



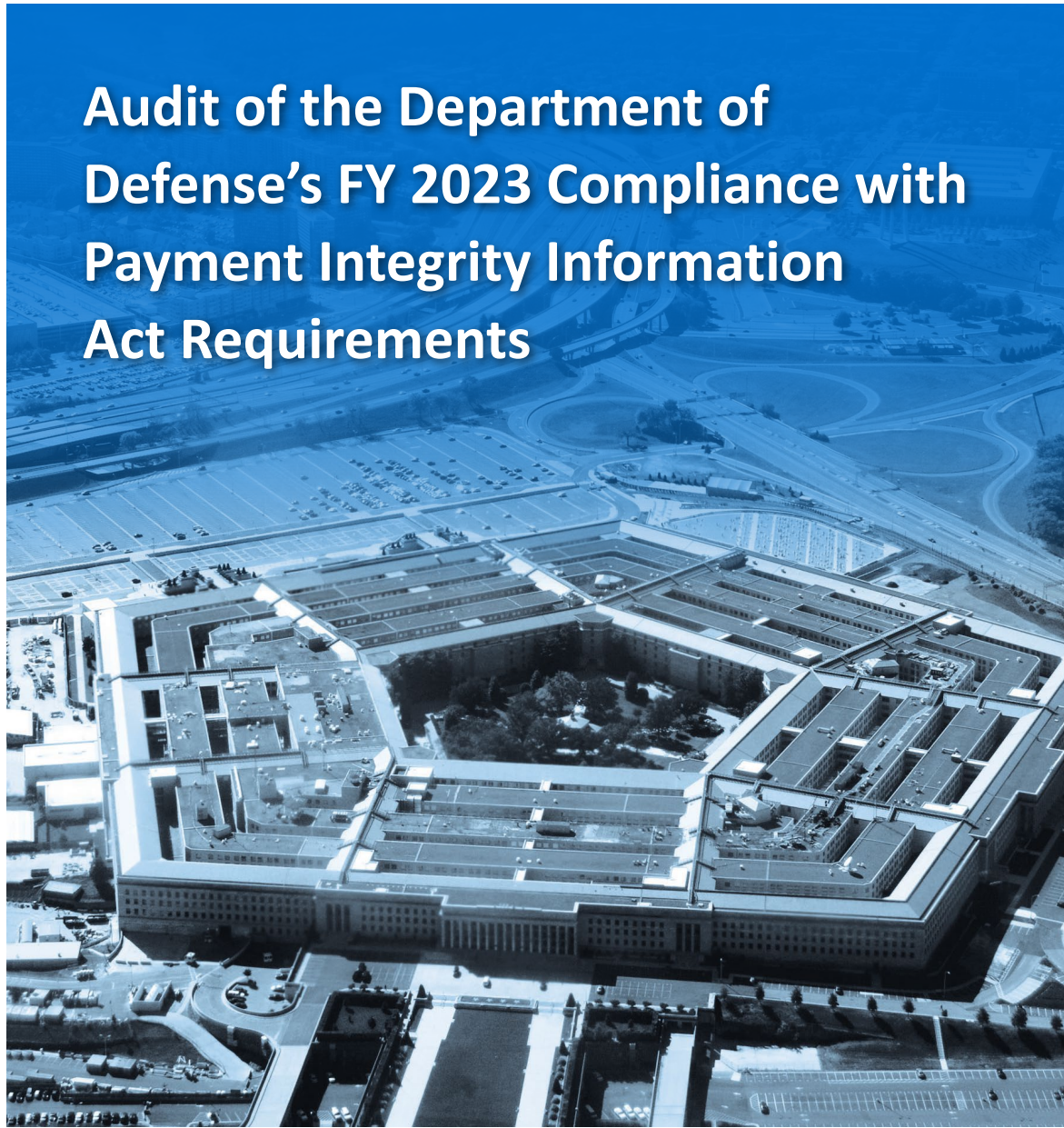
# INSPECTOR GENERAL

*U.S. Department of Defense*

MAY 22, 2024



## Audit of the Department of Defense's FY 2023 Compliance with Payment Integrity Information Act Requirements



INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY







# Results in Brief

## *Audit of the Department of Defense's FY 2023 Compliance with Payment Integrity Information Act Requirements*

**May 22, 2024**

### Objective

The objective of this audit was to determine whether, in FY 2023, the DoD complied with the "Payment Integrity Information Act of 2019," (PIIA).

### Background

Congress enacted the PIIA 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 2023, DoD Components reported improper and unknown payment estimates of \$1.5 billion for eight DoD programs that were required to provide improper and unknown payment estimates.

The PIIA defines an improper payment as any payment that: (1) should not have been made, (2) was made in an incorrect amount, (3) was made to an ineligible recipient, or (4) was made for ineligible goods or services.

### Finding

The DoD did not comply with PIIA requirements in FY 2023. 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

### Finding (cont'd)

complied with five of the six PIIA requirements, it did not comply with the requirement to publish reliable improper payment estimates. Specifically, the DoD published unreliable estimates of improper and unknown payments for all eight DoD programs required to report estimates. The DoD did not publish reliable estimates because Defense Finance and Accounting Service (DFAS) personnel did not have a sufficient methodology for determining the completeness of the DoD's universe of payment transactions used to produce its improper and unknown payment estimates for all eight programs that were required to report estimates.

As a result, the DoD produced unreliable estimates for the 13th consecutive year and did not comply with the PIIA for the 3rd consecutive year. With unreliable estimates in the DoD Agency Financial Report, 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:

- ensure DoD Components develop and implement a process to identify the characteristics of the data included in the variance of the universes of payment transactions; and
- submit to the appropriate authorizing entities either a reauthorization proposal for all programs and proposed statutory changes necessary to bring the programs into compliance, or a description of actions that the DoD will undertake to bring the program into compliance and a timeline for when compliance will be achieved.

We also recommend that the Director of DFAS develop and implement internal controls, such as coordinating with the Components that process commercial payments, to review the characteristics of commercial payments and determine whether the payments have a higher risk of being improper.



# Results in Brief

## *Audit of the Department of Defense's FY 2023 Compliance with Payment Integrity Information Act Requirements*

### **Recommendations (cont'd)**

Additionally, the DoD has yet to fully implement corrective actions to address 10 recommendations from prior DoD Office of Inspector General (DoD OIG) PIIA reports concerning the development of improper payment estimates. Until the DoD implements the recommendations from 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 7 for the status of all outstanding recommendations.

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

The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Director, DFAS, agreed with all three of the recommendations in our current report. 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	None	1.a, 1.b	None
Director, Defense Finance and Accounting Service	None	2	None

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

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





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

May 22, 2024

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 2023 Compliance with Payment Integrity  
Information Act Requirements (Report No. DODIG-2024-088)

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

The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Director, Defense Finance and Accounting Service, agreed to address all the recommendations presented in the report; therefore, we consider the recommendations resolved and open. We will close the recommendations when you provide us 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](mailto:followup@dodig.mil) if unclassified or [rfunet@dodig.smil.mil](mailto: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

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## Objective

The objective of this audit was to determine whether, in FY 2023, 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 Inspectors 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

Congress enacted the PIIA 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 2023 Agency Financial Report (AFR) stated 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 duplicate payments; payments for a good or service not received; payments that do not account for applicable discount credits; and payments made to ineligible recipients or for ineligible goods or services. In addition, the PIIA categorizes payments without sufficient supporting documentation as improper.<sup>1</sup> Therefore, an improper payment does not necessarily result in an actual monetary loss to the Government.

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<sup>1</sup> 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.<sup>2</sup> 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 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 of 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. As a result, the DoD OIG review of FY 2023 statements is considered year 3 of the PIIA compliance reviews. Throughout this report, we refer to the 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 May 19, 2023, 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 requires agencies to:

- complete the OMB’s annual data call and provide a link to [PaymentAccuracy.gov](https://www.paymentaccuracy.gov) in their AFR;
- report actions taken in response to recovery audit recommendations in the AFR if the agency has received recommendations; and
- provide a summary of the payment integrity activities and results for High-Priority programs in their AFR.<sup>3</sup>

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<sup>2</sup> 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.

<sup>3</sup> 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. OMB Circular A-123, Appendix C, requires that all programs with annual outlays over \$10 million fall into one of two possible classifications—Phase 1 or Phase 2. Phase 1 programs are not likely to have an annual amount of improper plus unknown payments above the statutory threshold.<sup>4</sup> Phase 2 programs are likely to annually make improper plus unknown payments exceeding the statutory threshold. A program determined to be in Phase 2 has additional requirements, such as reporting an annual improper and unknown payment estimate.<sup>5</sup> 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 DoD 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 and unknown payment estimates for required programs in the accompanying materials to the AFR.<sup>6</sup>
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 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 and unknown payment rate, and develop a plan to meet the improper and unknown payment reduction targets.
6. Report improper and unknown payment estimates of less than 10 percent for each program for which an estimate is published in the accompanying materials to the AFR.

<sup>4</sup> According to payment integrity requirements, the statutory threshold for significant improper payments is (1) both \$10 million of all program outlays and 1.5 percent of the program's outlays; or (2) \$100 million.

<sup>5</sup> OMB Circular No. A-123, Appendix C.

<sup>6</sup> The OMB does not require risk assessments from programs that report an estimate. According to the OMB, if an agency reports a risk assessment for a program that is based on the results of the risk assessment, the agency may not be required to report an estimate.

## ***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.<sup>7</sup> 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;
- reviewing statistical sampling plans for DoD Components and submitting them to the OMB, if required;
- reporting the consolidated results of the payment integrity data for DoD Components in the Payment Integrity section of the AFR and to the OMB;
- reviewing, collaborating, and coordinating Senior Executive approval, as appropriate, for DoD Components' performance and execution of their program-specific risk assessments; and
- reviewing DoD Component CAPs for completeness.<sup>8</sup>

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

The Deputy Secretary of Defense published the DoD FY 2023 AFR, including the Payment Integrity section, on November 15, 2023. According to the AFR, the DoD supports PIIA compliance through the activities of its Payment Integrity program that includes 16 programs. The DoD did not report estimates for 8 of the 16 programs for FY 2023 because the programs were in Phase 1 and remained under risk assessments. Specifically, the DoD reported the following eight programs were in Phase 1.

- U.S. Army Corps of Engineers (USACE) Commercial Pay
- USACE Travel Pay
- Military Health Benefits (MHB)-Administrative
- MHB-TRICARE East Region Program
- MHB-TRICARE West Region Program
- MHB-TRICARE Medicare Eligible Program
- MHB-TRICARE Pharmacy Program
- MHB-TRICARE Overseas Program

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<sup>7</sup> DoD Regulation 7000.14-R, "DoD Financial Management Regulation."

<sup>8</sup> DoD FMR, volume 4, chapter 14.

The DoD reported estimates in FY 2023 for the remaining 8 of the 16 programs because the programs were in Phase 2. Therefore, the DoD reported estimates for the following eight programs.

- Civilian Pay
- Commercial Pay
- DoD Travel Pay
- Military Pay–Army
- Military Pay–Navy
- Military Pay–Air Force
- Military Pay–Marine Corps
- Military Retirement

In the FY 2023 AFR, the DoD reported a total of \$1.5 billion in improper and unknown payments for the eight programs in Phase 2. Of the \$1.5 billion, \$1 billion related to improper payments and \$433 million related to unknown payments.<sup>9</sup> Table 1 shows the FY 2023 payments (outlays); total estimated improper and unknown payments; and estimated improper and unknown payment rates reported by the DoD for the eight Phase 2 programs.<sup>10</sup>

*Table 1. DoD FY 2023 AFR Improper Payment Reporting*

Program Name	FY 2023 Outlays		Estimated Improper and Unknown Payments			
	Total Reported (in Millions)	Percent of the DoD Total <sup>1</sup>	Total Reported in FY 2023 (in Millions)	Improper Payment Rate (Percent) <sup>2</sup>	Total Reported in FY 2022 (in Millions)	Increase/ (Decrease) From FY 2022 to FY 2023
Civilian Pay	\$47,239.43	7.60	\$312.65	0.66	\$157.45	\$155.20
Commercial Pay	404,721.17	65.15	237.98	0.06	67.48	170.50
DoD Travel Pay	9,734.78	1.57	496.03	5.10	368.47	127.56
Military Pay–Army	40,320.80	6.49	235.75	0.58	818.00	(582.25)
Military Pay–Navy	24,506.80	3.95	13.92	0.06	1.10	12.82
Military Pay–Air Force	26,452.21	4.26	29.32	0.11	30.89	(1.57)

<sup>9</sup> In the FY 2023 AFR, the DoD reported \$1,039.4 million in improper payments and \$432.6 million in unknown payments. Therefore, the DoD reported a total of \$1,472 million in improper and unknown payments.

<sup>10</sup> The DoD FMR Glossary defines outlays as the amount of checks issued or other payment made (including advances); net refunds; and reimbursements collected.



Table 1. DoD FY 2023 AFR Improper Payment Reporting (cont'd)

Program Name	FY 2023 Outlays		Estimated Improper and Unknown Payments			
	Total Reported (in Millions)	Percent of the DoD Total <sup>1</sup>	Total Reported in FY 2023 (in Millions)	Improper Payment Rate (Percent) <sup>2</sup>	Total Reported in FY 2022 (in Millions)	Increase/ (Decrease) From FY 2022 to FY 2023
Military Pay–Marine Corps	9,058.48	1.46	0	0	0	0
Military Retirement	59,144.60	9.52	146.36	0.25	418.83	(272.47)
<b>Total</b>	<b>\$621,178.27</b>	<b>100.00</b>	<b>\$1,472.01</b>	<b>0.24</b>	<b>\$1,862.22</b>	<b>\$(390.21)</b>

<sup>1</sup> The FY 2023 outlay percentages are calculated by dividing the program outlays reported by the total DoD outlays reported.

<sup>2</sup> The improper and unknown payment percentages are calculated by dividing the estimated improper and unknown payment total by the total program outlays.

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

The DoD determined that five of its eight Phase 2 programs had significant improper payments (exceeded the statutory threshold) in FY 2023—Civilian Pay; Commercial Pay; DoD Travel Pay; Military Pay–Army; and Military Retirement. Phase 2 programs that have significant improper payments have additional payment integrity requirements, such as publishing CAPs and determining reduction targets.

### *Improper Payment Estimation Process*

The following DoD Components sampled, reviewed, and reported improper payments for the eight 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.<sup>11</sup>
- **DFAS and the Army** report on Commercial Pay.<sup>12</sup>

<sup>11</sup> The Army reports improper payment results for the DoD Travel Pay program for the following locations outside the continental U.S.: the 175th Financial Management Center–Korea; Italy Finance Office; Benelux Finance Office; and 266th Financial Management Support Center.

<sup>12</sup> The Army reports the improper payment results for the Commercial Pay programs for the following locations outside the continental United States: the 175th Financial Management Center–Korea; Italy Finance Office; and Benelux Finance Office.

For each of their programs, the DoD Components developed an estimate of the improper and unknown payments that occurred within each program's total payments during the reporting period. To develop this estimate, payment integrity requirements instruct DoD Components to:

- develop a statistically valid Sampling & Estimation Methodology Plan (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.

Payment integrity requirements also instruct DoD Components 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.<sup>13</sup>

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<sup>13</sup> DoD FMR volume 4, chapter 14, sections 5.2.2-5.2.3.

## Finding

### The DoD Did Not Comply with PIIA Requirements

The DoD did not comply with the PIIA's payment integrity requirements in its FY 2023 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 reliable improper payment estimates. Specifically, the DoD published unreliable estimates of improper and unknown payments for all eight programs required to report estimates in FY 2023.<sup>14</sup> The DoD published unreliable estimates because DFAS personnel did not have a sufficient methodology for determining the completeness of the DoD's universes of payment transactions used to produce its improper and unknown payment estimates for all eight programs that were required to report estimates.

As a result, the DoD produced unreliable estimates for the 13th consecutive year and did not comply with PIIA improper payment reporting requirements for the 3rd consecutive year. Specifically, the DoD continued to report unreliable improper payment estimates. Until the DoD implements the recommendations in this report and previous payment integrity reports to compile complete universes of payment transactions, it is unlikely the DoD will produce reliable improper payment estimates.

### The DoD Complied with Five of Six PIIA Requirements

The DoD complied with five of the six payment integrity requirements in FY 2023. 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.

<sup>14</sup> The eight programs are Civilian Pay; Commercial Pay; DoD Travel Pay; Military Pay—Army; Military-Pay Air Force; Military Pay—Navy; Military Pay—Marine Corps; and Military Retirement. See Table 3 for improper payment estimate compliance by program.

However, the DoD published unreliable improper and unknown payment estimates for the eight DoD programs reporting estimates in FY 2023. Table 2 identifies the DoD's compliance or noncompliance by program with each payment integrity requirement for all 16 programs, including the 8 programs under risk assessment.

*The DoD published unreliable improper and unknown payment estimates for the eight DoD programs reporting estimates in FY 2023.*

Table 2. DoD Program Compliance by Payment Integrity Requirement

Program Name	AFR Published in Accordance with OMB Guidance <sup>1</sup>	Conducted/ Undergoing Risk Assessment <sup>2</sup>	Published Reliable Estimate <sup>3</sup>	Published CAP <sup>4</sup>	Published Reduction Targets <sup>5</sup>	Reported Rate Under 10 Percent
Civilian Pay		N/A	✗	✓	✓	✓
Commercial Pay		N/A	✗	✓	✓	✓
DoD Travel Pay		N/A	✗	✓	✓	✓
MHB-TRICARE East Region Program		✓	N/A	N/A	N/A	N/A
MHB-TRICARE West Region Program		✓	N/A	N/A	N/A	N/A
MHB-TRICARE Medicare Eligible Program		✓	N/A	N/A	N/A	N/A
MHB-TRICARE Pharmacy Program		✓	N/A	N/A	N/A	N/A
MHB-TRICARE Overseas Program		✓	N/A	N/A	N/A	N/A
MHB-Administrative		✓	N/A	N/A	N/A	N/A
Military Pay–Army		N/A	✗	✓	✓	✓
Military Pay–Navy		N/A	✗	N/A	N/A	✓
Military Pay–Air Force		N/A	✗	N/A	N/A	✓
Military Pay–Marine Corps		N/A	✗	N/A	N/A	✓

Table 2. DoD Program Compliance by Payment Integrity Requirement (cont'd)

Program Name	AFR Published in Accordance with OMB Guidance <sup>1</sup>	Conducted/ Undergoing Risk Assessment <sup>2</sup>	Published Reliable Estimate <sup>3</sup>	Published CAP <sup>4</sup>	Published Reduction Targets <sup>5</sup>	Reported Rate Under 10 Percent
Military Retirement		N/A	✗	✓	✓	✓
USACE Travel Pay		✓	N/A	N/A	N/A	N/A
USACE Commercial Pay		✓	N/A	N/A	N/A	N/A
<b>Overall Compliance</b>	✓	✓	✗	✓	✓	✓

**Legend**

N/A Not Applicable

✓ Compliant

✗ Not Compliant

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

<sup>2</sup> OMB guidance requires risk assessments only for programs not reporting estimates.

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

<sup>4</sup> 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.

<sup>5</sup> 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 2023 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 2023. 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 the root causes of 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.<sup>15</sup> OMB Circular No. A-136 requirements include the following.

- The DoD must provide its final AFR to the OMB, Treasury, Government Accountability Office (GAO), and Congress by close of business November 15, 2023, and post the AFR to the agency website the same day the agency submits the report.
- The DoD must 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 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.
- If the DoD has High-Priority programs in FY 2023, then it must provide a summary of each program's payment integrity activities and results in the DoD 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.<sup>16</sup>

The OUSD(C)/CFO issued the DoD's FY 2023 AFR on November 15, 2023. In addition, the OUSD(C)/CFO provided the improper and unknown payment information in a timely manner and issued the AFR before the OMB published the information to [PaymentAccuracy.gov](https://www.paymentaccuracy.gov) on November 22, 2023.

### ***The DoD Completed Adequate Risk Assessments***

*The DoD complied with the requirement to publish program-specific risk assessments.*

The DoD complied with the requirement to publish program-specific risk assessments. Payment integrity guidance requires the head of the agency to 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.

<sup>15</sup> OMB Circular No. A-136, Section II.4.5, "Payment Integrity Information Act Reporting." An annual financial statement is a formal record of financial activities during a 12-month consecutive period. The financial statements are part of the AFR.

<sup>16</sup> OMB Circular No. A-123, Appendix C, Section VI, "Compliance."

In FY 2023, the DoD reported an estimate for 8 of its 16 programs; therefore, those eight programs did not have to perform a risk assessment. The DoD completed risk assessments for the MHB-Administrative; USACE Commercial Pay; and USACE Travel Pay programs. The DoD established sufficient controls to mitigate any improper and unknown payments within these programs and adequately determined that the programs were not susceptible to significant improper payments.

On June 30, 2023, OUSD(C)/CFO personnel signed a memorandum that established the following five new programs.

- MHB-TRICARE East Region Program
- MHB-TRICARE West Region Program
- MHB-TRICARE Medicare Eligible Program
- MHB-TRICARE Pharmacy Program
- MHB-TRICARE Overseas Program

According to OUSD(C)/CFO personnel, the DoD reorganized the non-administrative MHB payments into groups with similar contractual requirements or performance incentives. OMB Circular No. A-123, Appendix C, states that newly established programs should complete risk assessments after the first 12 months.<sup>17</sup> The DoD is currently performing risk assessments on the five new MHB programs and expects to complete them by June 30, 2024.

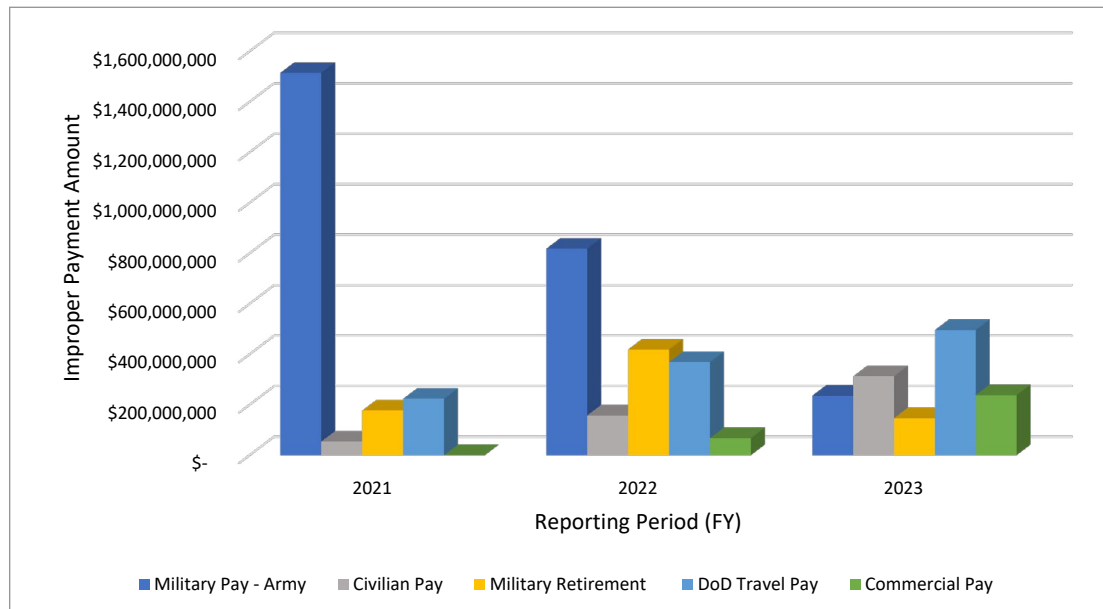
### ***The DoD Published Complete Corrective Action Plans***

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; Commercial Pay; DoD Travel Pay; Military Pay–Army; and Military Retirement. The following figure illustrates the improper payments reported for these five programs for the last 3 years.

*The DoD complied with the requirement to publish CAPs.*

<sup>17</sup> OMB Circular No. A-123, Appendix C, Section II, “Phases of Assessments.”

*Figure. Improper Payments Reported for FYs 2021, 2022 and 2023*



Source: [PaymentAccuracy.gov](https://www.paymentaccuracy.gov).

The Military Pay – Army program has reported significant reductions in its improper and unknown payments from FY 2021 through FY 2023. Over the past three reporting cycles, the program has decreased its reported improper and unknown payment amounts by over 84 percent. The Civilian Pay and Commercial Pay programs have had increases in reported improper and unknown payments over the three reporting cycles. Civilian Pay went from reporting improper and unknown payment amounts below the statutory threshold in FY 2021 to over \$312 million reported in FY 2023.<sup>18</sup> The Commercial Pay program went from reporting no improper and unknown payments in FY 2021 to reporting \$238 million in FY 2023. The DoD Travel Pay program also had a steady increase in its reporting of improper and unknown payments, rising from \$223 million in FY 2021 to \$496 million in FY 2023. The Military Retirement program reported an increase in improper and unknown payment amounts from \$176.7 million in FY 2021 to \$418.8 million in FY 2022 and a decrease to \$146.4 million in FY 2023. 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 action completion dates, and the results of actions taken.<sup>19</sup>

<sup>18</sup> According to payment integrity requirements, the statutory threshold is when a program's improper payment and unknown payment amounts are either: (1) \$10 million and 1.5 percent of program outlays; or (2) \$100 million.

<sup>19</sup> 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.

- **Civilian Pay CAP.** The CAP described that the standard forms used to authorize payments for overseas allowances did not have consistent signatures and dates. According to the CAP, the DoD Education Activity plans to modernize the DoD Education Activity Allowance Processing System to allow common access card (CAC)-enabled signatures and dates. The estimated implementation date of the corrective action is September 2024. Additionally, the CAP described that the Army Civilian Field Offices did not provide completed Standard Form (SF)-1190, "Foreign Allowances Application, Grant and Report," with authorizing signatures. According to the CAP, the Army Civilian Human Resource Agency provided a directive for all civilian pay personnel offices to ensure that these forms are signed by their Command partners. The estimated implementation date of the corrective action is October 2024.
- **Commercial Pay CAP.** The CAP described challenges in acquiring necessary documentation to support payments made by the DoD. Additionally, the DoD had limitations in accessing data from the disbursement systems. In response, the DoD established working groups to address root causes and barriers for mitigation of payments made without adequate and sufficient substantiation. Furthermore, the DoD established plans to conduct an improper payment risk assessment, develop standard operating procedures, and increase departmental training. The estimated implementation date of the corrective action is May 2024.
- **DoD Travel Pay CAP.** The CAP described that the Military Departments (Army, Navy, Air Force) processed travel related payments in the Defense Travel System with invalid or missing receipts and without other information needed to properly substantiate the payment. According to the CAP, the DoD coordinated with the Military Departments to maintain training and communication initiatives with Defense Travel System users to improve compliance with statutory requirements. The estimated implementation date of the corrective action is October 2024.
- **Military Pay-Army CAP.** The CAP described that Components did not follow current Army regulations and policies to maintain the required key supporting documents in the interactive Personnel Electronic Records Management System (iPERMS). The corrective actions in the CAP included coordinating with the Army offices on the compliance of Army regulations and policies to obtain the key supporting documents. The estimated implementation date of the corrective action is October 2024.
- **Military Retirement CAP.** The CAP explained that the improper payment amount contained calculation errors related to high-average computation and other manual computation errors. These errors made up the main contributors to the Monetary Loss and Underpayment issues with Retired

and Annuitant Pay. In response, the DoD planned to continue interagency collaboration to correct errors in the data received before establishing the Retired Pay account. Furthermore, the DoD committed to focus on automation to enhance the systems. The estimated implementation date of the corrective action is January 2025.

### ***The DoD Published Reduction Targets and Demonstrated Improvements to Payment Integrity***

*The DoD published targets for reducing improper and unknown payments and developed plans to meet those targets.*

The DoD published targets for reducing improper and unknown payments and developed plans to meet those targets for the Civilian Pay; Commercial Pay; DoD Travel Pay; Military Pay–Army;

and Military Retirement programs. The DoD also demonstrated improvements to payment integrity in FY 2023 for the Civilian Pay; DoD Travel Pay; Military Pay–Army; and Military Retirement programs.<sup>20</sup> 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.

Three of the five programs with significant improper payments in FY 2023 established a reduction target that also represented the program’s tolerable rate, including the Civilian Pay; Military Pay–Army; and Military Retirement programs. For the remaining two programs the DoD did not report a tolerable rate, but in response to the prior year’s PIIA report, the DoD has implemented a process to establish tolerable rates based on the program’s payment integrity risks and controls.<sup>21</sup>

<sup>20</sup> The DoD was not required to establish a reduction target for its Commercial Pay program in FY 2022 for FY 2023 because the program did not meet the statutory threshold in FY 2022. Therefore, the program was not required to demonstrate improvement in FY 2023.

<sup>21</sup> Report No. DODIG-2023-075, “Audit of the Department of Defense’s FY 2022 Compliance With Payment Integrity Information Act Requirements,” May 22, 2023, Recommendation 1.a.



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

Although the DoD reported improper payment plus unknown payment rates of less than 10 percent for each program that reported an estimate, we determined that the FY 2023 rates were unreliable.<sup>22</sup> 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 it published an estimate. Therefore, the DoD met the payment integrity requirements with the above qualification about unreliable rates.

Specifically, we identified uncertainties in the estimation process that led to an increased risk that the 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. This is the 13th consecutive year that the DoD produced an unreliable estimate rate. Until the DoD can produce reliable estimates, DoD leadership cannot rely on this compliance measure to assess DoD payment integrity.

### ***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 estimates of improper and unknown payments in the FY 2023 AFR for all eight DoD programs required to report estimates. This occurred because DFAS personnel did not have a sufficient methodology for determining the completeness of the DoD's universes of payment transactions (UoTs) used to produce its improper and unknown payment estimates for all eight programs that were required to report estimates.

*DFAS personnel did not have a sufficient methodology for determining the completeness of the DoD's universes.*

Furthermore, while DFAS personnel made improvements to the Sampling and Estimation Methodology Plans (S&EMPs), they did not coordinate with the Components that process commercial payments to determine the characteristics of the high and low-risk payments processed through the Commercial Pay program.

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 also state that all programs susceptible to significant improper payments should design and

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<sup>22</sup> 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.

implement appropriate statistical S&EMPs to produce statistically valid improper payment estimates.<sup>23</sup> The requirements further state that agencies should ensure that program 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 while reporting an inaccurate or unreliable improper payment estimate because of errors in the payment UoT. To ensure that the programs met all OMB requirements, we reviewed the programs for:

- an OMB-approved plan that is appropriate given the program characteristics, including sample sizes;
- a complete and accurate (reliable) payment UoT to sample for improper payment testing; and
- an accurate post-payment review 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 3 identifies the eight programs reporting estimates and the requirement each program met or did not meet for publishing reliable improper payment estimates in the FY 2023 AFR.

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<sup>23</sup> OMB Circular No. A-123, Appendix C, "Requirements for Payment Integrity Improvement," March 5, 2021.

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

Program	Statistically Valid S&EMP	Complete and Accurate Payment UoT Subject to Review	Overall Improper and Unknown Payment Estimate Compliance*
Civilian Pay	✓	✗	✗
Commercial Pay	✓	✗	✗
DoD Travel Pay	✓	✗	✗
Military Pay–Army	✓	✗	✗
Military Pay–Navy	✓	✗	✗
Military Pay–Air Force	✓	✗	✗
Military Pay–Marine Corps	✓	✗	✗
Military Retirement	✓	✗	✗

\* Because the DoD did not produce reliable UoTs to develop improper and unknown payment estimates, we did not determine the accuracy of the post-payment review process.

**Legend**

- ✗ Not Compliant  
 ✓ Compliant

Source: The DoD OIG.

### ***DFAS Did Not Have a Sufficient Methodology for Determining Complete Universes of Payment Transactions***

DFAS personnel did not have a sufficient methodology for determining the completeness of the DoD's UoTs used to produce its improper and unknown payment estimate. Specifically, DFAS personnel relied on a reconciliation process that:

- used entitlement data (typically the amount owed for goods or services received) in developing UoTs for identifying improper and unknown payment estimates, and
- did not require DFAS personnel to justify differences in entitlement and payment amounts that were less than 15 percent.

#### ***DFAS' Methodology for Determining Payment UoTs Used Entitlement Data***

Since FY 2016, the DoD OIG has reported that the DoD could not provide assurance that its estimates were based on accurate and complete data. Over the last 7 years, DFAS personnel have taken corrective actions to improve the DoD's methodology to develop a complete UoT supporting the improper and unknown payment estimates. For the FY 2023 reporting cycle, DFAS implemented a methodology that compared the total of entitlement transactions (typically the amount owed for goods or services received) to summary-level payment data. This comparison represented

DFAS' reconciliation between the entitlement and payment data to determine completeness of the UoTs. The objective of a financial reconciliation is to identify and resolve any discrepancies between two sets of data. Therefore, to complete a reconciliation of the entitlements and payments, DFAS would need to research and resolve any variances. However, when this method resulted in variances, DFAS personnel relied on the entitlement data as the source for developing the UoTs without researching the variances.

*DFAS personnel relied on the entitlement data as the source for developing the UoTs without researching the variances.*

According to DFAS personnel, they used the entitlement data as the source of the UoTs because they could obtain the data at the transaction-level, whereas the payment data was only available at the summary-level. OMB Circular No. A-123, Appendix C, defines an improper payment as a payment that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Therefore, DFAS should have relied on the data from the disbursing systems to determine amounts paid for its UoT. Instead, DFAS relied on data from the entitlement systems, which generally report amounts owed for goods and services received.

Additionally, the process DFAS personnel used to compare the total of the entitlement transactions to summary-level payment data resulted in unreliable UoT coverage results. When DFAS personnel calculated variances by subtracting the summary-level payment data from each program's summarized entitlement data, they did not consider the absolute value total (magnitude) of the variance that occurred within each program at the transaction level.<sup>24</sup>

For example, the Commercial Pay program comprised transaction-level entitlement data from 12 different systems.<sup>25</sup> Variances existed at the system level for each of the 12 Commercial Pay systems as either a positive or negative value. When DFAS personnel combined these values to reach the summary-level, the positive variances offset the negative variances, leaving DFAS personnel with a net variance of \$922.2 million. Table 4 provides the variances for each Commercial Pay entitlement system.

<sup>24</sup> We determined the total magnitude of a program's variance by adding the non-negative (absolute) values of the variance in each individual system.

<sup>25</sup> The 12 systems include CAPS – Computerized Accounts Payable System; DAI – Defense Agencies Initiative; DEAMS – Defense Enterprise Accounting and Management System; EBS – Enterprise Business System; FABS – Financial Accounting and Business System; GFEBS – General Funds Enterprise Business System; IAPS – Integrated Accounts Payable System; MOCAS – Mechanization of Contract Administration Services; NERP – Navy Enterprise Resource System; ONEPAY; SAVES – Standard Voucher Examination System; and TFMS – Transportation Financial Management System.

Table 4. Commercial Pay Variances by Entitlement System

Entitlement System	Entitlement Amount (in Millions)	Payment Amount (in Millions)	Variance <sup>1</sup> (in Millions)	Coverage <sup>2</sup> (Percent)	Absolute Value Variance (in Millions)
CAPS	\$6,363.8	\$6,355.0	\$8.9	100.14	\$8.9
DAI	9,889.9	9,007.2	882.7	109.80	882.7
DEAMS	20,420.0	20,033.3	386.7	101.93	386.7
EBS	38,171.1	38,231.8	(60.7)	99.84	60.7
FABS	685.5	686.9	(1.4)	99.80	1.4
GFEBs	52,751.0	51,130.4	1,620.6	103.17	1,620.6
IAPS	8,367.8	8,362.0	5.8	100.07	5.8
MOCAS	216,213.6	221,098.6	(4,885.0)	97.79	4,885.0
NERP	19,464.0	19,439.8	24.2	100.12	24.2
ONEPAY	26,281.6	25,122.1	1,159.5	104.64	1,159.5
SAVES	4,189.7	4,247.6	(57.9)	98.64	57.9
TFMS	789.0	794.5	(5.5)	99.31	5.5
<b>Total</b>	<b>\$403,587.1</b>	<b>\$404,509.3</b>	<b>(\$922.2)</b>	<b>99.77</b>	<b>\$9,098.7</b>

<sup>1</sup> A negative variance represents payment amounts that are not accounted for in the entitlement data. A positive variance represents entitlement amounts that are not accounted for in the payment data.

<sup>2</sup> According to DFAS, the coverage rate represents the completeness of a program's UoT and is calculated by dividing the entitlement data by the payment data.

Source: The DoD OIG and DFAS.

However, we determined the system-level differences and the magnitude of the Commercial Pay program's positive and negative variances to be \$9.1 billion, which more accurately represents the amount of variance in the Commercial Pay program. DFAS personnel applied the same methodology to determine each program's variance and used the variance to determine the coverage rate. By not verifying the accuracy of the entitlement data, and by not considering the transaction-level differences of the underlying variances, DFAS personnel reported variances for each program that are unreliable and likely understated.

***DFAS Did Not Research the UoT Variances Above the Risk Appetite Threshold During the PIIA FY 2023 Reporting Cycle***

In June 2022, the Deputy Chief Financial Officer approved the Payment Integrity Risk Appetite Statement to establish a materiality threshold for the UoTs of DoD programs. DFAS personnel continued to implement this risk appetite policy for the PIIA FY 2023 reporting cycle. The risk appetite states that a program's UoT can be considered complete if the entitlement data reconciles with the payment



data at a coverage rate above a materiality threshold of 85 percent or higher. DFAS personnel based their materiality threshold of 85 percent on a statistical method that states a reliable estimate can be calculated from 85 percent (or higher) of a total UoT. Table 5 illustrates the variances DFAS calculated for each program.

*Table 5. Variances Between Entitlement Data and Payment Data by Program*

Program	Entitlement Data (in Millions)	Payment Data (in Millions)	Variance (in Millions) <sup>1</sup>	Coverage (Percent) <sup>2</sup>
Civilian Pay	\$47,239.4	\$47,417.8	(\$178.3)	99.62
Commercial Pay	403,587.1	404,509.3	(922.2)	99.77
DoD Travel Pay	7,110.2	7,033.9	76.2	101.08
Military Pay—Army	40,320.8	39,131.8	1,189.0	103.04
Military Pay—Navy	24,506.8	23,578.9	927.9	103.94
Military Pay—Air Force	26,452.2	26,207.9	244.3	100.93
Military Pay—Marine Corps	9,058.5	9,054.4	4.1	100.04
Military Retirement	\$59,144.6	\$61,040.2	(\$1,895.6)	96.89

<sup>1</sup> A negative variance represents disbursed amounts that are not accounted for in the entitlement data. A positive variance represents entitlement amounts that are not accounted for in the payment data.

<sup>2</sup> According to DFAS, the coverage rate represents the completeness of a program's UoT and is calculated by dividing the entitlement data by the payment data.

Source: The DoD OIG and DFAS.

The statistical method described in the Risk Appetite Statement is appropriate, but only if the non-covered portion (variance) of the UoT is less than 15 percent and comprises the same characteristics as the covered portion. Therefore, in order for DFAS personnel to use this method to calculate a reliable estimate, DFAS personnel would need to justify that the non-covered amounts (variance) of the UoT consist of the same characteristics as the covered amounts in the UoT.

However, when asked about the characteristics of the non-covered portion of the UoT, DFAS personnel stated that they did not allocate resources to research the program variances because the variances were not below the materiality threshold of 85 percent. The Risk Appetite Statement requires DFAS to provide a reasonable justification for programs that did not meet the sample frame target of 95 percent. It also requires DFAS to investigate variances for programs that did not meet the materiality threshold of 85 percent.

Therefore, we determined that the methodology in the Risk Appetite Statement would not result in a reliable estimate because it does not require DFAS personnel to justify that the non-covered portion of the UoT had the same characteristics as the covered portion of the UoT. Until DFAS can explain the variance between entitlement data and payment data, or until DFAS can provide justification or explanation that the payments in the variance have the same characteristics as the covered UoT, DFAS cannot rely on its risk appetite policy to support reliable estimates. While DFAS implemented the reconciliation process, the OUSD(C)/CFO is responsible for providing oversight to DoD Components to ensure compliance with the PIIA. Therefore, until the OUSD(C)/CFO ensures that the DoD Components develop and implement a process to resolve the variances and identify the characteristics of the data included in the variances, the DoD will not produce complete universes leading to reliable estimates.

*Until DFAS can explain the variance between entitlement data and payment data, DFAS cannot rely on its risk appetite policy to support reliable estimates.*

### ***DFAS Did Not Coordinate with the Components to Adequately Determine High-Risk Commercial Payments***

While DFAS improved the S&EMPs for the FY 2023 reporting cycle as previously recommended, DFAS did not coordinate with the DoD Components that process commercial payments when developing the methodology to identify the characteristics of the high and low-risk payments for the Commercial Pay program.

In Report No. DODIG-2022-108, “Audit of the Department of Defense’s FY 2021 Compliance With Payment Integrity Information Act Requirements,” the DoD OIG recommended that the DoD use sufficient sample sizes to support its improper payment estimates. In response to this recommendation, DFAS personnel implemented a risk-based sampling methodology that reduced the sample sizes, by sampling more high-risk payments and fewer low-risk payments. DFAS personnel’s methodology defined a commercial payment as high risk if it was processed by a system that had at least one error in the past 2 years of post-pay review results. However, we determined that this methodology did not adequately determine risk because DFAS did not consider the characteristics of the different types of commercial payments made by the systems.

For example, DFAS personnel identified Financial Accounting and Business System (FABS), the smallest commercial pay system, as a high-risk system in FY 2023. In accordance with the risk methodology, DFAS personnel included all payments from FABS in the FY 2023 high-risk payment UoT. Comparatively, DFAS personnel included all payments from the Defense Enterprise Accounting

and Management System (DEAMS), a much larger commercial pay system, in the FY 2023 low risk payment UoT. Although DFAS personnel considered DEAMS a low-risk system and FABS a high-risk system, DFAS personnel identified errors in eight DEAMS payments while identifying no errors in any of the FABS payments during the FY 2023 review. We identified this as a concern because DFAS should make efforts to identify and reduce improper payments.

At the conclusion of DFAS' FY 2023 Commercial payments review, DFAS personnel identified more errors in payments from the low-risk systems than in payments from the high-risk systems. Therefore, because DFAS personnel tested every payment from FABS as being high risk and every payment from DEAMS as being low risk instead of reviewing the characteristics of the data, they did not adequately determine the risk.

The methodology DFAS used to identify the high risk of the commercial payments did not consider which characteristics are more common in improper and unknown payments. A review of the improper commercial payments might reveal commonalities in characteristics, such as the contract type. For example, the DoD typically uses fixed-price contracts when it has specific, well-defined requirements; and the price of the contracts remain fixed throughout the contract life. The DoD's only obligation is to pay the price agreed to at the time of the award, regardless of whether the cost to the contractor increases or decreases during performance. On the other hand, the DoD typically uses cost reimbursement contracts when it has requirements that are less specific or more difficult to define. Instead of paying a pre-defined price, the DoD reimburses the contractor for allowable, allocable, and reasonable costs, which are subject to a DoD contracting official's approval. The risk for improper payment is inherently greater with cost reimbursement contracts than it is with fixed-price contracts due to the amount of manual reviews required before making the payment. A review of the improper commercial payment characteristics might reveal commonalities in supply, service, or construction contract categories; or in contracts administered by specific Components or administrating offices. But until DFAS personnel analyze the root causes and identifies trends in the characteristics of its improper commercial payments, they will not be able to accurately target high-risk payments.

Therefore, the methodology DFAS used was not sufficient to determine the high or low risk of commercial payments. According to DFAS personnel, they coordinated the S&EMP with the Components. However, the coordination did not specifically address the identification of the common characteristics of improper or unknown commercial payments. Understanding the characteristics of the payments will enable DFAS personnel to effectively identify the risk in commercial payments. Therefore, the DFAS Director should continue to improve DFAS'

sampling methodology and develop and implement internal controls, such as coordinating with the stakeholders that process commercial payments, to review the characteristics of commercial payments and determine whether payments have a higher risk of being improper.

*The DFAS Director should continue to improve DFAS' sampling methodology and develop and implement internal controls, to review the characteristics of commercial payments.*

## Conclusion

The DoD complied with five of the six payment integrity requirements in FY 2023, but we concluded that the DoD published unreliable improper payment estimates. Specifically, the DoD reported unreliable improper payment estimates and missed opportunities to promptly detect, prevent, and recover improper payments. The DoD will not be fully compliant with payment integrity requirements until

*This is the 13th consecutive year that the DoD has not produced reliable estimates and the 3rd consecutive year that the DoD has not complied with PIIA improper payment reporting requirements.*

the DoD can produce reliable estimates. Only when the DoD publishes reliable estimates, will DoD leadership be able to rely on this compliance measure to assess the DoD payment integrity, such as the estimated improper and unknown

payment rate of less than 10 percent. This is the 13th consecutive year that the DoD has not produced reliable estimates and the 3rd consecutive year that the DoD has not complied with PIIA improper payment reporting requirements.

The DoD continues to improve its process for identifying improper payments by implementing a reconciliation of the UoTs and refining its post-pay reviews. Specifically, DoD personnel improved sample frame methodology to include high-risk payments. This year, the DoD closed 8 recommendations from previous DoD OIG payment integrity reports. Those recommendations related to actions such as reporting fraud amounts, determining tolerable rates, and updating the DoD FMR to better align with PIIA requirements. 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 programs. At the time of this report, the DoD had 10 open recommendations dating back to FY 2019. A summary of the recommendations closed since our FY 2022 report and the recommendations from our prior PIIA reporting that remained open at the time of this report can be found in Table 6 of Appendix C. Until the DoD implements the recommendations from previous DoD OIG reports, it is unlikely the DoD will meet PIIA requirements and have reliable improper payment estimates. DoD senior

leaders can only determine whether improper payment reduction efforts have been successful or whether additional action is necessary when DoD programs accurately report all required information.

The PIIA requires that an agency initiate corrective action when it does not comply with the PIIA. According to the PIIA, if a program is noncompliant for 3 consecutive fiscal years, the head of the executive agency must submit a reauthorization proposal for the program and propose statutory changes necessary to bring the program into compliance to the appropriate authorizing committees of Congress, the OMB, and the Comptroller General of the United States within 30 days of the noncompliance determination. However, if the head of the executive agency determines that a reauthorization proposal and proposed statutory changes will not bring the program or activity into compliance, the head of the executive agency must submit a description of the actions that the executive agency is undertaking to bring the program into compliance and a timeline of when the compliance will be achieved. Because the DoD did not comply with PIIA requirements for the 3rd consecutive year, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, should take action within 30 days of this report to meet the PIIA noncompliance requirement.

## **Recommendations, Management Comments, and Our Response**

### ***Recommendation 1***

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

- a. Ensures DoD Components develop and implement a process to identify the characteristics of the data included in the variances from the universe of transactions.**

### ***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 currently developing a process to ensure the Phase 2 programs have fully substantiated the UoTs to accurately report the improper payment and unknown payment estimates. The DCFO expects to complete this action by June 2026.

### ***Our Response***

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we verify that DoD has implemented a process that ensures that its programs have fully substantiated UoTs to accurately report improper payment and unknown payment estimates.

- b. Submit to the appropriate authorizing Committees of Congress, Office of Management and Budget, and the Comptroller General of the United States, within 30 days of the noncompliance determination, either of the following.**
  - 1. A reauthorization proposal for the Civilian Pay; Commercial Pay; DoD Travel Pay; Military Pay–Army; Military Pay–Air Force; Military Pay–Navy; Military Pay–Marine Corps; and Military Retirement Programs, as well as proposed statutory changes necessary to bring the programs into compliance.**
  - 2. A description of the actions that the DoD is undertaking to bring the program into compliance and a timeline for when compliance will be achieved.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that the DoD has restructured its Payment Integrity Portfolio into newly established OMB reportable programs. The goal of the restructured portfolio is to increase the accuracy and efficiency of Payment Integrity reporting, along with streamlining DoD resources and striving towards achieving compliance with the PIIA and OMB guidance. The DCFO stated that due to the creation of the newly restructured programs, the DoD does not plan to propose statutory changes or submit reauthorizations for the listed programs in the recommendation. However, according to the DCFO, the DoD recognizes the intent of notifying the Committees of Congress, OMB, and the Comptroller General of the United States of the overarching DoD plans to achieve PIIA compliance. The DCFO reported an expected completion date of June 2025, but after further discussion, OUSD(C)/CFO personnel agreed to the estimated completion date of June 2024 to align with the 30-day reporting requirement in OMB Circular No. A-123, Appendix C.

### ***Our Response***

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we verify that the USD(C)/CFO has notified the Committees of Congress, OMB, and the Comptroller General of the United States of the overarching DoD plans to achieve PIIA compliance.

### ***Recommendation 2***

**We recommend that the Director, Defense Finance and Accounting Service, develop and implement internal controls, such as coordinating with the stakeholders that process commercial payments, to review the characteristics of commercial payments to determine whether the payments have a higher risk of being improper.**

### ***Director, Defense Finance and Accounting Service Comments***

The DCFO, responding for the DFAS Director, agreed with the recommendation, stating that DFAS implemented this recommendation in the current review year and anticipates closure following stakeholder coordination and Sampling Plan submission in June 2024. Additionally, the DCFO stated that the DoD restructured the Commercial Pay programs in FY 2024. The DCFO expects to complete this action by June 2025.

### ***Our Response***

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once we verify that the Commercial Pay programs have been restructured for FY 2024 and that DFAS coordinated with stakeholders for the Sampling Plan submission in June 2024.



## Appendix A

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### Scope and Methodology

We conducted this performance audit from July 2023 through April 2024 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 2023 AFR, we interviewed personnel from the following agencies.

- OUSD(C)/CFO
- DFAS
- DHA
- DoD Components

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. We also examined the documentation they provided that related to our audit objective. Our audit universe included payment transactions from the eight programs that reported improper and unknown payment estimates in the FY 2023 AFR.

We discussed with DoD personnel the process they used to compile their testing UoTs. We reviewed their processes for creating the sampling UoTs to determine whether DoD personnel calculated accurate and complete improper payment estimates. Because we determined that the UoTs were incomplete, we did not test the post-payment review processes.

We reviewed the following guidance on PIIA reporting requirements for FY 2023.

- Public Law 116-117, “Payment Integrity Information Act of 2019,” March 2, 2020
- OMB Circular No. A-136, “Financial Reporting Requirements,” May 19, 2023
- 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. We assessed controls related to the OUSD(C)/CFO reporting processes; development of the sampling plans supporting each program; determination of the program UoTs, development of the improper payment estimates for each program; and 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 a lack of internal controls over the process to adequately identify high-risk payments for the Commercial Pay program and methodology for determining the completeness of the DoD's UoTs used to produce its improper and unknown payment estimates.

DFAS personnel relied on a reconciliation process that (1) used entitlement data in developing UoTs for identifying improper and unknown payment estimates, and (2) did not require DFAS personnel to justify differences in entitlement and payment amounts that were less than 15 percent. As a result, DFAS' methodology in the Risk Appetite Statement would not support a reliable estimate because it does not require DFAS personnel to justify that the non-covered portion of the UoT had the same characteristics as the covered portion of the UoT. 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 2023 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 2023 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, 2023. We concluded that the financial data within the DoD FY 2023 AFR may not be reliable.

## Use of Technical Assistance

We received technical assistance from the DoD OIG Data Analytics Team. The statisticians on the team reviewed the S&EMPs for eight programs that reported improper payment estimates in the DoD FY 2023 AFR. The statisticians determined whether the sampling methodologies were statistically valid and appropriate in accordance with payment integrity requirements. The statisticians also advised the audit team as to how conditions affected the improper and unknown payment estimates and the extent of impact to the DoD's estimates.

## Appendix B

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### 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 May 2016, which we determined to be relevant to the audit objective.

Unrestricted GAO reports can be accessed at <https://www.gao.gov/>. Unrestricted DoD OIG reports can be accessed at <https://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, 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.

## ***DoD OIG***

Report No. DODIG-2023-075, “Audit of the Department of Defense’s FY 2022 Compliance with Payment Integrity Information Act Requirements,” May 22, 2023

The DoD OIG determined that the DoD did not comply with PIIA requirements in its FY 2022 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-2022-108, “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 Defense Health Agency (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 payment UoT 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; therefore, it did not comply with IPERA in FY 2015.

# Appendix C

## Status of DoD OIG Payment Integrity 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. Table 6 shows the status of all DoD OIG Payment Integrity audit recommendations.

Table 6. Status of DoD OIG Recommendations from Prior Payment Integrity Compliance Reports as of April 12, 2024

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	4	0
DODIG-2017-078	8	8	0
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	7	0
DODIG-2022-052	4	1	3
DODIG-2022-108	7	6	1
DODIG-2023-075	4	1	3
Total	112	102	10

Source: The DoD OIG.

At the time of this report, the DoD had closed 102 of 112 recommendations since the issuance of the payment integrity compliance report, DoD OIG Report No. DODIG-2013-054, "DoD Efforts to Meet the Requirements of the Improper Payments Elimination and Recovery Act in FY 2012," March 13, 2013.

As of April 2023, the DoD had 18 open recommendations from prior improper payment compliance audit reports. Since April 2023, the DoD OIG closed 8 recommendations, while 10 recommendations remain open. Table 7 shows the status of these 18 recommendations.

*Table 7. Status of Open Recommendations Reported in Report No. DODIG-2023-075 as of April 12, 2024*

Recommendation		Status
DODIG-2016-086		
1.b	We recommended that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (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.	<b>Closed:</b> We determined that actions taken to address this recommendation would also address recommendations DODIG-2019-039 1.c and DODIG-2019-087 2.b. Therefore, we determined that this recommendation may be closed due to redundancy.
DODIG-2017-078		
1.a.1	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.	<b>Closed:</b> DHA submitted a sufficient risk assessment for the Military Health Benefits-Administrative program in June 2023. Additionally, we determined that actions taken to address this recommendation would also address recommendations DODIG-2019-039 1.c and DODIG-2019-087 2.b. Therefore, we determined that this recommendation may be closed due to redundancy.

Table 7. Status of Open Recommendations Reported in Report No. DODIG-2023-075 as of April 12, 2024 (cont'd)

Recommendation		Status
DODIG-2019-039		
1.c	We recommended that the USD(C)/CFO, in coordination with the DFAS, Enterprise Solutions and Standards Director, conduct an annual review of the DFAS Commercial Pay program through the Senior Accountable Officials Steering Committee and Action Officers Working Group to identify all types of payments made across DoD Components; verify that existing risk assessments and sampling plans cover all defined commercial payment types; and update risk assessments and sampling plans for program segments that experienced a significant change in legislation or a significant increase in its funding level.	<p><b>Resolved:</b> The DoD has made efforts to improve its Commercial Pay program's UoT reconciliation process by comparing data from its entitlement systems to the disbursement systems. However, the DoD used summary-level disbursement data rather than transaction-level disbursement data, which resulted in unexplained variances.</p> <p>We will consider closing this recommendation when the DoD either uses the disbursement system data as the source of the Commercial Pay program's UoT and verifies entitlement data with disbursement data at the transaction level or determines that the variance amounts consist of the same characteristics as the covered UoT.</p> <p>Estimated completion date: June 2024</p>
DODIG-2019-087		
2.a	We recommended that the USD(C)/CFO, in coordination with the DFAS Director, develop a process that uses the amount paid for the Commercial Pay and Travel Pay programs.	<p><b>Resolved:</b> While the 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 S&amp;EMPs and walkthroughs. However, the audit team is still following up with the DoD 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 utilized by DFAS personnel use the actual paid amounts to obtain and test the commercial payment UoT.</p> <p>Estimated completion date: June 2024</p>

Table 7. Status of Open Recommendations Reported in Report No. DODIG-2023-075 as of April 12, 2024 (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><b>Resolved:</b> The DoD has made efforts to improve the Military Pay, Civilian Pay, Military Retirement Pay, and DoD Travel Pay programs' UoT reconciliation process by comparing data from its entitlement systems to the disbursement systems. However, the DoD used summary-level disbursement data rather than transaction-level disbursement data, which resulted in unexplained variances.</p> <p>We will consider closing this recommendation when the DoD either uses the disbursement system data as the source of each program's UoT; verifies its Military Pay, Civilian Pay, Military Retirement Pay, and DoD Travel Pay entitlement data with corresponding disbursement data at the transaction level; or determines that the variance amounts consist of the same characteristics as the covered UoTs.</p> <p>Estimated completion date: June 2024</p>
DODIG-2021-080		
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><b>Closed:</b> We confirmed that DFAS personnel adequately documented the process used to reconcile the gross pay amounts.</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><b>Resolved:</b> In FY 2023, the OUSD(C)/CFO issued a memorandum stating that it would submit risk assessments for its Military Health Benefit – Tricare programs in June 2024. We will consider the results of the risk assessments when determining whether DHA has implemented this recommendation.</p> <p>Estimated completion date: June 2025</p>

*Table 7. Status of Open Recommendations Reported in Report No. DODIG-2023-075 as of April 12, 2024 (cont'd)*

Recommendation	Status	
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.	<b>Resolved:</b> In FY 2023, the OUSD(C)/CFO issued a memorandum stating that it would submit risk assessments for its Military Health Benefit – Tricare programs in June 2024. We will consider the results of the risk assessments when determining whether DHA has implemented this recommendation.  Estimated completion date: June 2025
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.	<b>Closed:</b> We verified that DHA personnel adequately planned for payment reviews and reported improper payment estimates in a timely manner for Military Health Benefit programs.
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.	<b>Resolved:</b> In FY 2023, the OUSD(C)/CFO issued a memorandum stating that it would submit risk assessments for its Military Health Benefit – Tricare programs in June 2024. We will consider the results of the risk assessments when determining whether DHA has implemented this recommendation.  Estimated completion date: June 2025
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 <a href="#">PaymentAccuracy.gov</a> ; and consider the fraud amounts when reviewing and approving the Sampling and Estimation Methodology Plans for each program.	<b>Closed:</b> We verified that OUSD(C)/CFO personnel incorporated confirmed fraud results into the identification, prevention, and recovery efforts within the DoD's payment integrity program.
1.b	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.	<b>Closed:</b> We verified that OUSD(C)/CFO personnel updated the DoD Financial Management Regulation, volume 4, chapter 14 to align with current payment integrity requirements.

*Table 7. Status of Open Recommendations Reported in Report No. DODIG-2023-075 as of April 12, 2024 (cont'd)*

Recommendation	Status	
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><b>Closed:</b> The DoD revised its sampling methodologies in FY 2023 to include a review and validation process. This process sufficiently documents OUSD(C)/CFO and program manager responsibility over their respective programs and ensures accountability over each program's payment integrity results.</p> <p>However, closure of this recommendation cannot guarantee reliable estimates. The DoD still needs to address other recommendations that pertain to determining complete UoTs and accurately identifying high-risk commercial payments.</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><b>Resolved:</b> DFAS personnel implemented risk-based strategies for all eight programs that reported estimates. However, the strategy DFAS personnel used for the Commercial Pay program did not adequately target high-risk commercial payments, resulting in a sample size that was too small and not statistically valid.</p> <p>We determined that DFAS sufficiently addressed this recommendation for the Civilian Pay, DoD Travel Pay, Military Pay-Army, Military Pay-Navy, Military Pay-Air Force, Military Pay-Marine Corps, and Military Retirement Pay programs. We will close this recommendation once we confirm that DFAS has developed a risk-based strategy that targets high-risk commercial payments based on the characteristics of the payments.</p> <p>Estimated Completion Date: May 2024</p>



*Table 7. Status of Open Recommendations Reported in Report No. DODIG-2023-075 as of April 12, 2024 (cont'd)*

Recommendation		Status
DODIG-2023-075		
1.a	We recommended that the USD(C)/CFO, 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.	<b>Closed:</b> The DoD provided information explaining its process for determining a program’s FY 2023 tolerable rates. According to OUSD(C)/CFO personnel, they determine a program’s tolerable rate as the improper and unknown payment rate at which a program is below the statutory threshold. OUSD(C)/CFO personnel also stated that they plan to use this process until they conduct cost-benefits analyses for the programs, which is the most accurate way to determine a program’s tolerable rate.
1.b	We recommended that the USD(C)/CFO, DoD submit a proposal 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 to the Director of the Office Management and Budget in its next Budget submission regarding additional program integrity proposals that would help the program come into compliance with Office of Management and Budget Circular No. A-123, Appendix C requirements.	<b>Resolved:</b> According to OUSD(C)/CFO personnel, they are developing a strategy to help the programs come into compliance without the need for additional budgetary resources. They plan to provide this strategy to the OMB in the FY 2025 budget submission to meet this payment integrity requirement.  We will close the recommendation once we verify that the OUSD(C)/CFO provided its strategy to the OMB in the FY 2025 budget submission, and that the OUSD(C)/CFO’s FY 2025 data call submission reflects its strategy to publish adequate improper and unknown payment for each program listed in the recommendation.  Estimated completion date: June 2025

*Table 7. Status of Open Recommendations Reported in Report No. DODIG-2023-075 as of April 12, 2024 (cont'd)*

Recommendation	Status
2.a	<p>We recommended that the Director, Defense Finance and Accounting Service for the Hawaii water contamination evacuation travel payments:</p> <ul style="list-style-type: none"> <li>comply with the Office of Management and Budget Circular No. A-123, Appendix C, by reclassifying the payments in question as Unknown Payments; and</li> <li>include the results in future-year improper payment reporting once the Army, in coordination with the U.S. Army Audit Agency, determines the propriety of the payments.</li> </ul> <p><b>Resolved:</b> The DFAS Director stated that DFAS will continue to partner with the OUSD(C)/CFO and Department of the Army to identify and track the Hawaii water contamination travel payments.</p> <p>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 the Army's travel payments in either the quarterly Key Performance Indicator scorecards or the annual PIIA Compliance submission to <a href="https://www.paymentaccuracy.gov">PaymentAccuracy.gov</a>.</p> <p>Estimated completion date: June 2024</p>
2.b	<p>We recommended that the Director, Defense Finance and Accounting Service develop and implement additional controls to identify and review high-risk payments and make certain that the post-pay reviews are adequately identifying improper payment amounts.</p> <p><b>Resolved:</b> In FY 2023, DFAS made efforts to implement a risk-based strategy in the DoD Travel Pay sampling methodology. However, due to DoD's inability to determine complete UoTs for its programs, we did not test the post-payment review process to determine whether DFAS adequately reviewed evacuation and other types of high-risk travel payments.</p> <p>We will close the recommendation once we verify that DFAS has implemented additional quality assurance reviews to ensure that post-pay reviews are adequately identifying improper payment amounts.</p> <p>Estimated completion date: June 2025</p>

Source: The DoD OIG.

## Management Comments

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



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

May 3, 2024

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

SUBJECT: Department of Defense Inspector General Draft Report, "Audit of the Department of  
Defense's FY 2023 Compliance With Payment Integrity Information Act  
Requirements," Project No. D2023-D000FL-0136.000

My office and the Defense Finance and Accounting Service (DFAS) received the subject  
draft report, dated April 12, 2024. 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 (OMB) Circular A-123,  
Appendix C, by making Payment Integrity a top management priority in developing effective  
methodologies to help prevent, identify, and recover improper payments. The Department  
maintained the previously achieved five out of six PIIA compliance criteria. Further, the  
Department achieved a program-specific compliance rate of 50 percent, a 25 percent increase  
from fiscal year 2022. Specifically, the Department achieved PIIA compliance with the six  
Military Health Benefits programs and the two US. Army Corps of Engineers programs.

The Department worked diligently to identify \$1.74 billion in monetary losses (or  
overpayments) and recovered \$1.71 billion, demonstrating proper stewardship of funding  
through the payment recovery audits. Additionally, the Department enhanced its internal control  
processes as a direct result of prior audit reports issued by the DoD Office of Inspector General.  
These internal controls directly contributed to the reduction of improper and unknown payments  
by implementing effective corrective actions, audit performance timeline execution standards,  
and program-specific working groups.

The Department established 32 new Phase 1 programs for accurate reporting and  
streamlined resources. Additionally, the Department continues to develop a process for  
substantiating the universe of transactions to produce reliable improper and unknown payment  
estimates. These efforts will allow the Department to achieve full PIIA compliance.

We appreciate DoD OIG review of these payment integrity programs. My point of  
contact is [REDACTED]

STEFFENS, THOMAS  
S. CHARLES [REDACTED]

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 - DATED APRIL 12, 2024

PROJECT NO. Project No D2023-D000FL-0136.000

“Audit of the Department of Defense’s FY 2023 Compliance With Payment Integrity Information Act Requirements”

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

#### RECOMMENDATION 1

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

- a. “Ensures DoD Components develop and implement a process to identify the characteristics of the data included in the variances from the universe of transactions.”

#### OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)

(OUSD(C)) RESPONSE TO RECOMMENDATION 1a: Concur. The Department concurs with this recommendation and is currently developing a process to ensure the Phase 2 programs have fully substantiated the Universe of Transactions to accurately report the Improper Payment and Unknown Payment estimates.

Estimated completion date is June 2026.

- b. “Submit to the appropriate authorizing Committees of Congress, Office of Management and Budget, and the Comptroller General of the United States, within 30 days of the noncompliance determination, either of the following.
  1. “A reauthorization proposal for the Civilian Pay; Commercial Pay; DoD Travel Pay; Military Pay–Army; Military Pay–Air Force; Military Pay–Navy; Military Pay–Marine Corps; and Military Retirement Programs, as well as proposed statutory changes necessary to bring the programs into compliance.
  2. “A description of the actions that the DoD is undertaking to bring the program into compliance and a timeline for when compliance will be achieved.”

OUSD(C) RESPONSE TO RECOMMENDATION 1b: Concur. The Department concurs with this recommendation as it is a statutory requirement from the Payment Integrity Information Act of 2019 (PIIA) and regulatory requirement from Office of Management and Budget (OMB) Circular No. A-123, Appendix C. The Department has restructured its Payment Integrity portfolio into newly established OMB reportable programs. The goal of the restructured portfolio is to increase the accuracy and efficiency of Payment Integrity reporting, along with streamlining Department resources and striving towards achieving compliance with the PIIA and OMB guidance. The Department does not plan to propose statutory changes or submit reauthorizations for the

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

listed programs in recommendation 1.b.1 due to the creation of the newly restructured programs. However, the Department recognizes the intent of notifying the Committees of Congress, Office of Management and Budget, and the Comptroller General of the United States of the overarching Department plans to achieve the PIIA compliance.

Estimated completion date is June 2025.

### RECOMMENDATION 2

“We recommend that the Director, Defense Finance and Accounting Service, develop and implement internal controls, such as coordinating with the stakeholders that process commercial payments, to review the characteristics of commercial payments to determine whether the payments have a higher risk of being improper.”

DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS) RESPONSE TO RECOMMENDATION 2: Concur. DFAS implemented this recommendation in the current review year with anticipation to be closed following stakeholder coordination and Sampling Plan submission in June of 2024. Additionally, the Department restructured the Commercial Pay programs in fiscal year 2024.

Estimated completion date is June 2025.

## Acronyms and Abbreviations

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<b>AFR</b>	Agency Financial Report
<b>CAP</b>	Corrective Action Plan
<b>DFAS</b>	Defense Finance and Accounting Service
<b>DHA</b>	Defense Health Agency
<b>DoD OIG</b>	Department of Defense Office of Inspector General
<b>FMR</b>	Financial Management Regulation
<b>GAO</b>	Government Accountability Office
<b>IPERA</b>	Improper Payments Elimination and Recovery Act
<b>OMB</b>	Office of Management and Budget
<b>OUSD(C)/CFO</b>	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer
<b>PIIA</b>	Payment Integrity Information Act of 2019
<b>S&amp;EMP</b>	Sampling and Estimation Methodology Plan
<b>UoT</b>	Universe of Payment Transactions
<b>USD(C)/CFO</b>	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
<b>USACE</b>	U.S. Army Corps of Engineers





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