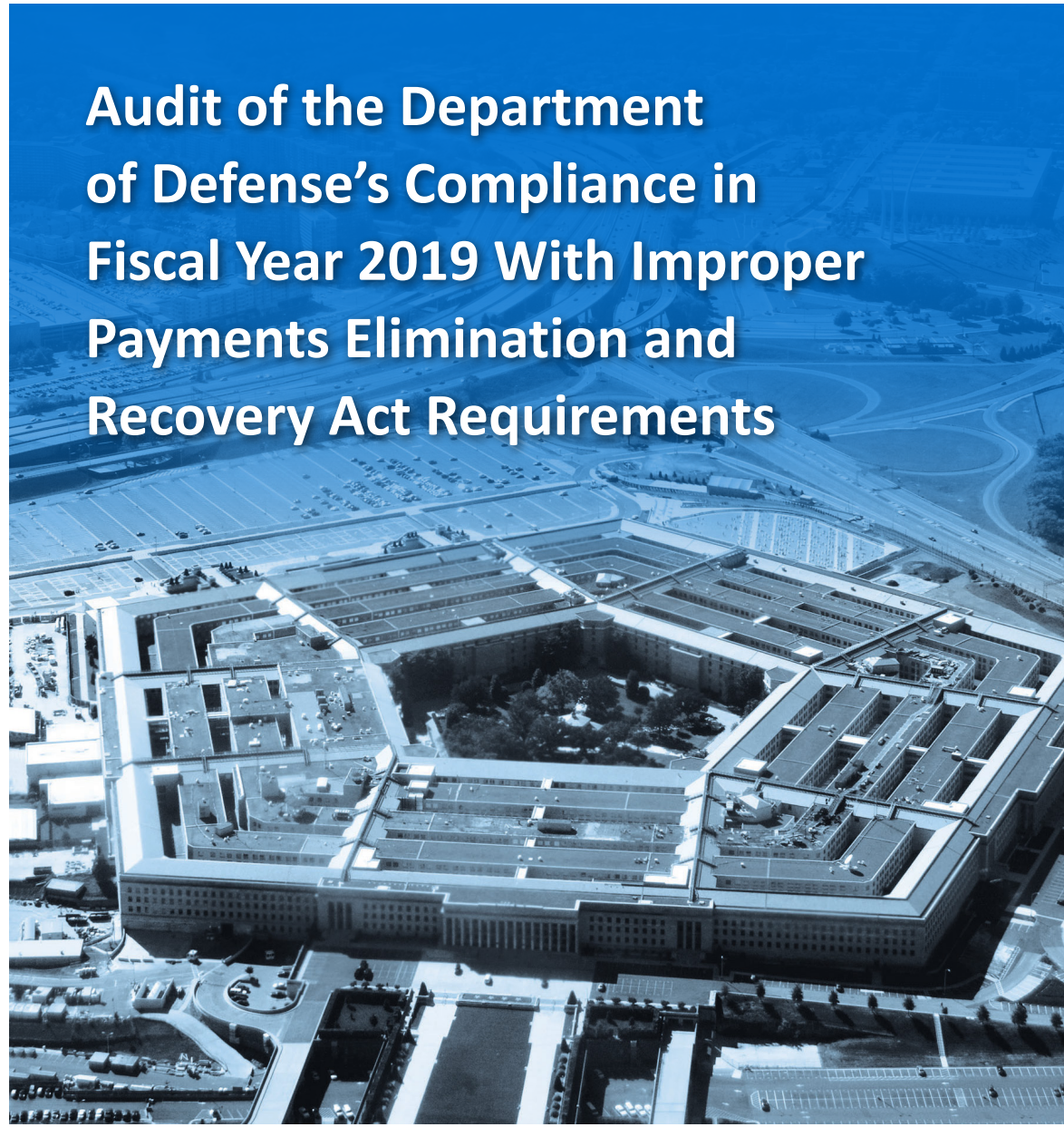




INSPECTOR GENERAL

U.S. Department of Defense

MAY 1, 2020



Audit of the Department of Defense's Compliance in Fiscal Year 2019 With Improper Payments Elimination and Recovery Act Requirements

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Audit of the Department of Defense's Compliance in Fiscal Year 2019 With Improper Payments Elimination and Recovery Act Requirements

May 01, 2020

Objective

The objective of this audit was to determine whether the DoD complied with the requirements of three laws related to identifying and reporting on improper payments in the DoD. The three laws are Public Law No. 107-300, "Improper Payments Information Act of 2002," November 26, 2002, as amended by Public Law No. 111-204, "Improper Payments Elimination and Recovery Act (IPERA) of 2010," and Public Law No. 112-248, "Improper Payments Elimination and Recovery Improvement Act of 2012." In this report, we referred to the three Acts as IPERA.¹

Background

IPERA requires Federal agencies to review their 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 in those programs. IPERA also requires agency Inspectors General to evaluate agency compliance with six IPERA requirements each fiscal year. The DoD must meet all of the requirements to comply with IPERA.

The President's Management Agenda of 2018 focuses on effective and modern Government capabilities, including a focus on effective stewardship of taxpayer funds through

¹ On March 2, 2020, the President signed the "Payment Integrity Information Act of 2019" into law (Public Law No. 116-117), which repeals and replaces IPERA. However, since the DoD's FY 2019 improper payment reporting occurred prior to the new law being signed, the "Payment Integrity Information Act of 2019" is outside of the scope of this audit. Therefore, we used IPERA to determine whether the DoD complied with FY 2019 improper payment reporting requirements.

Background (cont'd)

11 Cross-Agency Priority (CAP) goals. CAP Goal 9, "Getting Payments Right," discusses saving taxpayer money by making payments correctly and collecting money back from incorrect payments. Following the issuance of CAP Goal 9, the Office of Management and Budget updated Circular No. A-123, Appendix C, to seek to ensure that agencies focus on improper payment prevention and have incentives to improve their improper payment rates. IPERA and the Office of Management and Budget 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 not received. However, improper payments do not always result in an actual monetary loss to the Government.

On November 15, 2019, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO), published the Payment Integrity section of the FY 2019 Agency Financial Report (AFR). The AFR reported \$8.7 billion in estimated improper payments for eight DoD programs, which was an increase from the \$1.2 billion, for the same eight programs that were reported in the FY 2018 AFR.

Finding

The DoD complied with four of the six IPERA requirements by publishing all required information in the Payment Integrity section of the AFR; conducting program-specific risk assessments, if required; publishing corrective action plans; 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 2019 AFR.

However, while the DoD continued to make improvements in its FY 2019 reporting of IPERA requirements, the DoD did not comply with the remaining two IPERA requirements. Specifically, the DoD published unreliable improper payment estimates for five programs and missed its annual improper payment reduction targets for three programs. We determined that the DoD did not publish reliable improper payment



Results in Brief

Audit of the Department of Defense's Compliance in Fiscal Year 2019 With Improper Payments Elimination and Recovery Act Requirements

Finding (cont'd)

estimates for five programs because the DoD did not fully implement corrective actions, such as developing a process to use amounts paid for the Commercial Pay and DoD Travel Pay programs that the DoD Office of Inspector General (OIG) recommended in prior IPERA compliance audit reports. Additionally, the Defense Finance and Accounting Service personnel did not follow the Military Retirement program's sampling and estimation plan by inadvertently using net-pay amounts, instead of gross-pay amounts to calculate the improper payment estimate.²

In addition, the DoD did not meet its FY 2019 reduction targets for the Military Pay, Civilian Pay, and Military Health Benefits programs. According to Office of the USD(C)/CFO (OUSD[C]/CFO) personnel, the Military Pay program did not meet its target because the DoD revised its testing methodology and, as a result, the improper payment rate increased by 6.95 percent. The Civilian Pay program did not meet its target because the Defense Finance and Accounting Service personnel did not use a sufficient methodology for testing the transactions and estimating the improper payments. Furthermore, the Military Health Benefits program did not meet its target because one of its contractors did not accurately process claims for health benefits.

As a result of these actions, the DoD did not fully comply with improper payment reporting requirements for the 8th consecutive year.

In FY 2019, the DoD improper payment estimate increased by \$7.5 billion. The AFR attributed the majority of this increase, \$7.1 billion, to the DoD implementing a more extensive improper payment review of the Military Pay program. By not effectively implementing the corrective actions related to improper payment estimates and reduction targets from prior year audit recommendations for all its programs, the

DoD continued to report unreliable improper payment estimates for five of the eight programs and continued to miss opportunities to promptly detect, prevent, and recover improper payments.

When improper payment 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. As the DoD continues to implement corrective actions within its improper payment program, it moves closer to meeting CAP Goal 9 to save taxpayer money by making proper payments and recovering money from improper payments.

Recommendations

We recommend that the USD(C)/CFO:

- coordinate with the Defense Finance and Accounting Service and other DoD Components to update the Travel Pay sampling and estimation plans, including the population of travel payments processed through the Defense Travel Modernization system; and
- submit to the Office of Management and Budget and Congress, within 30 days of this report's issuance, the required report and planned corrective actions based on DoD program noncompliance with IPERA.

We also recommend that the Deputy Director of Enterprise Audit Support for the Defense Finance and Accounting Service:

- develop and implement internal controls to ensure that the development of the Military Retirement program's improper payment estimate is complete and accurate; and
- develop and implement complete standard operating procedures of the Military Retirement improper payment review process.

² Gross Pay is the amount of money an individual receives before any taxes and deductions are taken out. Net Pay is the amount of money an individual receives after all deductions have been taken out.



Results in Brief

Audit of the Department of Defense's Compliance in Fiscal Year 2019 With Improper Payments Elimination and Recovery Act Requirements

Management Comments and Our Response

The Deputy Chief Financial Officer (DCFO), responding for the USD(C)/CFO and the Defense Finance and Accounting Service Deputy Director of Enterprise Audit Support, agreed with all recommendations and addressed the specifics of the recommendations; therefore, the recommendations are resolved but will remain open. We will close the recommendations once we verify that the actions presented by management have been implemented. Please see the Recommendations Table on the next page for the status of recommendations.

In addition, although not required to comment, the Acting Director, Army Financial Services, U.S. Army Financial Management Command commented on the finding, stating that Army Financial Services concurred with the finding. However, the Acting Director requested that we modify the language in Appendix C of this report to state that two recommendations made in a prior DoD OIG IPERA audit are completed. We agreed to modify the language in Appendix C to reflect actions the Army has taken to close the recommendations. However, we will determine whether we can close the recommendation during the FY 2020 annual improper payment audit.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD	None	1.a, 1.b	None
Deputy Director Enterprise Audit Support, Defense Finance and Accounting Service	None	2.a, 2.b	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 01, 2020

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Audit of the Department of Defense's Compliance in Fiscal Year 2019
With Improper Payments Elimination and Recovery Act Requirements
(Report No. DODIG-2020-083)

This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD and the Deputy Director Enterprise Audit Support, Defense Finance and Accounting Service, agreed to address all the recommendations presented in the report; therefore, the recommendations are considered resolved and open. As described in the Recommendations, Management Comments, and Our Response section of this report, the recommendations may be closed when we receive adequate documentation showing that all agreed upon actions to implement the recommendations have been completed. Therefore, please provide us within 90 days your response concerning specific actions in process or completed on the recommendations.

If you have any questions, please contact me at [REDACTED].
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

Objective

The objective of this audit was to determine whether the DoD complied with the requirements of three laws related to identifying and reporting on improper payments in the DoD. The three laws are the Public Law No. 107-300 “Improper Payments Information Act of 2002,” November 26, 2002, as amended by the “Improper Payments Elimination and Recovery Act (IPERA) of 2010,” and the “Improper Payments Elimination and Recovery Improvement Act of 2012,” in its reporting of FY 2019 improper payments. In this report, we referred to the three Acts as IPERA.³ IPERA requires agency Offices of Inspector General, including the DoD Office of Inspector General (DoD OIG), to complete this audit each fiscal year.⁴ See Appendix A for the audit scope and methodology and Appendix B for prior audit coverage related to the audit objective.

Background

IPERA requires Federal agencies to review their 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 in those programs.

The President’s Management Agenda of 2018 focuses on effective and modern Government capabilities, including a focus on effective stewardship of taxpayer funds. It established Cross-Agency Priority (CAP) goals to target those areas where agencies must work together to effect change. Of the 11 CAP goals, the objective of CAP Goal 9, “Getting Payments Right,” discusses saving taxpayer money by making payments correctly and collecting money back from incorrect payments. A cross-agency team developed an action plan to achieve two main goals:

- better understand the nature of improper payments and find actionable solutions to prevent and detect them, and
- demonstrate stewardship of taxpayer dollars by prioritizing the prevention of improper payments resulting in monetary loss.

³ 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.

Public Law No. 112-248, “Improper Payments Elimination and Recovery Improvement Act of 2012,” January 10, 2013.

⁴ On March 2, 2020, the President signed the “Payment Integrity Information Act of 2019” into law (Public Law No. 116-117), which repeals and replaces IPERA. However, since the DoD’s FY 2019 improper payment reporting occurred prior to the new law being signed, the “Payment Integrity Information Act of 2019” is outside of the scope of this audit. Therefore, we used IPERA to determine whether the DoD complied with FY 2019 improper payment reporting requirements.

The Office of Management and Budget (OMB) provides guidance for agencies to implement IPERA requirements.⁵ Following the issuance of CAP Goal 9, OMB updated Circular No. A-123, Appendix C, to seek to ensure that agencies focus on improper payment prevention and have incentives to improve their improper payment rates. 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 not received. However, an improper payment does not always result in an actual monetary loss to the Government. For example, if an agency paid a recipient the correct amount, but the agency could not find the necessary supporting documentation when reviewing the payment for accuracy, the reviewing agency would classify the payment as an improper payment. Such improper payments signal weak internal controls not allowing validation that the payment was in the right amount, to the right entity, and for the right purpose, which could expose the Government to other more tangible losses.

IPERA Compliance Requirements

IPERA requires agencies to produce statistically valid estimates 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 Inspector General to evaluate the agency's compliance with IPERA requirements each fiscal year. The DoD must meet all 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 by OMB guidance onto the agency website.
- Conduct a program-specific risk assessment for each program or activity, if required.⁶
- 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.

⁵ OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016, Appendix C, "Requirement for Payment Integrity Improvement," June 26, 2018.

OMB Circular No. A-136, "Financial Reporting Requirements," June 28, 2019.

⁶ OMB does not require risk assessments from programs that report an estimate.

- 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 No. A-123, Appendix C, “Requirement for Payment Integrity Improvement,” June 26, 2018:
 - consolidates and streamlines reporting requirements of IPERA for agencies and Inspectors General;
 - provides guidance to agencies to strengthen the statistical validity of improper payment estimates and provides an internal control framework for agencies to ensure that agency personnel make payments in the right amount, to the right entity, and for the right purpose;
 - describes what agencies must do to comply with the law, and identifies what the OIG should review to determine whether the agency complied with the six requirements of the law; and
 - 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.
- OMB Circular No. A-136, “Financial Reporting Requirements,” June 28, 2019:
 - establishes a central point of reference for all Federal financial reporting guidance for agencies that are required to issue audited financial statements and an Agency Financial Report (AFR); and
 - 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.

DoD Financial Management Regulation

DoD Regulation 7000.14-R 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 improper payments.⁷ The DoD Financial Management Regulation also states that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSDC)/CFO, Financial Management Policy and Reporting Director:

- oversees DoD improper payment reporting;
- reviews Component plans to ensure completeness;

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

- reviews and consolidates Component information for inclusion in the AFR;
- reviews Component AFR submissions to ensure that they meet reporting requirements; and
- prepares DoD improper payment reports for the AFR and for submission to OMB.⁸

DoD Agency Financial Report

The USD(C)/CFO published the Payment Integrity section of the DoD FY 2019 AFR on November 15, 2019, stating that the reduction of improper payments and compliance with IPERA continue to be top financial management priorities for the DoD. The AFR reported \$8.7 billion in estimated improper payments for eight programs. Of the \$8.7 billion, \$1.1 billion related to overpayments, underpayments, and technically improper payments, and \$7.6 billion related to unknown payments.

According to the AFR, technically improper payments are payments that are improper due to noncompliance with statutes or regulations and unknown payments are payments with insufficient supporting documentation available to review and determine whether or not the payment was proper.

In FY 2019, the AFR reported \$8.7 billion in estimated improper payments, which is an increase from the \$1.2 billion reported in the FY 2018 AFR. The AFR attributes a majority of the increase in improper payments, \$7.1 billion, to the significant change in the Military Pay program estimate as a result of the change in its sampling and estimation methodology, which it believes more accurately reflects the level of potential improper payments. Table 1 shows the outlays, estimated improper payment total, and estimated improper payment rate for each of the eight programs the DoD reported.⁹

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

⁹ The DoD Financial Management Regulation defines outlays as the amount of checks issued or other payments made, including advances, net refunds, and reimbursements.

Table 1. DoD FY 2019 Improper Payment Reporting

Program Name	FY 2019 Outlays (in Millions)	Estimated Improper Payment Total (in Millions)	Estimated Improper Payment Rate* (Percent)
Military Health Benefits	\$23,685.24	\$411.45	1.74
Military Pay	102,742.39	7,450.26	7.25
Civilian Pay	66,980.02	96.69	0.14
Military Retirement	71,572.63	287.37	0.40
DoD Travel Pay	7,700.69	366.49	4.76
Commercial Pay	315,096.92	19.25	0.01
U.S. Army Corps of Engineers (USACE) Travel Pay	237.33	0.90	0.38
USACE Commercial Pay	20,401.52	47.81	0.23
Total	\$608,416.74	\$8,680.22	1.43

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

Source: The DoD FY 2019 AFR.

IPERA states that a program or activity has 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 four of its programs had significant improper payments in FY 2019: Military Health Benefits, Military Pay, Military Retirement, and DoD Travel Pay. OMB guidance requires an agency to publish a description of its corrective action plans only for programs with significant improper payments.

Roles and Responsibilities

The OUSD(C)/CFO oversees DoD IPERA reporting, including ensuring that the reporting process contains appropriate controls. The following DoD Components sample, review, and report 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.
- **U.S. Army Corps of Engineers (USACE) Finance Center** reports on USACE Travel Pay and USACE Commercial Pay.

Improper Payment Estimation Process

For each of their programs, DoD 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 are required to:

- develop a statistically valid sampling and estimation plan;
- identify a complete and accurate population (set of data transactions) of payments that will be subject to review and select a valid sample of those payments;
- 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.

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

Figure. DoD Improper Payment Estimates Process



Source: The DoD OIG.

Components are also required to 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, to evaluate the effectiveness of the controls, and to submit an annual statement of assurance based on their assessment of the effectiveness of their internal controls.¹⁰ The DoD did not comply with two of the six IPERA requirements when it reported its FY 2019 improper payments. Although the DoD continues to improve its reporting of IPERA, 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.

¹⁰ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

The DoD Did Not Fully Comply With IPERA Requirements

The DoD did not fully comply with IPERA in reporting its improper payments. The DoD complied with four of the six IPERA requirements by publishing all required information in the Payment Integrity section of the AFR; conducting program-specific risk assessments, if required; publishing corrective action plans; 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 2019 AFR. However, the DoD did not comply with the two remaining IPERA requirements. Specifically, the DoD published unreliable improper payment estimates and missed its annual improper payment reduction targets.

The DoD did not comply with the IPERA requirement by not publishing reliable improper payment estimates for five of the eight programs. Specifically, the DoD did not:

- identify accurate and complete populations for improper payment reviews of Military Retirement, Commercial Pay, and DoD Travel Pay populations. For example, the DoD incorrectly excluded \$2.6 billion in Commercial Pay transactions. The DoD did not have accurate and complete populations because DFAS personnel did not follow the Military Retirement program's sampling and estimation plan by inadvertently using net pay amounts to calculate the Military Retirement improper payment estimate, instead of gross pay amounts. Additionally, the DoD did not fully implement corrective actions the DoD OIG recommended in prior IPERA compliance audit reports.
- conduct adequate improper payment reviews for \$5 billion in Military Health Benefits and \$67 billion in Civilian Pay outlays. The improper payment reviews conducted for the Military Health Benefits and Civilian Pay programs did not adequately identify improper payments because the DoD did not fully implement the corrective actions recommended in the DoD OIG's FY 2018 IPERA compliance report.
- implement statistically valid sampling and estimation plans at the Army's overseas locations for the DoD Travel Pay and Commercial Pay programs. The DoD did not fully implement corrective actions the DoD OIG recommended in prior IPERA compliance audit reports because the Army did not have sufficient resources to devote to the effort.

In addition, the DoD did not meet its FY 2019 reduction targets for the Military Pay, Civilian Pay, and Military Health Benefits programs. According to OUSD(C)/CFO personnel, the Military Pay program did not meet its target because the DoD revised its testing methodology, and as a result the improper payment rate increased by 6.95 percent. The Civilian Pay program did not meet its target because DFAS personnel did not use a sufficient methodology for testing the transactions and estimating the improper payments. The Military Health Benefits program did not meet its target because one of its contractors did not accurately process health benefits claims.

As a result of these actions, the DoD did not fully comply with improper payment reporting requirements for the 8th consecutive year. In FY 2019, the DoD improper payment estimate increased by \$7.5 billion. The AFR attributed the majority of this increase, \$7.1 billion, to the DoD implementing a more extensive improper payment review of the Military Pay program. By not fully implementing the corrective actions related to improper payments and reduction targets from prior year audit recommendations and not following sampling and estimation plans, the DoD continued to report unreliable improper payment estimates and continued to miss opportunities to promptly detect, prevent, and recover improper payments.

When improper payment 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. As the DoD continues to implement corrective actions within its improper payment program, it moves closer to meeting CAP Goal 9 – to save taxpayer money by making proper payments and recovering money from improper payments.

The DoD Complied With Four of Six IPERA Reporting Requirements

The DoD continued to make improvements in its FY 2019 reporting of IPERA requirements, and complied with four of the six IPERA requirements in FY 2019.

the DoD published all the required information in the Payment Integrity section of the AFR; conducted program-specific risk assessments, if required; published corrective action plans; 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 2019 AFR. Table 2 identifies DoD compliance or noncompliance with the IPERA reporting requirements by program.

The DoD continued to make improvements in its FY 2019 reporting of IPERA requirements, including providing results of corrective action plans, and the DoD complied with four of the six IPERA requirements in FY 2019. Specifically,

Table 2. IPERA Compliance by Requirement and Program

Program Name	AFR Published In Accordance With OMB Guidance ¹	Conducted Risk Assessment ²	Published Improper Payment Estimate ³	Published Corrective Action Plan ⁴	Published and Met Reduction Targets	Improper Payment Rate Under 10 Percent
Military Health Benefits		N/A	✗ ⁵	✓	✗	✓
Military Pay		N/A	N/D	✓	✗	✓
Civilian Pay		N/A	✗ ⁵	N/A	✗	✓
Military Retirement		N/A	✗	✓	✓	✓
DoD Travel Pay		N/A	✗ ⁵	✓	✓	✓
Commercial Pay		N/A	✗ ⁵	N/A	✓	✓
USACE Travel Pay		N/A	✓	N/A	✓	✓
USACE Commercial Pay		N/A	✓	N/A	✓	✓
Overall Compliance	✓	✓	✗	✓	✗	✓

Legend

N/A = Not Applicable

N/D = Not Determined (see “The DoD Published Unreliable Improper Payment Estimates” section of this report for additional information)

✓ = Compliant

✗ = Not Compliant

Note: Programs determined to be susceptible to significant improper payments are Military Health Benefits, Military Pay, Military Retirement, and DoD Travel Pay.

¹ 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.² OMB guidance only requires risk assessments for programs not reporting estimates. All DoD programs reported estimates for FY 2019.³ See Table 3 of this report for further explanation on how we determined compliance for publishing improper payment estimates.⁴ OMB guidance requires an agency to publish a description of its corrective action plans only for programs with significant improper payments.⁵ Noncompliance is due to the DoD not fully implementing corrective actions to address prior audit recommendations.

Source: The DoD OIG.

The DoD Published Required Information in the Agency Financial Report

The DoD met OMB requirements to publish the AFR by publishing it on November 15, 2019, and by publishing complete and accurate information about DoD actions to identify, correct, and prevent improper payments in each of its programs. In the AFR, the OUSD(C)/CFO reported each program outlays, estimated correct and incorrect payment amounts, estimated improper payment rates, identified root causes for underpayments and overpayments, and published reduction targets for FY 2020, as required.¹¹ The AFR also described the planned corrective actions for each program, which included the planned and actual completion dates, and linked the actions to root causes for the improper payments.

• The USD(C)/CFO improved its reporting of the Recapture of Improper Payments Reporting section of the AFR.

In addition, the USD(C)/CFO improved its reporting of the Recapture of Improper Payments Reporting section of the AFR by including actions taken to recover improper payments and a justification for the DoD's

determination that it was not cost effective to perform recovery audits for seven of the eight DoD programs. Because the DoD has not performed an analysis of the cost effectiveness of implementing improper payment recapture audits for the seven programs since 2011, the DoD OIG recommended in its FY 2018 IPERA compliance audit report that the USD(C)/CFO, in coordination with the Components, complete a new analysis.¹² OUSD(C)/CFO personnel stated that they will complete a new analysis; however, they estimated that the analysis will not be complete until November 2020.

The DoD Conducted Risk Assessments if Required

The DoD complied with the requirement to conduct program-specific risk assessments. IPERA requires the head of the agency to periodically review all programs and activities and identify all programs and activities that may be susceptible to significant improper payments, in accordance with OMB guidance. OMB Circular No. A-123, Appendix C, requires agencies to perform a risk assessment at least once every 3 years for

• The DoD reported an estimate for the eight programs susceptible to improper payments. Therefore, those programs did not have to perform a separate risk assessment.

¹¹ The Military Pay and Civilian Pay programs reported in the FY 2019 AFR that they were not establishing a reduction target for FY 2020 because of substantial changes in the review processes. The DoD reported in the AFR and to OMB that it will establish a baseline for these two programs before developing new reduction targets.

¹² Report No. DODIG-2019-087, "Audit of the DoD's FY 2018 Compliance With the Improper Payments Elimination and Recovery Act Requirements," May 15, 2019, Recommendation 1.b.

every program and activity that is not already reporting an improper payment estimate. In the FY 2019 AFR, the DoD reported an estimate for the eight programs susceptible to improper payments. Therefore, those programs did not have to perform a separate risk assessment and report the results in FY 2019.

In FY 2019, in response to a DoD OIG recommendation, DFAS personnel completed a risk assessment of payments made to military academy cadets and midshipmen, which in prior years the DoD did not include in the Military Pay program estimates.¹³ According to the AFR, the DoD determined that payments to the academy cadets were not required to be tested annually and, therefore, established military academy cadet pay as a separate program for FY 2020. OUSD(C)/CFO and DFAS personnel stated that the DoD will continue to perform a risk assessment of military cadet pay every 3 years, as required by OMB Circular No. A-123.

Additionally, in response to a DoD OIG recommendation addressing the Commercial Pay program, the DoD examined the results of post-payment audits conducted by General Services Administration (GSA) personnel on DoD payments for “Transportation of Things” (transportation payments).¹⁴ The GSA is required to perform post-payment audits of every agency’s transportation payments.¹⁵ According to the AFR, DoD personnel concluded that they could rely on GSA’s reviews for IPERA reporting purposes. However, GSA personnel stated that they did not have sufficient information to audit small parcel shipments, and the GSA did not test for underpayments. According to the AFR, as a result of the risk assessment, beginning in FY 2020, the DoD will report GSA’s post-payment audit results as part of the DoD’s Payment Integrity program, while working to assess the risk of underpayments and improper payments related to small parcel shipments.

The DoD Published Complete Corrective Action Plans

The DoD published corrective action plans in the AFR for four programs—Military Health Benefits, Military Pay, Military Retirement, and DoD Travel Pay—that included all of the information required by OMB guidance.¹⁶ IPERA and OMB guidance requires programs reporting significant improper payments to identify the cause of the improper payments, actions taken to reduce improper payments, planned or actual completion dates, and the results of actions taken.¹⁷

¹³ Report No. DODIG-2019-087, “Audit of the DoD’s FY 2018 Compliance With the Improper Payments Elimination and Recovery Act Requirements,” May 15, 2019, Recommendation 3.

¹⁴ Report No. DODIG-2019-039, “Reporting of Improper Payments for the Defense Finance and Accounting Service Commercial Pay Program,” December 21, 2018, Recommendation 1.a.

OMB Circular No. A-11, 2019, defines “Transportation of Things” as transportation of things (including animals), the care of such things while in process of being transported, and other services incident to the transportation of things. It does not include “travel and transportation of persons.”

¹⁵ Title 31, United States Code, section 3726, “Payment for Transportation.”

¹⁶ OMB Circular No. A-136 and OMB Circular No. A-123, Appendix C.

¹⁷ Public Law No. 111-204, “Improper Payments Elimination and Recovery Act of 2010,” July 22, 2010, and OMB Circular No. A-136.

In response to a FY 2018 audit recommendation, the USD(C)/CFO ensured that the AFR included the results of corrective actions taken, as reported in the program

The DoD has improved its corrective action plan reporting over the last 3 years.

corrective action plans.¹⁸ The DoD has improved its corrective action plan reporting over the last 3 years, and, as a result, the DoD included all of the

required corrective action plan information for each of the programs that reported significant improper payments in the FY 2019 AFR. DFAS personnel updated their corrective action plan for the Military Retirement program to make it more focused, with targeted corrective actions with measurable results. For example, DFAS personnel determined that a common error for the Military Retirement program is that Survivor Benefit Plans are established incorrectly. As a result, the updated corrective action plan includes system change requests to eliminate manual processing for the Survivor Benefit Program, which DFAS personnel anticipate will reduce the manual errors that result in improper payments.

According to OUSD(C)/CFO personnel, they performed a deep dive review of the corrective action plans for the programs determined to be susceptible to improper payments in FY 2019. Additionally, OUSD(C)/CFO personnel stated that, in January 2020, they updated the corrective action plan templates and guidance they send to the Components, based on audit recommendations. OUSD(C)/CFO personnel also stated that they have initiated a Corrective Action Plan Milestone Scorecard to document and track milestones for corrective action plans, which OUSD(C)/CFO personnel intend to use to provide quarterly updates to the Improper Pay Senior Accountable Official Steering Committee.

The DoD Reported Improper Payment Rates of Less Than 10 Percent as Required

The DoD met the IPERA requirement to report a gross 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 Military Pay program had the highest improper payment rate at 7.25 percent, and the DoD Travel Pay program reported a 4.76 percent improper payment rate.

Although the DoD reported improper payment rates of less than 10 percent, the accuracy of the improper payment rates reported for the Military Health Benefits, Civilian Pay, Military Retirement, DoD Travel Pay, and Commercial Pay programs could not be determined because of the uncertainties in the reliability of the data used to calculate improper payment rates.

¹⁸ Report No. DODIG-2019-087, "Audit of the DoD's FY 2018 Compliance With the Improper Payments Elimination and Recovery Act Requirements," May 15, 2019, Recommendation 1.c.

The DoD Did Not Comply With Two of Six IPERA Requirements

The DoD did not fully comply with two of the six IPERA requirements. Specifically, the DoD did not publish reliable improper payment estimates for five of eight programs and did not meet its annual improper payment reduction targets.

The DoD did not publish reliable improper payment estimates for five of eight programs and did not meet its annual improper payment reduction targets.

The DoD Published Unreliable Improper Payment Estimates

Although the DoD published improper payment estimates in the FY 2019 AFR for all eight programs, it did not publish reliable estimates for five of the eight programs: Military Health Benefits, Civilian Pay, Military Retirement, DoD Travel Pay, and Commercial Pay. OMB guidance 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.¹⁹ The guidance also states that agencies should ensure that their AFRs are complete and accurate, the program improper payment rate estimates are accurate, and the sampling and estimation plan is appropriate given program characteristics.

Due to the multiple levels of guidance for creating improper payment estimates, a program could partially meet OMB requirements by using a statistically valid sampling and estimation plan that is appropriate given the characteristics, while reporting an inaccurate or unreliable 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:

- an OMB-approved plan that is appropriate given the program characteristics,
- a complete and accurate (reliable) population to sample for improper payment testing, and
- adequate reviews of the samples to publish a reliable estimate.

Table 3 identifies the five of eight DoD programs that did not meet all requirements for publishing reliable improper payment estimates in the FY 2019 AFR.

¹⁹ OMB Circular No. A-123, Appendix C.

Table 3. Improper Payment Estimate Compliance by Requirement and Program

Program Name	Statistically Valid Sampling and Estimation Plan	Complete and Accurate Population Subject to Review	Adequate and Accurate Reviews of Improper Payments	Overall Improper Payment Estimate Compliance
Military Health Benefits	✓	N/D	✗	✗
Military Pay	✓	N/D	N/D	N/D
Civilian Pay	✓	N/D	✗	✗
Military Retirement	✓	✗	✓	✗
Commercial Pay	✓	✗	N/D	✗
DoD Travel Pay*	✓	✗	N/D	✗
USACE Travel Pay	✓	✓	✓	✓
USACE Commercial Pay	✓	✓	✓	✓

Legend

N/D = Not Determined

✗ = Not Compliant

✓ = Compliant

* DoD Travel Pay complied with OMB sampling and estimation plan requirements; however, the Army did not have a compliant sampling and estimation plan for three of its overseas Finance Offices.

Source: The DoD OIG.

DFAS personnel revised and worked on improving their processes for the Military Pay program throughout FY 2019. They implemented extensive program changes for the Military Pay program that affected where they obtained the population of payments to sample and how they performed their reviews to test for improper payments. The DoD also completed a recommended risk assessment of its military cadet payments and, as a result, modified the population of the Military Pay program. According to DFAS personnel, as a result of the lessons learned from the FY 2019 sampling process, they also made changes to their FY 2020 sampling processes. For example, they improved the tracking of changes made to the populations for sampling purposes, and they used quality assurance personnel to review the sampled transactions before providing the transactions for improper payment reviews.

According to the AFR, due to the substantial shift in the review of the Military Pay and Civilian Pay programs, the DoD is not able to establish a baseline for these programs to generate future estimates. Consequently, the DoD did not

publish FY 2020 estimated improper payment rates or estimated improper payment amounts in the FY 2019 AFR. Furthermore, OUSD(C)/CFO and DFAS personnel have taken corrective actions to include entitlements in the improper payment reviews, as recommended in Government Accountability Office (GAO) Report No. GAO-18-377. According to GAO personnel, as of January 29, 2020, the GAO closed the recommendation made in May 2018.²⁰ Because the GAO closed the recommendation as of January 29, 2020, we will determine the accuracy of the Military Pay program improper payment reviews during the FY 2020 annual improper payment audit. As a result, we did not determine the completeness of the Military Pay program population or the accuracy of its improper payment reviews for FY 2019. Additionally, we did not determine the completeness of the Military Health Benefits and the Civilian Pay programs' population because the DoD has not yet implemented prior-year recommendations to perform accurate reviews of these payments. The Commercial and Travel Pay programs have yet to implement recommendations related to the completeness of the populations for these programs; therefore, we did not determine the accuracy of the reviews conducted over the payments of the programs.

Inaccurate Populations Were Used to Calculate Improper Payment Estimates

The DoD did not use accurate populations in calculating the improper payment estimates for the Military Retirement, Commercial Pay, and DoD Travel Pay programs. Specifically, DFAS personnel incorrectly used net pay amounts to calculate the Military Retirement improper payment estimate, excluded

The DoD did not use accurate populations in calculating the improper payment estimates for the Military Retirement, Commercial Pay, and DoD Travel Pay programs.

\$2.6 billion in Commercial Pay transactions from improper payment reviews, and did not use a well-defined population for their sampling and estimation process. This occurred because during the FY 2019 reporting period, the DoD did not fully implement the process changes needed to accurately identify the correct transactions for the populations and the correct paid amounts for those transactions.

Military Retirement Population

Although the DoD used a statistically valid sampling and estimation plan for the Military Retirement program, DFAS personnel did not correctly calculate the improper payment estimate. The DFAS sampling and estimation plan stated

²⁰ Report No. GAO-18-377, "Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes," May 2018.

that the Military Retirement program bases its annual population paid on gross paid amounts; however, DFAS personnel used net pay to calculate the population paid for payments made on new retiree accounts.²¹ Additionally, DFAS personnel used net pay amounts to calculate its improper payment rate for payments made on existing accounts that required a change throughout the reporting period. According to DFAS personnel, they inadvertently used the net pay amount to calculate the population totals for the payments made on new retiree accounts. As a result of not using the gross pay amounts, the Military Retirement improper payment estimate is unreliable. Therefore, the Deputy Director of Enterprise Audit Support, DFAS should develop and implement internal controls to ensure that the development of the improper payment estimate for the Military Retirement program is complete and accurate.

Commercial Pay Population

In December 2018, the DoD OIG issued Report No. DODIG-2019-039 on the accuracy and completeness of the Commercial Pay improper payment estimate for FY 2018. In that report, the DoD OIG found that the DoD produced an incomplete and inaccurate improper payment estimate for the Commercial Pay program.²²

The DoD Commercial Pay improper payment estimate for FY 2019 remained unreliable. Specifically, the total estimated improper payments for FY 2019 did not take into consideration \$2.6 billion in commercial payments for the first quarter of the reporting period, including \$1.5 billion of transportation payments and \$1.1 billion of Government Purchase Card (GPC) payments. For FY 2019, DFAS modified the scope of its

The total estimated improper payments for FY 2019 did not take into consideration \$2.6 billion in commercial payments for the first quarter of the reporting period.

Commercial Pay program sampling and estimation plan to exclude transportation and GPC payments from its IPERA testing population. By excluding the GPC and transportation payments, the DoD did not subject all transactions to review for improper payments.

In the FY 2019 AFR, the DoD reported that it would exclude transportation payments from its improper payment reviews in FY 2020. Instead, the DoD will rely on the results of the transportation post-payment audits conducted by GSA and add the overpayments identified by GSA to the estimated improper payments reported by DFAS. The DFAS sampling and estimation plan for the FY 2019 IPERA

²¹ Gross Pay is the amount of money an individual receives before any taxes and deductions are taken out. Net Pay is the amount of money an individual receives after all deductions have been taken out.

²² Report No. DODIG-2019-039, "Reporting of Improper Payments for the Defense Finance and Accounting Service Commercial Pay Program," December 21, 2018.

reporting period stated that it did not include transportation and GPC payments in the population subject to improper payment testing. However, DFAS personnel were not aware that their methodology for excluding the transportation and GPC payments did not detect \$172 million of GPC payments and \$2.9 million of transportation payments in the first quarter FY 2019 population. Additionally, DFAS personnel did not search 8 of the 15 entitlement systems for exclusion of GPC or transportation payments. Therefore, DFAS personnel did not reliably identify the GPC and transportation payments to exclude them from the population as planned.

The DoD reported that in FY 2020 it will include the GSA improper payment results as part of the DoD Commercial Pay estimate, and it will complete a risk assessment of GPC payments and report the results. Because the DoD is changing the methodology to report the results of the GSA review for transportation payments in the Commercial Pay estimate, the DoD needs to be able to accurately identify and remove transportation payments in its Commercial Pay population. The new process would prevent the duplication of work performed by the GSA or the reporting of an inaccurate estimate of improper transportation payments.

The DoD OIG made recommendations in previous reports to improve the Commercial Pay estimates that OUSD(C)/CFO and DFAS personnel agreed to implement; however, because the DoD has not fully implemented corrective actions, the estimated improper payments remain unreliable.²³ For example, DoD OIG Report No. DODIG-2019-039 recommended that the DoD develop memorandums of understanding for each payment system, documenting the payment data requirements from each system. The memorandums are part of the DoD's corrective actions to obtain a well-defined population of commercial payments for IPERA testing. DFAS personnel signed 14 new memorandums of understanding with DoD Components and DoD payment system owners. However, as of January 2020, DFAS personnel stated that they had not completed efforts to coordinate with Component personnel to identify the Components' transportation and GPC payments within the payment systems, so that DFAS can accurately exclude the payments as outlined in the sampling and estimation plan.

DoD Travel Pay Population

Although the DoD used a statistically valid sampling and estimation plan for the DoD Travel Pay program, DFAS personnel did not use a well-defined population of first quarter payments for its sampling and estimation process and incorrectly removed \$11.8 million in records related to travel vouchers.

²³ Report No. DODIG-2019-039 contained six recommendations, and Report No. DODIG-2019-087 contained one recommendation that addressed the completeness of the Commercial Pay population and accuracy of its improper payment estimates.

The first quarter Defense Travel System (DTS) sampling population consisted of unique travel records, including all financial and non-financial edits to a single travel authorization, rather than just the payment transaction for each payee.

The DoD Travel Pay sampling and estimation plan states that the sample frame for the Travel Pay program consists of all temporary duty vouchers, including DTS, all permanent change of station programs, and International Military Education and Training program travel pay. However, each record in the DTS data used by DFAS represented the editing of a travel authorization, both financially or non-financially. The financial edits would have resulted in a change in the amount of the travel authorization, while a non-financial edit would not have resulted in a change in the amount. Therefore, multiple records could support one travel voucher.

For example, the first quarter sampling population of the FY 2019 IPERA reporting period contained multiple records with the same authorization numbers (duplicate authorizations). DFAS personnel removed the records with duplicate authorization numbers from the sampling population, even if the records had different dates. In one instance, DFAS personnel removed a record dated October 18, 2018, for \$16,134, while keeping a record with the same authorization number dated October 30, 2018, for \$384. Therefore, the record included in the sampling population used to calculate the estimate represented a much smaller percentage of dollars for the population.

Although the sampling and estimation plan includes vouchers as the sampling frame, the actual data DFAS personnel used to develop the sample estimate only included unique records. The DoD OIG FY 2018 IPERA compliance audit reported that the DFAS sampling methodology included erroneous and duplicate transactions in its DTS population, and the methodology did not always include the actual amount paid to the traveler. In response to the DoD OIG FY 2018 IPERA compliance audit, DFAS personnel stated that they would implement the appropriate testing process changes for the FY 2020 reporting period. As of October 2019, DFAS personnel stated that they took management actions by obtaining DTS data using the ADVANA tool for the FY 2020 improper payment reviews.²⁴ DFAS personnel further explained that they changed the Travel Pay sampling methodology to incorporate all vouchers paid, removing any exclusions. Because the ADVANA data obtained applies to the FY 2020 improper payments reporting, we will review the reliability of this data in its FY 2020 annual improper payments audit, and we will not make further recommendations in this report to address the reliability of the DoD Travel Pay program's data.

²⁴ ADVANA is an advanced analytic tool used for audit sampling and supporting transaction details.

The Travel Pay program’s FY 2019 sampling and estimation plans identified the source systems that Components used to obtain a universe of travel payments as of the beginning of the year, but the plans were not updated when the DoD implemented a new system. In March 2019, the DoD started to implement a new travel management system—Defense Travel Modernization (DTM)—at selected DoD agencies. DFAS personnel stated that they obtained the population of DTM payments made from March through July 2019 and sampled them for improper payment testing, using the same statistical methodology for other travel payments, and reported the results. However, the sampling and estimation plan did not include the population of travel payments from DTM. As part of its travel modernization strategy, the DoD plans to release DTM incrementally to more DoD agencies. Therefore, the OUSD(C)/CFO should coordinate with DFAS and other Components to update the Travel Pay sampling and estimation plans, including the population of travel payments made through the DTM system.

Inadequate Improper Payment Reviews Were Conducted

The DoD did not conduct adequate improper payment reviews for \$5 billion in the Military Health Benefits outlays and \$67 billion in Civilian Pay outlays reported in the FY 2019 AFR. This occurred because the DoD did not fully implement corrective actions recommended in the DoD OIG FY 2018 IPERA compliance report to include all transactions in its Military Health Benefits reviews and did not fully review supporting documentation to determine whether the sampled Civilian Pay program’s transactions were properly paid.²⁵

The DoD did not conduct adequate improper payment reviews for \$5 billion in the Military Health Benefits outlays and \$67 billion in Civilian Pay outlays reported in the FY 2019 AFR.

Military Health Benefit Reviews

The DoD did not conduct adequate improper payment reviews for \$5 billion in the Military Health Benefits outlays. This occurred because DHA personnel did not implement a plan to test the complete population for improper payments, as previously recommended by the DoD OIG. DHA personnel updated their sampling and estimation plan for FY 2019; however, the sampling and estimation plan did not incorporate the Military Health Benefits program payments for Administrative and Other payments. The DHA used the updated sampling and estimation plan in calculating the improper payments estimate for \$18.3 billion of \$23.3 billion in total program outlays reported in the FY 2019 AFR. The \$5 billion difference is the Administrative and Other payments that the DHA did not have procedures in place to review during the FY 2019 IPERA reporting period.

²⁵ Report No. DODIG-2019-087, “Audit of the DoD’s FY 2018 Compliance With the Improper Payments Elimination and Recovery Act Requirements,” May 15, 2019.

In OUSD(C)/CFO's response to the DoD OIG's FY 2018 IPERA compliance audit, personnel stated that the DHA would implement new service contract requirements to perform payment reviews and develop validation procedures by January 2020. In addition, DHA personnel would implement contract modifications and policy clarifications as necessary to obtain additional supporting documentation from contractors by April 2021.

In an October 2019 update, DHA personnel stated that while the DHA had not fully implemented post-payment review procedures for administrative and other contract costs, its Contract Resource Management division had worked aggressively throughout FY 2019 to develop statistically sound post-payment review procedures to comply with IPERA identification and reporting requirements.²⁶

Although DHA personnel have taken action to address the post-pay review procedures for Administrative and Other contract costs, they did not fully

Although DHA personnel have taken action to address the post-pay review procedures for Administrative and Other contract costs, they did not fully implement the corrective actions the DoD OIG recommended.

implement the corrective actions the DoD OIG recommended as a result of the FY 2018 IPERA compliance audit for the FY 2019 reporting period. Therefore, the FY 2019 improper payment estimate remained unreliable.

In January 2020, DHA personnel developed a FY 2020 sampling and estimation plan for the Military Health Benefits program. The modifications to the plan included review information for Administrative Cost and Medical Records, and formulas for "Standard Error and Confidence Interval" calculations. Additionally, on February 28, 2020, DHA personnel provided procedures for reviewing manual contract resource management payments. As the sampling and estimation plan and review procedures apply to the FY 2020 reporting period, we will determine the statistical validity of the plan and accuracy of the improper payment reviews during the FY 2020 annual improper payments audit.

Civilian Pay Reviews

The DoD did not conduct adequate reviews of \$67 billion in Civilian Pay outlays because the DoD did not fully implement the necessary corrective actions to verify that employees were eligible for the payments they received, as recommended in the DoD OIG FY 2018 IPERA compliance audit report. In August 2019, DFAS personnel stated that they had not established an improper payment review

²⁶ According to DHA personnel, Administrative and Other contract costs make up approximately 23 percent of the overall health care expenditures disbursed annually by the DHA's Contract Resource Management division.

process for the Civilian Pay program that examined supporting documentation and verified the eligibility of civilian employees for the payment they received. DFAS personnel further explained that the Civilian Pay documentation review was expected to go live in the FY 2020 reviews and that they were developing procedures and logistics for implementation. Therefore, because the improper payment review process did not change the results of the FY 2019 improper payment reviews for \$67 billion in Civilian Pay program outlays were not reliable.

In February 2020, DFAS personnel demonstrated the new improper payment review procedures that they implemented for the FY 2020 improper payment reviews. These procedures included reviews of entitlements approved by an individual's SF-50 (Notification of Personnel Action). As DFAS personnel have implemented new review procedures for the FY 2020 reporting period, we will review these procedures for accuracy during the FY 2020 annual improper payments audit.

Furthermore, DFAS personnel implemented corrective actions to improve the completeness of the Civilian Pay population by changing the FY 2019 sampling methodology to include civilian mariner payments in the population subject to sampling and review. That correction resulted in DFAS personnel examining an additional \$149.3 million for improper payments in the first quarter of FY 2019.

Military Retirement Reviews

DFAS used a statistically valid sampling and estimation plan to identify its population of payments and select a sample of payments to review. In addition, DFAS conducted reliable reviews of improper payments associated with the Military Retirement program. However, though it did not affect the reliability of the estimate, DFAS Standard Operating Procedures to document its review process did not adequately describe the process that we observed. Therefore, the Deputy Director of Enterprise Audit Support, DFAS should develop and implement complete Standard Operating Procedures of the Military Retirement improper payment review process.

DFAS Standard Operating Procedures to document its review process did not adequately describe the process that we observed.

Unreliable Estimates at Army Overseas Locations

DFAS and the Military Services used statistically valid sampling and estimation plans for testing DoD Travel Pay and Commercial Pay at their overseas locations with the exception of three Army overseas locations. The OUSD(C)/CFO coordinated with the Army on its sampling and estimation plans to improve the reliability of the estimates produced by the Army overseas locations for the DoD

Travel Pay and Commercial Pay programs in FY 2019. For example, the Army 175th Financial Management Support Center in Korea developed and implemented statistically valid sampling and estimation plans for its commercial and travel payments, and DFAS added the payments made by the Army's Kuwait and Saudi Arabia offices to its Commercial Pay sampling and estimation plan.

U.S. Army Financial Management Command personnel have been working with personnel for the Italy Finance Office, Belgium Finance Office, and 266th Financial Management Support Center to develop their sampling and estimation plans, as recommended by the DoD OIG in its FY 2017 IPERA compliance report.²⁷ OUSD(C)/CFO personnel reviewed the Army's draft plans in May 2019 and provided a list of necessary changes to U.S. Army Financial Management Command personnel to bring the plans into compliance with OMB Circular No. A-123 requirements. Although the original estimated completion date was August 2018, U.S. Army Financial Management Command personnel stated that as of December 2019, they were still working with overseas finance offices to complete their plans and estimated they would have them completed in February 2020.

According to U.S. Army Financial Management Command personnel, the Army stalled its efforts to complete the sampling and estimation plans because it did not have sufficient resources to devote to the effort, and the Army has since added an additional person to address the outstanding findings. U.S. Army Financial Management Command personnel have since provided sampling and estimation plans for the Italy Finance Office, Belgium Finance Office, and 266th Financial Management Support Center. We will determine the statistical validity of the plans during the FY 2020 annual improper payments audit.

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 2019 reduction targets. Specifically, the estimated improper payment rates for three programs, Military Pay, Civilian Pay, and Military Health Benefits, exceeded the FY 2019 reduction targets. The reduction target is the improper payment rate that the DoD establishes as the rate it is trying to achieve for the next fiscal year

This is the 8th consecutive year that the DoD has not met its reduction targets.

for each program, with the intent to reduce the improper payment rate over time. This is the 8th consecutive year that the DoD has not met its reduction targets.

²⁷ Report No. DODIG-2018-115, "DoD FY 2017 Compliance With the Improper Payments Elimination and Recovery Act Requirements," May 9, 2018.

Table 4 shows the reduction target rate each program established for FY 2019, as reported in the FY 2018 AFR, and each program's FY 2019 improper payment rate based on its estimate.

Table 4. FY 2019 Reduction Targets by Program

Program Name	Reduction Target Rate Established for FY 2019 in FY 2018 (Percent)	FY 2019 Improper Payment Rate (Percent)
Military Health Benefits	0.80	1.74
Military Pay	0.30	7.25
Civilian Pay	0.13	0.14
Military Retirement	0.40	0.40
DoD Travel Pay	5.75	4.76
Commercial Pay	0.01	0.01
USACE Travel Pay	0.42	0.38
USACE Commercial Pay	0.25	0.23

Source: The DoD OIG.

IPERA stated that an agency has complied with this requirement if it published, and met, annual reduction targets for each program assessed to be at risk and measured for improper payments. OMB Circular No. A-123, Appendix C, requires agencies to set reduction targets that are aggressive yet realistic for future improper payment levels and a timeline in which the agency will reach the targets. Each program reporting an improper payment estimate is required to establish a reduction target for the next year. However, the OMB does not expect a program to establish a reduction target until a full baseline has been established (or reestablished) and reported. Furthermore, the OMB encourages agencies to reassess and revise their targets as necessary each year. When establishing reduction targets, Component personnel need to consider significant program or sampling methodology plan changes that could cause future improper payment estimates to vary from the current year estimates.

OUSD(C)/CFO personnel stated that the Military Pay program was not able to meet its reduction target because, in FY 2019, the DoD implemented a new testing methodology for the Military Pay program, which included the review of military service member entitlements paid with available supporting documentation. As a result of its review, the Military Pay estimated improper payment rate increased by 6.95 percent. According to the AFR, a baseline has not been established for the Military Pay program to generate a future estimate. The DoD will establish a reduction target in FY 2021.

OUSD(C)/CFO personnel stated that the Civilian Pay program did not meet its reduction targets because the testing methodology the DoD used to estimate the improper payment rate for the Civilian Pay program was not sufficient and the margin of error is zero. According to OMB guidance, if a program's improper payment rate minus the margin of error is less than the reduction target, then the

Because the Civilian Pay program had a margin of error of zero, it did not meet its reduction target, even though the improper payment rate was only 0.01 percent more than the reduction target.

program has met its reduction target. Because the Civilian Pay program had a margin of error of zero, it did not meet its reduction target, even though the improper payment rate was only 0.01 percent more than the reduction target.

DHA personnel stated that the Military Health Benefits program did not meet its FY 2019 target rate of 0.8 percent primarily because one managed care support contractor did not accurately process health benefits claims in FY 2018.²⁸ As part of sweeping changes to the TRICARE health benefits structure, the DHA realigned the TRICARE regions and awarded a new contract to process claims in the TRICARE East region. DHA personnel stated that their claims processing compliance reviews found significant claims processing and systems issues in the TRICARE East region, resulting in a high initial error rate of 66 percent. As a result, DHA Contract Resource Management Division personnel worked with the contracting officer to issue a corrective action request to the contractor and required the contractor to submit a corrective action plan to correct its performance. DHA personnel stated that they have since seen improvements in the contractor's payment accuracy and claims processing performance. In addition, DHA personnel stated that, as a result, they expect to meet their payment accuracy performance requirement for the FY 2020 reporting period.

OUSD(C)/CFO personnel are responsible for reporting reduction targets for the DoD Components. In response to a prior DoD OIG audit recommendation that the OUSD(C)/CFO ensure that DoD Components establish aggressive yet realistic improper payment reduction targets, OUSD(C)/CFO personnel stated in May 2019 that they would work with the OMB to establish a baseline for the program reduction targets and define acceptable levels of risk for improper payments.²⁹ Subsequently, the OUSD(C)/CFO stated in October 2019 that it had submitted realistic and aggressive reductions targets for FY 2020 to OMB for each DoD program, but OUSD(C)/CFO personnel had not yet held discussions with OMB

²⁸ DHA reported that it tests improper payment data 12 months in arrears for the Military Health Benefits program. For FY 2019, 99 percent of DHA's sample consisted of payments made from September 2017 through October 2018; the remaining sampled payments occurred from August 2017 through October 2018.

²⁹ Report No. DODIG-2019-087, Recommendation 1.d.

personnel regarding establishing baseline target rates for the programs. Because the OUSD(C)/CFO is still working on implementing the prior audit recommendation, we will not make a new recommendation.

The DoD Made Improvements But Falls Short of Compliance

Although the DoD continues to make improvements to its IPERA reporting, the DoD did not comply with two of the six IPERA requirements in FY 2019. According to OMB Circular No. A-123, Appendix C, if an agency does not meet one or more of the IPERA requirements, it does not comply with IPERA. As the DoD published unreliable improper payment estimates and missed its annual improper payment reduction targets, it did not comply with IPERA for an 8th consecutive year.

Since May 2019, the DoD has completed corrective actions, enabling the DoD OIG to close 8 recommendations from prior IPERA compliance audit reports, while 16 recommendations remain open. See Appendix C for the Status of DoD OIG IPERA audit recommendations. Although the DoD continues to implement corrective actions addressing audit recommendations, it will not comply with improper payment reporting requirements until corrective actions are taken to ensure the completeness and accuracy of its estimates. For each of the 8 years that the DoD has not complied with IPERA, the DoD OIG reported that the DoD improper payment estimates were not reliable.³⁰

For each of the 8 years that the DoD has not complied with IPERA, the DoD OIG reported that the DoD 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. For example, in FY 2019, the DoD improper payment estimate increased by \$7.5 billion. A majority of that estimate, \$7.1 billion, resulted from the DoD implementing a more extensive review of Military Pay program payments. According to the FY 2019 AFR, the DoD made extensive changes to the sampling and testing methodologies for the Military Pay program in FY 2019 and plans to make changes to the Civilian Pay program in FY 2020. As a result, the DoD has not established a baseline for these programs to generate future estimates as reduction targets. By reporting unreliable estimates for five of the eight programs, the DoD continued to miss opportunities to promptly detect, prevent, and recover improper payments.

³⁰ Report No. DODIG-2012-065, "DoD Compliance With the Requirements of the Improper Payments Elimination and Recovery Act," March 15, 2012, reported that the DoD complied with the IPERA requirement to publish improper payment estimates in FY 2011. However, the information used to develop the estimates was disclosed to be unreliable thus making the estimates unreliable. Therefore, the estimates reported by the DoD have been unreliable for 9 years.

In an effort to address the completeness and accuracy of the payment populations used to develop improper payment estimates within the Payment Integrity Program, OUSD(C)/CFO personnel created a Payment Integrity Controls Matrix. The matrix is used to better identify the completeness of the data for each program by identifying payment types, systems used, the status of the reconciliation of outlays, the programs associated with payment types, and the status of post payment reviews.

When DoD programs report all required information, DoD senior leadership can determine whether program efforts have been successful or whether additional action is necessary.

When DoD programs report all 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 program efforts have been successful or whether additional

action is necessary. Additionally, CAP Goal 9 states that while improper payments may compromise citizen trust in Government, they are not always indicative of fraud, nor do they necessarily represent payments that should not have been made. Having the right information and the capacity to address root causes are critical components.

Therefore, as the DoD continues to implement corrective actions within its improper payment program, it moves closer to meeting the CAP Goal 9 initiative to save taxpayer money by making proper payments and recovering money from 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 the OMB describing the actions the agency will take to come into compliance. If an agency is noncompliant for 2 consecutive fiscal years for the same program, the OMB Director will review the program and determine if additional funding would help the agency come into compliance. If the OMB determines that additional funding is necessary, the agency must obligate the additional funding determined by the OMB to intensify compliance efforts. If an agency is noncompliant for 3 consecutive fiscal years for the same program, the agency must submit to Congress and the 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 the 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 4 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 8 fiscal years. Within 30 days of this report's issuance, the USD(C)/CFO should submit for the Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, Commercial Pay, and DoD Travel Pay programs to the OMB and the appropriate congressional committees:

- reauthorization proposals or proposed statutory changes necessary to bring the programs into compliance
- 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 programs listed above, 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. **Coordinate with the Defense Finance and Accounting Service and other DoD Components to update the Travel Pay sampling and estimation plans, including the population of travel payments processed through the Defense Travel Modernization system.**

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, stating that OUSD(C)/CFO personnel will coordinate with DFAS and Defense Travel Management Office personnel to update the Travel Pay sampling and estimation plans to include the population of travel payments processed through DTM. The DCFO expects to complete the plans by November 2020.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the Travel Pay sampling and estimation plans include the population of travel payments processed through DTM.

- b. Submit for the Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, Commercial Pay, and DoD Travel Pay programs 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 programs into compliance.**
 - **A report detailing actions that the DoD has taken to complete the requirements for 1, 2, 3, and 4 years of noncompliance by the programs listed above, 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, agreed with the recommendation, stating that OUSD(C)/CFO personnel acknowledge that the statutory requirement supports this recommendation. However, the DCFO stated that OUSD(C)/CFO personnel believe that compliance with improper payment reporting requirements will be achieved through internal actions, such as root cause analysis, implementing effective corrective actions, and providing proactive oversight through the DoD Improper Payments Senior Accountable Officials Steering Committee.

The DCFO stated that OUSD(C)/CFO personnel will submit letters to the OMB and Congress stating that reauthorization and statutory changes are not necessary to bring the Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, Commercial Pay, and DoD Travel Pay programs into compliance with improper payment reporting requirements. In addition, the DCFO stated that OUSD(C)/CFO personnel will include an enclosure detailing the actions the DoD took to complete the requirements for 1, 2, 3, and 4 years of noncompliance by the Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, Commercial Pay, and DoD Travel Pay programs, and describing the corrective actions taken and planned to prevent and reduce improper payments. The DCFO expects to complete this action within 30 days of the issuance of this report.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we verify that the USD(C)/CFO submitted the information required by IPERA to Congress and the OMB.

Recommendation 2

We recommend that the Deputy Director of Enterprise Audit Support for the Defense Finance and Accounting Service:

- a. **Develop and implement internal controls to ensure that the development of the improper payment estimate for the Military Retirement program is complete and accurate.**

Deputy Director of Enterprise Audit Support, Defense Finance and Accounting Service, Comments

The DCFO, responding for the DFAS Deputy Director of Enterprise Audit Support, agreed with the recommendation, stating that DFAS personnel will continue to improve the internal control measures in the population review process for the Military Retirement program and ensure that all necessary payments are included and a complete and accurate improper payment estimate is reported. DFAS personnel provided additional information, stating that they will look at improving the sources from which they obtain the Military Retirement data. The DCFO expects to complete this action by 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 the recommendation once we verify that DFAS personnel developed and implemented internal controls to ensure that the development of the improper payment estimate for the Military Retirement program is complete and accurate.

- b. **Develop and implement complete standard operating procedures of the Military Retirement improper payment review process.**

Deputy Director of Enterprise Audit Support, Defense Finance and Accounting Service, Comments

The DCFO, responding for the DFAS Deputy Director of Enterprise Audit Support, agreed with the recommendation, stating that DFAS personnel will update and implement complete standard operating procedures of the Military Retirement improper payment review process. The DCFO expects to complete the standard operating procedures by August 2020.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that DFAS personnel developed and implemented complete standard operating procedures of the Military Retirement improper payment review process.

Unsolicited Comments on Appendix C and Our Response

Although not required to comment, the Acting Director, Army Financial Services, U.S. Army Financial Management Command, provided the following comments on the finding. For the full text of the Acting Director's comments, see the Management Comments section of the report.

Army Financial Services Comments

The Acting Director, Army Financial Services, U.S. Army Financial Management Command, concurred with the Finding. However, the Acting Director requested that we modify the language in Appendix C, Table 5, Status of DoD OIG IPERA Audit Recommendations to state that Recommendations 2.a and 2.b from Report No. DODIG-2018-115, "DoD FY 2017 Compliance With the Improper Payments Elimination and Recovery Act Requirements," May 9, 2018, are completed.

Our Response

We acknowledge that U.S. Army Financial Management Command personnel provided us with the sampling and estimation plans for the Army overseas offices, as recommended in Report No. DODIG-2018-115, Recommendations 2.a and 2.b, and we agree to modify the language in Appendix C, Table 5 to reflect this action. Because the sample plans were not used to create the Army overseas FY 2019 improper payment estimate, we will determine the statistical validity of the plans during the FY 2020 annual improper payments audit and make a determination on whether or not to close the recommendations at that time.

Appendix A

Scope and Methodology

We conducted this performance audit from August 2019 through April 2020 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To obtain information and source documents on IPERA compliance, as well as to understand their roles for compiling and reporting in the DoD FY 2019 AFR, we interviewed personnel from the following agencies.

- DFAS
- OUSD(C)/CFO
- USACE
- U.S. Army Financial Management Command
- DHA

During our interviews, we discussed personnel roles and responsibilities for IPERA reporting, risk assessments, sampling and estimation 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 the process they used to compile 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 following guidance on IPERA reporting requirements for FY 2019.

- 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 No. A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control,” July 15, 2016, Appendix C, “Requirements for Payment Integrity Improvement,” June 26, 2018
- OMB Circular No. A-136, “Financial Reporting Requirements,” July 28, 2019
- OMB M-18-14, “Implementation of Internal Controls and Grant Expenditures for the Disaster-Related Appropriations,” March 30, 2018
- DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 4, chapter 14
- DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 10, chapter 22

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 2019 AFR;
- information and data relevant to program sampling including sampling and estimation plans, population, and sample data for the first and third quarters of FY 2019;
- documentation supporting improper payment rates and estimates reported in the Payment Integrity section of the DoD FY 2019 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 2019 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 2019 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 2019 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.³¹ We used first quarter FY 2019 populations for the eight programs reported in the AFR and determined

³¹ The eight programs are: Military Health Benefits, Military Pay, Civilian Pay, Commercial Pay, Military Retirement, DoD Travel Pay, USACE Travel Pay, and USACE Commercial Pay.

the completeness of the population subject to review. 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 third quarter sample population from the programs, randomly selected a sample of transactions, and reperformed the improper payment review of the selected sample transactions for the Military Retirement, USACE Travel Pay, and USACE Commercial Pay programs. In this review, we obtained supporting documentation for each of the sampled transactions to determine whether the programs reported the system information accurately.

The computer-processed data we used were 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 and estimation plans for eight programs that reported improper payment estimates in the DoD FY 2019 AFR to determine whether the sampling methodologies were statistically valid and appropriate in accordance with OMB guidance.

Appendix B

Prior Coverage

During the last 5 years, the GAO and the DoD OIG issued 14 reports discussing improper payments 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

The GAO determined that the 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 agencies address key risks of improper payments.

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 directives for risk assessment of improper payment. 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

The GAO determined that 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

The GAO determined that 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

The GAO determined that, unlike Medicare, the DHA did not examine underlying medical record documentation to discern whether they supported each sampled payment. Without examining the medical record, the DHA did not verify the medical necessity of services provided.

DoD OIG

Report No. DODIG-2019-087, “Audit of the DoD’s FY 2018 Compliance With the Improper Payments Elimination and Recovery Act Requirements,” May 15, 2019

The DoD OIG determined that 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; 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 fully comply with three of the six IPERA requirements.

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

The DoD OIG determined that 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 (GPC), and Army overseas payments. In addition, 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 OIG determined that 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

The DoD OIG determined that USACE Finance Center 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 USACE Finance Center personnel made \$2.25 million in Commercial Pay program improper payments for the 1,293 sample items reviewed by USACE. The DoD OIG also determined that USACE Finance Center 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, USACE Finance Center 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 DoD OIG determined that 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. In addition, 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 DoD OIG determined that 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. In addition, 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

The DoD OIG determined that 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 DoD OIG determined that 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. In addition, the DoD could not ensure that all required payments were reviewed, which resulted in unreliable estimates and rates. The DoD also 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 DoD OIG determined that 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.

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.

Table 5 shows the status of 24 DoD OIG recommendations as of February 28, 2020. Since May 2019, the DoD has completed corrective actions, enabling the DoD OIG to close 8 recommendations from prior IPERA compliance audit reports, while 16 recommendations remain open.

Table 5. Status of DoD OIG IPERA Audit Recommendations

Recommendation		Status
DODIG-2016-086		
1.b	We recommend that the USD(C)/CFO determine the source of all disbursed obligations not reviewed for improper payments and whether those disbursements are subject to improper payment reporting requirements.	<p>Resolved: 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 when we receive supporting documentation that confirms that the USD(C)/CFO has determined the source of all disbursed obligations and determined whether those disbursements are subject to improper payment reporting requirements. Estimated Completion Date: November 15, 2020</p>
DODIG-2017-078		
1.a.1	We recommend that the USD(C)/CFO coordinate with DoD Improper Payment Elimination and Recovery Act reporting Components to: Verify that all payments are assessed for the risk of improper payments or are reporting estimated improper payments.	<p>Resolved: We will close this recommendation once we verify that the USD(C)/CFO has reported all programs by either estimates or completed risk assessment.</p> <p>Estimated Completion Date: November 15, 2020</p>

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

Recommendation		Status
1.c	We recommend that the USD(C)/CFO coordinate with DoD Improper Payment Elimination and Recovery Act 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.	Closed: OUSD(C)/CFO personnel developed and distributed a new Corrective Action Plan template and guidance to the Components for FY 2019 reporting. Therefore, we are closing this recommendation.
DODIG-2018-073		
A.1.e	We recommend that the Director, U.S. Army Corps of Engineers Finance Center 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.	Closed: In FY 2019, based on the documentation provided by USACE, we determined that USACE personnel implemented a review process to verify that accurate testing of improper payments is being performed. Therefore, we are closing this recommendation.
DODIG-2018-115		
1.c	We recommend that the USD(C)/CFO 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 Office of Management and Budget Circular No. A-123.	Closed: OUSD(C)/CFO personnel utilized status questionnaires to assess the Components' progress on IPERA requirements, and to ensure Components completed testing in a timely manner. Therefore, we are closing this recommendation.
1.f	We recommend that the USD(C)/CFO take the remediation actions required by section 3(c) of Public Law 111-204, "Improper Payments Elimination and Recovery Act of 2010," for the DoD Travel Pay, Military Health Benefits, Defense Finance and Accounting Service Commercial Pay, Military Pay, Military Retirement, Civilian Pay, Commercial Bill Pay Office Naples, U.S. Army Corps of Engineers Commercial Pay, and U.S. Army Corps of Engineers Travel Pay programs.	Closed: OUSD(C)/CFO personnel provided documentation verifying that appropriate remediation actions have been taken. Therefore, we are closing this recommendation.
2.a	We recommend that the Director, Financial Services, Army Financial Management Command, develop, implement, and submit to the USD(C)/CFO 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 Office of Management and Budget guidance.	Resolved: We received the Army's sampling plans. We will review the sampling plans during the FY 2020 Improper Payment Compliance Audit. This recommendation is resolved, but not closed. We will close this recommendation once we determine the sampling plan identifies a complete population of travel pay transactions from all Army overseas paying offices.

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

Recommendation		Status
2.b	We recommend that the Director, Financial Services, Army Financial Management Command, develop, implement, and submit to the USD(C)/CFO 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 Office of Management and Budget guidance.	Resolved: We received the Army's sampling plans. We will review the sampling plans during the FY 2020 Improper Payment Compliance Audit. This recommendation is resolved, but not closed. We will close this recommendation once we verify that the Army Commercial Pay sampling plan identifies the complete population of commercial transactions from all Army overseas paying offices.
DODIG-2019-039		
1.a	We recommend that the USD(C)/CFO, DoD, evaluate whether the General Services Administration post-payment audits of the DoD transportation bills meet the requirements of a post-payment audit performed for Improper Payments Elimination and Recovery Act purposes, and develop and implement the appropriate procedures to include transportation improper payments in the DoD estimate for the Agency Financial Report.	Resolved: We will close this recommendation once we review the USD(C)/CFO's implementation of reporting improper transportation payments in the AFR and verify the results are accurately reported in the AFR. Estimated Completion Date: November 15, 2020
1.b	We recommend that the USD(C)/CFO, DoD 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 Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, for inclusion in the DoD's annual Agency Financial Report.	Resolved: We will close the recommendation once we review the risk assessment and verify that the results are reported in the AFR. Estimated Completion Date: November 15, 2020
1.c	We recommend that the USD(C)/CFO, DoD in coordination with the Defense Finance and Accounting Service, Enterprise Solutions and Standards Director, conduct an annual review of the Defense Finance and Accounting Service 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.	Resolved: We will close the recommendation when 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. Estimated Completion Date: March 31, 2021

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

	Recommendation	Status
1.d	We recommend that the USD(C)/CFO, DoD 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 payments estimates for each type of commercial payment within the DFAS Commercial Pay program.	<p>Resolved: The USD(C)/CFO, DoD has initiated informal coordination with the Components to update "DoD Financial Management Regulation," volume 4, chapter 14. We will close the recommendation once we verify that the USD(C)/CFO updated the DoD Financial Management Regulation with the recommended changes.</p> <p>Estimated Completion Date: June 30, 2020</p>
2	We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Defense Finance and Accounting Service, Enterprise Solutions and Standards Director, in coordination with the Army Financial Management Services Director, evaluate the Department of the Army's Improper Payments Elimination and Recovery Act compliance procedures and sampling plan to determine whether it would be more cost effective to incorporate improper payments testing at overseas locations into the Defense Finance and Accounting Service Commercial Pay sampling plan, and submit to the Office of Management and Budget either: the modified Defense Finance and Accounting Service Commercial Pay sampling plan that incorporates the Army overseas payments; or both the original FY 2019 Defense Finance and Accounting Service Commercial Pay sampling plan and the new Army sampling plan.	<p>Resolved: The DoD has partially completed this recommendation, as DFAS personnel incorporated payments made by Kuwait and Saudi Arabia Army offices into the FY 2019 sampling and estimation plan. In addition, the Army developed sampling plans for overseas offices, including the Italy Finance Office and Belgium Finance Office. However, payments made by the Kosovo and Hawaii offices are not currently incorporated in a sampling and estimation plan. Therefore, this recommendation is resolved, but not closed. We will close the recommendation once we verify that the USD(C)/CFO submitted to OMB a sampling plan incorporating the Army payments for the Kosovo and Hawaii Army Offices.</p> <p>Estimated Completion Date: OUSD(C): March 31, 2020; DFAS: July 2019</p>
3	<p>We recommend that the Defense Finance and Accounting Service, Enterprise Solutions and Standards Director develop a memorandum of understanding for each payment system, documenting the payment data requirements from each system that includes:</p> <ul style="list-style-type: none"> a) detailed description of payments to exclude from the population; b) definition of the types of commercial payments to include in the population; and c) documentation of how each system identifies the payment-related data elements. 	<p>Resolved: We will close this recommendation once DFAS provides the memorandum of understanding developed for each payment system, including a detailed description of payments to exclude from the population and a definition for the types of commercial payments included in the population.</p> <p>Estimated Completion Date: March 31, 2021</p>

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

Recommendation		Status
DODIG-2019-087		
1.a	We recommend that the USD(C)/CFO 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.	Closed: Based on our review of the FY 2019 AFR we determined that the DoD published all required information on Recapture of Improper Payments for all programs that expended \$1 million or more annually. Therefore, we are closing this recommendation.
1.b	We recommend that the USD(C)/CFO coordinate with the Components to analyze whether it would be cost effective to implement payment recapture audit programs for each of the DoD programs.	Resolved: 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. Estimated Completion Date: November 15, 2020
1.c	We recommend that the USD(C)/CFO 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.	Closed: Based on our review of the FY 2019 AFR, we determined that the USD(C)/CFO and Components reported the results of corrective actions for each program reporting significant improper payments. Therefore, we are closing this recommendation.
1.d	We recommend that the USD(C)/CFO ensure that Components establish aggressive yet realistic improper payment reduction targets for each program.	Resolved: 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 for all programs. In FY 2019, the DoD did not report a FY 2020 estimated improper payment rate for the Military Pay and Civilian Pay programs because changes to both programs changed the review of these programs. As a result, the DoD has not established a baseline for these programs to generate future estimates. Estimated Completion Date: November 15, 2021

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

	Recommendation	Status
1.e	<p>We recommend that the USD(C)/CFO submit to the Office of Management and Budget and Congress, within 30 days of this report's issuance:</p> <ul style="list-style-type: none"> • 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. 	<p>Closed: OUSD(C)/CFO personnel provided documentation verifying that appropriate remediation actions have been taken. Therefore, we are closing this recommendation.</p>
2.a	<p>We recommend that the USD(C)/CFO, in coordination with the DFAS Director, develop a process that uses the amount paid for the Commercial Pay and DoD Travel Pay programs.</p>	<p>Resolved: As of October 2019, DFAS personnel stated they obtained DTS and EBS data from ADVANA for FY 2020 improper payment testing. We will close this recommendation once we verify that the processes DFAS personnel implemented to obtain and test Commercial Pay and Travel Pay program populations for FY 2020 use the actual amount paid from every system.</p> <p>Estimated Completion Date: April 30, 2020</p>
2.b	<p>We recommend that the USD(C)/CFO, in coordination with the DFAS Director, 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.</p>	<p>Resolved: 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.</p> <p>Estimated Completion Date: April 30, 2020</p>
3	<p>We recommend that the USD(C)/CFO, in coordination with the DFAS 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 USD(C)/CFO for the annual Agency Financial Report.</p>	<p>Closed: We received a copy of the completed risk assessment and verified that the DoD appropriately assessed the risk of improper payments in military academy cadet payments. We also verified that the AFR includes the required information about the completed risk assessment. Therefore, we are closing this recommendation.</p>

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

	Recommendation	Status
4	<p>We recommend that the USD(C)/CFO, in coordination with the DHA 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 OMB guidance for testing all payments and producing valid improper payment estimates.</p>	<p>Resolved: We received DHA's updated sampling plan on February 28, 2020, however the plan relates to the FY 2020 Military Health Benefits improper payment estimate. Therefore, we will review the sampling plan during the FY 2020 Improper Payment Compliance Audit. This recommendation is resolved, but not closed. 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.</p>
5	<p>We recommend that the USD(C)/CFO, in coordination with the DFAS 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.</p>	<p>Resolved: We will close this recommendation once we receive an updated Civilian Pay Standard Operating Procedures 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.</p> <p>Estimated Completion Date: October 31, 2020</p>

Management Comments

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



COMPTROLLER

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

April 8, 2020

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 Department of Defense's Compliance in Fiscal Year 2019 With Improper Payments Elimination and Recovery Act Requirements," Project No. D2019-D000FL-0184.000

My office and the Defense Finance and Accounting Service (DFAS) have received the subject draft report, dated March 13, 2020, and reviewed your recommendations to the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Director of Enterprise Audit Support, DFAS. Our concurrences with your recommendations are provided in the attachment.

The Department met the intent of the Payment Integrity Information Act of 2019 (PIIA) by including a Payment Integrity section in the Department of Defense Agency Financial Report for Fiscal Year 2019, published November 15, 2019. 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 ten percent. Moreover, my office has worked diligently with DFAS and across the Department to correct deficiencies identified by your audit teams.

DoD has taken the following actions over the last year to improve DoD PIIA compliance and move closer to meeting the President's Management Agenda, Cross-Agency Priority Goal 9, of "Getting Payments Right." We continually exercised effective oversight through the Improper Payments Senior Accountable Officials Steering Committee; closed eight audit recommendations; improved our corrective action plan reporting and achieved compliance with this PIIA requirement; strengthened our post-payment reviews for the Civilian Pay, Military Pay, and Military Health Benefits programs; and conducted a risk assessment on military academy cadets and midshipmen.

The Office of the Under Secretary of Defense (Comptroller) welcomes continued 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. We appreciate your review of this program and the opportunity to comment on the draft report. My office will work timely to resolve your recommendations. My staff point of contact is

[REDACTED]

EASTON, MARK ED
WARD

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 MARCH 13, 2020

PROJECT NO. D2019-D000FL-0184.000

“AUDIT OF THE DEPARTMENT OF DEFENSE’S COMPLIANCE IN FISCAL YEAR 2019 WITH IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT REQUIREMENTS”

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

RECOMMENDATION 1

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

- a. “coordinate with the Defense Finance and Accounting Service and other DoD Components to update the Travel Pay sampling and estimation plans, including the population of travel payments processed through the Defense Travel Modernization system; and”

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

Concur. OUSD(C) will coordinate with the Defense Finance and Accounting Service (DFAS) and the Defense Travel Management Office to update the Travel Pay sampling and estimation plans to include the population of travel payments processed through the Defense Travel Modernization system. Estimated completion date is November 2020.

- b. “submit for the Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, Commercial Pay, and DoD Travel Pay programs 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 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 programs listed above, and describing the corrective actions taken and planned to prevent and reduce improper payments.”

OUSD(C) RESPONSE TO RECOMMENDATION 1b: Concur. OUSD(C) acknowledges the statutory requirement supporting this recommendation. We contend that compliance can and will be achieved through internal actions such as performing root cause analysis, implementing effective corrective actions, and providing proactive oversight through the DoD Improper Payments Senior Accountable Officials Steering Committee. OUSD(C) will submit letters to the Office of Management and Budget and

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

the Congress, stating that reauthorization and statutory changes are not necessary to bring the Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, Commercial Pay and DoD Travel Pay programs into compliance with the Payment Integrity Information Act of 2019. Additionally, OUSD(C) will include an enclosure with the letter detailing the actions DoD took to complete the requirements for 1, 2, 3, and 4 years of noncompliance by the Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, Commercial Pay, and DoD Travel Pay programs, and describe the corrective actions taken and planned to prevent and reduce improper payments in each of these programs. Estimated completion date is no later than 30 days after the report is issued.

RECOMMENDATION 2

“We recommend that the Deputy Director of Enterprise Audit Support for the Defense Finance and Accounting Service:

- a. “develop and implement internal controls to ensure that the development of the improper payment estimate for the Military Retirement program is complete and accurate; and”

DFAS RESPONSE TO RECOMMENDATION 2a: Concur. DFAS will continue to improve the internal control measures in its population review process for the Military Retirement program to ensure that all necessary payments are included and a complete and accurate improper payment estimate is reported. Estimated completion date is October 2020.

- b. “develop and implement complete standard operating procedures of the Military Retirement improper payment review process.”

DFAS RESPONSE TO RECOMMENDATION 2b: Concur. DFAS will update and implement complete standard operating procedures of the Military Retirement improper payment review process. Estimated completion date is August 2020.

Acting Director, Army Financial Services, U.S. Army Financial Management Command



DEPARTMENT OF THE ARMY
UNITED STATES ARMY FINANCIAL MANAGEMENT COMMAND
INDIANAPOLIS IN 46249-3000

AMFM-FS

17 April 2020

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE,
ATTN: FINANCIAL MANAGEMENT AND REPORTING

Subject: Audit of the Department of Defense's Compliance in Fiscal Year 2019 With
Improper Payments Elimination and Recovery Act Requirements (Project No. D2019-
D000FL-0184.000)

1. We have reviewed the subject draft report and understand your office has already concluded to change pages 38 and 39, Appendix C, Table 5, Status of DoD OIG IPERA Audit Recommendations, DoDIG-2018-115, 2.a. and 2.b., from "Estimated Completion Date: February 28, 2020" to "Completed on: February 28, 2020." We concur with the remainder of the report and its findings.

2. The Army point of contact is [REDACTED].

REID, GEORGE, ERIC
C.JR. [REDACTED]

G. ERIC REID
Acting Director, Army Financial Services

Acronyms and Abbreviations

AFR	Agency Financial Report
CAP	Cross-Agency Priority
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DTM	Defense Travel Modernization
DTS	Defense Travel System
GAO	Government Accountability Office
GPC	Government Purchase Card
GSA	General Services Administration
IPERA	Improper Payments Elimination and Recovery Act
OIG	Office of Inspector General
OMB	Office of Management and Budget
OUS(D)/CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
USACE	U.S. Army Corps of Engineers

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U.S. DEPARTMENT OF DEFENSE

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