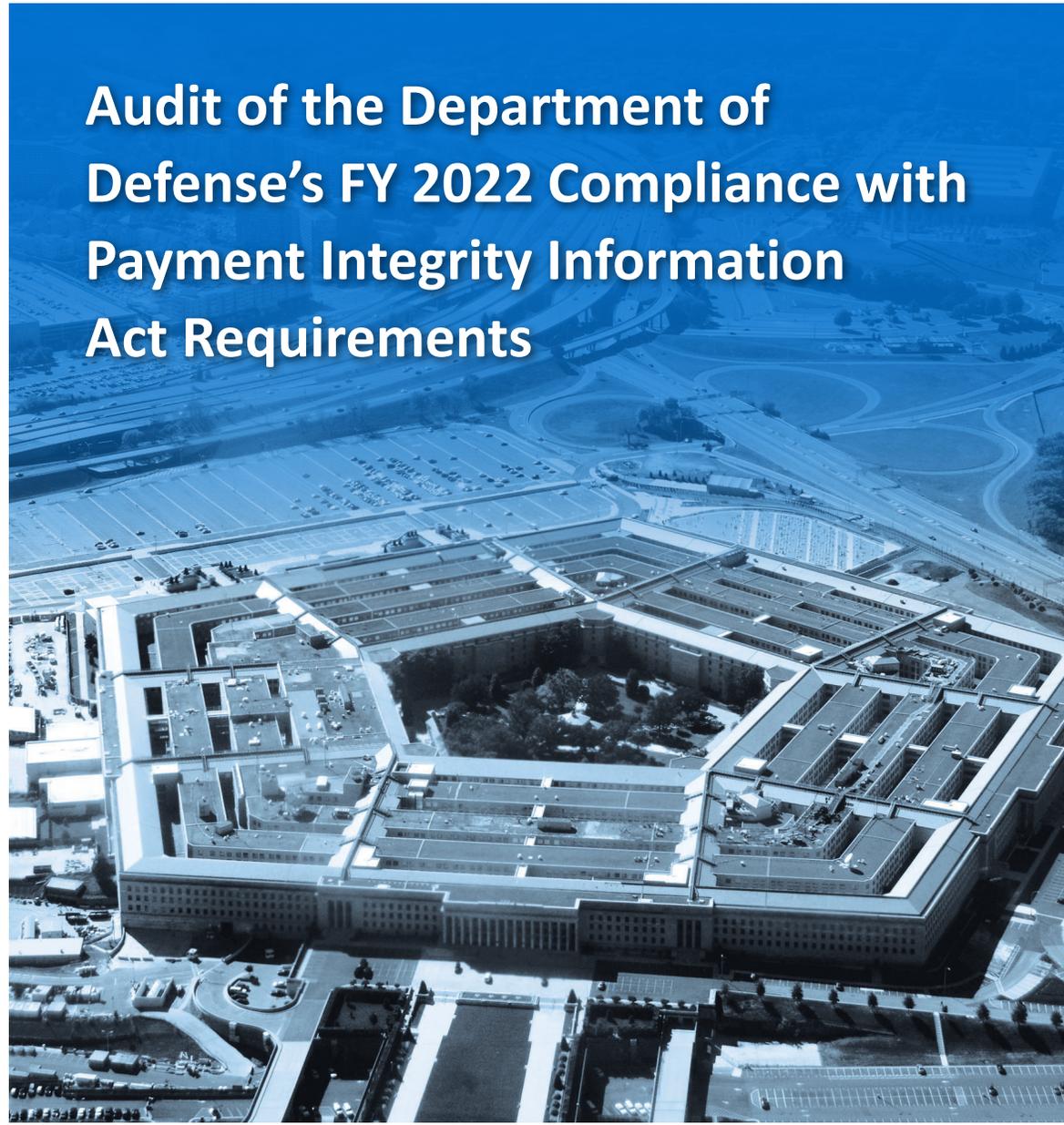


INSPECTOR GENERAL

U.S. Department of Defense

MAY 22, 2023



Audit of the Department of Defense's FY 2022 Compliance with Payment Integrity Information Act Requirements

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Audit of the Department of Defense's FY 2022 Compliance with Payment Integrity Information Act Requirements

May 22, 2023

Objective

The objective of this audit was to determine whether, in FY 2022, the DoD complied with the "Payment Integrity Information Act of 2019," (PIIA).

Background

The PIIA was enacted to improve efforts to identify and reduce Government-wide improper payments. It requires Federal agencies to identify programs that may be susceptible to significant improper payments, report an estimated amount of improper payments for those programs, and report on actions planned to reduce improper payments. In FY 2022, the DoD Components reported both improper and unknown payment estimates of \$2 billion for nine DoD Programs that were required to provide improper and unknown payment estimates.

The PIIA defines an improper payment as any payment that should not have been made, was made in an incorrect amount, was made to an ineligible recipient, or was made for ineligible goods or services. Under PIIA requirements, an agency is considered noncompliant if it has one or more programs that are found noncompliant with any of the six PIIA reporting requirements.

Findings

The DoD did not comply with PIIA requirements in FY 2022. While the DoD complied with five of the six PIIA requirements, it did not comply with the requirement to publish adequate improper payment estimates. Specifically, the DoD published unreliable, improper, and unknown payment estimates for all nine DoD programs required to report estimates.

Findings (cont'd)

The DoD did not publish reliable estimates because the Defense Finance and Accounting Service (DFAS) did not fully implement corrective actions recommended previously by the DoD Office of Inspector General (OIG); or conduct adequate post pay reviews of the DoD Travel Pay program.

As a result, the DoD produced unreliable estimates for the 12th consecutive year, and did not comply with the PIIA for a 2nd consecutive year. With unreliable estimates in the DoD Agency Financial Report (AFR), DoD leadership and Congress cannot accurately determine whether the DoD has the resources needed and the controls in place to reduce its improper payments.

Recommendations

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO) establish and implement a process for determining a program's tolerable rate. We also recommend that the Director of DFAS reclassify the Hawaii water contamination evacuation payments as unknown payments, and develop and implement additional controls to identify and review high-risk payments. Additionally, the DoD has yet to fully implement corrective actions to address 14 prior DoD OIG recommendations concerning the development of improper payment estimates. Until the DoD implements the recommendations from this report and previous DoD OIG reports, it is unlikely that the DoD will meet PIIA requirements and have reliable improper payment estimates. Please see Appendix C, Table 5 for the status of all outstanding recommendations.

Management Comments and Our Response

The Deputy Chief Financial Officer (DCFO), responding for the USD(C)/CFO and DFAS Director, agreed with all of the recommendations. Therefore, the recommendations are resolved but will remain open. We will close the recommendations once we verify that management has implemented corrective actions. 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		1.a, 1.b	
Director, Defense Finance and Accounting Service		2.a, 2.b	

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** – DoD OIG verified that the agreed upon corrective actions were implemented.



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

May 22, 2023

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

SUBJECT: Audit of the Department of Defense's FY 2022 Compliance with Payment Integrity Information Act Requirements (Report No. DODIG-2023-075)

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 comments from the Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, and the Director, Defense Finance and Accounting Service, in finalizing our report. These comments are included in the report.

This report contains four recommendations that we consider resolved and open. As described in the Recommendations, Management Comments, and Our Response section of this report, we will close the recommendations when you provide us with adequate documentation showing that all agreed-upon actions to implement the recommendations are 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.

We appreciate the cooperation and assistance received during the audit. If you have any questions or would like to meet to discuss the audit, please contact me at [REDACTED].

FOR THE INSPECTOR GENERAL:

A handwritten signature in cursive script that reads "Lorin T. Venable".

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

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Introduction

Objective

The objective of this audit was to determine whether, in FY 2022, 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 scope and methodology and Appendix B for prior coverage related to the audit objective.

Background

The PIIA was enacted to improve efforts within the Government to identify and reduce Government-wide improper payments. The PIIA requires Federal agencies to:

- review their programs and identify those that may be susceptible to significant improper payments,
- estimate and report the dollar amount of improper payments in those programs, and
- report on actions planned to reduce improper payments in those programs.

The DoD FY 2022 Agency Financial Report (AFR) states that the reduction of improper payments and compliance with the PIIA continues to be a top financial management priority.

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 applicable discount credits. Additionally, the PIIA categorizes payments without sufficient supporting documentation as improper.¹ Therefore, an improper payment does not necessarily result in an actual monetary loss to the Government.

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

Office of Management and Budget (OMB) Circular No. A-123, Appendix C, further categorizes a payment that the agency is unable to determine as proper or improper as a result of insufficient documentation, as an unknown payment.² This allows agencies to report an unknown payment estimate and an improper payment estimate.

Office of Management and Budget Guidance

The PIIA requires the OMB Director, in consultation with the Council of the 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 PIIA requirements.

To comply with the PIIA, an agency must follow OMB guidance. On March 5, 2021, the OMB updated Appendix C to OMB Circular No. A-123, “Requirements for Payment Integrity Improvement.” The update established the DoD OIG review of the accompanying materials to the FY 2021 annual financial statements as year 1 of the PIIA compliance reviews. Therefore, the DoD OIG review of FY 2022 statements is considered year 2 of the PIIA compliance reviews. Throughout this report, we will refer to PIIA requirements and OMB Circular No. A-123, Appendix C guidance as “payment integrity requirements.”

Additionally, Executive agencies must refer to OMB Circular No. A-136, “Financial Reporting Requirements,” for guidance on reporting PIIA information in their AFRs. On June 3, 2022, the OMB revised Circular No. A-136, including the Payment Integrity Information Act Reporting section. The revision to the Payment Integrity Information Act Reporting section:

- strengthened the requirement for agencies to complete the OMB’s annual data call and provide a link to paymentaccuracy.gov in their AFR;
- clarified guidance for agencies that perform payment recovery audits to include actions taken in their annual financial reports; and
- established new guidance (implementation of which is encouraged for FY 2022 and required for FY 2023) for agencies with high-priority programs to provide a detailed summary of their payment integrity activity and results in their AFR.³

² According to OMB Circular No. A-123, Appendix C, March 5, 2021, if a program cannot determine whether a payment is proper or improper, the payment is considered an unknown payment.

³ OMB Circular No. A-136, section II.4.5 defines “High-Priority programs,” as programs with estimates of improper payments resulting in monetary loss that exceeds \$100 million annually.

Payment Integrity Requirements

Payment integrity requirements stipulate that agencies must 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 payment integrity requirements each fiscal year. To comply, the agency must meet all of the following payment integrity requirements.

1. Publish payment integrity information with the DoD AFR for the most recent fiscal year and post that statement and any accompanying materials required by OMB guidance to the agency website.
2. Conduct a program-specific risk assessment for each program, if required.
3. Publish improper payment and unknown payment estimates for required programs in the accompanying materials to the AFR.⁴
4. Publish programmatic Corrective Action Plans (CAPs) for each program determined to have significant improper payments, in the accompanying materials to the AFR.
5. Publish improper payment and unknown payment reduction targets in the accompanying materials to the AFR for programs assessed to be at risk, demonstrate program improvements to payment integrity or reach a tolerable improper payment and unknown payment rate, and develop a plan to meet the improper payment and unknown payment reduction targets.
6. Report an improper payment and unknown payment estimate of less than 10 percent for each program for which an estimate is published in the accompanying materials to the AFR.

DoD Financial Management Regulation Requirements

The DoD Financial Management Regulation (DoD FMR) requires DoD Components to implement guidance from the PIIA; OMB Circular No. A-123, Appendix C; and OMB Circular No. A-136.⁵ 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 responsibilities include:

- providing oversight to DoD Components to ensure compliance with the authoritative guidance;

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.

⁵ DoD Regulation 7000.14-R, "DoD Financial Management Regulation."

- reviewing DoD Components' statistical sampling plans and submitting them to the OMB, if required;
- preparing DoD payment integrity reports for the AFR and for submission to the OMB; and
- reviewing DoD Components' CAPs for completeness.⁶

DoD Agency Financial Report

The Deputy Secretary of Defense published the DoD FY 2022 AFR, including the Payment Integrity section, on November 16, 2022. According to the AFR, the DoD supports PIIA compliance through the activities of its Payment Integrity program that includes 12 programs. The DoD did not report estimates for 3 of the 12 programs for FY 2022 because the programs remained under risk assessments.⁷ The DoD reported in the FY 2022 AFR a total of \$2.0 billion in improper and unknown payments for nine programs. Of the \$2.0 billion, \$1.2 billion was related to improper payments and \$821.7 million was related to unknown payments. Table 1 shows the FY 2022 payments (outlays), the total estimated improper and unknown payments, and the estimated improper and unknown payment rates reported by the DoD for the nine programs.⁸

For the three programs under risk assessments, the DoD did not report estimates for improper or unknown payments. The U.S. Army Corps of Engineers (USACE) had two programs under a risk assessment, Commercial Pay and Travel Pay; the Defense Health Agency (DHA) had one program, the Military Health Benefits–Administrative Costs program.

In the beginning of FY 2022, the DHA separated the Military Health Benefits–Administrative Costs program from the Military Health Benefits–Healthcare program. According to the DHA's Sampling and Estimation Methodology Plan (S&EMP), DHA personnel conducted a risk assessment of the Administrative Costs program during FY 2022 to determine susceptibility of the program to improper and unknown payments above the statutory threshold (Phase 1). The DHA will report the results of this risk assessment in its FY 2023 compliance reporting.

⁶ DoD FMR, volume 4, chapter 14.

⁷ The OMB Circular No. A-123, Appendix C defines a risk assessment as an assessment of the risks facing the entity as it seeks to achieve its objective and provides the basis for developing appropriate risk responses.

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

Table 1. DoD FY 2022 AFR Improper Payment Reporting

Program Name	FY 2022 Outlays		Estimated Improper and Unknown Payments			
	Total Reported (Millions)	Rate ¹ (Percent)	Total Reported in FY 2022 (Millions)	Rate ² (Percent)	Total Reported in FY 2021 (Millions)	Increase/ (Decrease) From FY 2021 to FY 2022
Civilian Pay	\$47,035.95	8	\$157.45	0.33	\$53.77	\$103.68
Commercial Pay	389,991.67	63	67.48	0.02	0.00	67.48
DoD Travel Pay	8,405.22	1	368.47	4.38	223.36	145.11
Military Health Benefits–Healthcare ³	20,762.25	3	149.60	0.72	167.98	(18.38)
Military Pay–Army	40,061.36	7	818.00	2.04	1,514.45	(696.45)
Military Pay–Navy	23,785.33	4	1.10	0.00	5.43	(4.33)
Military Pay–Air Force	25,826.03	4	30.89	0.12	364.24	(333.35)
Military Pay–Marine Corps	9,121.24	2	0.00	0.00	0.23	(0.23)
Military Retirement	51,874.19	8	418.83	0.81	176.73	242.10
Total	\$616,863.24	100	\$2,011.82	0.33	\$2,506.19	\$(494.37)

¹ The FY 2022 outlay rate is calculated by dividing the program outlays reported by the total outlays reported.

² The improper payment and unknown payment rate is calculated by dividing the estimated improper payment and unknown payment total by outlays.

³ The new program DoD established for the Administrative Cost payments associated with the Military Health Benefits program is still under risk assessment. Therefore, these amounts do not represent the outlays or improper payments for the Administrative Cost payments.

Sources: The DoD OIG and [paymentaccuracy.gov](https://www.paymentaccuracy.gov).

The payment integrity requirements state that a program has significant improper payments when its estimated improper payments in the prior fiscal year exceeded the threshold of (1) \$10 million of all program outlays and 1.5 percent of the program's outlays, or (2) \$100 million. The DoD determined that five of its programs had significant improper payments in FY 2022: Civilian Pay, DoD Travel Pay, Military Health Benefits–Healthcare, Military Pay–Army, and Military Retirement. OMB guidance requires an agency to publish a description of its CAPs only for programs with significant improper payments.

Improper Payment Estimation Process

The following DoD Components sample, review, and report improper payments for the nine DoD programs required to report estimated improper and unknown payment rates.

- **The Defense Finance and Accounting Service (DFAS)** reports on Civilian Pay, Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–Marine Corps, 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 DHA** reports on Military Health Benefits–Healthcare.

For each of their programs, the DoD Components developed an estimate of the improper payments and unknown payments that occurred within each program’s total payments during the reporting period. To develop this estimate, DoD Components were required to:

- develop a statistically valid S&EMP;
- identify a complete and accurate sampling universe (set of data transactions) of payments that will be subject to review and select a statistical 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.

DoD 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 improper payment results for the DoD Travel Pay program for the following locations Outside the Continental United States: the 175th Financial Management Center–Korea, the Italy Finance Office, the Benelux Finance Office, and the 266th Financial Management Support Center.

¹⁰ The Army reports the improper payment results for the Commercial Pay program for the following locations Outside the Continental United States: 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 one of the PIIA's six payment integrity requirements when it reported its FY 2022 improper payments. The DoD continues to improve its process for identifying improper payments by implementing a reconciliation of the universe of transactions (UoT) and refining its post pay reviews. However, it did not implement sufficient internal controls to detect and correct the errors that prevented the DoD from complying with the PIIA, including implementing prior DoD OIG recommendations.

¹¹ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013 (Incorporating Change 1, June 30, 2020).

Finding

The DoD Did Not Comply with PIIA Requirements

The DoD did not comply with the PIIA's payment integrity requirements in its FY 2022 reporting of improper payments. Under PIIA requirements, an agency is considered noncompliant if it has one or more programs that are found noncompliant with any one of the six requirements. While the DoD complied with five of the six payment integrity requirements, it did not comply with the requirement to publish adequate improper payment estimates. Specifically, the DoD published unreliable improper and unknown payment estimates for all nine DoD programs required to report estimates in FY 2022. The DoD published unreliable improper and unknown payment estimates for all nine DoD programs reporting estimates because DFAS personnel did not:

- fully implement corrective actions to calculate reliable improper and unknown payment estimates, as recommended by the DoD OIG in prior improper payment compliance audit reports; or
- conduct adequate post pay reviews of the DoD Travel Pay program.

As a result, the DoD produced unreliable estimates for the 12th consecutive year and did not comply with PIIA improper payment reporting requirements for the 2nd year.¹² Specifically, the DoD continued to report unreliable improper payment estimates and missed opportunities to promptly detect, prevent, and recover improper payments. Until the DoD implements the recommendations from previous DoD OIG reports to ensure sufficient sample sizes and to assess the risks of different payment types, it is unlikely the DoD will:

- produce reliable improper payment estimates, and
- provide DoD senior leaders with the information necessary to determine whether improper payment reduction efforts have been successful or whether additional action is necessary.

¹² In addition to not complying with the second year of PIIA requirements, the DoD did not comply with the 10 previous years of improper payment reporting requirements.

The DoD Complied with Five of Six PIIA Payment Integrity Requirements

The DoD complied with five of the six payment integrity requirements in FY 2022. Specifically, the DoD:

1. published improper payments information with the annual financial statement, and posted the financial statement and required accompanying materials on the DoD's website;
2. conducted program-specific risk assessments for each program, if required;
3. published programmatic CAPs, if required;
4. published an improper payment and unknown payment reduction target, demonstrated improvements, and developed a plan to meet the reduction target, if required; and
5. reported an estimated improper and unknown payment rate of less than 10 percent.

However, the DoD published unreliable improper and unknown payment estimates for all nine DoD programs reporting estimates. Table 2 identifies, by program, the DoD's compliance or noncompliance with each of the payment integrity requirements for all 12 programs, including the 3 programs under risk assessment.

The DoD published unreliable improper and unknown payment estimates for all nine DoD programs reporting estimates.

Table 2. DoD Program Compliance by Payment Integrity Requirement

Program Name	AFR Published In Accordance with OMB Guidance ¹	Conducted Risk Assessment ²	Published Adequate Estimate ³	Published CAP ⁴	Published Reduction Targets ⁵	Reported Rate Under 10 Percent
Civilian Pay		✓	X	✓	✓	✓
Commercial Pay		✓	X	N/A	N/A	✓
DoD Travel Pay		✓	X	✓	✓	✓
Military Health Benefits–Healthcare		✓	X	✓	✓	✓
Military Health Benefits–Administrative Costs		N/A	N/A	N/A	N/A	N/A
Military Pay–Army		✓	X	✓	✓	✓
Military Pay–Navy		✓	X	N/A	N/A	✓
Military Pay–Air Force		✓	X	N/A	N/A	✓
Military Pay–Marine Corps		✓	X	N/A	N/A	✓
Military Retirement		✓	X	✓	✓	✓
USACE Travel Pay		✓	N/A	N/A	N/A	N/A
USACE Commercial Pay		✓	N/A	N/A	N/A	N/A
Overall Compliance	✓	✓	X	✓	✓	✓

LEGEND

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

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. USACE did not report an estimate for its Commercial Pay and Travel Pay programs, and is compliant with a risk assessment through FY 2022.

³ See Table 4 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 CAPs for programs with significant improper payments. Therefore, if a program did not have significant improper payments, a CAP was not required.

⁵ OMB guidance requires an agency to publish a reduction target for baselined programs with significant improper payments. Therefore, if a program did not have significant improper payments, a reduction target was not required.

Source: The DoD OIG.

The DoD Published Required Information in the Agency Financial Report

The DoD complied with the payment integrity requirements when publishing its FY 2022 AFR. In the accompanying materials to the AFR, the OUSD(C)/CFO reported each program's outlays, estimated proper and improper payment amounts, estimated improper payment rates, identified root causes for underpayments and overpayments, and published reduction targets for FY 2022. The accompanying materials to the AFR also described each program's planned corrective actions, which included the planned and actual completion dates, and linked the actions to root causes for the improper payments.

According to the payment integrity requirements, the DoD must publish an annual report in its annual financial statement in accordance with the payment integrity guidance in OMB Circular No. A-136.¹³ OMB Circular No. A-136 requirements include the following.

- The DoD must provide its final AFR to OMB, Treasury, the Government Accountability Office (GAO), and the Congress by close of business November 15, 2022 and post the AFR to the agency website the same day the agency submits the report.
- The DoD must also provide the required information to the OMB through the annual data call, which the OMB subsequently publishes on [paymentaccuracy.gov](https://www.paymentaccuracy.gov).
- If the DoD has performed recovery audits and has received recommendations from its recovery audit contractor regarding actions that can be taken to prevent overpayments, the agency should report on the actions taken in its AFR.
- Additionally, according to OMB Circular No. A-123, Appendix C, the DoD must include a link to [paymentaccuracy.gov](https://www.paymentaccuracy.gov) within its annual financial statement to any accompanying materials required in OMB guidance.¹⁴

Although required by OMB Circular No. A-136 to issue the AFR by "close of business" on November 15, 2022, the OUSD(C)/CFO issued the DoD's FY 2022 AFR on November 16, 2022. According to the OUSD(C)/CFO, this occurred because OUSD(C)/CFO personnel experienced formatting issues and delays while developing

¹³ OMB Circular No. A-136, section II.4.5, "Payment Integrity Information Act Reporting." Additionally, an annual financial statement is a formal record of the financial activities during a 12-month consecutive time period. The financial statements are part of the AFR.

¹⁴ OMB Circular No. A-123, Appendix C, section VI, "Compliance."

While the AFR was not issued on time, the DoD provided its improper and unknown payment information to the OMB by the October 31, 2022 deadline.

the AFR. While the AFR was not issued on time, the DoD provided its improper and unknown payment information to the OMB by the October 31, 2022 deadline. According to the OMB, the agency should be compliant if it provided the improper

and unknown payment information in a timely manner and issued the AFR before the OMB published the information on [paymentaccuracy.gov](https://www.paymentaccuracy.gov), which occurred on November 23, 2022. Therefore, because the DoD met OMB's deadline for its payment information submission, and issued its AFR before the OMB published the payment information on [paymentaccuracy.gov](https://www.paymentaccuracy.gov), the DoD complied with this requirement.

As of December 2022, OUSD(C)/CFO personnel were in the process of implementing corrective actions to improve the timeliness of reporting the DoD's AFR. For example, the OUSD(C)/CFO issued the draft AFR Development standard operating procedures on January 17, 2023. These procedures include a list of the lessons learned from the issuance of the DoD's FY 2022 AFR, including steps management is taking to identify and address concerns with the AFR timeline. Because the OUSD(C)/CFO is taking steps to improve the timeliness of its reporting of the AFR, we did not make a recommendation. We will continue to monitor the timeliness of all OUSD(C)/CFO's submissions to the OMB, including the AFR.

The DoD Reported Risk Assessments in Lieu of Improper Payment Estimates

The DoD complied with the requirement to publish program-specific risk assessments. Payment integrity requirements mandate that the head of the agency periodically review all programs and activities and identify which programs may be susceptible to significant improper payments. Specifically, OMB Circular No. A-123, Appendix C requires agencies to perform a risk assessment at least once every 3 years for every program that is not already reporting an improper payment estimate.

In the FY 2022 AFR, the DoD reported an estimate for all nine of its programs it identified as susceptible to improper payments. Those nine programs did not have to perform a risk assessment and report the results in FY 2022. In FY 2020, the DoD completed a risk assessment of the

In the FY 2022 AFR, the DoD reported an estimate for all nine of its programs it identified as susceptible to improper payments.

USACE Commercial Pay and USACE Travel Pay programs; therefore, these programs are only required to report risk assessments once every 3 years. These two programs did not report an estimate in FY 2022 and will not be required to report a risk assessment or estimate until FY 2023.

On June 29, 2022, the DHA provided its S&EMP to OMB, which established the Military Health Benefits–Administrative Costs separately from the Military Health Benefits–Healthcare program. According to the DHA’s S&EMP, the Administrative Costs program went under a risk assessment in FY 2022 for determination of reporting requirements in FY 2023. According to OMB Circular No. A-123, Appendix C, for newly established programs, a risk assessment should be completed after the first 12 months of the program even if the first 12 months do not coincide with the fiscal year.¹⁵ Therefore, the DHA has until June 30, 2023, or 12 months from the establishment of the program, to complete the risk assessment.

The DoD Published Complete CAPs

The DoD complied with the requirement to publish CAPs. The DoD published CAPs for the five programs that reported significant improper and unknown payments—Civilian Pay, DoD Travel Pay, Military Health Benefits–Healthcare, Military Pay–Army, and Military Retirement. Payment integrity requirements mandate that programs reporting significant improper and unknown payments identify the cause of the improper and unknown payments, actions taken to reduce improper and unknown payments, planned or actual completion dates, and the results of actions taken.¹⁶

- **Civilian Pay CAP.** The CAP described a significant number of technically improper payments; which the Army identified as resulting from unsigned Standard Forms 1190, “Foreign Allowances Application, Grant and Report” (SF 1190s), at overseas bases. In response, the Civilian Human Resources Agency issued a directive to all civilian pay personnel offices to ensure that Command partners sign all SF 1190s, and that civilian pay personnel quickly coordinate the processing of any SF 1190s with Commands to ensure the forms are correct. The estimated implementation date of the corrective actions is September 30, 2023.
- **DoD Travel Pay CAP.** The CAP described that travel related payments were processed in the Defense Travel System with invalid or missing receipts and the system did not contain information needed to properly substantiate the travel payments. According to the CAP, the Military Services are collaborating with the Defense Travel Management Office, and DFAS plans to continue training all Defense Travel System users on a regular basis. The estimated implementation date of these corrective actions is September 30, 2023.

¹⁵ OMB Circular No. A-123, Appendix C, section II, “Phases of Assessments.”

¹⁶ Public Law No. 116-117, “Payment Integrity Information Act of 2019,” section 3352(d)(1), March 2, 2020.
OMB Circular No. A-123, Appendix C, March 5, 2021.

- **Military Health Benefits–Healthcare CAP.** The CAP described the root cause of the improper payments as failure to access data or information (human errors). The CAP further explained that this root cause stems from errors including, but not limited to:
 - long term care facility or skilled nursing facility per-diem rates miscalculated,
 - reimbursement errors,
 - duplicate payments,
 - provider discount rates miscalculated or not applied, and
 - lack of support for payments made by other health insurance plans.

The CAP included corrective actions, such as developing the process to identify frequently assessed error codes, recording and reviewing error types, and addressing high frequency error types. The estimated implementation date for these corrective actions is October 15, 2023. In conjunction with the CAP, the DHA is also developing a risk-based sampling methodology to more fully consider the claim characteristics of each contract. According to the OUSD(C)/CFO, payments that are at a higher risk level of improper and unknown payments will be reviewed more frequently, which will allow quicker identification of root causes.

- **Military Pay–Army CAP.** The CAP described that stakeholders did not follow the current Army regulations and policies to maintain the required key supporting documents (KSD) (paid entitlements) in the interactive Personnel Electronic Records Management System (iPERMS). iPERMS is the Army’s Records Management Application. The corrective actions in the CAP included resolving the missing KSDs and conducting quarterly reviews, coordinating for missing KSDs, and ensuring all Soldiers update their Army personnel files with missing KSDs via iPERMS. The estimated implementation date for these corrective actions is September 30, 2023.
- **Military Retirement CAP.** The CAP explained that cost refund errors and payments released in error contributed to the improper payments. The CAP explained that the cost refund errors continued to contribute to the monetary loss within the agency control and a lack of documentation on those accounts contributed to the unknown payments. Additionally, the payments released in error related to a payment made to a deceased retiree and contributed to the improper payment amount. The corrective actions discussed in the CAP included the decrease of cost refund errors due to a change in the methodology of how the annuitants will receive their full Survivor Benefit Plan and their full Dependency and Indemnity Compensation. The corrective actions also included implementation of a new data source to identify the death of a retiree and the monitoring of the reclamation process. The estimated implementation date for these corrective actions is January 1, 2024.

The DoD Published Reduction Targets and Demonstrated Improvements to Payment Integrity

The DoD published target rates for reducing improper and unknown payments, and it demonstrated improvements to payment integrity in FY 2022 for the Civilian Pay, DoD Travel Pay, Military Health Benefits–Healthcare, Military Pay–Army, and Military Retirement programs. The payment integrity requirements state that if a program’s improper and unknown payment estimate is above the statutory threshold, an agency must:

- establish and publish an annual reduction target for the following fiscal year,
- demonstrate improvements to payment integrity or reach a tolerable rate, and
- develop a plan to meet the reduction targets.

Table 3 illustrates the FY 2021 reduction targets the DoD established to reach in FY 2022, whether the DoD achieved the reduction target with the FY 2022 improper and unknown payment rate, and the reduction targets the DoD established for FY 2023 for the programs deemed susceptible to improper and unknown payments.

Table 3. FY 2022 Improper Payment Reduction Targets by Program

Program Name	Reduction Target Established in FY 2021 for FY 2022 Reporting (Percent)	FY 2022 Improper and Unknown Payment Rate (Percent)	Reduction Target Established in FY 2022 for FY 2023 Reporting (Percent)	Tolerable Rate
Civilian Pay	Baselining*	0.33	0.32	Not Reported
DoD Travel Pay	3.48	4.38	4.2	Not Reported
Military Health Benefits–Healthcare	1.84	0.72	1.84	Not Reported
Military Pay–Army	Baselining*	2.04	1.98	Not Reported
Military Retirement	Baselining*	0.81	0.78	Not Reported

*Programs reported as baselining in FY 2021 were not required to report a reduction target for FY 2022.

Source: The DoD OIG and [PaymentAccuracy.gov](https://www.paymentaccuracy.gov).

As shown in Table 3, the DoD established a reduction target rate for FY 2022 of 3.48 percent for DoD Travel Pay and 1.84 percent for Military Health Benefits–Healthcare. The DoD did not meet its target for DoD Travel Pay with an improper and unknown payment rate of 4.38 percent; 0.90 percent over the target. However, the DoD met its target for Military Health Benefits–Healthcare with an improper and unknown payment rate of 0.72 percent; 1.12 percent under

the target. For FY 2023, the DoD established targets for all five programs shown in Table 3. We will assess whether the DoD’s improper and unknown payment rates are less than the targeted rates in next year’s payment integrity compliance report.

OMB Circular No. A-123, Appendix C, defines a tolerable improper and unknown payment rate (tolerable rate) as the improper and unknown payment estimate achieved when a program achieves a balance of payment integrity risk and controls. The tolerable rate for a program often includes improper payments that are unavoidable or cost prohibitive for the agency to prevent.

According to OUSD(C)/CFO personnel, the DoD cannot establish an effective tolerable rate until the DoD OIG has confirmed reliable estimates. It is DoD’s responsibility to establish reliable estimates; the OIG’s role is to validate whether

According to OUSD(C)/CFO personnel, the DoD cannot establish an effective tolerable rate until the DoD OIG has confirmed reliable estimates.

DoD’s actions comply with the PIIA. More directly, GAO Standards for Internal Control in the Federal Government states that external auditors and the OIG are not considered a part of an entity’s internal control system.¹⁷ While management may evaluate and

incorporate recommendations by external auditors and the OIG, responsibility for an entity’s internal control system resides with management.

According to OMB Circular No. A-123, Appendix C, the tolerable rate of a program should be established by the Agency’s senior management. Additionally, the OMB Circular does not establish a requirement for a program to have produced a reliable estimate before the Agency’s senior management can determine a program’s tolerable rate.

The DoD should not make its determination of a program’s tolerable rate contingent upon the results of the DoD OIG’s payment integrity audits. Rather, it should have a process for establishing a program’s tolerable rate based on a balance of payment integrity risk and controls. Therefore, we recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD establish and implement a process for determining a program’s tolerable rate that is based upon the program’s payment integrity risks and controls.

¹⁷ GAO-14-704G, “Standards for Internal Control in the Federal Government,” September 2014.

The DoD Reported Improper Payment Rates of Less Than 10 Percent

The DoD reported improper and unknown payment rates of less than 10 percent for each program that reported an estimate. For compliance, payment integrity requirements mandate that the DoD report an improper payment plus unknown payment rate of less than 10 percent for each program for which an estimate was published. Therefore, the DoD met the payment integrity requirements.

Although the DoD reported improper payment plus unknown payment rates of less than 10 percent, we determined that the rates were unreliable.¹⁸ We identified uncertainties in the estimation process, which led to an increased risk that the

Although the DoD reported improper payment plus unknown payment rates of less than 10 percent, we determined that the rates were unreliable.

improper and unknown payment rates, once accurately estimated, could be more or less than actually reported. Therefore, the DoD's actual improper and unknown payment rate could be more or less than 10 percent. Until the DoD can produce reliable estimates, DoD leadership cannot rely on this compliance measure to assess the DoD's integrity of their payments.

The DoD Published Unreliable Improper Payment Estimates

The DoD did not comply with the payment integrity requirements to publish improper and unknown payment estimates as the DoD published unreliable improper and

The DoD published unreliable improper and unknown payment estimates in the FY 2022 AFR for all nine DoD programs required to report estimates.

unknown payment estimates in the FY 2022 AFR for all nine DoD programs required to report estimates. Specifically, DoD personnel did not have adequate sample sizes, complete universes of payments, or accurate reviews of

payments, all of which are necessary elements for developing reliable estimates.

This occurred because DFAS personnel did not:

- fully implement corrective actions to calculate program improper payment estimates, as recommended by the DoD OIG in prior improper payment compliance audit reports;¹⁹ or
- conduct adequate post pay reviews of the DoD Travel Pay program.

¹⁸ The improper and unknown payment rates are calculated using the improper and unknown payment estimates. Therefore, if the estimates are unreliable, then the rates are also unreliable.

¹⁹ According to OUSD(C)/CFO personnel, the estimated completion date of implementing these corrective actions is November 2023.

The DoD stated in the FY 2022 AFR, as well as in prior year AFRs, that the reduction of improper payments and compliance with the PIIA continue to be top financial management priorities. However, the DoD OIG has concluded for the past 12 years that DoD improper payment estimates were not reliable.²⁰ Only when DoD programs accurately report all required information can DoD leadership and Congress determine whether improper payment reduction efforts have been successful or whether additional action is necessary.

The payment integrity requirements state that agency Inspectors General should evaluate and take into account the adequacy of the methodology that Executive agencies used to estimate improper payments. The requirements further state that all programs susceptible to significant improper payments should design and implement appropriate statistical S&EMPs to produce statistically valid improper payment estimates.²¹ The requirements also state that agencies should ensure that the programs' improper payment estimates are accurate, and that the S&EMP is appropriate given program characteristics.

Due to the multiple levels of guidance for creating improper payment estimates, a program could partially meet OMB requirements by using a statistically valid S&EMP 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 OMB requirements in full, we reviewed the programs for:

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

If at any time during the review we determined that a program did not meet one of the three requirements, we did not continue to review the subsequent requirements because the program would not produce a reliable estimate. Table 4 identifies the nine DoD programs and the requirement each met or did not meet for publishing reliable improper payment estimates in the FY 2022 AFR.

²⁰ 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 the previous 11 years.

²¹ OMB Circular No. A-123, Appendix C, "Requirements for Payment Integrity Improvement," March 5, 2021.

Table 4. Improper Payment Estimate Compliance by Requirement and Program

Program Name	Statistically Valid Sampling and Estimation Plan	Complete and Accurate Population Subject to Review	Adequacy of Reviews of Improper and Unknown Payments	Accuracy Reviews of Improper and Unknown Payments	Overall Improper and Unknown Payment Estimate Compliance
Civilian Pay	X	X	✓	NR	X
Commercial Pay	X	X	✓	NR	X
DoD Travel Pay	✓	✓	✓	X	X
Military Health Benefits–Healthcare	X	X	NR	NR	X
Military Pay–Army	X	X	✓	NR	X
Military Pay–Navy	X	X	✓	NR	X
Military Pay–Air Force	X	X	✓	NR	X
Military Pay–Marine Corps	X	X	✓	NR	X
Military Retirement	X	X	✓	NR	X

LEGEND

NR	Not Reviewed
✓	Compliant
X	Not Compliant

Source: The DoD OIG.

The DoD Did Not Fully Implement Corrective Actions

The DoD did not fully implement corrective actions in FY 2022 to develop adequate sample sizes for developing estimates and complete the UoT for sample populations. During the audit, the DoD took corrective actions to address the 21 open recommendations reported in the FY 2021 compliance audit. The corrective actions the DoD took supported closure of 7 of the 21 recommendations. See Appendix C for the status of the recommendations. While the DoD took corrective actions, the DoD did not fully implement all corrective actions for this year's compliance audit. DFAS personnel stated that DFAS implemented a process to use larger sample sizes to calculate the improper and unknown payment estimates for the FY 2023 reporting period and provided examples of the methodology that it would use in FY 2023. Because this process change applies to the FY 2023 reporting, we plan to review the implementation of the process during the FY 2023 audit.

Corrective Actions for Sample Sizes

In Report No. DODIG-2022-108, the DoD OIG recommended that the OUSD(C)/CFO and DFAS use a sufficient sample size to support the improper payment estimate by calculating the sample size based on improper payment amounts instead of only using the paid amount. To reduce the required sample size, we recommended considering alternative improper payment estimation methodology, and conducting risk assessments of the payment types for each program. According to OUSD(C)/CFO personnel, the personnel with payment integrity roles and responsibilities have collaborated and have a specific formula to produce more reliable estimates and sufficient sample sizes by testing higher and lower risk payment types. OUSD(C)/CFO personnel stated that they expect this new formula and process to produce estimates that are more reliable and will streamline the DoD's efforts to achieve PIIA Compliance for FY 2023.

We did not review the accuracy of the improper payment reviews for the Civilian Pay, Commercial Pay, Military Health Benefits–Healthcare, Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–Marine Corps, or the Military Retirement programs because we determined that the OUSD(C)/CFO had not yet addressed outstanding recommendations regarding the sample sizes. We will review the implementation of the revised formula in the FY 2023 compliance audit.

Corrective Actions for Completeness

According to OUSD(C)/CFO personnel, the DoD started to address several DoD OIG recommendations by creating a Payment Integrity Risk Appetite Statement and performing the UoT reconciliations for the Payment Integrity Programs to solidify the S&EMPs to verify the completeness of the population to create the samples from.²²

THE DEPUTY CHIEF FINANCIAL OFFICER'S PAYMENT INTEGRITY RISK APPETITE STATEMENT

On June 30, 2022, the Deputy Chief Financial Officer issued a Payment Integrity Risk Appetite Statement, effective as of FY 2022, to establish a materiality threshold for DoD Programs' UoTs. According to the statement, the OUSD(C)/CFO will consider a program's UoTs as "complete" for the purpose of PIIA testing if that program's coverage percentage is within 85 percent, with a target of 95 percent or higher. We reviewed the coverage percentage calculations for each of DoD's

²² According to OMB Circular No. A-123, Appendix C, the Payment Integrity Risk Appetite Statement is used to set risk tolerance and include a materiality threshold for what percentage of payments from a given universe must be tested for the sample population to be considered "complete."

programs and determined that the DoD consistently applied the calculation to all of their programs. Additionally, the DoD determined that the coverage percentage for all of their programs was greater than 85 percent.

The Deputy Chief Financial Officer calculated the coverage percentage by dividing the total amount of outlays (disbursements) in the sample by the Statement of Budgetary Resource's (SBR) outlays amount. This calculation method was used during the FY 2021 PIIA compliance audit in which the audit team identified a \$10.7 billion discrepancy between the outlays reported in the SBR and the Military Retirement program's sampling frame. Therefore, while this calculation could be a useful internal control for DFAS to ensure the completeness of its programs' UoTs, further testing would be necessary to reconcile the outlays to the universe of disbursements.

For example, the DoD could not rely on the accuracy of the calculated coverage percentages because the outlay amounts reported in the SBR were not reliable. The calculation in the Payment Integrity Risk Appetite Statement presumes that the outlay amounts reported in the SBR are accurate. However, the DoD OIG reported in the FY 2022 AFR a material weakness pertaining to the DoD's inability to completely and accurately reconcile its basic financial statements to transaction-level data because a UoT did not exist at the Agency-Wide level.²³ Additionally, the DoD OIG reported in the FY 2022 AFR material weaknesses with the Reconciliation of Net Cost of Operations to Outlays, Budgetary Resources, and Entity-Level Controls.

UoT RECONCILIATIONS

During the FY 2022 audit, the DoD OIG performed an analysis of the reconciliation DFAS used to confirm the completeness of its UoTs for each program. The DoD OIG determined that this reconciliation was just a comparison between outlays (disbursements) from the SBR and a combination of transactions from the disbursing, entitlement, and accounting systems. Furthermore, while DFAS has started implementing this reconciliation process, DFAS has yet to completely document the process.

While the reconciliation is an improvement, the DoD OIG still has concerns with the completeness and accuracy of the reconciliation. For example, in FY 2022, DFAS reported a \$6.9 billion discrepancy in the Military Retirement program's reconciliation

While the reconciliation is an improvement, the DoD OIG still has concerns with the completeness and accuracy of the reconciliation.

²³ Report No. DODIG-2022-037, "Independent Auditor's Report on the DoD's FY 2021 and 2020 Basic Financial Statements," November 5, 2021.

that led to a completeness rate of 88 percent. Until the DoD fully implements the reconciliation of its UoTs to the disbursing systems and documents the process, the DoD cannot rely on this process to ensure a complete UoT for each program. We will not make a recommendation regarding the completeness of each program's UoTs due to the number of recommendations already made relating to this matter in prior payment integrity reports. See Table 5 in Appendix C for the status of the recommendations.

DoD Travel Pay Estimate Compliance

The FY 2022 DoD AFR reported an improper and unknown payment estimate of \$368.47 million, with an improper and unknown payment rate of 4.38 percent for the DoD Travel Pay program. In calculating the sample size, DFAS personnel did not use the correct variable. However, the sample size tested consisted of an adequate number of sample payments and therefore, the use of the wrong variable had minimal impact. Therefore, the audit team proceeded with compliance testing of the DoD Travel Pay program.

THE DOD DID NOT REPORT QUESTIONABLE PAYMENTS AS UNKNOWN PAYMENTS

Specifically, DFAS personnel inconsistently determined the propriety of payments, as a result of unresolved guidance.

DFAS did not comply with OMB Circular No. A-123, Appendix C, when reviewing travel payments related to the evacuation of residents, as a result of the Hawaii water contamination.

Specifically, DFAS personnel inconsistently determined the propriety of payments, as a result of unresolved guidance. OMB Circular No. A-123, Appendix C, states that if a program cannot discern if a payment is proper or improper, the payment is considered an unknown payment. The Circular further states that if a program is still conducting research or going through a review of a payment at the time the program must calculate and report their improper payment estimates, the payment will be reported as unknown for reporting purposes that year.

DFAS reviewed 922 Army evacuation payments, totaling \$27.3 million, in FY 2022. According to DFAS personnel, they reviewed these payments like any other travel payments, referring to the Joint Travel Regulations for guidance. However, due to the complexity, time-sensitivity, volume, and dollar value of these evacuation payments, DFAS personnel should have identified and reviewed these payments as high-risk. For example, according to Army personnel, Army evacuees were allowed to change their travel status from Temporary Lodging Allowance (TLA) to Temporary Duty (TDY) as part of the Army's solution to ensure similar support was provided for all impacted families. Army personnel explained that processing travel payments as TDY was more complicated than TLA. They stated

that using both together made the process even more complicated, due to moving from one solution to the other, and making sure the vouchers were all tracked accordingly. Army personnel also explained that if there were issues or questions based on the TLA perspective, other personnel would be needed because TLA payments are processed through the Military Pay program and not through the Defense Travel System.

Furthermore, the evacuation payments included payments to dependents of Service members, which DoD personnel recorded in the Integrated Automated Travel System for Windows separately from the payments to Service members, which were recorded in the Defense Travel System. Army personnel stated that evacuees' payments were not compared to payments to their sponsoring Service member for duplicate payments since the payments were processed in different systems.

Additionally, as part of the supporting documentation for these evacuation payments, DFAS personnel explained that senior leadership provided travel date and reimbursement guidance to evacuated residents through a memorandum, stating that the last day of travel would not be payable because it was part of the traveler's normal commute. At first, the DFAS reviewers accepted the senior leadership memorandum and determined several payments as proper. However, the reviewers later challenged the memorandum and changed their interpretation of the senior leadership memorandum, which resulted in determining payments as improper. Both DFAS and the travel office representing evacuees submitted the senior leadership memorandum to their respective general counsels for review.

According to OUSD(C)/CFO personnel, legal counsel still has not made the final determination on the application of the guidance provided in the memorandum. When we asked DFAS reviewers about the results of their testing, the reviewers stated that they did not update the inconsistently treated payments, and considered some payments for the last day of travel as proper and others as improper. According to the guidance provided in the OMB Circular No. A-123, Appendix C, DFAS reviewers should have classified these payments as unknown payments until legal counsel made an official determination on how the payments should be treated. Furthermore, once the proper treatment of an unknown payment is determined, the DoD may be required to report the review results of the DoD Travel Pay program unknown payments in future reporting years.

In May 2022, the U.S. Army Audit Agency announced an audit to determine whether the Army used TLA and other benefits for the Hawaii water contamination relief effort in accordance with guidance. This audit includes Army travel payments for evacuees that DFAS personnel also reviewed. According to U.S. Army Audit

Agency personnel, they will finalize their official results in May 2023. Therefore, we will not make any recommendations addressing the Army's handling of the evacuation payments.

Regardless of the results of the U.S. Army Audit Agency review, these evacuation payments should have remained in an unknown status. Therefore, the DFAS Director should:

- comply with OMB Circular No. A-123, Appendix C by reclassifying the payments in question as Unknown Payments; and
- include the results of the Army's determination on the propriety of the payments, coordinated with the U.S. Army Audit Agency, in future-year improper payment reporting.

DFAS DID NOT HAVE ADEQUATE CONTROLS TO REVIEW THE ACCURACY OF TRAVEL PAYMENTS

The DoD OIG re-performed payment reviews from the Defense Travel System and the Integrated Automated Travel System for Windows and identified that DFAS inaccurately reviewed and reported 7 out of 45 samples. We determined five of the seven should be reclassified as unknown payments. For the sixth sample, DFAS reviewers did not verify that the meals and incidental expense rate was correct for the travel location included in the itinerary; therefore, the traveler was paid for meals and incidentals at a higher rate than allowed for the location visited. For the seventh sample, DFAS reviewers followed outdated guidance and did not identify that the traveler was entitled to an additional incidental expense reimbursement.

In addition, DFAS reviewers did not have adequate internal controls to identify and review high-risk payments. DFAS personnel inconsistently reviewed resort fees and did not review for duplicate lodging payments. According to the Joint Travel

DFAS reviewers did not have adequate internal controls to identify and review high-risk payments.

Regulations, an authorizing official may authorize reimbursement for certain fees that are not optional, such as resort fees.²⁴ DFAS reviewers stated that the authorizing official's approval of the

resort fees was enough to authorize the payment. However, the Defense Travel Management Office and Travel Mission Area personnel clarified that all resort fees must be authorized before travel. When asked why the DFAS reviewers did not

²⁴ According to the Joint Travel Regulation, an authorizing official determines whether travel is necessary and appropriate to the mission, ensures that all expenses claimed by the traveler are valid, and authorizes or approves the valid expense.

consider the resort fees as improper payments, DFAS reviewers stated that they gained a better understanding of the guidance after the reviews. However, they did not go back and reverse their determinations on the resort fees.

During the review period, travelers processed vouchers for themselves and their dependents through the Defense Travel System and the Integrated Automated Travel System for Windows. The Integrated Automated Travel System for Windows travel vouchers included lodging and taxes for dependents of travelers, while the Defense Travel System included lodging and taxes for the traveler. The Defense Travel Mission Area personnel recognized this as a risk for duplicate lodging payments and had a limited methodology for reviewing for duplicate payments. However, when asked, DFAS reviewers confirmed that they did not incorporate reviews of dependent vouchers with reviews of the traveler's vouchers. Therefore, duplicate lodging expenses could have been processed in both systems. While DFAS continuously improves its review process for the DoD Travel Pay program, DFAS reviewers did not implement adequate internal controls to identify and review high-risk payments and ensure that their reviews correctly identified the improper payment amounts. To ensure the accuracy of the DFAS reviews of travel payments, the DFAS Director should develop and implement additional controls to identify and review high-risk payments, and to make certain that the post pay reviews are adequately identifying improper payment amounts.

Conclusion

The DoD did not comply with one of the six payment integrity requirements in FY 2022 because the DoD published unreliable improper payment estimates. This is the 12th consecutive year that the DoD has not produced reliable estimates and the 2nd year the DoD has not complied with the PIIA improper payment reporting requirements.²⁵ Specifically, the DoD continued to report unreliable improper payment estimates and missed opportunities to promptly detect, prevent, and recover improper payments.

The DoD continues to improve its process for identifying improper payments by implementing a reconciliation of the UoTs and refining its post pay reviews. However, the DoD has yet to fully implement corrective actions to address prior DoD OIG recommendations concerning the development of the improper payment estimates for its nine programs.

The DoD has yet to fully implement corrective actions to address prior DoD OIG recommendations concerning the development of the improper payment estimates for its nine programs.

²⁵ In addition to not complying with the first year of PIIA requirements, the DoD did not comply with the 10 previous years of improper payment reporting requirements.

Until the DoD implements the recommendations from previous DoD OIG reports, it is unlikely the DoD will meet the requirements of the PIIA and have reliable improper payment estimates. Only when DoD programs accurately report all required information, can DoD senior leaders determine whether improper payment reduction efforts have been successful or whether additional action is necessary.

The PIIA requires that an agency initiate corrective action when it does not comply with the PIIA. According to OMB Circular No. A-123, Appendix C, the agency will treat any noncompliance in FY 2022 as the 2nd year of noncompliance, for each program found to be noncompliant. According to the PIIA, if an agency is noncompliant for 2 consecutive fiscal years, the agency must provide in its next budget submission to the OMB Director additional program integrity proposals, for each noncompliant program, that would help the program come into compliance. In the budget submission, the agency must describe how each proposal would help the program come into compliance. If the OMB Director determines that additional funding would help the program become compliant, the agency shall obligate an amount of additional funding determined by the OMB Director to intensify compliance efforts. Therefore, the USD(C)/CFO should propose in the DoD's next budget submission additional program integrity proposals that would help each noncompliant program come into compliance. Then, if the OMB Director deems additional funding is necessary, obligate an amount of additional funding determined by the OMB Director to intensify compliance efforts.

Recommendations, Management Comments, and Our Response

Recommendation 1

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

- a. Establish and implement a process for determining a program's tolerable rate that is based upon the program's payment integrity risks and controls.**

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 the DoD is in the process of establishing Payment Integrity program-specific tolerable rate working groups. The DCFO stated that these DoD-wide efforts will focus on determining the acceptable projected improper and unknown payment amount that accounts for realistic program management and resource constraints. Furthermore, the DCFO stated

that the DoD will consider OMB's blanket statutory thresholds of \$100 million and identify the improper and unknown payments that are unavoidable and beyond the ability to reduce any further without negatively affecting program mission or cost effectiveness.

Additionally, the DCFO stated that the DoD may investigate different groups of improper payments for programs that must exceed the statutory threshold by assigning different limits on monetary loss, underpayments, and statutory improper payment types for the combined program tolerable rate limit. The DCFO expects to complete this action by June 2024.

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 OUSD(C)/CFO has established and implemented a process for determining a program's acceptable projected improper and unknown payment rate that accounts for realistic program management and resource constraints.

- b. Submit for the Civilian Pay, Commercial Pay, DoD Travel Pay, Military Health Benefits-Healthcare, Military Pay-Army, Military Pay-Navy, Military Pay-Air Force, Military Pay-Marine Corps, and Military Retirement programs a proposal to the Director of the Office Management and Budget in its next Budget submission, additional program integrity proposals that would help the program come into compliance, in accordance with Office of Management and Budget Circular No. A-123, Appendix C requirements.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and recognized that this recommendation is a statutory requirement from the PIIA and a regulatory requirement from OMB Circular No. A-123, Appendix C. The DCFO stated that the DoD does not anticipate requiring additional budgetary resources to bring the programs into compliance and is implementing its current strategy in FY 2023 to publish adequate improper and unknown payment estimates. The DCFO stated that based on the results of the FY 2023 PIIA Compliance audit, the DoD may be required to request additional funding, reprogramming, or transfer authority to assist in the potential restructuring of the existing noncompliant programs. The DCFO expects to complete this action by June 2024.

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 OUSD(C)/CFO's annual data call reflects its FY 2023 strategy to publish adequate improper and unknown payment, including measurable milestones, a designated senior executive, and an established accountability mechanism for each of the programs listed in the recommendation.

Recommendation 2

We recommend that the Director, Defense Finance and Accounting Service:

- a. For the Hawaii water contamination evacuation travel payments:**
 - **Comply with the Office of Management and Budget Circular No. A-123, Appendix C by reclassifying the payments in question as Unknown Payments.**
 - **Once the Army in coordination with the U.S. Army Audit Agency determines the propriety of the payments, include the results in future-year improper payment reporting.**

Director, Defense Finance and Accounting Service Comments

The DCFO, responding for the DFAS Director, agreed with the recommendation, stating that DFAS will continue to partner with the OUSD(C)/CFO and the Department of the Army to identify and track the Hawaii water contamination travel payments where questions still existed relating to their propriety. The DCFO stated that once the U.S. Army Audit Agency publishes its report on the Temporary Lodging Use in Support of Relief Efforts, DFAS will review the results and work with the OUSD(C)/CFO and the Department of the Army to incorporate the findings.

The DCFO specified that the Army's Hawaii water contamination travel payments will be internally reclassified within the DoD as unknown payments until the propriety of the payments has been determined. The DCFO further stated that the results will be reported as part of the Department's Travel Pay program additional reporting requirements for OMB's High Priority Program through the quarterly Key Performance Indicator scorecards or annual PIIA Compliance submission, which is published on [paymentaccuracy.gov](https://www.paymentaccuracy.gov). The DCFO expects to complete this action by June 2024.

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 has internally reclassified the Army's Hawaii water contamination travel payments and subsequently published the results of payment integrity reviews of Army's Hawaii water contamination travel payments in either the quarterly Key Performance Indicator scorecards or the annual PIIA Compliance submission to paymentaccuracy.gov.

- b. Develop and implement additional controls to identify and review high-risk payments, and to make certain that the post pay reviews are adequately identifying improper payment amounts.**

Director, Defense Finance and Accounting Service Comments

The DCFO, responding for the DFAS Director, agreed with the recommendation, stating that DFAS recognizes the travel evacuation payments as being of higher risk for improper payment. The DCFO stated that to improve management of higher risk disbursements, DFAS will partner with the OUSD(C)/CFO and the various DoD Components to obtain the information and necessary data elements to appropriately stratify payments in a risk-based sampling methodology.

The DCFO also stated that once DFAS is notified and provided with the required identifying elements, it would categorize payments as higher risk and ensure these payments had increased visibility and testing in the sample. Additionally, the DCFO stated the higher risk evacuation payments will be targeted for additional quality assurance reviews to strengthen the controls for identifying the correct improper payment amounts. The DCFO expects to complete this action by June 2024.

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 has developed and implemented controls to identify and review high-risk payments, and once DFAS has implemented additional quality assurance reviews to ensure that post pay reviews are adequately identifying improper payment amounts.

Appendix A

Scope and Methodology

We conducted this performance audit from August 2022 through May 2023 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 2022 AFR, we interviewed personnel from the following agencies.

- DFAS
- OUSD(C)/CFO
- DHA

During our interviews, we discussed personnel roles and responsibilities for PIIA reporting, risk assessments, S&EMPs, improper payment estimates, reduction targets, CAPs, recapture audits, accountability, and agency information systems and other infrastructure. Our audit universe included payment transactions from the nine programs that reported improper payment and unknown payment estimates in the FY 2022 AFR.

We discussed with DoD personnel the process they used to compile their universes of transactions used for testing and the review processes they used to determine whether a payment is improper. We tested their processes for creating the sampling UoTs 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 2022.

- Public Law 116-117, “Payment Integrity Information Act of 2019,” March 2, 2020
- OMB Circular No. A-136, “Financial Reporting Requirements,” June 3, 2022
- OMB Circular No. A-123, Appendix C, “Requirements for Payment Integrity Improvement,” March 5, 2021
- DoD Regulation 7000.14-R, “DoD Financial Management Regulation”

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 CAPs.

We identified deficiencies in the internal controls 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:

- preparation of CAPs; and
- improper payment reviews conducted for the DoD Travel Pay program.

Specifically, OUSD(C)/CFO personnel published CAPs for the Military Health Benefits–Healthcare, Civilian Pay, and Military Pay–Army programs that contained CAP Estimated Implementation Dates that were set before the estimated completion dates for the corrective actions. During the audit, OUSD(C)/CFO personnel provided corrected dates that were in line with the estimated completion dates for the corrective actions. In addition, DFAS personnel reported inconsistent results for the DoD Travel Pay Program at the time the DoD reported the final estimates. Furthermore, the DoD has yet to address prior recommendations to significantly increase their sample sizes, which resulted in the S&EMPs not being statistically valid. However, the DoD continues to update its S&EMPs with appropriate sample sizes for FY 2023. 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 Information Act section of the DoD FY 2022 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. The FY 2022 DoD Statement of Assurance stated that the DoD was unable to provide assurance of the effectiveness of internal controls in place to support reliable financial reporting, as of September 30, 2022. We concluded that the financial data within the DoD FY 2022 AFR may not be reliable.

We relied on computer-processed data that DoD personnel used to develop their populations and estimates. We reviewed the reliability of the improper payment estimates for the DoD Travel Pay program 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, we randomly selected a sample of transactions, and re-performed the improper payment review of the selected sample transactions for the DoD Travel Pay program. 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 Data Analytics Team. The statisticians on the team reviewed the sampling and estimation plans for nine programs that reported improper payment estimates in the DoD FY 2022 AFR. The statisticians determined whether the sampling methodologies were statistically valid and appropriate in accordance with payment integrity requirements. Data Analytics Team personnel identified characteristics of the payment data, verified the appropriateness of the sampling methodology, and detected mistakes in the implementation of the sample sizes.

Appendix B

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the DoD Office of Inspector General (DoD OIG) issued 15 reports discussing improper payment reporting requirements. Additionally, we included a DoD OIG report from 2016, which we determined to be relevant to the audit objective.

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 the 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 Government’s reported estimated improper payments, complied with IPERA, as reported by their Inspectors General. In addition, the 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 DoD Military Pay and 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 FY 2014 through FY 2016 and found that these agencies generally complied with OMB directives for risk assessment of improper payments. However, the GAO found instances of noncompliance.

DoD OIG

Report No. DODIG-2022-108, “Audit of the Department of Defense’s FY 2021 Compliance With Payment Integrity Information Act Requirements,” June 28, 2022

The DoD OIG determined that the DoD did not comply with PIIA requirements in its FY 2021 reporting of improper payments. The DoD complied with five of the PIIA’s six payment integrity requirements, but did not comply with one of the payment integrity requirements. Specifically, the DoD published unreliable improper and unknown payment estimates for all nine DoD programs required to report estimates.

Report No. DODIG-2022-052, "Audit of the Defense Health Agency's Improper Payment Estimates Reported for the Military Health Benefits Program," January 11, 2022

The DoD OIG determined that the DHA did not have adequate processes to identify improper payments and produce a reliable improper payment estimate for the Military Health Benefits program for the FY 2021 reporting period. Specifically, the DHA did not implement effective sampling methodology, and did not conduct adequate improper payment reviews. As a result, the DHA is unable to effectively identify improper payments and will not produce a reliable improper payment estimate for the Military Health Benefits program for FY 2021.

Report No. DODIG-2021-080, "Audit of the Department of Defense Compliance in FY 2020 With Improper Payment Reporting Requirements," May 7, 2021

The DoD OIG determined that 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.

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. 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 CAPs; 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 AFR. However, the DoD did not fully comply with four of the six IPERA requirements.

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 a 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 but open. A recommendation is closed when the DoD OIG verifies that the agreed-upon actions were implemented. A recommendation is unresolved when management does not agree to implement the recommendation and has not proposed actions to address the underlying finding.

At the time of this report, the DoD had 14 open recommendations and 94 closed recommendations since the issuance of our first report under prior improper payment reporting requirements, DoD OIG Report No. DODIG-2013-054, March 13, 2013. Table 4 shows the status of all DoD OIG PIIA audit recommendations.

Table 4. Status of DoD OIG Recommendations From Prior Payment Integrity Compliance Reports as of April 12, 2023

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-2017-073	12	12	0
DODIG-2018-115	9	9	0
DODIG-2019-039	6	5	1
DODIG-2019-087	10	8	2
DODIG-2020-083	4	4	0
DODIG-2021-024	10	10	0
DODIG-2021-080	7	6	1
DODIG-2022-052	4	0	4
DODIG-2022-108	7	3	4
Total	108	94	14

Source: The DoD OIG.

Since May 2022, the DoD OIG closed 7 recommendations from prior improper payment compliance audit reports, while 14 recommendations remain open. Table 5 shows the status of these 21 recommendations.

Table 5. Status of Open Recommendations Reported in Report No. DODIG-2022-108 as of April 12, 2023

Recommendation	Status
DODIG-2016-086	
<p>1.b</p> <p>We recommended 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>	<p>Resolved: As of February 2023, the DoD has developed a process to ensure the programs include all payments that should be tested under PIIA. This process includes the DoD’s reconciliation of entitlement data to disbursing data for the Civilian Pay, DoD Travel Pay, and the Military Health Benefits–Healthcare programs. However, for the Military Pay, Commercial Pay, and Military Retirement programs, the DoD is not reconciling to the disbursement system, but to other information that is not sufficient for a complete reconciliation.</p> <p>We will close this recommendation once we verify that the USD(C)/CFO has determined the source of all disbursed obligations for the remaining programs and documented the reconciliation process.</p> <p>Estimated Completion Date: June 2024</p>
DODIG-2017-078	
<p>1.a.1</p> <p>We recommended that the USD(C)/CFO coordinate with DoD IPERA reporting Components to verify that all payments are assessed for the risk of improper payments or are reporting estimated improper payments.</p>	<p>Resolved: In FY 2022, the DHA restructured the Military Health Benefits Program to separate the Military Health Benefits-Administrative Costs from the overall Military Health Benefits–Healthcare program. In doing so, the DHA conducted a risk assessment to determine the susceptibility of the Military Health Benefits–Administrative Costs program to improper and unknown payments above the statutory threshold. The DHA will report the results of this risk assessment in its FY 2023 compliance reporting.</p> <p>We will close this recommendation once we verify that the USD(C)/CFO has reported a risk assessment or improper payment estimate that includes the Administrative Costs in the Military Health Benefits program.</p> <p>Estimated Completion Date: September 2023</p>

Table 5. Status of Open Recommendations Reported in Report No. DODIG-2022-108 as of April 12, 2023 (cont'd)

Recommendation	Status
DODIG-2019-039	
1.c	<p>Resolved: In FY 2022, the DoD developed sampling plans that discussed the payment types and any increases in funding included in the Commercial Pay program. Additionally, the DoD developed and implemented a reconciliation process to identify all types of payments made by DoD Components under the Commercial Pay program. However, the DoD’s reconciliation of the Commercial Pay program payments did not reconcile to the disbursement system, but to other information that was not sufficient for a complete reconciliation.</p> <p>We will close this recommendation once we verify that the DoD’s reconciliation of the Commercial Pay program payment’s uses sufficient data to determine if all payment types are accounted for across the program.</p> <p>Estimated Completion Date: June 2024</p>
DODIG-2019-087	
1.d	<p>Closed: We verified that DoD published reduction targets for all required programs and published them on paymentaccuracy.gov as required.</p>
2.a	<p>Resolved: While the DoD Travel Pay program addressed this recommendation, the Commercial Pay program has yet to complete the recommended actions. In FY 2022, the DoD revised its methodology for obtaining and compiling the Commercial Pay program sampling data. In doing so, the DoD provided the audit team with revised sampling plans and walkthroughs. However, the audit team is still following up with the client to understand the exact source of the amounts used to develop the sampling universe. We will continue to review this recommendation for closure.</p> <p>We will close this recommendation once we verify that the processes DFAS personnel utilize to obtain and test the Commercial program population use the actual paid amounts.</p> <p>Estimated Completion Date: June 2024</p>

Table 5. Status of Open Recommendations Reported in Report No. DODIG-2022-108 as of April 12, 2023 (cont'd)

Recommendation		Status
2.b	We recommended 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 Travel Pay populations and reports accurate improper payment estimates in the AFR.	<p>Resolved: The USD(C)/CFO and DFAS Director partially completed this recommendation, as they have developed sufficient control measures for the DoD Travel Pay and Civilian Pay programs. However, they have yet to fully address the recommendation for the Military Pay and Military Retirement programs. Furthermore, they have not documented the reconciliation process for all programs. 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 and Military Retirement populations, documents the process for all programs, and reports accurate improper payment estimates in the AFR.</p> <p>Estimated Completion Date: June 2024</p>
5	We recommended 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.	Closed: We confirmed that the USD(C)/CFO established an improper payment review process for the Civilian Pay program that examines supporting documentation and verified that civilian employees are eligible for the payments that they received.
DODIG-2021-024		
3.a	We recommended that the Deputy Director of Enterprise Audit Support and Compliance for DFAS, in coordination with the Director of Accounting Operations for DFAS-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.	Closed: We verified that DFAS has incorporated the voucher number as one of the key attributes for sampling and DFAS provides documentation supporting that it implemented a reconciliation process for the Commercial Pay program population universe.
DODIG-2021-080		
1.a	We recommended that the USD(C)/CFO 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.	Closed: We verified that the DoD consistently applied the definition of improper payments to the Payment Recapture Audit program and the testing, review, and calculation of the improper payment.

Table 5. Status of Open Recommendations Reported in Report No. DODIG-2022-108 as of April 12, 2023 (cont'd)

Recommendation		Status
3	We recommended that the Deputy Director of Enterprise Audit Support and Compliance for DFAS document the process used to reconcile the gross pay amounts for FY 2021 to ensure consistency and transparency within the process.	<p>Resolved: DFAS fully implemented this recommendation for the Civilian Pay program but has not yet fully implemented this recommendation for the Military Pay—Army, Military Pay—Navy, Military Pay—Air Force, and Military Pay—USMC programs. We will close the recommendation once we verify that DFAS personnel formally documented the process used to reconcile the gross pay amounts.</p> <p>Estimated completion date: June 2024</p>
DODIG-2022-052		
1.a	We recommended that the DHA Director develop and implement procedures to use the actual paid amounts in sample populations.	<p>Resolved: We will close this recommendation once we verify that the DHA has developed and implemented procedures to use the actual paid amounts in developing the sample universe.</p> <p>Estimated completion date: December 2023</p>
1.b	We recommended that the DHA Director update sampling methodology to consider data characteristics and ensure the sampling methodology is appropriate, including a reasonable number of sample items.	<p>Resolved: We will close this recommendation after we verify that the DHA has updated sampling methodology to consider data characteristics and ensure that the sampling methodology is appropriate and includes a reasonable number of sample items.</p> <p>Estimated completion date: December 2023</p>
1.c	We recommended that the DHA Director evaluate and plan for the necessary resources to ensure adequate reviews of payments and timely reporting of improper payment estimates.	<p>Resolved: As of September 2022, OUSD(C)/CFO personnel confirmed that DHA directed resources to post pay reviews to determine the propriety of its administrative payments. The OUSD(C)/CFO also confirmed that the DHA restructured the Military Health Benefits program to include the Administrative Cost program. According to OUSD(C)/CFO personnel, the DHA initiated the risk assessment for the Military Health Benefits—Administrative Cost program as of the end of September 2022. We will close the recommendation after we verify that the DHA has adequately reviewed payments and reported improper payment estimates in a timely manner for both Military Health Benefits programs in the FY 2023 compliance reporting.</p> <p>Estimated completion date: June 2024</p>

Table 5. Status of Open Recommendations Reported in Report No. DODIG-2022-108 as of April 12, 2023 (cont'd)

Recommendation		Status
1.d	We recommended that the DHA Director ensure that improper payment reviews use the definition of a payment that complies with the Payment Integrity Information Act of 2019.	<p>Resolved: In FY 2022, the DHA implemented a new methodology and a new program for assessing and reporting its improper payments. The DHA did not fully implement their changes in FY 2022, but plans to have all revisions implemented for the FY 2023 improper payment reporting.</p> <p>We will close the recommendation after we verify that the DHA has ensured that improper payment reviews used the definition of a payment that complies with the PIIA.</p> <p>Estimated completion date: December 2023</p>
DODIG-2022-108		
1.a	We recommended that the USD(C)/CFO develop and implement a process to obtain accurate confirmed fraud amounts, report them in paymentaccuracy.gov , and consider the fraud amounts when reviewing and approving the Sampling and Estimation Methodology Plans for each program.	<p>Resolved: In FY 2022, the OUSD(C)/CFO made improvements in their processes to obtain and report accurate confirmed fraud amounts; however, personnel were unable to include confirmed fraud amounts from the MCIOs in time for FY 2022 reporting.</p> <p>We will close the recommendation once we verify that OUSD(C)/CFO personnel have reported confirmed fraud amounts to OMB through their FY 2022 PIIA Compliance annual submission, and once we verify that OUSD(C)/CFO personnel have incorporated confirmed fraud results into the identification, prevention, and recovery efforts within the DoD's payment integrity program.</p> <p>Estimated completion date: November 2023</p>

Table 5. Status of Open Recommendations Reported in Report No. DODIG-2022-108 as of April 12, 2023 (cont'd)

	Recommendation	Status
1.b	<p>We recommended that the USD(C)/CFO update the DoD Financial Management Regulation, volume 4, chapter 14, to ensure the guidance is consistent with all current payment integrity requirements, and include a definition of baselining that standardizes the application for all DoD payment integrity programs.</p>	<p>Resolved: OUSD(C)/CFO personnel agreed to update the DoD Financial Management Regulation, volume 4, chapter 14 as recommended.</p> <p>We will close the recommendation once we verify that OUSD(C)/CFO personnel have updated the DoD FMR guidance to align with PIIA and current versions of OMB guidance and confirm the E2E packages include justification for those programs that are not reporting an achieved baseline.</p> <p>Estimated completion date: June 2023</p>
1.c	<p>We recommended that the USD(C)/CFO develop and implement internal control procedures to ensure that DoD Components produce reliable estimates by validating that the Sampling and Estimation Methodology Plans are accurate and complete.</p>	<p>Resolved: In FY 2022, the DoD revised its sampling methodologies for many of its programs. The DoD did not fully implement those changes in FY 2022, but plans to have the changes fully implemented for the FY 2023 improper payment reporting. Therefore, we will review the DoD's internal controls over the Components producing reliable estimates during the FY 2023 compliance audit. We will close the recommendation once we verify that OUSD(C)/CFO personnel have reviewed and determined whether the DoD Components reconciled the PIIA UoT, documented the payment inclusions and exclusions, justified the statistical validity of the estimate, S&EMP design elements, and characteristics of the program data and tested program specific procedures.</p> <p>Estimated completion date: June 2024</p>

Table 5. Status of Open Recommendations Reported in Report No. DODIG-2022-108 as of April 12, 2023 (cont'd)

	Recommendation	Status
1.d	<p>We recommended that the USD(C)/CFO 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, Travel Pay, and Commercial Pay programs to the OMB, the planned actions that the DoD will take to come into compliance, including:</p> <ul style="list-style-type: none"> • 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 in this recommendation. • 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. 	<p>Closed: We determined that OUSD(C)/CFO’s annual data call submission included measurable milestones, a designated senior executive, and an established accountability mechanism for each of the programs listed in the recommendation.</p>
2.a	<p>We recommended that the USD(C)/CFO, in coordination with the Deputy Director of Enterprise Accounting and Audit Support for DFAS use a sufficient sample size to support the improper payment estimate by calculating the sample size based on improper payment amounts instead of only using the paid amount. To reduce the required sample size, we recommend considering alternative improper payment estimation methodology, and conducting risk assessments of the payment types for each program.</p>	<p>Resolved: In FY 2022, DFAS developed and implemented a new sampling methodology that appeared to meet the intent of the recommendation. However, DFAS did not fully implement the new sampling methodology for FY 2022 improper payment reporting, but plans to have full implementation for the FY 2023 reporting. Therefore, we will review this recommendation for closure during the FY 2023 compliance audit. We will close the recommendation once we can verify that DFAS developed a risk-based stratified sampling method that would sample more from higher risk payments and sample fewer from lower risk payments.</p> <p>Estimated completion date: November 2023</p>

Table 5. Status of Open Recommendations Reported in Report No. DODIG-2022-108 as of April 12, 2023 (cont'd)

Recommendation		Status
2.b	We recommended that the USD(C)/CFO, in coordination with the Deputy Director of Enterprise Accounting and Audit Support for DFAS develop and implement internal controls to ensure exclusions occurring during the development of the sampling universes, including the Centrally Billed Accounts, are appropriate and fully documented.	Closed: We verified that DFAS personnel included the Centrally Billed Accounts in the population for testing.
2.c	We recommended that the USD(C)/CFO, in coordination with the Deputy Director of Enterprise Accounting and Audit Support for DFAS develop and implement additional controls for the post payment review process in the Travel Pay program, such as providing training for safe haven transactions and overlapping orders or additional supervisory controls to ensure accurate reviews.	Closed: We verified that OUSD(C)/CFO personnel added a centralized repository of training materials and trained reviewers on using the repository to address different scenarios during the review of travel payments.

Management Comments

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



COMPTROLLER

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

April 28, 2023

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

SUBJECT: Department of Defense Response to Department of Defense Inspector General Draft Report, "Audit of DoD's FY 2022 Compliance with Payment Integrity Information Act Requirements," Project No. D2022-D000FL-0171.000

My office and the Defense Finance and Accounting Service reviewed the subject draft report, dated April 12, 2023. Attached are our responses to your recommendations.

The Department of Defense (DoD) met the overarching intent of the Payment Integrity Information Act of 2019 (PIIA) and Office of Management and Budget Circular A-123, Appendix C, by making the DoD Payment Integrity Program and developing effective methodologies to help identify, prevent, and recover improper payments, top financial management priorities. The Department previously achieved and continued to maintain five of six PIIA compliance criteria, to demonstrate a sustained pursuit of PIIA compliance. Additionally, the Department worked diligently to identify \$1.46 billion in monetary losses or overpayments. We recovered \$1.40 billion, which demonstrates proper stewardship of funding using Payment Recovery Audits.

The DoD enhanced its internal control processes as a result of prior DoD Office of Inspector General (DoD OIG) audit reports. These internal controls were springboards for effective corrective actions and directly contributed to the reduction of improper and unknown payments by implementing audit performance timeline execution standards and using program-specific working groups. The Department is also in the process of restructuring the Military Health Benefits program, to align contractual and data characteristics into PIIA compliance.

Additionally, DoD published a Payment Integrity Risk Appetite Statement that balances cost benefit and operational considerations while testing and accounting for the majority of actual disbursements subject to PIIA testing. Following DoD OIG recommendations, we are also implementing a revised statistical methodology to test more higher risk payment samples. The strengthening of reconciliations of the universe of payments will create reliable estimates for improper and unknown payment projections. These efforts will allow us to fully comply with the PIIA requirement to publish adequate improper and unknown payment estimates.

We welcome and appreciate DoD OIG scrutiny of our payment integrity program. My point of contact for this matter is [REDACTED]

STEFFENS, THOMAS
S. CHARLES

Thomas C. Steffens
Deputy Chief Financial Officer

Attachment:
As stated

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

**DOD OIG DRAFT REPORT, "AUDIT OF THE DOD'S FY 2022 COMPLIANCE WITH
PAYMENT INTEGRITY INFORMATION ACT REQUIREMENTS"
(PROJECT NO. PROJECT NO D2022-D000FL-0171.000)**

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

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

- a. Establish and implement a process for determining a program's tolerable rate that is based upon the program's payment integrity risks and controls.

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSDC)
RESPONSE TO RECOMMENDATION 1a: Concur. The Department is in the process of establishing Payment Integrity program-specific tolerable rate working groups. These Department-wide efforts will focus on determining the acceptable projected improper and unknown payment amount that accounts for realistic program management and resource constraints. Within the Enterprise Risk Management, risk is inevitable, but it is management's responsibility to balance risk mitigation with operational and strategic goals while considering the Department's reputation and trust factors. The Department will take blanket statutory thresholds of \$100 million established by the Office of Management and Budget (OMB) into consideration and identify the improper and unknown payments that are unavoidable and beyond the ability to reduce any further without negatively affecting program mission or cost effectiveness. Additionally, the Department may investigate different groups of improper payments for programs that must exceed the statutory threshold by assigning different limitations on monetary loss, underpayments and statutory improper payment types for the combined program tolerable rate limitation.

Estimated completion date is June 2024.

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

- b. "Submit for the Civilian Pay, Commercial Pay, DoD Travel Pay, Military Health Benefits–Healthcare, Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–Marine Corps, and Military Retirement programs a proposal to the Director of the Office Management and Budget in its next Budget submission, additional program integrity proposals that would help the program come into compliance, in accordance with Office of Management and Budget Circular No. A-123, Appendix C requirements.;"

OUSDC RESPONSE TO 1.b: Concur. The Department concurs with this recommendation as it is a statutory requirement from the PIIA and regulatory requirement from OMB Circular No. A-123, Appendix C. The Department does not anticipate requiring additional budgetary resources to bring the programs into compliance. We are implementing our current strategy in

Attachment

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

fiscal year (FY) 2023 to comply with the last remaining PIIA compliance requirement to publish adequate improper and unknown payment estimates. Based on the results of the FY 2023 PIIA Compliance audit, the Department may be operationally required to request additional funding, reprogramming, or transfer authority to assist in the potential restructuring of the existing non-compliant programs accordingly.

Estimated completion date is June 2024.

RECOMMENDATION 2.a: We recommend that the Director, Defense Finance and Accounting Service:

- a. For the Hawaii water contamination evacuation travel payments:
 - Comply with the Office of Management and Budget Circular No. A-123, Appendix C by reclassifying the payments in question as Unknown Payments.
 - Once the Army in coordination with the U.S. Army Audit Agency determines the propriety of the payments, include the results in future-year improper payment reporting.

DFAS RESPONSE TO RECOMMENDATION 2a: Concur. DFAS will continue to partner with OUSD(C) and the Department of the Army to identify and track the Hawaii water contamination travel payments where questions still existed relating to their propriety. Once the U.S. Army Audit Agency publishes the Temporary Lodging Use in Support of Relief Efforts (A-2022-BOZ-0053) report, DFAS will review the results and work with OUSD(C) and the Department of the Army to incorporate the findings. Specifically, the Army's Hawaii water contamination travel payments will be internally reclassified within the Department as unknown payments until the validity of the payment and the determination of proper or improper has been made. Subsequently, the associated corrective actions will be pursued for underpayments and corresponding recovery of overpayments identified as part of the comprehensive review. The appropriate follow-on corrective actions surrounding these payments will demonstrate the Department's continued pursuit of proper stewardship and accountability. Furthermore, and contingent on the timing and execution of the results, they will be reported as part of the Department's Travel Pay program additional reporting requirements for OMB's High Priority Program through the quarterly Key Performance Indicator scorecards and/or annual PIIA Compliance submission, which is published on paymentaccuracy.gov.

Estimated completion date is June 2024.

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

RECOMMENDATION 2.b: We recommend that the Director, Defense Finance and Accounting Service:

- b. Develop and implement additional controls to identify and review high-risk payments, and to make certain that the post pay reviews are adequately identifying improper payment amounts.

DFAS RESPONSE TO RECOMMENDATION 2b: Concur. DFAS recognizes the travel evacuations highlighted by the DoD OIG in this report as being of higher risk for improper payment. To improve management of these higher risk disbursements, DFAS will partner with OUSD(C) and the various DoD Components to obtain the information and necessary data elements that would enable appropriate stratification of these payments in the risk-based sampling methodology. When DFAS is made aware and the required identifying elements are provided, these payments will be categorized as higher risk when determining our samples to ensure increased visibility and testing. In addition to the normal quality assurance (QA) controls already in place, these higher risk evacuation payments will be targeted for additional QA reviews to strengthen the controls around identifying the correct improper payment amounts.

Estimated completion date is June 2024.

Acronyms and Abbreviations

AFR	Agency Financial Report
CAP	Corrective Action Plan
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DoD OIG	Department of Defense Office of Inspector General
FMR	Financial Management Regulation
GAO	Government Accountability Office
IPERA	Improper Payments Elimination and Recovery Act
KSD	Key Supporting Documents
OMB	Office of Management and Budget
OUS(D)/CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer
PIIA	Payment Integrity Information Act of 2019
SBR	Statement of Budgetary Resources
S&EMP	Sampling and Estimation Methodology Plan
TDY	Temporary Duty
TLA	Temporary Lodging Allowance
UoT	Universe of Transactions
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
USACE	U.S. Army Corps of Engineers



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