Administration post-payment audits and verify that the USD(C)/CFO has developed and implemented procedures to report improper transportation payments in the AFR.  Estimated completion date: June 30, 2019.</p>
	<p>1.b Conduct a risk assessment of government purchase card payments and, as necessary, develop and implement procedures to ensure that DoD government purchase card payments are reviewed for improper payments and that the results are reported to the USD(C)/CFO, DoD, for inclusion in the DoD's annual AFR.</p>	<p><b>Resolved:</b> We will close the recommendation once we review the risk assessment and verify that the results are reported in the FY 2019 AFR.  Estimated completion date: June 30, 2019.</p>



Table 5. Status of DoD OIG IPERA Audit Recommendations (cont'd)

Report No.	Recommendations	Status
1.c	In coordination with the DFAS ESS Director, conduct an annual review of the DFAS Commercial Pay program through the Senior Accountable Officials Steering Committee and Action Officers Working Group, to identify all types of payments made across DoD Components; verify that existing risk assessments and sampling plans cover all defined commercial payment types; and update risk assessments and sampling plans for program segments that experienced a significant change in legislation or a significant increase in its funding level.	<p><b>Resolved:</b> We will close the recommendation once we verify that (1) the USD(C)/CFO developed and implemented an annual review process of the DFAS Commercial Pay Program to identify all types of payments made across DoD Components, (2) existing risk assessments and sampling plans covered all defined commercial payment types, and (3) the USD(C)/CFO updated risk assessments and sampling plans for program segments that experienced a significant change in legislation or a significant increase in funding level.</p> <p>Estimated completion date: June 30, 2019.</p>
1.d	Update the DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 14, to define the types of payments in the DFAS Commercial Pay program and identify which Components are responsible for testing and reporting improper payment estimates for each type of commercial payment within the DFAS Commercial Pay program.	<p><b>Resolved:</b> We will close the recommendation once we verify that the USD(C)/CFO updated the DoD FMR with the recommended changes.</p> <p>Estimated completion date: November 30, 2019.</p>

Table 5. Status of DoD OIG IPERA Audit Recommendations (cont'd)

Report No.	Recommendations	Status
2	<p>The USD(C)/CFO and the DFAS, Enterprise Solutions and Standards (ESS) Director, in coordination with the USAFMCOM Director, should evaluate the Department of the Army's IPERA compliance procedures and sampling plan to determine whether it would be more cost effective to incorporate improper payments testing at overseas locations into the DFAS Commercial Pay sampling plan, and submit to the OMB either:</p> <ul style="list-style-type: none"> <li>• the modified DFAS Commercial Pay sampling plan that incorporates the Army overseas payments, or</li> <li>• both the original FY 2019 DFAS Commercial Pay sampling plan and the new Army sampling plan.</li> </ul>	<p><b>Resolved:</b> The Deputy Assistant Secretary of the Army, Financial Operations stated that DFAS has incorporated the commercial payments made by Kuwait and Saudi Arabia Army offices in the FY 2019 DFAS sampling plan, and plans to incorporate Kosovo and Hawaii into the FY 2020 DFAS Sampling plan. We will close the recommendation once we verify that the USD(C)/CFO submitted to OMB a sampling plan incorporating the Army overseas payments.</p> <p>Estimated completion date: July 2019.</p>
3	<p>We recommend that the DFAS ESS, Director develop a memorandum of understanding for each payment system, documenting the payment data requirements from each system that includes:</p> <p>(a) detailed description of payments to exclude from the population;</p> <p>(b) definition of the types of commercial payments to include in the population; and</p> <p>(c) documentation of how each system identifies the payment related data elements.</p>	<p><b>Resolved:</b> We will close this recommendation once the DFAS ESS Director provides the memorandum of understanding developed for each payment system.</p> <p>Estimated completion date: June 30, 2019.</p>

## Management Comments

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



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
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WASHINGTON, DC 20301-1 100

APR 24 2019

MEMORANDUM FOR PROGRAM DIRECTOR FOR AUDIT, FINANCIAL  
MANAGEMENT AND REPORTING, DEPARTMENT OF  
DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Department of Defense Inspector General Draft Report, "Audit of the DoD's  
FY 2018 Compliance with the Improper Payments Elimination and Recovery Act  
Requirements," Project No. D2018-D000FL-0195.000

We received the subject draft report, dated April 12, 2019, and reviewed your recommendations to the Under Secretary of Defense (Comptroller)/Chief Financial Officer. Our responses to your recommendations are provided in the attachment.

Overall, the Department met the intent of the Improper Payments Elimination and Recovery Act of 2010 by including the Payment Integrity section in the United States Department of Defense (DoD) Agency Financial Report for Fiscal Year 2018, published November 15, 2018. Additionally, we reported estimated improper payments for all programs, provided root causes and corrective actions for programs susceptible to significant improper payments, disclosed overpayments recaptured by the Department, and reported improper payment rates below the statutory threshold of 10 percent. Moreover, my office has worked diligently across the Department to correct deficiencies identified by your audit teams.

My office has taken the following actions over the last year to improve DoD compliance with the Improper Payments Elimination and Recovery Act and reduce improper payments: chartered the Improper Payments Senior Accountable Officials Steering Committee; closed 11 audit recommendations related to improper payments and communicated lessons learned; included approximately \$25 billion of additional payments in our improper payments testing to support our universe of payments and ensure more accurate reporting; and developed a collaborative corrective action plan, adopted and endorsed by the DoD Components. The Office of the Under Secretary of Defense (Comptroller) welcomes collaboration with the DoD Office of Inspector General to ensure our efforts are synchronized to produce only the most substantive and value-added program improvements.

Thank you for the opportunity to comment on the draft report. We appreciate your review of this program and my office will work timely to resolve your recommendations. My staff point of contact is Mr. [REDACTED].

Mark E. Easton  
Deputy Chief Financial Officer

Attachment:  
As stated



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

DOD IG DRAFT REPORT - DATED APRIL 12, 2019

PROJECT NO. D2018-D000FL-0195.000

“AUDIT OF THE DOD’s FY 2018 COMPLIANCE WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT REQUIREMENTS”

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

### RECOMMENDATION 1

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

- a. Include annually in the Agency Financial Report the justification and summary of the analysis Component personnel performed to determine that a payment recapture audit program is not cost-effective for a program that does not use one.

OUSDC RESPONSE TO 1a: Concur. Beginning in fiscal year (FY) 2019, OUSDC will include annually in the Agency Financial Report a summary of the analyses that DoD Component personnel performed to determine that payment recapture audit programs are not cost-effective. Estimated completion date is November 2019.

- b. Coordinate with the Components to analyze whether it would be cost-effective to implement payment recapture audit programs for each of the DoD programs.

OUSDC RESPONSE TO 1b: Concur. In FY 2011, DoD notified the Office of Management and Budget (OMB) that payment recapture audits were not effective. Following the enactment of the Recovery Auditing Act of 2002, DoD awarded several recovery audit contracts. In nearly every instance, the private sector firms were not able to establish an adequate profit margin as a result of too few improper payments being validated for collection; consequently, the firms requested that their contracts be terminated. OUSDC will, however, coordinate with the Components to reevaluate the Department’s longstanding position that payment recapture audit programs are not cost-effective. The results of the evaluation will serve as DoD’s final position on payment recapture audit programs. Estimated completion date is October 2019.

- c. Ensure that, for each program reporting significant improper payments, Components report the results of corrective actions and include the results in the Agency Financial Report.

OUSDC RESPONSE TO 1c: Concur. OUSDC will work with the Components to include the results of corrective actions and milestones that have been completed in the Agency Financial Report for each program reporting significant improper payments. Estimated completion date is November 2019.

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

- d. Ensure that Components establish aggressive yet realistic improper payment reduction targets for each program.

OUSD(C) RESPONSE TO 1d: Non-concur. DoD's improper payment reduction targets for each program are aggressive and realistic and compare favorably to other federal programs. For reduction targets established below one half of one percent, any further decreases are unreasonable and negatively impact the cost effectiveness of the program. Additionally, Enterprise Risk Management guidance allows for an acceptable level of risk in all programs, which we believe we have identified in the majority of our improper payment programs, based on our reporting of consistently low improper payment rates in these programs since FY 2011. OUSD(C) will continue to work with OMB to establish a realistic "floor" for self-imposed reduction targets and define acceptable levels of risk for improper payments.

- e. Submit to the Office of Management and Budget and Congress, within 30 days of this report's issuance:

- Reauthorization proposals or proposed statutory changes necessary to bring the Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, and Commercial Pay programs into compliance.
- A report detailing actions the DoD has taken to complete the requirements for 1, 2, 3, and 4 years of noncompliance by the DoD Travel Pay program, and describing the corrective actions taken and planned to prevent and reduce improper payments.

OUSD(C) RESPONSE TO 1e: Partially Concur. OUSD(C) acknowledges the statutory requirement supporting this recommendation; however, we contend that compliance can and will be achieved through internal actions such as root cause analysis, developing corrective actions, and providing proactive oversight through the DoD Improper Payments Senior Accountable Officials Steering Committee. OUSD(C) will submit a letter to OMB and the Congress, stating that reauthorization and statutory changes are not necessary to bring the Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, and Commercial Pay programs into compliance with Public Law 111-204. Additionally, OUSD(C) will update and submit to OMB and the Congress, the letter sent in 2018 detailing the actions DoD took to complete the requirements for 1, 2, 3, and 4 years of noncompliance by the DoD Travel Pay program, and describing the corrective actions taken and planned to prevent and reduce improper payments. Estimated completion date is August 2019.

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

### RECOMMENDATION 2

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Defense Finance and Accounting Service Director:

- a. Develop a process that uses the amount paid for the Commercial Pay and DoD Travel Pay programs.

OUSD(C) RESPONSE TO 2a: Concur. OUSD(C) has coordinated with the Defense Finance and Accounting Service (DFAS) and requested that they develop improper payment testing processes that use the amount paid for the Enterprise Business System (EBS) and the Defense Travel System (DTS). DFAS is currently working to use the amount paid for testing payments made in EBS and they plan to implement this testing change by FY 2020. For DTS, DFAS is currently working with the Defense Travel Management Office (DTMO) to obtain the amount paid per claim by traveler and they also plan to implement this testing change by FY 2020. It should be noted, however, DFAS does use the amount paid for reporting outlays and testing all other system payments in both the Commercial Pay and Travel Pay programs. Estimated completion date is August 2019.

- b. Develop and implement sufficient control measures in the population review process to ensure that the DoD includes all necessary payments for Military Pay, Civilian Pay, Military Retirement, and DoD Travel Pay populations and reports accurate improper payment estimates in the Agency Financial Report.

OUSD(C) RESPONSE TO 2b: Concur. OUSD(C) has coordinated with DFAS and requested that they develop and implement sufficient control measures in the population review process to ensure that DoD includes all necessary payments for Military Pay, Civilian Pay, Military Retirement, and DoD Travel Pay populations and reports accurate improper payment estimates in the Agency Financial Report. DFAS has taken appropriate internal actions to ensure the integrity and completeness of the payment populations they test and review. Additionally, DFAS has worked with the Defense Manpower Data Center (DMDC) to ensure that the data received from DMDC excludes non-DoD entities and any further exclusions are controlled and administered by DFAS. Estimated completion data is August 2019.

### RECOMMENDATION 3

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Defense Finance and Accounting Service Director and the Military Services, conduct a risk assessment of military academy cadet payments and, as necessary, develop and implement procedures to obtain the population, sample transactions, and review military academy cadet payments for improper payments and report the results to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, for the annual Agency Financial Report.

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

OUSD(C) RESPONSE TO 3: Concur. OUSD(C) has coordinated with DFAS and requested that they work with the Military Services to conduct a risk assessment of military academy cadet payments and, as necessary, develop and implement procedures to obtain the population, sample transactions, and review military academy cadet payments for improper payments and report the results to OUSD(C) for the annual Agency Financial Report. In 2018, DFAS pulled a sample of approximately 100 payments from each of the three academies representing two months of data (August and November). DFAS distributed the samples to representatives from each of the three applicable Military Services with an agreement that each Service will provide supporting documentation for individual entitlement per cadet. The target date for the Military Services to provide DFAS with supporting documentation is April 2019, which will provide DFAS sufficient time to complete the risk assessment and report the results to OUSD(C) for inclusion in the FY 2019 Agency Financial Report. Estimated completion date is November 2019.

### RECOMMENDATION 4

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Defense Health Agency Director, develop and implement procedures to incorporate Military Health Benefits program payments for Administrative and Other payments in a statistically valid sampling and estimation plan that complies with current Office of Management and Budget guidance for testing all payments and producing valid improper payment estimates.

OUSD(C) RESPONSE TO 4: Concur. OUSD(C) has started working with the Defense Health Agency (DHA) to develop and implement procedures to incorporate Military Health Benefits program payments for administrative and other payments in a statistically valid sampling and estimation plan that complies with current OMB guidance for testing all payments and producing valid improper payment estimates. To effectively meet all OMB requirements for administrative and other program disbursements, DHA will implement new service contract requirements to acquire additional workforce needed to perform internal post payment reviews. Preliminary analysis indicates that DHA currently has adequate information/documentation to validate some administrative payments, while other administrative payments will require additional documentation from contractors to support invoices. Regarding payments where DHA currently has adequate information, DHA is implementing steps to develop internal validation procedures. These procedures will include statistical sampling activities if the magnitude of data supports such a requirement. Estimated completion date for these validation procedures is January 2020. Regarding payments where additional information from contractors is required, DHA will implement contract modifications and policy clarification regarding administrative and other program disbursements. Estimated completion date for these modifications is April 2021.

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

### RECOMMENDATION 5

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Defense Finance and Accounting Service Director and other DoD Components, establish an improper payment review process for the Civilian Pay program that examines supporting documentation and verifies that civilian employees are eligible for the payments that they received.

OUSDC(C) RESPONSE TO 5: Concur. OUSDC(C) will coordinate with DFAS to update the Standard Operating Procedures (SOPs) for post-payment reviews of Civilian Pay accounts. The updated SOPs will require reviewers to verify that civilian employees are eligible for the payments they receive, including special pay and allowances, by validating the information included in pay accounts with supporting documentation. This process change will require extensive coordination across the Department and impact all DoD Components. However, this level of review will enable the Department to fully assess the risks in its Civilian Pay program and develop more effective corrective action plans. Estimated completion date is October 2020.



## Acronyms and Abbreviations

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<b>AFR</b>	Agency Financial Report
<b>DFAS</b>	Defense Finance and Accounting Service
<b>DHA</b>	Defense Health Agency
<b>DTS</b>	Defense Travel System
<b>ESS</b>	Enterprise Solutions and Standards
<b>FMR</b>	Financial Management Regulation
<b>FMSC</b>	Financial Management Support Center
<b>IPERA</b>	Improper Payments Elimination and Recovery Act
<b>OMB</b>	Office of Management and Budget
<b>OUS(D)/CFO</b>	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
<b>SOP</b>	Standard Operating Procedure
<b>USACE</b>	U.S. Army Corps of Engineers
<b>USAFMCOM</b>	U.S. Army Financial Management Command



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## **U.S. DEPARTMENT OF DEFENSE**

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