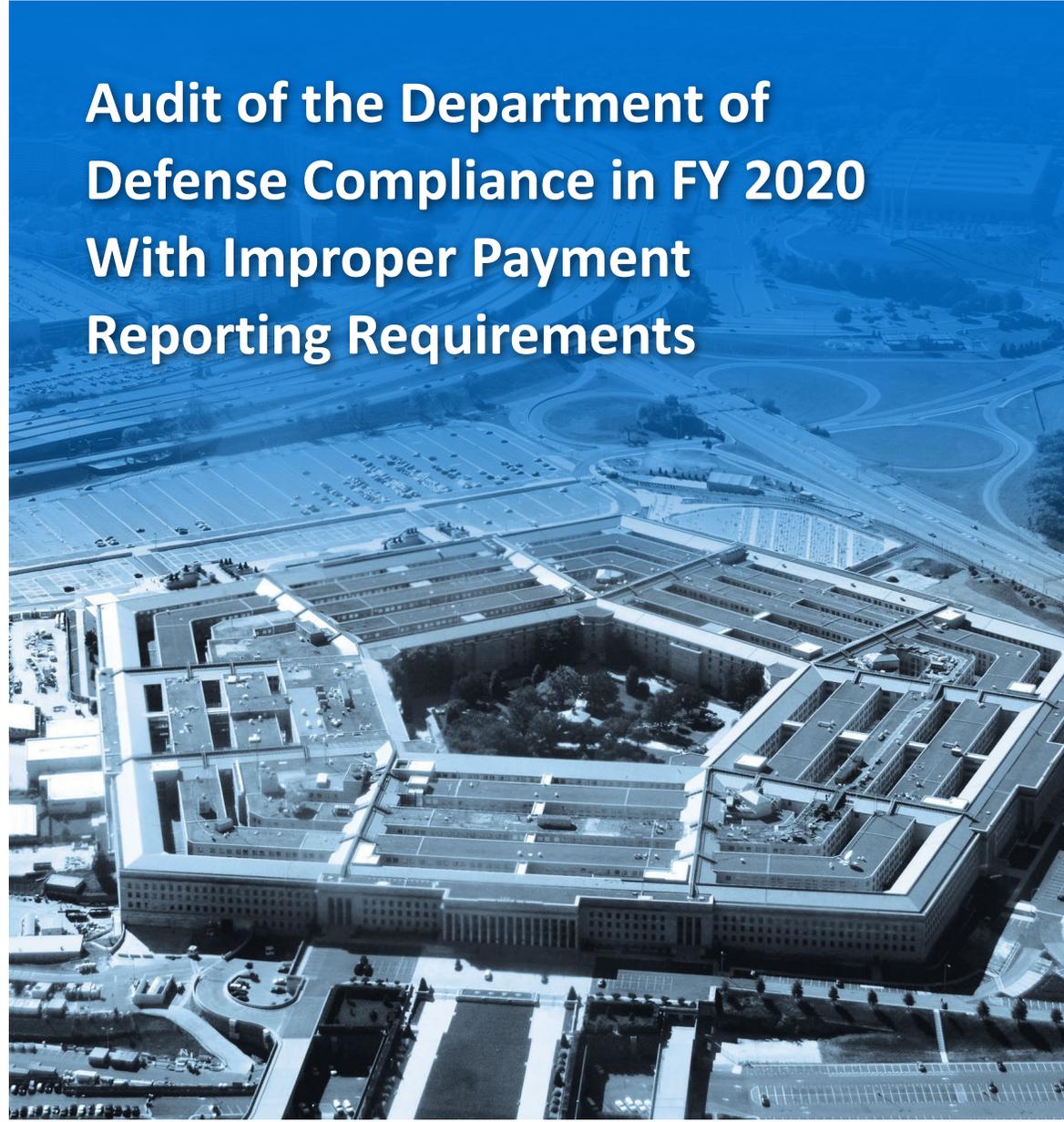




INSPECTOR GENERAL

U.S. Department of Defense

MAY 7, 2021



Audit of the Department of Defense Compliance in FY 2020 With Improper Payment Reporting Requirements

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Audit of the Department of Defense Compliance in FY 2020 With Improper Payment Reporting Requirements

May 7, 2021

Objective

The objective of this audit was to determine whether, in FY 2020, the DoD complied with Public Law 116-117, "Payment Integrity Information Act (PIIA) of 2019," March 2, 2020.

Background

The PIIA was enacted to improve efforts to identify and reduce Government-wide improper payments. It 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 PIIA defines 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. Improper payments do not always result in an actual monetary loss to the Government.

The President's Management Agenda of 2018 focuses on effective and modern Government capabilities, including a focus on effective stewardship of taxpayer funds through 11 Cross-Agency Priority goals. Goal 9, "Getting Payments Right," discusses saving taxpayer money by making payments correctly and recovering money from incorrect payments. Reducing improper payments and complying with the PIIA are also top financial management priorities for the DoD.

Background (cont'd)

On November 16, 2020, the Deputy Secretary of Defense published the DoD's FY 2020 Agency Financial Report (AFR), including the Payment Integrity section. The DoD reported in the AFR \$11.4 billion in estimated improper payments for 11 DoD programs, a \$2.7 billion increase from the \$8.7 billion the DoD reported in the FY 2019 AFR.

Finding

The DoD did not comply with all PIIA requirements in its FY 2020 reporting of improper payments. The DoD complied with four of the six PIIA requirements. However, it did not comply with two of the six PIIA requirements because it published unreliable improper payment estimates for 7 of its 11 programs and missed its annual improper payment reduction target for the Military Health Benefits program.

The DoD did not publish reliable improper payments estimates for 7 of its 11 programs because Defense Finance and Accounting Service personnel:

- did not use reliable gross pay amounts to develop the universe used for calculating improper payment estimates for the Military Pay programs;
- did not include Civilian Mariner transactions totaling \$538 million from the sampling universe used to calculate the improper payment estimate for the Civilian Pay program;
- did not fully implement corrective actions to consistently use the sample pay amount in calculating the Military Retirement program improper payment estimate, as recommended by the DoD Office of Inspector General (DoD OIG) in prior improper payment compliance audit reports; or
- did not fully implement corrective actions to use actual paid amounts versus invoice amounts in developing the population, as recommended by the DoD OIG for the Commercial Pay program in prior improper payment compliance audit reports.

In addition, the DoD did not meet its FY 2020 reduction targets for the Military Health Benefits program because one of the contractors for the program did not accurately process health benefits claims.



Results in Brief

Audit of the Department of Defense Compliance in FY 2020 With Improper Payment Reporting Requirements

Finding (cont'd)

As a result of these actions, the DoD did not comply with all improper payment reporting requirements for the 9th consecutive year. The DoD attributed the increase of its improper payment estimate, \$8.7 billion in FY 2019 to \$11.4 billion in FY 2020, a \$2.7 billion increase, to the lack of supporting documentation for the Civilian Pay payments. In spite of this increase, the DoD has completed corrective actions necessary to close 79 of 90 recommendations the DoD OIG made in the last 9 years, continued to make the reduction of the improper payments, and made compliance with the PIIA a top financial priority for the DoD. However, by not fully implementing corrective actions related to improper payment estimates, the DoD continued to report unreliable improper payment estimates and missed opportunities to promptly detect, prevent, and recover improper payments. With unreliable estimates, 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.

- submit to the Office of Management and Budget and Congress, within 90 days of this report's issuance, the required report and planned corrective actions to prevent and reduce improper payments for the programs that did not comply with the PIIA.

We also recommended that the Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service ensure consistency and transparency within the process used to reconcile the gross pay amounts by documenting the process that was implemented for FY 2021.

Additionally, the DoD has yet to fully implement corrective actions to address prior DoD OIG recommendations concerning the development of the improper payment estimates for the Military Retirement program and Commercial Pay program. Therefore, we re-addressed the need for DoD to implement these recommendations in this report.

Recommendations

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

- develop an improper payment definition that can be consistently applied to the recapture of improper payments and the improper payment estimate;
- identify the recovered improper payments, separate from other recovered payments in the Payment Recapture Audit program section of the AFR;
- provide justification for the amount of uncollectable improper payments in the Payment Recapture Audit program section of the AFR; and

Management Comments and Our Response

The Deputy Chief Financial Officer (DCFO), responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service, agreed with six recommendations and partially agreed with one recommendation. However, the DCFO presented planned actions that, if implemented, would address the underlying intent of all recommendations. Therefore, all recommendations are resolved but will remain open. We will close the recommendations once we verify that management has implemented the actions they presented. Please see the Recommendations Table on the next page for the status of recommendations.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD	None	1.a, 1.b, 1.c, 1.d, 1.e, 2	None
Deputy Director of Enterprise Audit Support and Compliance, Defense Finance and Accounting Service	None	2, 3	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 7, 2021

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

SUBJECT: Audit of the Department of Defense Compliance in FY 2020 With Improper Payment
Reporting Requirements (Report No. DODIG-2021-080)

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 of 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. Send your response to either followup@dodig.mil if unclassified or rfunet@dodig.smil.mil if classified SECRET.

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

Lorin T. Venable

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Introduction

Objective

The objective of this audit was to determine whether, in FY 2020, the DoD complied with Public Law No. 116-117, “Payment Integrity Information Act of 2019,” March 2, 2020 (PIIA). The PIIA requires agency offices of Inspector General, including the DoD Office of Inspector General (DoD OIG), to complete this audit each fiscal year. See Appendix A for the audit scope and methodology and Appendix B for prior audit coverage related to the audit objective.

Background

The President’s Management Agenda of 2018 outlines a vision for effective and modern Government capabilities, including a focus on effective stewardship of taxpayer funds through 11 Cross-Agency Priority goals. Cross-Agency Priority Goal 9, “Getting Payments Right,” July 2020, aims to (1) build trust in Government by better understanding the nature of improper payments and their relationship to payment integrity, (2) demonstrate stewardship of taxpayer dollars by focusing on getting Government payments right the first time they are made, and (3) prevent monetary loss.

The PIIA was enacted in part to improve efforts to identify and reduce Government-wide improper payments.¹ It 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 PIIA defines an improper payment as any payment that should not have been made or was made in an incorrect amount, including overpayments or underpayments, under a statutory, contractual, administrative, or other legally applicable requirement. Improper payments also include payments made to ineligible recipients or for ineligible goods or services, duplicate payments, payments for a good or service not received, and payments that do not account for credits for applicable discounts. Additionally, payments without proper supporting documentation are categorized as improper.² Therefore, an improper payment does not necessarily result in an actual monetary loss to the Government.

¹ On March 2, 2020, the President signed the “Payment Integrity Information Act of 2019” into law (Public Law No. 116-117). PIIA repealed and replaced the three public laws related to identifying and reporting on improper payments in the DoD—Public Law No. 107-300, “Improper Payments Information Act of 2002,” November 26, 2002; Public Law No. 111-204, “Improper Payments Elimination and Recovery Act of 2010,” July 22, 2010; and Public Law No. 112-248, “Improper Payments Elimination and Recovery Improvement Act of 2012,” January 10, 2013.

² Public Law No. 116-117, “Payment Integrity Information Act of 2019,” section 3352(c)(2), March 2, 2020.

The PIIA also requires that not later than 1 year after its enactment, the Director of the Office of Management and Budget (OMB) prescribe guidance for executive agencies to implement the requirements of PIIA.³ Because the OMB did not issue updated guidance in time for FY 2020 PIIA reporting, OMB personnel directed the agencies to use a compilation of the guidance published in the PIIA; OMB Circular No. A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control,” Appendix C, “Requirements for Payment Integrity Improvement”; and revised OMB Circular No. A-136, “Financial Reporting Requirements,” to implement the requirements.

PIIA Compliance Requirements

The PIIA requires agencies to produce statistically valid estimates of improper payments and report on agency actions to reduce and recover improper payments. To ensure agencies complete these actions, the PIIA requires each agency’s Inspector General to evaluate the agency’s compliance with the PIIA requirements each fiscal year. To comply, the agency must meet all of the following requirements.

1. Publish improper payments information with the DoD’s annual financial statement for the most recent fiscal year and post that statement and any accompanying materials required by OMB guidance on the agency website.
2. Conduct a program-specific risk assessment for each program or activity, if required.
3. Publish improper payment estimates for all programs and activities in the accompanying materials to the annual financial statements, if required.⁴
4. Publish programmatic corrective action plans for all programs and activities determined to have significant improper payments, in the accompanying materials to the annual financial statements.
5. Publish improper payments reduction targets in the accompanying materials to the annual financial statements for all programs and activities assessed to be at risk, and demonstrate that the programs and activities have made improvements in their reduction targets and developed a plan to meet the reduction targets.
6. Report an improper payment rate of less than 10 percent for each program and activity for which an estimate is published.

³ Public Law No. 116-117, “Payment Integrity Information Act of 2019,” section 3352(g)(1), March 2, 2020.

⁴ The OMB does not require risk assessments from programs that report an estimate. Additionally, according to the OMB, if an agency reports a risk assessment for a program, based on the results of the risk assessment, an agency may not be required to report an estimate.

Office of Management and Budget Guidance

The PIIA requires the Director of the OMB, in consultation with the Council of Inspectors General on Integrity and Efficiency, to develop and disseminate guidance for how Inspectors General should determine agency compliance with the PIIA. Additionally, the PIIA requires the OMB to develop guidance for the executive agencies to implement the PIIA requirements. Therefore, in order to comply with the PIIA, an agency must also follow the guidance in the following OMB Circulars.

- OMB Circular No. A-123, Appendix C, June 26, 2018:
 - transforms the improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of requirements;
 - provides guidance to agencies to strengthen the statistical validity of improper payment estimates;
 - 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 what the OIG should review to determine whether the agency complied with 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, August 27, 2020:
 - 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 PIIA reporting requirements.

DoD Financial Management Regulation Requirements

The DoD Financial Management Regulation (DoD FMR) requires the DoD Components to implement guidance from the PIIA; OMB Circular No. A-123, Appendix C; OMB Circular No. A-136; and OMB Memorandum M-18-14, "Implementation of Internal Controls and Grant Expenditures for the Disaster-Related Appropriations."⁵ The DoD FMR reiterates the PIIA and OMB guidance in requiring that DoD programs

⁵ OMB M-18-14, "Implementation of Internal Controls and Grant Expenditures for the Disaster-Related Appropriations," March 30, 2018.

determined to be susceptible to significant improper payments are required to produce a statistically valid estimate of the improper payments made, identify the root causes of improper payments, and implement appropriate corrective actions to prevent and reduce improper payments.⁶ The DoD FMR also states that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSD[C]/CFO), Financial Management Policy and Reporting Directorate is the Executive Agent for the DoD Payment Integrity program. As the Executive Agent, the Financial Management Policy and Reporting Directorate is responsible for:

- providing oversight to the DoD Components to ensure compliance with the authoritative guidance;
- interpreting and providing guidance to DoD Components related to the Payment Integrity program;
- reviewing the DoD Components' statistical sampling plans and submitting them to OMB, if required;
- compiling and submitting quarterly reports to OMB on DoD programs and activities determined to be susceptible to significant improper payments or designated as "high-priority" by the OMB;
- preparing and reporting the DoD Payment Integrity reports for the AFR and for submission to the OMB; and
- reviewing the DoD Components' corrective action plans for completeness.⁷

DoD Agency Financial Report

The Deputy Secretary of Defense published the DoD's FY 2020 AFR, including the Payment Integrity section, on November 16, 2020, stating that the reduction of improper payments and compliance with the PIIA continue to be top financial management priorities for the DoD. The DoD reported in the AFR \$11.4 billion in estimated improper payments for 11 programs. Of the \$11.4 billion, \$2.4 billion related to overpayments, underpayments, and technically improper payments, and \$9 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 the payment was proper.

The \$11.4 billion in estimated improper payments reported in the FY 2020 AFR is a significant increase from the \$8.7 billion in estimated improper payments reported in the FY 2019 AFR. The AFR attributes a majority of the \$2.7 billion increase in

⁶ DoD FMR, volume 4, "Accounting Policy," chapter 14, "Payment Integrity."

⁷ DoD FMR, volume 4, chapter 14.

improper payments to the DoD's implementation of a more thorough review of key supporting documentation for payments in the Civilian Pay program. Table 1 shows the FY 2020 outlays, estimated improper payment total, and estimated improper payment rate for each of the 11 programs on which the DoD reported.⁸

Table 1. DoD FY 2020 Improper Payment Reporting

Program Name	FY 2020 Outlays (in Millions)	Estimated Improper Payment Total (in Millions)	Estimated Improper Payment Rate* (Percent)
Military Health Benefits	\$23,190.07	\$338.88	1.46
Military Pay–Army	43,707.45	3,556.30	8.14
Military Pay–Navy	25,014.68	51.40	0.21
Military Pay–Air Force	27,808.65	1,568.81	5.64
Military Pay– U.S. Marine Corps (USMC)	11,245.97	0.19	0.00
Civilian Pay	61,996.62	4,915.83	7.93
Military Retirement	72,966.70	352.49	0.48
DoD Travel Pay	7,380.79	314.97	4.27
Commercial Pay	363,267.03	306.65	0.08
U.S. Army Corps of Engineers (USACE) Travel Pay	190.82	0.80	0.42
USACE Commercial Pay	23,548.71	0	0
Total	\$660,317.50	\$11,406.32	1.73

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

Source: The DoD FY 2020 AFR.

The PIIA 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 seven of its programs had significant improper payments in FY 2020: Military Health Benefits, Military Pay–Army, Military Pay–Air Force, Civilian Pay, Military Retirement, DoD Travel Pay, and Commercial Pay. OMB guidance requires an agency to publish a description of its corrective action plans only for programs with significant improper payments.

⁸ The DoD FMR defines outlays as the amount of checks issued or other payments made, including advances, net refunds, and reimbursements.

Roles and Responsibilities

The Financial Management Policy and Reporting Directorate is the Executive Agent for the DoD Payment Integrity program and oversees DoD PIIA reporting at the Component level, including ensuring that the reporting process contains appropriate controls. The following DoD Components sample, review, and report improper payments for the 11 DoD programs.

- **The Defense Finance and Accounting Service (DFAS)** reports on Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–U.S. Marine Corps (USMC), Civilian Pay, and Military Retirement.
- **DFAS, the Air Force, and the Army** report on DoD Travel Pay.⁹
- **DFAS and the Army** report on Commercial Pay.¹⁰
- **The Defense Health Agency** reports on Military Health Benefits.
- **The 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 develop an estimate of the improper payments that occurred within a program’s total payments in the fiscal reporting period. To develop this estimate, Components:

- develop a statistically valid sampling 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.

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 DoD AFR.

⁹ The Army reports the improper payment results for the DoD Travel Pay program for the following locations Outside the Continental United States (OCONUS): the 175th Financial Management Center–Korea; the Italy Finance Office; the Benelux Finance Office; and the 266th Financial Management Support Center (FMSC).

¹⁰ The Army reports the improper payment results for the Commercial Pay program for the following OCONUS locations: the 175th Financial Management Center–Korea; the Italy Finance Office; and the Benelux Finance Office.

Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.¹¹

The DoD did not comply with two of the six PIIA requirements when it reported its FY 2020 improper payments. Although the DoD continues to improve its reporting of improper payments, it did not implement sufficient internal controls to detect and correct the errors that prevented the DoD from becoming fully compliant with the PIIA.

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

Finding

The DoD Did Not Comply With PIIA Requirements

The DoD did not comply with the PIIA requirements in its FY 2020 reporting of improper payments. The DoD complied with four of the six PIIA requirements. However, it did not comply with two PIIA requirements because the DoD published unreliable improper payment estimates for 7 of its 11 programs and missed its annual improper payment reduction target for the Military Health Benefits program.

The DoD did not publish reliable improper payments estimates for 7 of its 11 programs because DFAS personnel:

- did not use reliable gross pay amounts to develop the universe used for calculating improper payment estimates for the Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–USMC, and Civilian Pay programs;
- did not include Civilian Mariner transactions, totaling \$538 million, from the sampling universe used to calculate the improper payment estimate for the Civilian Pay program;
- did not fully implement corrective actions to consistently use the sample pay amount in calculating the Military Retirement program improper payment estimate as recommended by the DoD OIG in prior improper payment compliance audit reports; or
- did not fully implement corrective actions to use actual paid amounts versus invoice amounts in developing the population as recommended by the DoD OIG for the Commercial Pay program in prior improper payment compliance audit reports.

In addition, the DoD did not meet its FY 2020 reduction targets for the Military Health Benefits because one of the contractors for the Military Health Benefits program did not accurately process health benefits claims.

As a result of these actions, the DoD did not comply with all improper payment reporting requirements for the 9th consecutive year. The DoD attributed the increase of its improper payment estimate, \$8.7 billion in FY 2019 to \$11.4 billion in FY 2020, a \$2.7 billion increase, to the lack of supporting documentation for the Civilian Pay payments. In spite of this increase, the DoD has completed corrective actions necessary to close 79 of 90 recommendations the DoD OIG made in the last 9 years, continued to make the reduction of the improper payments, and made

compliance with the PIIA a top financial priority for the DoD. However, by not fully implementing the corrective actions related to improper payment estimates, the DoD continued to report unreliable improper payment estimates and missed opportunities to promptly detect, prevent, and recover improper payments. With unreliable estimates, 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.

The DoD Did Not Comply With Two PIIA Requirements

Although the DoD complied with four of the six PIIA requirements in FY 2020, it did not comply with two PIIA requirements. Specifically, the DoD published improper payments information with the annual financial statement and posted accompanying materials on the agency website; conducted program-specific risk assessments for each program, if required; published programmatic corrective action plans, if required; and reported an improper payment rate of less than 10 percent for each program for which an estimate was published. However, the DoD did not publish reliable improper payment estimates for 7 of its 11 programs and the DoD missed its annual improper payment reduction target for the Military Health Benefits program. Table 2 identifies by program the four PIIA requirements with which the DoD complied and the two PIIA requirements with which the DoD did not comply.

Table 2. PIIA 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 ⁴	Improper Payment Rate Under 10 Percent
Military Health Benefits		✓	✓	✓	✗	✓
Military Pay–Army		✓	✗	✓	N/A	✓
Military Pay–Navy		✓	✗	N/A	N/A	✓
Military Pay–Air Force		✓	✗	✓	N/A	✓
Military Pay–USMC		✓	✗	N/A	N/A	✓
Civilian Pay		✓	✗	✓	N/A	✓
Military Retirement		✓	✗	✓	✓	✓
DoD Travel Pay		✓	✓	✓	✓	✓
Commercial Pay		✓	✗	✓	✓	✓
USACE Travel Pay		✓	✓	N/A	✓	✓
USACE Commercial Pay		✓	✓	N/A	✓	✓
Overall Compliance	✓	✓	✗	✓	✗	✓

LEGEND

- N/A Not Applicable
- ✓ Compliant
- ✗ Not Compliant

Note: Programs determined to be susceptible to significant improper payments are Military Health Benefits, Military Pay–Army, Military Pay–Air Force, Civilian Pay, Military Retirement, DoD Travel Pay, and Commercial 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 requires risk assessments only for programs not reporting estimates. All DoD programs reported estimates for FY 2020.

³ See Table 3 for further explanation of how we determined compliance for publishing improper payment estimates.

⁴ OMB guidance requires an agency to publish a description of its corrective action plans and to meet reduction targets only for programs with significant improper payments.

Source: The DoD OIG.

The DoD Published Required Information in the Agency Financial Report

The DoD complied with PIIA and OMB improper payment reporting requirements by publishing its FY 2020 AFR, including the Payment Integrity Information Act Reporting section, on November 16, 2020, and because the OMB posted the additional Supplemental Payment Integrity Information on PaymentAccuracy.gov. In the AFR, the OUSD(C)/CFO reported each programs' outlays, estimated proper and improper payment amounts, estimated improper payment rates, identified root causes for underpayments and overpayments, and published reduction targets for FY 2021, as required. 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 PIIA further requires that the DoD provide, with the improper payment estimate, a report on all actions the DoD has taken to recover improper payments. This report should include:

- a discussion of the methods used to recover improper payments;
- the amounts recovered, outstanding, and determined to be collectable, including the percent those amounts represent of the total improper payments;
- justification for uncollectable improper payments;
- an aging schedule of outstanding amounts;
- a summary of how the DoD disposed of recovered amounts;
- a discussion of any conditions causing an increase in improper payments and how the DoD is resolving those conditions; and
- justification for the DoD's determination that performing recovery audits for any applicable program is not cost-effective.¹²

Although the DoD improved its reporting of the Payment Recapture Audit Program in the FY 2020 AFR, it did not ensure that the amounts recovered represented only recovered improper payment amounts. The DoD reported that in FY 2020 it

Although the DoD improved its reporting of the Payment Recapture Audit Program, it did not ensure that the amounts recovered represented only recovered improper payment amounts.

recaptured a combined total of \$1 billion in overpayments. However, according to DFAS personnel, from the Military Pay, Civilian Pay, and Commercial Pay programs, the improper payment amounts that were recaptured and reported did not always represent amounts that would have been identified

¹² Public Law No. 116-117, "Payment Integrity Information Act of 2019," section 3352(e).

as improper payments when calculating the annual improper payment estimate. For example, the DoD FMR states that salaries and wages of military members and civilian employees may be garnished for child support and alimony, and commercial debts (non-child or spousal support).¹³ DFAS personnel explained that they did not determine whether the debts were related to improper payments when reporting them as recaptured amounts. Because the recovery of these debts would not have been reported as improper payments, the DoD should not report the recovered debt amounts as recaptured improper payment amounts. Furthermore, the DoD reported \$60,000 in uncollectable amounts and did not provide a justification in the AFR for the uncollectable amounts, as required by the PIIA.

Therefore, to improve the DoD's reporting of the recovered improper payments to better comply with the PIIA, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, (USD[C]/CFO) should develop an improper payment definition that can be consistently applied to both the recapture of improper payments and the improper payments identified in the calculation of the improper payment estimate. In addition, USD(C)/CFO should identify the recovered amounts from improper payments separately from all other recovered amounts to allow the DoD to accurately identify the percentage of the recovered amounts that represent the total improper payments. Finally, the DoD should include its justification for uncollectable amounts in the AFR.

The DoD Reported Improper Payment Estimates in Lieu of Risk Assessments

The DoD complied with the requirement to publish program-specific risk assessments. The PIIA requires the head of the agency to periodically review all programs and activities and identify which programs may be susceptible to significant improper payments. OMB Circular No. A-123,

Appendix C, requires agencies to perform a risk assessment at least once every 3 years for every program and activity that is not already reporting an improper payment estimate. In the FY 2020 AFR, the DoD reported an estimate for all 11 of its programs it identified as susceptible to improper payments. Therefore, those programs did not have to perform a risk assessment and report the results in FY 2020.

The DoD reported an estimate for all 11 of its programs it identified as susceptible to improper payments. Therefore, those programs did not have to perform a risk assessment.

¹³ DoD FMR, volume 5, chapter 9.

Although not required by the PIIA, in FY 2020, the DoD assessed the risk of transportation underpayments in the Commercial Pay program. According to the DoD’s risk assessment, the General Services Administration (GSA) reviewed every agency’s transportation payments for overpayments. DFAS personnel then included the results of the GSA reviews in the improper payment estimate for the Commercial Pay program. However, GSA personnel do not review for underpayments. Therefore, the DoD performed a risk assessment on underpayments that had not been reported by the GSA, and determined that the transportation payments did not have a significant risk of underpayments. As a result, the DoD determined it would not include transportation underpayments as a part of the Commercial Pay improper payment estimate. The DoD did not perform the risk assessment to identify whether an individual program was susceptible to significant improper payments, but instead supported its methodology used to report the improper payment estimate for the Commercial Pay program. Therefore, we did not review the risk assessment for compliance with this PIIA requirement.

The DoD Published Complete Corrective Action Plans

The DoD published corrective action plans in the AFR for the required seven programs—Military Health Benefits, Military Pay–Army, Military Pay–Air Force, Civilian Pay, Military Retirement, DoD Travel Pay, and Commercial Pay—that included all of the information required by OMB guidance. The PIIA and OMB guidance require 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.

Although the DoD complied with the PIIA in publishing its corrective action plans, the DoD should improve its reporting of the identified root causes and associated corrective actions for all required programs, and identify, in a more timely manner, root causes and corrective actions.

Although the DoD complied with the PIIA in publishing its corrective action plans, the DoD should improve its reporting of the identified root causes and associated corrective actions for all required programs,

and identify, in a more timely manner, root causes and corrective actions for the Military Pay–Army and Military Pay–Air Force programs. In reporting its corrective action plans in the AFR, the DoD combined its reporting of the corrective actions addressing root causes of improper payments with improvements the DoD plans to make to its Payment Integrity program. However, the improvements to the DoD Payment Integrity program did not necessarily address the root causes of the improper payments. Because the corrective actions were combined with the

improvement plans, it is not clear which corrective actions the DoD has put into place to address the root causes of improper payments. Therefore, to improve the DoD's reporting of the corrective actions, the USD(C)/CFO should report corrective actions addressing root causes of the improper payments separately from the planned improvements reported for the Payment Integrity program.

Additionally, for the Military Pay–Army and Military Pay–Air Force programs, the DoD reported corrective actions to:

- perform in-depth analysis of Military Pay transactions to determine the actual root causes of payroll disbursement errors identified during the post payment review; and
- develop corrective action plans to address specific root causes for the payroll disbursement errors that resulted in improper payments.

A corrective action to “Develop corrective action plans to address specific root causes” is not, in and of itself, a corrective action. According to OUSD(C)/CFO personnel, they worded the corrective actions this way because DFAS personnel did not complete their FY 2020 improper pay reviews of the Military Pay programs in time to identify specific corrective actions to address the root causes of the identified improper payments. Furthermore, for FY 2020 reporting, DFAS personnel reviewed FY 2019 Military Pay transactions to establish root causes and corrective actions for identified improper payments. Therefore, by the time DFAS personnel completed their review of the FY 2019 transactions, any identified improper payments would have existed for almost 2 years. The process DFAS personnel used to identify corrective actions for these programs was not timely for the DoD's reporting of corrective actions. To ensure timeliness of the corrective action reporting, the USD(C)/CFO and the Deputy Director of Enterprise Audit Support and Compliance for DFAS should develop and implement processes to identify root causes and develop corrective actions earlier in the improper payment review process.

The DoD Reported Improper Payment Rates of Less Than 10 Percent

The DoD reported gross improper payment rates of less than 10 percent for each program that reported an improper payment estimate. For compliance, the PIIA requires that the DoD report an improper payment rate of less than 10 percent for each program and activity for which an estimate was published. Therefore, the DoD met the PIIA requirement. The Military Pay–Army program had the highest improper payment rate at 8.14 percent. The Civilian Pay program had the next highest improper payment rate, at 7.93 percent, followed by the Military Pay–Air Force program at 5.64 percent and the DoD Travel Pay program at 4.27 percent.

Although the DoD reported improper payment rates of less than 10 percent, the accuracy of the improper payment rates reported could not be determined for the Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–USMC, Civilian Pay, Military Retirement, and Commercial Pay programs because of the uncertainties in the reliability of the data used to calculate improper payment rates.

Although the DoD published improper payment estimates in the FY 2020 AFR for its 11 programs, it did not publish reliable estimates for 7 of the 11 programs.

The DoD Published Unreliable Improper Payment Estimates

The DoD did not comply with the PIIA requirement to publish improper payment estimates. Although the DoD published improper payment estimates in the FY 2020 AFR for its 11 programs, it did not publish reliable estimates for 7 of the 11 programs: Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–USMC, Civilian Pay, Military Retirement, and Commercial Pay. Specifically, DFAS personnel:

- did not use reliable gross pay amounts to develop the universe used for calculating the Military Pay and Civilian Pay improper payment estimates;
- did not include Civilian Mariner transactions totaling \$538 million from the sampling universe used to calculate the improper payment estimate for the Civilian Pay program;
- did not fully implement corrective actions to consistently use the sample pay amount in calculating the Military Retirement program improper payment estimate as previously recommended by the DoD OIG in prior improper payment compliance audit reports; and
- did not fully implement corrective actions to use actual paid amounts versus invoice amounts in developing the population as previously recommended by the DoD OIG for the Commercial Pay program in prior improper payment compliance audit reports.

The PIIA requires agency Inspectors General to evaluate and take into account the adequacy of the executive agencies’ methodology for estimating improper payments. OMB guidance requires that all programs and activities that are susceptible to significant improper payments design and implement appropriate statistical sampling and estimation plans to produce statistically valid improper payment estimates.¹⁴ The guidance also states that agencies should ensure that the programs’ improper payment estimates are accurate, and that the sampling and estimation plan is appropriate given program characteristics.

¹⁴ OMB Circular No. A-123, Appendix C, “Requirement for Payment Integrity Improvement,” June 26, 2018.

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 of the program, 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 7 of 11 DoD programs that did not meet all requirements for publishing reliable improper payment estimates in the FY 2020 AFR.

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	✓	✓	✓	✓
Military Pay–Army	✓	✗	N/D	✗
Military Pay–Navy	✓	✗	N/D	✗
Military Pay–Air Force	✓	✗	N/D	✗
Military Pay–USMC	✓	✗	N/D	✗
Civilian Pay	✓	✗	N/D	✗
Military Retirement	✓	✗	N/D	✗
DoD Travel Pay	✓	✓	✓	✓
Commercial Pay	✓	✗	N/D	✗
USACE Travel Pay	✓	✓	✓	✓
USACE Commercial Pay	✓	✓	✓	✓

LEGEND

- N/D** Not Determined
- ✓ Compliant
- ✗ Not Compliant

Source: The DoD OIG.

We did not review for the adequacy and accuracy of the improper payment reviews for the Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–USMC, Civilian Pay, Military Retirement, and Commercial Pay programs because we determined that the populations were not complete and accurate.

The DoD Used Unreliable Gross Pay Amounts for the Populations

The DoD used an unreliable methodology to calculate the gross pay amounts for the Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–USMC, and Civilian Pay programs, resulting in unreliable improper payment

The DoD used an unreliable methodology to calculate the gross pay amounts, resulting in unreliable improper payment estimates.

estimates. Specifically, in calculating the population amounts, DFAS personnel used amounts that varied from the gross pay amount on the Leave and Earnings Statement (LES). By using an unreliable methodology to calculate the

gross pay amounts for the population, DFAS personnel recognized the amounts did not match the LES and modified the amounts in the sample results population, creating variances in the gross pay amounts used to calculate the improper payment estimates.

The first variance occurred when DFAS personnel used gross pay amounts that varied from the initial population calculation and the population used to calculate the improper payment estimate. DFAS personnel calculated the gross pay amount for the initial population using specific categories. However, when the LES amount did not match the DFAS calculated amount, personnel changed the gross pay amount in the data to match the LES without changing the original data. Table 4 illustrates the variances that occurred within the populations.

Table 4. Gross Pay Variances in FY 2020 Military Pay and Civilian Pay Program

Program Name	Initial Gross Pay Amount (In Millions)	Adjusted Gross Pay Amount (In Millions)	Variance Amount (In Millions)*	Variance (Percent)
Military Pay—Army	\$69.7	\$66.6	\$5.0	7.1
Military Pay—Navy	5.3	5.4	0.2	3.6
Military Pay—Air Force	31.4	31.2	0.3	1.0
Military Pay—USMC	28.6	28.2	0.4	1.4
Civilian Pay	12.7	11.9	0.8	6.2

*Amounts are in absolute value – the distance of a number from zero, regardless of the direction.

Source: The DoD OIG and DFAS.

The second variance that occurred due to DFAS personnel calculating the wrong gross pay amount for the population is that the population included transactions that did not reconcile to actual LES payments for the Military Pay–Army, Military Pay–Air Force, and Military Pay–USMC programs. DFAS personnel did not review these transactions and removed them from the improper payment estimate calculation, but did not remove them from the population total. Table 5 illustrates the percentage of the values removed from each program.

Table 5. Values Removed From the Improper Payment Estimate Calculation

Program Name	Original Sample Pay Amount (In Millions)	Removed Amount (In Millions)	Removed Percentage
Military Pay—Army	\$77.3	\$7.6	9.8
Military Pay—Air Force	32.9	1.5	4.6
Military Pay—USMC	28.8	0.3	1.0

Source: The DoD OIG and DFAS.

DFAS personnel stated that they were aware of the variances and have taken action in FY 2021 to correct the variances. DFAS personnel explained that they implemented a review process to ensure all gross pay amounts are accurately captured. According to DFAS personnel, they match all gross pay amounts to an LES prior to developing a sampling universe. Because DFAS personnel made these corrective actions to their procedures for their FY 2021 reporting, we will review for the corrective actions applied to the improper payment estimate in the FY 2021 annual improper payment audit. Although DFAS personnel explained the process they followed to ensure the gross pay amounts reconcile, they have not documented the review process. Therefore, to ensure consistency and transparency within the process, the Deputy Director of Enterprise Audit Support and Compliance, DFAS, should document the process used to reconcile the gross pay amounts for FY 2021.

The DoD Excluded Civilian Mariner Transactions From the Civilian Pay Program

The DoD did not include 131,503 Civilian Mariner transactions totaling \$538 million from the Civilian Pay program for the entire year. Because the DoD excluded these transactions, the Civilian Pay program did not contain a complete universe of transactions for developing an improper payment estimate.

DFAS personnel explained they did not realize that the Mariners population was not already included in the overall universe of the Navy payments. In the DoD OIG’s FY 2018 improper payment

The DoD did not include 131,503 Civilian Mariner transactions totaling \$538 million from the Civilian Pay program for the entire year.

compliance report, the audit team found that DFAS excluded Civilian Mariner transactions.¹⁵ The audit team recommended that OUSD(C)/CFO, in coordination with DFAS, 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 report accurate improper payment estimates in the AFR. Management agreed to implement the recommendation.¹⁶ As of the date of this report, DFAS personnel have not fully implemented the corrective actions recommended by the DoD OIG in the FY 2018 report, the original recommendation remains open, and we are not making another recommendation. We will close this recommendation once the DoD has implemented sufficient control measures to ensure that it includes all necessary payments to report an accurate improper payment estimate in the AFR.

The DoD Did Not Fully Implement Corrective Actions for the Military Retirement Program

DFAS personnel projected the improper payments found onto a population that they calculated using the gross pay amount, which created an inconsistent sampling platform.

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 that DFAS personnel sample and test the net pay amounts for payments

made on existing accounts that required a change throughout the reporting period. However, DFAS personnel projected the improper payments found onto a population that they calculated using the gross pay amount, which created an inconsistent sampling platform. According to DFAS personnel, they did not have access to sample data for these accounts with gross payment amounts. The DoD OIG previously identified that DFAS personnel used an inconsistent sampling platform in the FY 2019 annual improper payment audit. In the DoD OIG's FY 2019 improper payment compliance report, the DoD OIG recommended that DFAS develop and implement internal controls to ensure that the development of the improper payment estimate for the

The DoD OIG previously identified that DFAS personnel used an inconsistent sampling platform in the FY 2019 annual improper payment audit.

¹⁵ 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.

¹⁶ 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 2.b.

Military Retirement program is complete and accurate.¹⁷ Management agreed with the recommendation and stated that DFAS would look at improving the sources from which it obtains the Military Retirement Data. According to DFAS personnel, they did not fully implement corrective actions to address this recommendation for the FY 2020 improper payment reporting. Additionally, the Military Retirement sampling and estimation plan for FY 2020 states, “In FY 2021, DoD intends to implement a new plan which standardizes whether gross or net is used across the entire population and all strata.” On March 18, 2021, DFAS personnel stated that DFAS implemented this process for the FY 2021 reporting period and provided examples of the net pay type being used. Because this process change applies to the FY 2021 reporting, we will review the implementation of the process during the FY 2021 audit. We will close this recommendation once we determine DFAS has implemented its plan to standardize the use of gross pay versus net pay across the Military Retirement population.

The DoD Did Not Fully Implement Corrective Actions for the Commercial Pay Program

DFAS personnel used the invoice amounts when developing the population used to calculate the improper payment estimate, instead of the actual paid amounts. According to the DFAS Commercial Pay sampling plan, DFAS used paid invoice amounts to develop a population, instead of disbursement amounts actually paid to vendors. In the DoD OIG’s FY 2018 improper payment compliance report and another DoD OIG report on accuracy of improper payment estimates for the Mechanization of Contract Administration Services System, the DoD OIG found that the Commercial Pay program did not always use the paid amount, and instead used the invoice paid amount, which for the Commercial Pay program did not include vendor discounts or recoupment amounts.¹⁸

DFAS personnel used the invoice amounts when developing the population used to calculate the improper payment estimate, instead of the actual paid amounts.

The DoD OIG concluded that the DoD Commercial Pay program would continue to be unreliable until the DoD used the actual amount paid. In the FY 2018 improper payment compliance report, the DoD OIG recommended that the OUSD(C)/CFO,

¹⁷ Report No. DODIG-2020-083, “Audit of the Department of Defense’s Compliance in Fiscal Year 2019 With Improper Payments Elimination and Recovery Act Requirements,” May 1, 2020, Recommendation 2.a.

¹⁸ Report No. DODIG-2021-024, “Audit of the Accuracy of the Improper Payment Estimates Reported for the Mechanization of Contract Administration Services System,” November 12, 2020.

in coordination with DFAS, develop a process that uses the amount paid for the Commercial Pay program. Management agreed to implement the recommendation.¹⁹ However, because DFAS personnel are still using the paid invoice amounts for the DoD's Commercial Pay program, they have not fully implemented the corrective actions recommended by the DoD OIG.

Because DFAS personnel are still using the paid invoice amounts for the DoD's Commercial Pay program, they have not fully implemented the corrective actions recommended by the DoD OIG.

Therefore, because DFAS is still taking corrective actions to address the recommendation previously issued in the FY 2018 report, the original recommendation remains open, and we are not making another recommendation. We will close this recommendation once DFAS develops a process that uses the amount paid in calculating the improper payment estimate for the Commercial Pay program.

The DoD Did Not Meet Improper Payment Reduction Targets

This is the 9th consecutive year that the DoD has not met its reduction targets.

Although the DoD published target rates for reducing improper payments for all of its programs, the DoD did not comply with the requirement to meet its

FY 2020 reduction targets. Specifically, the estimated improper payment rates for the Military Health Benefits program did not meet the FY 2020 reduction targets. This is the 9th consecutive year that the DoD has not met its 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 for each program, with the intent to reduce the improper payment rate over time. The PIIA was enacted on March 2, 2020, which was 6 months into the Military Health Benefits program FY 2020 reporting period. The PIIA states that an agency has complied with this requirement if it has published annual reduction targets for each program assessed to be at risk, demonstrated improvements, and developed a plan to meet the reduction targets. Although the PIIA did not explicitly require the agencies to meet the reduction targets, it required the OMB to develop guidance for the agencies to implement the PIIA. Due to the timing of the revisions to the OMB updated guidance, the OMB issued interim guidance requiring the agencies to

¹⁹ 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 2.a.

meet the reduction targets and the Inspectors General to make a determination on whether the agencies met the targets. According to OMB Circular No. A-123, Appendix C, a program has met its reduction target if its FY 2020 improper payment rate minus the FY 2020 margin of error is less than or equal to the reduction target established in FY 2019. Because the PIIA did not specify that agencies had to meet their reduction targets, OUSD(C)/CFO personnel contacted the OMB to clarify the intent of the interim guidance. The OMB responded:

under current OMB guidance, M-18-20, program must set and meet their reduction targets. OMB is in the process of revising this guidance to align with PIIA, however, due to timing of that revision and its alignment with FY 2020 OIG Compliance review start dates, the particular PIIA requirement related to ‘demonstrating improvement’ will not be evaluated until the FY 2021 OIG Compliance review. Therefore, if a program does not meet its reduction target in FY 2020, under M-18-20 guidance, the program is not compliant.²⁰

Therefore, according to the OMB, if a program does not meet its reduction target in FY 2020, under OMB Circular No. A-123, Appendix C, the program is not compliant with PIIA. Furthermore, in May 2020, the OUSD(C)/CFO updated DoD FMR, volume 4, chapter 14, after the PIIA was enacted, requiring that the DoD Components meet their annual reduction targets.

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. In FY 2019, the DoD implemented a new testing methodology for the Military Pay program and planned to implement a new testing methodology for the Civilian Pay program. As a result, the DoD determined that a new baseline had to be established for both the Military Pay and Civilian Pay programs before the DoD could establish reduction targets for the programs. According to the DoD FY 2020 AFR, the DoD plans to report reduction targets for all four Military Pay programs starting in FY 2021, and plans to report a reduction target for the Civilian Pay program in

²⁰ The M-18-20 guidance is also known as OMB Circular No. A-123, Appendix C, “Requirement for Payment Integrity Improvement,” June 26, 2018.

FY 2022. Table 6 shows the reduction target rate each program established for FY 2020, as reported in the FY 2019 AFR, and each program's FY 2020 improper payment rate based on the program's estimate.

Table 6. FY 2020 Improper Payment Reduction Targets by Program

Program Name	Reduction Target Rate Established for FY 2020 in FY 2019 (Percent)	FY 2020 Improper Payment Rate (Percent)	Margin of Error (Percent)	Met Reduction Target
Military Health Benefits	0.76	1.46	0.54	✗
Military Pay—Army	N/A	8.14	1.36	N/A
Military Pay—Navy	N/A	0.21	0.21	N/A
Military Pay—Air Force	N/A	5.64	1.22	N/A
Military Pay—USMC	N/A	0	0	N/A
Civilian Pay	N/A	7.93	1.50	N/A
Military Retirement	0.40	0.48	0.26	✓
DoD Travel Pay	5.40	4.27	0.34	✓
Commercial Pay	0.01	0.08	0.10	✓
USACE Travel Pay	0.36	0.42	0.35	✓
USACE Commercial Pay	0.23	0	0	✓

LEGEND

- N/A** Not Applicable
- ✓ Compliant
- ✗ Not Compliant

Note: Starting in FY 2020, Military Pay was separated by Component.

Source: The DoD FY 2019 and 2020 AFRs.

Military Health Benefits

The Military Health Benefits program did not meet its reduction target of 0.76 percent in FY 2020. According to the DoD's FY 2020 AFR, one of the contractors for the Military Health Benefits program did not accurately process health benefits claims, which caused the majority of the improper payments. Although the Military Health Benefits program did not meet its reduction target, the program has demonstrated improvements in the Defense Health Agency, which took action to ensure that the contractor met and plans to continue to

meet the TRICARE performance accuracy standard. Furthermore, the FY 2020 improper payment estimate for the Military Health Benefits program decreased by \$73 million from the FY 2019 improper payment estimate.

In 2019, the DoD OIG made prior recommendations for the USD(C)/CFO to ensure that Components establish aggressive yet realistic improper payment reduction targets for each program.²¹ The DoD has not set reduction targets for the Military Pay and Civilian Pay programs; therefore, the current recommendation remains open, and we are not making another recommendation. We will close this recommendation once the DoD establishes reduction targets, as required by PIIA, for the Military Pay and Civilian Pay programs.

Conclusion

The DoD did not comply with two of the six PIIA requirements in FY 2020 because the DoD published unreliable improper payment estimates and missed its annual improper payment reduction targets. This is the 9th consecutive year that the DoD has not complied with improper payment reporting.

Since 2013, the DoD OIG has issued 90 recommendations in prior improper payment compliance audit reports related to improving DoD improper payment reporting. The DoD has completed corrective actions necessary to close 79 recommendations (88 percent) from those reports. As of the date of

The DoD OIG has issued 90 recommendations in prior improper payment compliance audit reports. The DoD has completed corrective actions necessary to close 79 recommendations (88 percent) from those reports.

this report, there were 11 prior recommendations open as of 2016. See Appendix C for the status of prior DoD OIG PIIA related audit recommendations. Although the DoD continues to implement corrective actions to address 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 9 years that the DoD has not complied with improper payment reporting, the DoD OIG reported that the DoD improper payment estimates were not reliable.²²

²¹ 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.d.

²² 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 Improper Payments Elimination and Recovery Act requirement to publish improper payment estimates in FY 2011. However, the information used to develop the estimates was disclosed to be unreliable, making the estimates unreliable. Therefore, the estimates reported by the DoD have been unreliable for 10 years.

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. However, unknown payments have become an increasing problem in the DoD. In the FY 2019 AFR, unknown payments totaled \$7.6 billion; however, in the FY 2020 AFR, unknown payments represent \$9 billion of the \$11.4 billion estimated improper payments across the DoD. As a result, the DoD is at risk of failing to comply with the PIIA in the future if the unknown payments continue.

Additionally, the Cross-Agency Priority Goal 9, outlined in the President's Management Agenda of 2018 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 of getting payments right. Therefore, as the DoD continues to implement corrective actions within its improper payment program, it moves closer to meeting the Cross-Agency Priority Goal 9 initiative to save taxpayer money by making proper payments and recovering money from improper payments.

The PIIA requires that an agency initiate corrective action when it does not comply with the PIIA. According to OMB personnel, since the updated OMB guidance will not be fully in effect until FY 2021, agencies and Inspectors General should consider FY 2020 as a stand-alone year for non-compliance reporting requirement purposes. This means that for every program found non-compliant, as the DoD was for the Military Health Benefits, Military Pay, Civilian Pay, Military Retirement, and Commercial Pay programs for FY 2020, the agency will treat the non-compliance report requirement as the first year of non-compliance for its required reporting of non-compliance. According to the PIIA, if an agency is non-compliant in a fiscal year, the agency head must submit a plan to the OMB and Congress describing the actions the agency will take to come into compliance. Therefore, within 90 days of the issuance of this report, the USD(C)/CFO should submit to the OMB and the appropriate congressional committees a plan detailing actions the DoD has taken to meet the requirements for 1 year of non-compliance.

Recommendations, Management Comments, and Our Response

Recommendation 1

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

- a. **Develop an improper payment definition that can be consistently applied to the recapture of improper payments and the improper payments identified in the calculation of the improper payment estimate.**

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 consistently apply the definition of improper payments to the Payment Recapture Audit Program and the testing, review, and calculation of the improper payment estimate. The DCFO expects to complete this action by November 2021.

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 definition of improper payments is consistently applied to the Payment Recapture Audit Program and the testing, review, and calculation of the improper payment estimate.

- b. **In the Payment Recapture Audit program section of the Agency Financial Report, identify the recovered amounts from improper payments separately from all other recovered amounts to align with the Payment Integrity Information Act of 2019.**

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

The DCFO, responding for the USD(C)/CFO, partially agreed with the recommendation, stating that OUSD(C)/CFO personnel will report recovered amounts from improper payments in the Payment Recapture Audit Program section of the AFR. However, OUSD(C)/CFO personnel will not report other recovered amounts that did not result from an actual improper payment. The DCFO expects to complete this action by November 2021.

Our Response

Although the DCFO partially agreed with the recommendation, the proposed actions meet the intent of the recommendation; therefore, the recommendation is resolved but will remain open. We did not recommend that OUSD(C)/CFO personnel report other recovered amounts that did not result from an actual improper payment in the AFR. Instead, the intent of this recommendation is to ensure that the recovered amounts from improper payments are identifiable in the AFR, as required by PIIA. Therefore, actions described by the DCFO to only report recovered amounts from improper payments in the Payment Recapture Audit program section of the AFR, meet the intent of the recommendation. We will close the recommendation once we verify that OUSD(C)/CFO personnel only reported amounts recovered from improper payments in the Payment Recapture Audit program section of the AFR.

- c. In the Payment Recapture Audit program section of the Agency Financial Report, provide justification for uncollectable amounts, to follow the Payment Integrity Information Act of 2019.**

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

The DCFO, responding for the USD(C)/CFO, agreed to the recommendation, stating that OUSD(C)/CFO personnel will provide a justification for uncollectable amounts in the Payment Recapture Audit program section of the AFR. The DCFO expects to complete this action by November 2021.

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 OUSD(C)/CFO personnel included a justification for uncollectable amounts in the Payment Recapture Audit program section of the AFR.

- d. **Report corrective actions addressing root causes of the improper payments separately from the planned improvements reported for the Payment Integrity program.**

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

The DCFO, responding for the USD(C)/CFO, agreed to the recommendation, stating that OUSD(C)/CFO personnel will report corrective actions addressing the root causes of the improper payments separately from the actions taken to improve the Payment Integrity programs in the AFR or in the supplemental data call to the OMB. The DCFO expects to complete this action by November 2021.

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 OUSD(C)/CFO personnel report corrective actions addressing the root causes of the improper payments separately from the actions taken to improve the Payment Integrity programs in the AFR or in the supplemental data call to the OMB.

- e. **Submit for the Military Health Benefits, Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–U.S. Marine Corps, Civilian Pay, Military Retirement, and Commercial Pay programs to the Office of Management and Budget and Congress, within 90 days of this report’s issuance a plan detailing:**
 - **Measurable milestones to be accomplished in order to achieve compliance for each program or activity.**
 - **The designation of a Senior Executive who will be accountable for the progress of the DoD to come into compliance for each program listed above.**
 - **The establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the official designated to lead the efforts of the DoD to come into compliance for each program.**

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

The DCFO, responding for the USD(C)/CFO, agreed to 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 will achieve compliance through internal actions, such as performing root cause

analysis, implementing effective corrective actions, and providing proactive oversight through the Defense Payment Integrity Senior Accountable Officials Steering Committee.

The DCFO stated that OUSD(C)/CFO personnel will submit letters and a plan to the OMB and Congress describing the corrective actions taken or planned to achieve compliance for the Military Health Benefits, Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–USMC, Civilian Pay, Military Retirement, and Commercial Pay programs. In addition, the DCFO stated that the letters or plan will identify a Senior Executive who will be accountable for the progress of the DoD to come into compliance for each program. The DCFO expects to complete this action within 90 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 the recommendation once we verify that OUSD(C)/CFO personnel submitted the information required by PIIA to the OMB and Congress.

Recommendation 2

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service develop and implement processes to identify root causes and develop corrective actions earlier in the improper payment review process.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service Comments

The DCFO, responding for the USD(C)/CFO and the Deputy Director of Enterprise Audit Support for DFAS, agreed with the recommendation, stating that OUSD(C)/CFO and DFAS personnel have implemented key process changes to identify root causes and develop corrective actions earlier in the improper payment review process. According to the DCFO, in FY 2021, OUSD(C)/CFO personnel implemented new, aggressive timelines for the Military Pay and Civilian Pay corrective action plans to resolve this issue. The DCFO stated that by implementing the new corrective action plans, the improper payment testing for both programs will be completed by the end of May 2021, enabling the DoD Components to identify the root causes and develop corrective action plans six to eight months earlier in the testing year. The DCFO expects to complete this action by July 2021.

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 OUSD(C)/CFO and DFAS personnel developed and implemented processes to identify root causes and developed corrective actions earlier in the improper payment review process.

Recommendation 3

We recommend that the Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service document the process used to reconcile the gross pay amounts for FY 2021 to ensure consistency and transparency within the process.

Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service Comments

The DCFO, responding for the Deputy Director of Enterprise Audit Support and Compliance for DFAS, agreed with the recommendation, stating that DFAS personnel will document the process used to reconcile the gross pay amounts for FY 2021. According to the DCFO, DFAS personnel will perform a reconciliation to ensure consistency and transparency within the process. The DCFO expects to complete this action in November FY 2021.

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 documented the process used to reconcile the gross pay amounts for FY 2021.

Appendix A

Scope and Methodology

We conducted this performance audit from August 2020 through April 2021 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 PIIA compliance, as well as to understand their roles for compiling and reporting the DoD FY 2020 AFR, we interviewed personnel from the following agencies.

- DFAS
- OUSD(C)/CFO
- USACE
- Defense Health Agency

During our interviews, we discussed personnel roles and responsibilities for PIIA 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 PIIA Reporting requirements for FY 2020.

- Public Law 116-117, “Payment Integrity Information Act of 2019,” March 2, 2020
- 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,” August 27, 2020
- 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

Internal Control Assessment and Compliance

We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed controls related to the OUSD(C)/CFO reporting processes, the development of the sampling plans supporting each program, the development of the improper payment estimate for each program, the improper payment reviews conducted by Components, and the development and execution of the corrective action plans.

In all five of these assessed areas, we identified deficiencies in internal control that warranted the attention of OUSD(C)/CFO personnel or were significant in the context of the audit objective. Specifically, we identified deficiencies and the lack of internal controls over the:

- OUSD(C)/CFO reporting process that contributed to the DoD not ensuring that the amounts recovered for the Payment Recapture Audit Program in the FY 2020 AFR represented only recovered improper payment amounts;
- development of the Military Retirement sampling plan contributed to DFAS personnel not consistently using the sample pay amount in the sampling plan;
- development of the Civilian Pay improper payment estimate contributed to DFAS personnel inadvertently excluding Civilian Mariner transactions totaling \$538 million from the sampling universe used to calculate the estimate;
- development and execution of the corrective action plans contributed to the DoD, in the AFR, combining its reporting of the corrective actions addressing root causes of improper payments with improvements the DoD plans to make to its Payment Integrity program and not identifying the root causes for the Military Pay-Army and Military Pay-Air Force programs in a more timely manner.

However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

Use of Computer-Processed Data

We relied on computer-processed data included in the Payment Integrity section of the DoD FY 2020 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 2020 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 2020 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 11 programs. We used third quarter FY 2020 populations for the 11 programs reported in the AFR and determined the completeness of the population subject to review. We validated these data by using the system-generated data and applying the search criteria used to create the population. Furthermore, when population data were determined to be accurate, we used the third quarter population from the programs, randomly selected a sample of transactions, and reperformed the improper payment review of the selected sample transactions for the Military Health Benefits, DoD Travel Pay, 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

We received technical assistance from the DoD OIG Quantitative Methods Division. Quantitative Methods Division analysts reviewed the sampling and estimation plans for 11 programs that reported improper payment estimates in the DoD FY 2020 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 Government Accountability Office (GAO) and the DoD Office of Inspector General (DoD OIG) issued 16 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-20-344, “Federal Agencies’ Estimates of FY 2019 Improper Payments,” March 2020

The GAO determined that for FY 2018, 8 years after the implementation of Improper Payments Elimination and Recovery Act (IPERA), half of the 24 Chief Financial Officers Act of 1990 agencies, whose estimates account for over 99 percent of the federal government’s reported estimated improper payments, complied with IPERA, as reported by their Inspectors General. In addition, the federal government’s ability to understand the full scope of its improper payments is hindered by incomplete, unreliable, or understated agency estimates; risk assessments that may not accurately assess the risk of improper payments; and agencies not complying with reporting and other requirements in IPERA.

Report No. GAO-19-530, “DOD Should Strengthen Its Ongoing Actions to Reduce Improper Travel Payments,” August 2019

The GAO determined that the DoD has mechanisms to identify errors leading to improper travel payments, and some components have developed specific corrective plans to address the errors. However, these efforts did not clearly identify the root causes of the errors, in part because there was no common understanding of what constitutes the root cause of improper travel payments.

Report No. GAO-19-61, “Process Improvements Needed in Recouping Overpayments to Service Members,” February 2019

The GAO determined that key aspects of the DoD’s Debt Collection Regulation, which includes rules for recoupment of service member overpayments, were incomplete or unclear. In addition, the military services’ debt collection policies and procedures did not consistently follow the DoD Debt Collection Regulation.

Report No. GAO-19-14, "Additional Guidance Needed to Improve Oversight of Agencies with Noncompliant Programs," December 2018

The GAO determined that for FYs 2016 and 2017, over half of the 24 Chief Financial Officers Act of 1990 agencies were reported by their Inspectors General as noncompliant with one or more criteria under IPERA.

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 Retirement overpayments did not include a review of aspects of eligibility in their policies and procedures. The DoD and the Office of Personnel Management 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 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 payments. 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 Chief Financial Officers Act of 1990 agency Inspectors General determined that their agencies did not comply with IPERA. In addition, the inconsistent Inspectors General compliance determinations in the Inspectors Generals' 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 Chief Financial Officers Act of 1990 agency Inspectors General 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.

DoD OIG

Report No. DODIG-2021-024, “Audit of the Accuracy of the Improper Payment Estimates Reported for the Mechanization of Contract Administration Services System,” November 12, 2020

The DoD OIG determined that DFAS personnel did not accurately identify or report improper payments from the Mechanization of Contract Administration Services System for the first two quarters of the FY 2020 improper payment reporting period. Specifically, DFAS personnel did not identify 302 improper payments, totaling \$136 million, for reporting in the AFR, including \$25.8 million that the Mechanization of Contract Administration Services System Post-Pay Review personnel incorrectly deemed proper during their review. This occurred because DFAS personnel did not develop a reliable sampling universe by using the paid invoice amount instead of the actual disbursement amount, thereby increasing the risk that the Mechanization of Contract Administration Services System Post-Pay Review would not discover an improper payment. Additionally, DFAS did not document or conduct adequate reviews of the Mechanization of Contract Administration Services System transactions reviewed for improper payments.

Report No. DODIG-2020-083, “Audit of the Department of Defense’s Compliance in Fiscal Year 2019 With the Improper Payments Elimination and Recovery Act Requirements,” May 1, 2020

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

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, 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. 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.

Appendix C

Status of DoD OIG PIIA Audit Recommendations

When management agrees to implement the recommendation or has proposed actions that will address the underlying finding, but the agreed-upon actions have not yet been completed, we consider the recommendation resolved.

A recommendation is closed when the DoD OIG verifies that the agreed-upon actions were implemented. Table 7 shows the status of DoD OIG PIIA audit recommendations.

Table 7. Status of DoD OIG Recommendations as of April 22, 2021

Report Number	Number of Recommendations	Recommendations Implemented	Open Recommendations
DODIG-2013-054	2	2	0
DODIG-2014-059	9	9	0
DODIG-2015-068	9	9	0
DODIG-2015-121	4	4	0
DODIG-2016-060	3	3	0
DODIG-2016-086	4	3	1
DODIG-2017-078	8	7	1
DODIG-2018-073	12	12	0
DODIG-2018-115	9	9	0
DODIG-2019-039	6	5	1
DODIG-2019-087	10	6	4
DODIG-2020-083	4	2	2
DODIG-2021-024	10	8	2
Total	90	79	11

Since the issuance of the FY 2019 improper payment compliance report, the DoD has completed corrective actions, enabling the DoD OIG to close 19 recommendations from prior improper payment compliance audit reports, while 11 recommendations remain open.²³ Table 8 shows the status of these 11 recommendations.

Table 8. Status of 28 DoD OIG Recommendations From Prior IPERA Compliance Reports, as of April 22, 2021

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.</p> <p>Estimated Completion Date: November 2021</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 2021</p>
DODIG-2018-115		
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.	<p>Closed: The Army developed and provided to USD(C)/CFO statistically valid sampling plans for the FY 2020 Travel Pay program improper payment estimate. Therefore, we are closing this recommendation.</p>

²³ Report No. DODIG-2020-083, "Audit of the Department of Defense's Compliance in Fiscal Year 2019 With Improper Payments Elimination and Recovery Act Requirements," May 1, 2020.

Table 8. Status of 28 DoD OIG Recommendations From Prior IPERA Compliance Reports, as of April 22, 2021 (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.	Closed: The Army developed and provided to USD(C)/CFO statistically valid sampling plans for the FY 2020 Commercial Pay program improper payment estimate. Therefore, we are closing this recommendation.
DODIG-2019-039		
1.a	We recommend that the USD(C)/CFO 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.	Closed: OUSD(C)/CFO personnel evaluated the GSA's post-payment audits of DoD transportation bills and determined that they meet the requirements for improper payments reporting. In addition, the DoD included the GSA's improper payment review results in the Commercial Pay program's improper payment estimate reported in the DoD Agency Financial Report. Therefore, we are closing this recommendation.
1.b	We recommend that the USD(C)/CFO conduct a risk assessment of Government Purchase Card payments and, as necessary, develop and implement procedures to ensure that DoD Government Purchase Card payments are reviewed for improper payments and that the results are reported to the USD(C)/CFO for inclusion in the DoD's annual Agency Financial Report.	Closed: DFAS personnel included Government Purchase Card payments in the Commercial Pay program improper payment estimate reported in the FY 2020 Agency Financial Report. Therefore, we are closing this recommendation.
1.c	We recommend that the USD(C)/CFO 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 cover all defined commercial payment types, and (3) the USD(C)/CFO has 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 8. Status of 28 DoD OIG Recommendations From Prior IPERA Compliance Reports, as of April 22, 2021 (cont'd)

	Recommendation	Status
1.d	<p>We recommend that the USD(C)/CFO update 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>	<p>Closed: OUSD(C)/CFO personnel updated DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 14, which defined the types of payments in the Commercial Pay program. In addition, OUSD(C)/CFO personnel developed a Program Management Guide for the DoD Improper Payments Program, which identifies the types of commercial payments for which each Component is responsible to report improper payment estimates. Therefore, we are closing this recommendation.</p>
2	<p>We recommend that the USD(C)/CFO, 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>	<p>Closed: The DoD has 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 the Italy Finance Office and Belgium Finance Office. Furthermore, DFAS personnel included the Kosovo and Hawaii offices into their FY 2020 Commercial Pay sampling populations. Therefore, we are closing this recommendation.</p>
3	<p>We recommend that the DFAS, 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> <ol 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>Closed: The DFAS Enterprise Solutions and Standards Director provided 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. Therefore, we are closing this recommendation.</p>

Table 8. Status of 28 DoD OIG Recommendations From Prior IPERA Compliance Reports, as of April 22, 2021 (cont'd)

Recommendation		Status
DODIG-2019-087		
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.	Closed: OUSD(C)/CFO personnel determined that it was cost-effective to implement a payment recapture audit program for each of the DoD programs, and have started implementing a Payment Recapture Audit process for the FY 2020 improper payment reporting period.
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 have 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
2.a	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.	Resolved: The USD(C)/CFO and DFAS Director have partially completed this recommendation, as they have developed a process that uses the paid amount for the DoD Travel Pay program. We will close this recommendation once we verify that the processes DFAS personnel implemented to obtain and test the Commercial program population for FY 2021 use the actual paid amounts. Estimated Completion Date: May 31, 2021
2.b	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.	Resolved: The USD(C)/CFO and DFAS Director have partially completed this recommendation, as they have developed sufficient control measures for the DoD Travel Pay program. We will close this recommendation once we verify that the DoD has implemented additional control measures and is including all necessary payments in the Military Pay, Civilian Pay, and Military Retirement populations, and reports accurate improper payment estimates in the AFR. Estimated Completion Date: May 31, 2021

Table 8. Status of 28 DoD OIG Recommendations From Prior IPERA Compliance Reports, as of April 22, 2021 (cont'd)

Recommendation		Status
4	We recommend that the USD(C)/CFO, in coordination with the Defense Health Agency Director, develop and implement procedures to incorporate Military Health Benefits program payments for Administrative and Other payments in a statistically valid sampling and estimation plan that complies with current OMB guidance for testing all payments and producing valid improper payment estimates.	Closed: OUSD(C)/CFO and Defense Health Agency 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. Therefore, we are closing this recommendation.
5	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.	Resolved: We received an updated Civilian Pay standard operating procedure in February 2020. However, due to the unreliability of the estimate, we did not review the Civilian Pay Post-Payment Review Process during this audit. Therefore, we will close this recommendation once 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. Estimated Completion Date: October 31, 2020
DODIG-2020-083		
1.a	We recommend that the USD(C)/CFO coordinate with the DFAS 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.	Closed: DFAS personnel updated their Travel Pay sampling and estimation plan to include the population of travel payments processed through the Defense Travel Modernization System. Therefore, we are closing this recommendation.
1.b	We recommend that the USD(C)/CFO 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: <ul style="list-style-type: none"> • 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. 	Closed: OUSD(C)/CFO personnel provided the memo documentation verifying that appropriate remediation actions have been taken to the OMB and to Congress. Therefore, we are closing this recommendation.

Table 8. Status of 28 DoD OIG Recommendations From Prior IPERA Compliance Reports, as of April 22, 2021 (cont'd)

Recommendation		Status
2.a	We recommend that the Deputy Director of Enterprise Audit Support for the DFAS develop and implement internal controls to ensure that the development of the improper payment estimate for the Military Retirement program is complete and accurate.	Resolved: We will close this recommendation once we verify that DFAS personnel have developed and implemented internal controls to ensure that the development of the improper payment estimate for the Military Retirement program is complete and accurate.
2.b	We recommend that the Deputy Director of Enterprise Audit Support for the DFAS develop and implement complete standard operating procedures of the Military Retirement improper payment review process.	Resolved: We will close this recommendation once we verify that DFAS personnel have developed and implemented complete standard operating procedures of the Military Retirement improper payment review process.
DODIG-2021-024		
2.a	We recommend that the Director of Accounting Operations for the DFAS-Columbus document and implement procedures to review for duplicate payments during the post-pay review process, outside of the pre-validation review process.	Closed: DFAS personnel updated the Commercial Pay Post Pay Review Standard Operating Procedures and post pay review checklist to implement reviews of duplicate payments. Therefore, we are closing this recommendation.
2.b	We recommend that the Director of Accounting Operations for DFAS-Columbus document and implement procedures to review recoupment amounts for accuracy and report recoupment errors when identified during the post-pay review process.	Closed: DFAS personnel updated the Commercial Pay Post Pay Review Standard Operating Procedures and post pay review checklist to implement recoupment related review procedures. Therefore, we are closing this recommendation.
2.c	We recommend that the Director of Accounting Operations for the DFAS-Columbus develop and implement procedures to provide a supervisory review over the improper payment reviews conducted by Mechanization of Contract Administration Services Post-Pay Review personnel.	Closed: DFAS personnel updated the Commercial Pay Post Pay Review Standard Operating Procedures, post pay review checklist, and the supervisory memorandum for record to include supervisory reviews over post payment review procedures. Therefore, we are closing this recommendation.
2.d	We recommend that the Director of Accounting Operations for the DFAS-Columbus provide, on the questionnaire, details supporting the Mechanization of Contract Administration Services Post-Pay Review determinations, including the contract modification numbers, invoice numbers, shipment numbers, voucher numbers, and calculations of the recoupment amounts.	Closed: DFAS updated the Commercial Pay Post Pay Review Standard Operating Procedures and post pay review checklist to include additional details supporting the Mechanization of Contract Administration Services post pay review determinations, including the contract modification numbers, invoice numbers, shipment numbers, voucher numbers, and calculations of the recoupment amounts. Therefore, we are closing this recommendation.

Table 8. Status of 28 DoD OIG Recommendations From Prior IPERA Compliance Reports, as of April 22, 2021 (cont'd)

Recommendation		Status
2.e	We recommend that the Director of Accounting Operations for the DFAS-Columbus document the Short Pay process, implement controls to ensure that the payment to the vendor is timely; and develop and implement procedures for reporting improper payments in the statistical sample, as required, caused by Government contract deficiencies.	Closed: DFAS personnel updated the Mechanization of Contract Administration Services System Entitlement - Lead Supervisory Processes Standard Operating Procedures to document the Short Pay process and developed a refund spreadsheet tracker as an internal control surrounding the Short Pay process to improve the timeliness of payments. Therefore, we are closing this recommendation.
3.a	We recommend that the Deputy Director of Enterprise Audit Support and Compliance for the DFAS, in coordination with the Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus develop and implement a post-pay review process that reviews for propriety to the certified voucher in accordance with the Post-Pay Review for Commercial Pay standard operating procedures.	Resolved: We will close this recommendation once we verify that DFAS has incorporated the voucher number as one of the key attributes for sampling and DFAS provides documentation supporting that a complete reconciliation has been put in place for the Commercial Pay program population universe. Estimated Completion Date: March 2022
4	We recommend that the USD(C)/CFO footnote in Table 1 of the FY 2020 DoD AFR Payment Integrity Section, and every year thereafter, the Commercial Pay improper payments identified on an annual basis outside of the statistical sample.	Closed: The OUSD(C)/CFO developed the Payment Recapture Audit for the Commercial Pay program that has provided a more realistic representation of the improper payments identified in the Commercial Pay program. Therefore, we are closing this recommendation.
5	We recommend that the USD(C)/CFO, in coordination with the Director of Accounting Operations for the DFAS-Columbus, and the contracting agencies, conduct a root cause analysis on the Short Pay transactions to prevent future occurrences.	Resolved: We will close this recommendation once we verify that the root cause analysis has been performed for Short Pay transactions. Estimated Completion Date: April 2021

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 19, 2021

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

SUBJECT: DoD Office of Inspector General Draft Report, "Audit of the Department of Defense Compliance in Fiscal Year 2020 With Improper Payment Reporting Requirements," Project No. D2020-D000FL-0171.000

My office and the Defense Finance and Accounting Service (DFAS) received the subject draft report, dated April 5, 2021, and reviewed your recommendations to the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Director of Enterprise Audit Support and Compliance, DFAS. Our concurrences with your recommendations are attached.

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 (DoD) Agency Financial Report for Fiscal Year 2020, published November 15, 2020. Additionally, we reported estimated improper payments for all programs, provided root causes and corrective actions for programs susceptible to significant improper payments, disclosed overpayments recaptured by the Department, and reported improper payment rates below the statutory threshold of 10 percent. Moreover, my office has worked diligently 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 PIIA compliance and move closer to meeting the President's Management Agenda, Cross-Agency Priority Goal 9, of "Getting Payments Right": We exercised effective oversight through the Payment Integrity Senior Accountable Officials Steering Committee; closed 16 audit recommendations; achieved reporting relief for the \$24 billion U.S. Army Corps of Engineers (USACE) Commercial Pay and the \$200 million USACE Travel Pay programs; achieved full PIIA compliance for the \$7 billion Travel Pay program; reduced improper payments in the Military Pay program by \$2 billion; and documented the procedures for recovering over \$1 billion of overpayments annually.

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], at [REDACTED] or [REDACTED].

GLENN.DOU
GLAS.A. [REDACTED]
[REDACTED]
Douglas A. Glenn
Deputy Chief Financial Officer

Attachment:
As stated

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

DOD OIG DRAFT REPORT - DATED APRIL 5, 2021
PROJECT NO. D2020-D000FL-0171.000

“AUDIT OF THE DEPARTMENT OF DEFENSE COMPLIANCE IN FISCAL YEAR 2020
WITH IMPROPER PAYMENT REPORTING REQUIREMENTS”

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C)) AND
DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS)
RESPONSES TO RECOMMENDATIONS

RECOMMENDATION 1.a: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. Develop an improper payment definition that can be consistently applied to the recapture of improper payments and the improper payments identified in the calculation of the improper payment estimate.

OUSD(C) RESPONSE TO RECOMMENDATION 1a: Concur. OUSD(C) will consistently apply the definition of improper payments (i.e., overpayments) to the payment recapture auditing program and the testing, review, and calculation of the improper payment estimates. Estimated completion date is November 2021.

RECOMMENDATION 1.b: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- b. In the Payment Recapture Audit program section of the Agency Financial Report, identify the recovered amounts from improper payments separately from all other recovered amounts to align with the Payment Integrity Information Act of 2019.

OUSD(C) RESPONSE TO 1.b: Partially Concur. OUSD(C) will report the recovered amounts from improper payments (i.e., overpayments) in the Payment Recapture Audit (PRA) program section of the Agency Financial Report (AFR). OUSD(C) will not report other recovered amounts, such as debts, that did not result from an actual improper payment (i.e., overpayment) in the PRA program section of the AFR. Estimated completion date is November 2021.

RECOMMENDATION 1.c: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- c. In the Payment Recapture Audit program section of the Agency Financial Report, provide justification for uncollectable amounts, to follow the Payment Integrity Information Act 2019.

OUSD(C) RESPONSE TO 1.c: Concur. OUSD(C) will provide justification for uncollectable amounts in the PRA program section of the AFR. Estimated completion date is November 2021.

Attachment

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

RECOMMENDATION 1.d: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- d. Report corrective actions addressing root causes of the improper payments separately from the planned improvements reported for the Payment Integrity program.

OUSD(C) RESPONSE TO 1.d: Concur. OUSD(C) will report corrective actions addressing the root causes of the improper payments separately from the actions taken to improve the Payment Integrity programs in the AFR and/or in the supplemental data call to the Office of Management and Budget (OMB). Estimated completion date is November 2021.

RECOMMENDATION 1.e: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- e. “Submit for the Military Health Benefits, Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–U.S. Marine Corps, Civilian Pay, Military Retirement, and Commercial Pay programs to the Office of Management and Budget and Congress, within 90 days of this report’s issuance a plan detailing:
 - Measurable milestones to be accomplished in order to achieve compliance for each program or activity.
 - The designation of a Senior Executive who will be accountable for the progress of the DoD to come into compliance for each program listed above.
 - The establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the official designated to lead the efforts of the DoD to come into compliance for each program.

OUSD(C) RESPONSE TO 1.e: 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 Defense Payment Integrity Senior Accountable Officials Steering Committee. OUSD(C) will submit letters and a plan to OMB and Congress, describing the corrective actions taken or planned to achieve compliance for the Military Health Benefits, Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–U.S. Marine Corps, Civilian Pay, Military Retirement, and Commercial Pay programs. Additionally, the letters and/or plan will identify a Senior Executive who will be accountable for the progress of the DoD to come into compliance for each program. Estimated completion date is no later than 90 days after the report is issued.

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

RECOMMENDATION 2: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service develop and implement processes to identify root causes and develop corrective actions earlier in the improper payment review process.

OUSD(C) AND DFAS RESPONSE TO RECOMMENDATION 2: Concur. OUSD(C) and DFAS have implemented key process changes to identify root causes and develop corrective actions earlier in the improper payment review process. In Fiscal Year 2021, OUSD(C) implemented new, aggressive timeline corrective action plans (CAPs) for both the Military Pay and Civilian Pay programs to resolve this issue. By implementing the new CAPs, the improper payment testing for both programs will be completed by the end of May 2021, thereby enabling the DoD Components to identify the root causes and develop CAPs much earlier in the testing year. Specifically, OUSD(C) anticipates that the newly implemented processes will result in Component CAPs being developed approximately six to eight months earlier than previous years. Estimated completion date is July 2021.

RECOMMENDATION 3: We recommend that the Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service document the process used to reconcile the gross pay amounts for FY 2021 to ensure consistency and transparency within the process.

DFAS RESPONSE TO RECOMMENDATION 3: Concur. DFAS will document the process used to reconcile the gross pay amounts for FY 2021. They will do a reconciliation to ensure consistency and transparency within the process. Estimated completion date is November 2021.

Acronyms and Abbreviations

AFR	Agency Financial Report
DFAS	Defense Finance and Accounting Service
FMR	Financial Management Regulation
GAO	Government Accountability Office
GSA	General Services Administration
IPERA	Improper Payments Elimination and Recovery Act of 2010
LES	Leave and Earnings Statement
OIG	Office of Inspector General
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act of 2019
OUSD(C)/CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
USACE	U.S. Army Corps of Engineers
USMC	U.S. Marine Corps



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