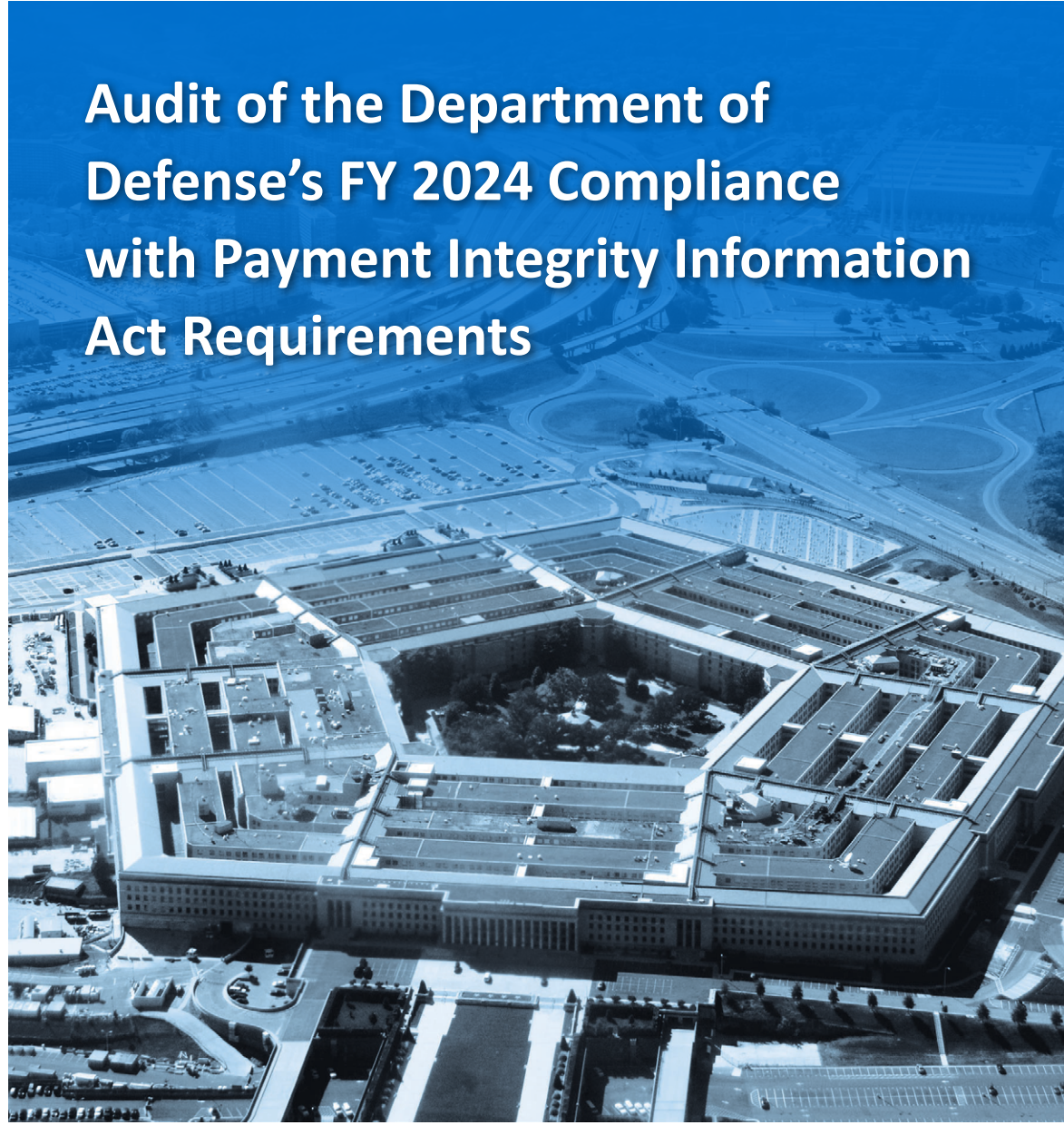




INSPECTOR GENERAL

U.S. Department of Defense

MAY 27, 2025



Audit of the Department of Defense's FY 2024 Compliance with Payment Integrity Information Act Requirements

INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY





Results in Brief

Audit of the Department of Defense's FY 2024 Compliance with Payment Integrity Information Act Requirements

May 27, 2025

Objective

The objective of the audit was to determine whether, in FY 2024, the DoD complied with the Payment Integrity Information Act of 2019 (PIIA).

Background

On March 2, 2020, Congress enacted the PIIA to improve efforts to identify and reduce government-wide improper payments. The PIIA 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 2024, the DoD reorganized and established 48 separate programs. Of the 48 Payment Integrity programs, DoD Components reported improper and unknown payment estimates of \$1.1 billion for 6 DoD programs, produced improper payment risk assessments for 20 DoD programs, and were not required to report estimates or risk assessments for the remaining 22 DoD programs. 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 2024. 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 four of the six PIIA requirements, it did not comply with the requirements to conduct adequate risk assessments and to publish reliable improper payment estimates.

Table 1. The DoD's FY 2024 Compliance with the PIIA

Payment Integrity Requirement	Compliance Status
1. Publish to the agency website payment integrity information in the Agency Financial Report with accompanying materials required by the Office of Management and Budget guidance	Met Requirement
2. Conduct risk assessments for each program, if required	Did Not Meet Requirement
3. Publish improper and unknown payment estimates for required programs in the accompanying materials	Did Not Meet Requirement
4. Publish Corrective Action Plans for each program determined to have significant improper payments	Met Requirement
5. Publish improper and unknown payment reduction targets in the accompanying materials	Met Requirement
6. Report improper and unknown payment estimates of less than 10 percent for each program reporting estimates	Met Requirement

Source: The DoD OIG.

In assessing the risks to DoD programs, the DoD did not demonstrate a methodology for identifying all programs necessary to report for PIIA compliance, and the DoD did not effectively support its risk determinations for four programs.



Results in Brief

Audit of the Department of Defense's FY 2024 Compliance with Payment Integrity Information Act Requirements

Finding (cont'd)

In addition, the DoD did not publish reliable estimates for six programs because the DoD has not developed a methodology for identifying a complete universe of payment transactions for each of its programs, an action we originally recommended in FY 2016.

As a result, the DoD produced unreliable estimates for the 14th consecutive year and did not comply with the PIIA for the 4th consecutive year. Without identifying all programs, producing adequate risk assessments, and publishing reliable estimates in the DoD Agency Financial Report, the DoD does not have the controls in place and DoD leadership and Congress cannot accurately determine whether the DoD has the resources needed to reduce its improper payments.

Recommendations

The DoD OIG has updated prior recommendations to align with the DoD's newly restructured PIIA programs. As a result, the DoD OIG administratively closed four prior recommendations due to the DoD's restructuring of its Payment Integrity program.

We made recommendations to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, (USD[C]/CFO) to improve their oversight of the Payment Integrity programs and to identify the complete universe of payment transactions and verify that all outlays are included in the programs' universes of payment transactions.

We recommended that the Assistant Secretary of the Navy Comptroller reevaluate the DoD Travel Pay Navy-Defense Travel System program and report the program's estimate in the appropriate PIIA reporting phase. In addition, we recommended that the Director of the Defense Health Agency reassess the noncompliant risk assessments and fully document and support the information the Defense Health Agency relied

on, including the controls; and assess the impact of implementing the Government Accountability Office's recommendation regarding medical records reviews.

The DoD has yet to fully implement corrective actions to address four prior DoD OIG recommendations concerning the development of improper payment estimates. It is unlikely that the DoD will meet PIIA requirements and have reliable improper payment estimates until the corrective actions are completed. Please see Appendix D, Table 5, for the status of all outstanding recommendations.

Management Comments and Our Response

The Deputy Chief Financial Officer, responding for the USD(C)/CFO, and the Acting Assistant Secretary of the Navy (Financial Management and Comptroller) agreed with all recommendations directed to them. Therefore, these recommendations are resolved but will remain open. We will close these recommendations once we verify that management has implemented the agreed upon corrective actions.

The Assistant Director of Resources and Personnel Integration, responding for the Director of the Defense Health Agency, did not agree with the recommendations directed to them. Therefore, these recommendations are unresolved. We request that the Assistant Director provide corrective actions that address these recommendations within 30 days of this report. We will track these recommendations until management has agreed to take actions that we determine to be sufficient to meet the intent of the recommendations and management officials submit adequate documentation showing that all agreed-upon actions are completed. See the Recommendations Table on the next page for the status of recommendations.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD	None	1.a, 1.b, 1.c, 2	None
Assistant Secretary of the Navy (Financial Management and Comptroller)	None	3	None
Director, Defense Health Agency	4.a, 4.b	None	None

Please provide Management Comments within 30 days of this report.

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 27, 2025

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT
AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE HEALTH AGENCY

SUBJECT: Audit of the Department of Defense's FY 2024 Compliance with Payment
Integrity Information Act Requirements (Report No. DODIG-2025-105)

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 Acting Assistant Secretary of the Navy (Financial Management and Comptroller) agreed with all recommendations directed to them. Therefore, these recommendations are resolved but will remain open. We will close these recommendations when you provide us documentation showing that all agreed-upon actions to implement the recommendations are completed. Therefore, within 90 days please provide us your response concerning specific actions in process or completed on the resolved recommendations. Send your response to either [REDACTED] if unclassified or [REDACTED] if classified SECRET.

This report also contains recommendations that are considered unresolved because the Assistant Director of Resources and Personnel Integration, responding for the Director of the Defense Health Agency, did not agree with the recommendations directed to them. Therefore, these recommendations remain open. We will track these recommendations until management has agreed to take actions that we determine to be sufficient to meet the intent of the recommendation, and management officials submit adequate documentation showing that all agreed-upon actions are completed.

DoD Instruction 7650.03 requires that recommendations be resolved promptly. Therefore, please provide us within 30 days your response concerning specific actions in process or alternative corrective actions proposed on the unresolved recommendations. Send your response to either [REDACTED] if unclassified or [REDACTED] if classified SECRET.

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

Lorin T. Venable

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

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Introduction

Objective

The objective of this audit was to determine whether, in FY 2024, 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 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 credits for applicable discount, and payments made to ineligible recipients or for ineligible goods or services. In addition, the PIIA categorizes payments without sufficient supporting documentation as improper.¹ Therefore, an improper payment does not necessarily result in an actual monetary loss to the Government.

Office of Management and Budget (OMB) Circular No. A-123, Appendix C, further defines an unknown payment as a payment made without sufficient documentation to determine whether it is improper.² This can result in agencies reporting both an unknown payment estimate and an improper payment estimate.

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

² OMB Circular No. A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control,” Appendix C, “Requirements for Payment Integrity Improvement,” March 5, 2021. According to OMB Circular No. A-123, Appendix C, if a program cannot determine whether a payment is proper or improper, the payment is considered an unknown payment.

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 OMB Circular No. A-123, Appendix C. According to Appendix C, the goal of the revision is to transform the payment integrity compliance framework and create a more comprehensive and meaningful set of requirements to allow agencies to spend less time complying with low-value activities and more time researching the underlying causes of improper payments, balancing payment integrity risks and controls, and building the capacity to help prevent future improper payments. 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 Agency Financial Reports (AFR). On May 30, 2024, 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 in their AFR, for programs reporting improper payment estimates.

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 No. A-123, Appendix C, requires that all programs with annual outlays over \$10 million fall into one of two possible classifications—Phase 1 (risk assessments) or Phase 2 (improper payment and unknown payment estimates). Phase 1 programs are not likely to have an annual amount of improper plus unknown payments above the statutory threshold.³ 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

³ 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.

additional requirements, such as reporting an annual improper and unknown payment estimate.⁴ To ensure that 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 the payment integrity requirements.

Figure 1. Payment Integrity Requirements



Source: Public Law No. 116-117, "Payment Integrity Information Act of 2019," March 2, 2020.

⁴ OMB Circular No. A-123, Appendix C.

DoD Financial Management Regulation Requirements

The DoD Financial Management Regulation (DoD FMR) requires DoD Components to implement guidance from the PIIA; OMB Circular No. A-123, Appendix C; and OMB Circular No. A-136.⁵ The DoD FMR also states that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSD[C]/CFO), Financial Management Policy and Reporting Directorate is the executive agent for the DoD Payment Integrity program. As the executive agent, the Financial Management Policy and Reporting Directorate responsibilities include:

- providing oversight to DoD Components to ensure compliance with the authoritative guidance;
- 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 corrective action plans for completeness.⁶

FY 2024 Changes to the DoD's Payment Integrity Programs

In the DoD's FY 2023 AFR, the DoD identified 16 Payment Integrity programs (8 programs in Phase 1 and 8 programs in Phase 2).⁷ According to the DoD's FY 2024 AFR, the DoD made changes to its Payment Integrity program to address the DoD's historically unreliable improper payment estimates. Specifically, the DoD separated its programs into 48 (40 new programs and the 8 programs originally reported in Phase 1 of FY 2023). The DoD's FY 2024 AFR stated that the DoD modified its FY 2023 Phase 2 programs into more discrete payment populations with similar characteristics and internal control profiles. See Figure 2 for the breakout of the 40 new programs.

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

⁶ DoD FMR, volume 4, chapter 14.

⁷ FY 2023 Phase 1 Programs: U.S. Army Corps of Engineers (USACE)–Commercial Pay; USACE–Travel Pay; Military Health Benefits (MHB)–TRICARE East Region Program (East Region); MHB–TRICARE West Region Program (West Region); MHB–TRICARE Medicare Eligible Program (TMEP); MHB–TRICARE Pharmacy Program (TPharm); MHB–TRICARE Overseas Program (TOP); MHB–Administrative.

FY 2023 Phase 2 Programs: Civilian Pay; Commercial Pay; DoD Travel Pay; Military Pay–Army; Military Pay–Navy; Military Pay–Air Force; Military Pay–Marine Corps; Military Retirement.

Figure 2. The DoD's FY 2024 40 New Programs

Civilian Pay  <ul style="list-style-type: none"> • Civilian Pay–Army • Civilian Pay–DAF • Civilian Pay–Navy • Civilian Pay–ODO 	Commercial Pay  <ul style="list-style-type: none"> • Commercial Pay–CAPS • Commercial Pay–DAI • Commercial Pay–DEAMS • Commercial Pay–EBS • Commercial Pay–FABS • Commercial Pay–GFEBS • Commercial Pay–IAPS • Commercial Pay–MOCAS • Commercial Pay–NERP • Commercial Pay–ONEPAY • Commercial Pay–SAVES • Commercial Pay–TFMS 	DoD Travel Pay  <ul style="list-style-type: none"> • DoD Travel Pay Army–DTS • DoD Travel Pay Army–IATS • DoD Travel Pay DAF–DTS • DoD Travel Pay DAF–RTS • DoD Travel Pay USMC–DTS • DoD Travel Pay USMC–IATS • DoD Travel Pay USMC–MCTFS • DoD Travel Pay Navy–DTS • DoD Travel Pay Navy–IATS • DoD Travel Pay ODO–DTS • DoD Travel Pay ODO–IATS 	Military Pay–Army  <ul style="list-style-type: none"> • Military Pay Army–Active Duty • Military Pay Army–National Guard • Military Pay Army–Reserve
Military Pay–Air Force  <ul style="list-style-type: none"> • Military Pay DAF–Active Duty • Military Pay DAF–Air National Guard • Military Pay DAF–Reserve 	Military Pay–Navy  <ul style="list-style-type: none"> • Military Pay Navy–Active Duty • Military Pay Navy–Reserve 	Military Pay–Marine Corps  <ul style="list-style-type: none"> • Military Pay USMC–Active Duty • Military Pay USMC–Reserve 	Military Retirement  <ul style="list-style-type: none"> • Military Retirement–Annuitant Pay • Military Retirement–CRSC • Military Retirement–Retired Pay

Note: See acronyms and abbreviations list at the end of this report for full terms of acronyms.

Source: The DoD OIG and OUSD(C)/CFO.

DoD Agency Financial Report

On November 15, 2024, the Deputy Secretary of Defense published the FY 2024 DoD AFR. The AFR’s Payment Integrity section states that a reduction of improper payments and compliance with the PIIA continues to be a top financial management priority. The AFR also described the DoD’s compliance with the PIIA through its Payment Integrity program, which includes 48 separate programs. In the FY 2024 AFR, the DoD reported that six programs were in Phase 2. For those six programs, the DoD reported a total of \$1,086.7 million in improper and unknown payments. Of the \$1,086.7 million, \$635.3 million related to improper payments and \$451.4 million related to unknown payments. Table 2 shows the payments (outlays), total estimated improper and unknown payments, and estimated improper and unknown payment rates reported by the DoD in the FY 2024 AFR for the six Phase 2 programs.⁸

Table 2. DoD FY 2024 AFR Improper Payment Reporting

Program Name	Outlays (in Millions)	Improper Payment and Unknown Payment Estimate Amount (in Millions)	Improper Payment and Unknown Payment Rate Estimate (Percent)*
Military Pay Army–National Guard	\$4,839.4	\$55.5	1.15
Civilian Pay–Army	13,979.9	46.9	0.34
Civilian Pay–ODO	10,304.9	470.7	4.57
DoD Travel Pay Army–DTS	2,190.8	188.1	8.59
DoD Travel Pay DAF–DTS	2,356.1	229.2	9.73
Commercial Pay–MOCAS	222,333.4	96.3	0.04
Total	\$256,004.5	\$1,086.7	0.42

Note: See acronyms and abbreviations list at the end of this report for full terms of acronyms.

*The improper and unknown payment percentages are calculated by dividing the estimated improper and unknown payment total by the total program outlays.

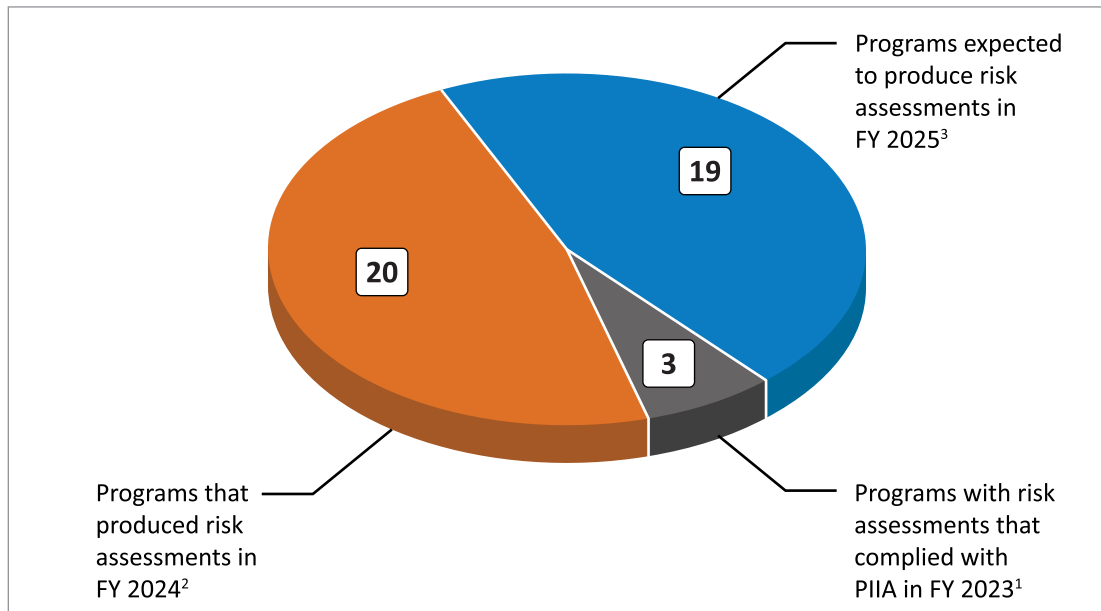
Source: The FY 2024 DoD AFR.

In the FY 2024 AFR, the DoD identified 42 of the 48 programs as Phase 1 programs. Therefore, these programs are required to conduct risk assessments. According to OMB Circular No. A-123, Appendix C, agencies should assess Phase 1 programs (programs with outlays greater than \$10 million) for risk at least once every 3 years. Because the DoD is not required to conduct risk assessments on all Phase 1 programs each year, it did not produce all 42 risk assessments in FY 2024.

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

The DoD produced or plans to produce risk assessments for some of its programs in other fiscal years. Figure 3 shows the 42 Phase 1 programs and the fiscal year of their risk assessment submission.

Figure 3. Number of Phase 1 Programs That Produced Risk Assessments Each Year



Note: See acronyms and abbreviations list at the end of this report for full terms of acronyms.

¹ The 3 programs that produced risk assessments in FY 2023 are: MHB–Administrative, USACE–Commercial Pay, and USACE–Travel Pay.

² The 20 programs that produced risk assessments in FY 2024 are: Civilian Pay–DAF, Civilian Pay–Navy, DoD Travel Pay DAF–RTS, DoD Travel Pay USMC–DTS, DoD Travel Pay USMC–IATS, DoD Travel Pay USMC–MCTFS, DoD Travel Pay Navy–DTS, DoD Travel Pay Navy–IATS, MHB–East Region, MHB–West Region, MHB–TMEP, MHB–TPharm, MHB–TOP, Military Pay DAF–Active Duty, Military Pay DAF–Air National Guard, Military Pay DAF–Reserve, Military Pay USMC–Active Duty, Military Pay USMC–Reserve, Military Pay Navy–Active Duty, and Military Pay Navy–Reserve.

³ The 19 programs that the DoD expects to produce risk assessments in FY 2025 are: Commercial Pay–CAPS–W, Commercial Pay–DAI, Commercial Pay–DEAMS, Commercial Pay–EBS, Commercial Pay–FABS, Commercial Pay–GFEBS, Commercial Pay–IAPS, Commercial Pay–NERP, Commercial Pay–ONEPAY, Commercial Pay–SAVES, Commercial Pay–TFMS, DoD Travel Pay Army–IATS, DoD Travel Pay ODO–DTS, DoD Travel Pay ODO–IATS, Military Pay Army–Active Duty, Military Pay Army–Reserve, Military Retirement–Annuitant Pay, Military Retirement–CRSC, and Military Retirement–Retired Pay.

Source: The DoD OIG.

Improper Payment Risk Assessment Process

The DoD produces risk assessments for each of its Phase 1 programs to determine whether the total annual improper payments and unknown payments are likely to be above or below the statutory threshold. To make this determination, OMB Circular No. A-123, Appendix C, states that agencies (DoD Components) should:

- review the results of audits, examinations, and legal actions, and consider whether they impact the risk of improper payments in the program;

- ensure that proper consideration has been given to relevant risk factors, for qualitative assessments; and
- provide numerical improper payment amounts and assess the probability of their occurrence, for quantitative assessments.

Improper Payment Estimation Process

The DoD develops an estimate of the improper and unknown payments that occurred within each of its Phase 2 programs' total payments during the reporting period. To develop this estimate, payment integrity requirements instruct DoD Components to:

- develop a statistically valid Sampling and Estimation Methodology Plan;
- 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.

The DoD FMR instructs 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.⁹

⁹ 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 2024 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 four of the six payment integrity requirements, it did not comply with the requirements to: (1) prepare sufficient improper payment risk assessments for four programs, and (2) publish reliable improper payment estimates for six programs.

The DoD did not comply with the PIIA when assessing the risk of its programs because:

- OUSD(C)/CFO personnel did not have an adequate methodology to identify all programs and outlays that the DoD should assess as part of the DoD's Payment Integrity program,
- Defense Health Agency (DHA) personnel did not document or effectively support their determination of the programs' susceptibility to significant improper payments for three programs, and
- OUSD(C)/CFO and Navy personnel did not adequately apply the PIIA guidance when determining susceptibility to significant improper payments for one program.

Furthermore, the DoD published unreliable estimates of improper and unknown payments for the six programs required to report estimates in FY 2024 because the DoD did not develop and implement an effective methodology for identifying a complete universe of payment transactions for each of its programs, an action we originally recommended in FY 2016.¹⁰

As a result, the DoD has not sufficiently identified its payment risks and has not produced reliable estimates for the 14th consecutive year and did not comply with PIIA improper payment reporting requirements for the 4th consecutive year. While the DoD took steps toward defining more discrete universes of payment transactions for each program, it did not implement corrective actions to develop complete universes of payment transactions leading to unreliable improper

¹⁰ "Universe of payment transactions" refers to the complete set of all valid financial transactions recorded within a given period, encompassing all funding, disbursements, collections, and transfers of funds made by a DoD Component, essentially representing the total picture of the Component's financial activity.

payment estimates. Until the DoD implements the recommendations to compile complete universes of payment transactions and to sufficiently identify its payment risks, it is unlikely that the DoD will comply with PIIA requirements.

The DoD Complied with Four of Six PIIA Requirements

The DoD complied with four of the six payment integrity requirements in FY 2024. 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. published programmatic corrective action plans, if required;
- 3. published an improper payment and unknown payment reduction target, demonstrated improvements, and developed a plan to meet the reduction target, if required; and
- 4. reported an estimated improper and unknown payment rate of less than 10 percent.

The DoD Published Required Information in the Agency Financial Report

The DoD complied with the payment integrity requirements when publishing its FY 2024 AFR by the November 15th deadline. In the accompanying materials to the AFR (reported on PaymentAccuracy.gov), the OUSD(C)/CFO reported the change to its Payment Integrity program and all required information, such as each program’s outlays, estimated proper and improper payment amounts, estimated improper payment rates, identified root causes for underpayments and overpayments, and reduction targets for FY 2025.

While the DoD complied with this requirement, the DoD published an incorrect confirmed fraud amount of \$2,371.64 million in its FY 2024 AFR.

While the DoD complied with this requirement, the DoD published an incorrect confirmed fraud amount of \$2,371.64 million in its FY 2024 AFR. OUSD(C)/CFO personnel acknowledged that they incorrectly reported the

amount from the FY 2023 AFR and that the correct FY 2024 confirmed fraud amount was \$1,813.48 million, resulting in an overstatement of \$558.16 million in the AFR. OUSD(C)/CFO personnel stated that they are addressing this finding by implementing a refined OMB Data Call Checklist to enhance data accuracy and prevent future recurrence. Because the OUSD(C)/CFO is taking steps to improve

the accuracy of its reporting of fraud amounts in the AFR, we did not make a recommendation. We will continue to monitor the OUSD(C)/CFO's implementation of its refined checklist for its reporting of fraud amounts in the DoD's FY 2025 AFR.

The DoD Published Complete Corrective Action Plans

The DoD complied with the requirement to publish corrective action plans. The DoD published corrective action plans for the three programs that reported significant improper and unknown payments—Civilian Pay–Other Defense Organization (ODO), DoD Travel Pay Army–Defense Travel System (DTS), and DoD Travel Pay Department of the Air Force (DAF)–DTS. The corrective action plans published for these programs identified the cause of the improper and unknown payments, actions taken to reduce the improper and unknown payments, the planned or actual completion dates, and the results of the actions taken.¹¹

The DoD Published Reduction Targets

The DoD published targets for reducing improper and unknown payments and developed plans to meet those targets for the Civilian Pay–ODO, DoD Travel Pay Army–DTS, and DoD Travel Pay DAF–DTS. Table 3 lists the goal of the FY 2025 improper payment rate for the programs reporting significant improper payments in FY 2024.

Table 3. FY 2024 Reduction Targets

Program Name	FY 2024 Improper Payment and Unknown Payment Rate (Percent)	FY 2025 Improper Payment and Unknown Payment Goal Rate (Percent)
Civilian Pay–ODO	4.57	2.60
DoD Travel Pay Army–DTS	8.59	6.50
DoD Travel Pay DAF–DTS	9.73	7.40

Note: See acronyms and abbreviations list at the end of this report for full terms of acronyms.

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

¹¹ 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.

The DoD Reported Improper Payment Rates of Less than 10 Percent

While the DoD reported improper payment plus unknown payment rates of less than 10 percent, the FY 2024 rates the DoD reported were unreliable because the DoD did not develop a methodology for identifying a complete universe of payment transactions.¹² Therefore, the DoD met the payment integrity requirements with the above qualification about unreliable rates.

In FY 2023, the DoD OIG's report on FY 2022 PIIA compliance identified incomplete universes of payment transactions in the estimation process that led to an unreliable improper and unknown payment estimate.¹³ Because the DoD did not implement corrective actions to identify a complete universe of payment transactions, and because in FY 2024 the DoD's improper payment rates were significantly higher than in previous years, the DoD's reported improper and unknown payment rate actually could be more than 10 percent.

In FY 2024, the DoD took actions to better define its programs by breaking out the programs into smaller, more discrete payment populations with similar characteristics and internal control profiles. As a result, the DoD reported higher improper payment rates in FY 2024 than in FY 2023, which allowed the DoD to more accurately target its risk and identify its improper and unknown payments. Additionally, according to the AFR, by breaking out programs into smaller, more discrete programs, the DoD will be able to identify the causes of improper and unknown payments and identify corrective actions to address these issues.

For example, in FY 2023 the DoD reported an improper and unknown payment rate of 5.1 percent for the DoD Travel Pay program combined universe, which totaled \$9.7 billion. Then in FY 2024, using the more discrete payment universes, the DoD reported improper and unknown payment rates of 9.73 percent for the DoD Travel Pay DAF-DTS program, with a total universe of \$2.4 billion and of 8.59 percent for the DoD Travel Pay Army-DTS program, with a total universe of \$2.2 billion. In prior fiscal years, the DoD calculated its rates with large universes of payment transactions leading to lower improper and unknown payment rates that did not always highlight the areas within the program causing the significant improper payments. Therefore, breaking the programs into more discrete universes gave the DoD the ability to identify and better define where the improper and unknown payments occur within its payment universes.

¹² 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.

¹³ 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 Did Not Comply with Risk Assessment and Estimate Requirements

The DoD did not comply with two payment integrity requirements: (1) to prepare sufficient improper payment risk assessments, and (2) to publish reliable improper payment estimates. The DoD did not comply with the PIIA when assessing the risk of its programs because:

The DoD did not comply with two payment integrity requirements.

- OUSD(C)/CFO personnel did not have an adequate methodology to identify all outlays that the DoD should assess as part of the DoD's Payment Integrity program,
- DHA personnel did not document or effectively support their determination of the programs' susceptibility to significant improper payments, and
- OUSD(C)/CFO and Navy personnel did not adequately apply the PIIA guidance when determining susceptibility to significant improper payments.

Additionally, the DoD published unreliable improper and unknown payment estimates for the six DoD programs required to report estimates because the DoD did not address prior DoD OIG recommendations relating to the development of the complete universe of payment transactions. See Table 4 in Appendix C for the compliance status of the DoD's programs for FY 2024.

The DoD Did Not Adequately Assess Program Risk

The DoD did not comply with PIIA when assessing the risk of its programs. Specifically, OUSD(C)/CFO personnel did not determine whether all DoD programs

OUSD(C)/CFO personnel did not determine whether all DoD programs and outlays subject to payment integrity reporting had been adequately assessed.

and outlays subject to payment integrity reporting had been adequately assessed. Additionally, the DHA risk assessments for three of the five Military Health Benefits (MHB) TRICARE programs did not contain sufficient information to support how the agency arrived at its risk determinations,

or how it determined that the total risk level was low. In addition, when the Navy determined its low risk for the DoD Travel Pay Navy-DTS program, the Navy relied on an improper and unknown payment estimate that exceeded the statutory threshold. Therefore, this program should have been reported in Phase 2.

According to payment integrity requirements, the DoD must:

- conduct a risk assessment at least once every 3 years, for each program with annual outlays greater than \$10 million to determine whether the program is likely to make improper plus unknown payments that would total above the statutory threshold,¹⁴ and
- ensure that the risk assessment methodology used adequately concludes whether the program is likely to make improper plus unknown payments above or below the statutory threshold.¹⁵

In FY 2024, the DoD developed risk assessments for 20 of its programs; 15 of these risk assessments were for new programs established as of July 2024. However, the DoD did not clearly define the established start dates of these programs leading to uncertainty of when the risk assessments were officially due to the OMB. When asked, OUSD(C)/CFO personnel confirmed the official start date for the newly established programs as the congressional notification date of July 10, 2024. According to the payment integrity requirements, for newly established programs, a risk assessment should be completed after the first 12 months of the program. Therefore, the DoD does not have to provide the risk assessments to the OMB until July 2025.

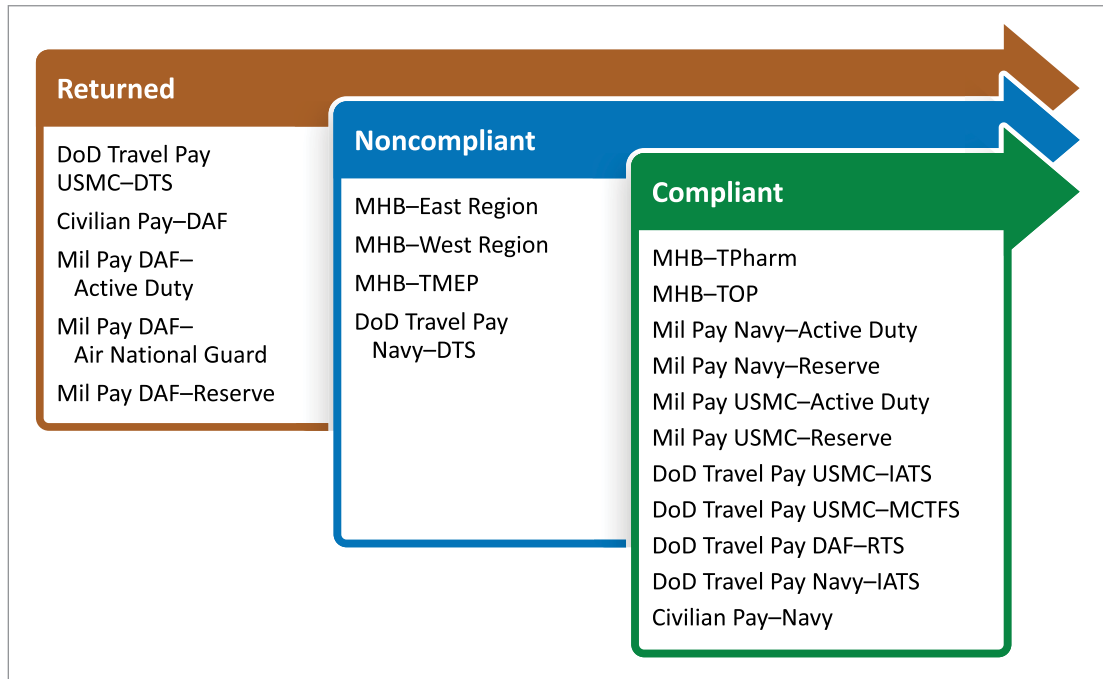
In October 2024, the DoD provided the 15 risk assessments of newly established programs to the DoD OIG for review—less than 3 months after the DoD established the programs. Of the 15 risk assessments, the DoD OIG returned 5 to the DoD Components in February 2025 for further development and resubmission. Therefore, the DoD Components can update and resubmit these 5 risk assessments before July 2025.

The DoD OIG determined during the reviews of the 20 risk assessments provided in FY 2024, that 11 were compliant, 4 were noncompliant, and 5 were returned to the DoD Components for further development. We discuss the four noncompliant risk assessments in more detail in the following sections of the report. Figure 4 illustrates the status of the 20 risk assessments.

¹⁴ OMB Circular No. A-123, Appendix C, states that the statutory threshold is determined by statute. Programs are considered to be above the statutory threshold if they are reporting an annual improper payment and unknown payment estimate that is either above \$10,000,000 and 1.5 percent of the program's total annual outlays or above \$100,000,000 regardless of the associated percentage of the program's total annual outlays that the estimated improper payment and unknown payment amount represents.

¹⁵ OMB Circular No. A-123, Appendix C.

Figure 4. Status of Risk Assessments Reviewed in FY 2024



Note: See acronyms and abbreviations list at the end of this report for full terms of acronyms.

Source: The DoD OIG.

As the DoD continues to produce more risk assessments for the programs reported under the DoD’s Payment Integrity program, as a best practice, the USD(C)/CFO should develop a tool to improve the OUSD(C)/CFO’s oversight of the programs that includes a method for establishing new programs, including how it determines the date of establishment.

The OUSD(C)/CFO Did Not Have a Methodology to Identify All Programs

According to OUSD(C)/CFO personnel, they did not identify all programs with outlays over \$10 million because they had not established an adequate methodology to identify programs or associated outlays. According to payment integrity requirements, the DoD should identify all programs with annual outlays over \$10 million, and these programs will fall into either Phase 1 or Phase 2.¹⁶

Even though the DoD changed course to identify 48 programs, OUSD(C)/CFO personnel informed us that the DoD has not determined whether all the DoD’s outlays are included in the 48 programs. OUSD(C)/CFO personnel agreed that there should be a process in place to ensure all DoD outlays are included in the universe of payment transactions reported in the Payment Integrity programs.

¹⁶ OMB Circular No. A-123, Appendix C, section II.

The DoD could not ensure that it captured all outlays in its newly established programs or that it identified all DoD programs.

While OUSD(C)/CFO personnel did not have an adequate methodology for ensuring that all programs associated with the DoD's outlays were included in a universe of payment transactions in place for FY 2024, they anticipate developing this methodology

in FY 2025. As a result, the DoD could not ensure that it captured all outlays in its newly established programs or that it identified all DoD programs. As oversight of the DoD's Payment Integrity program, the OUSD(C)/CFO should know what programs are not being reported, what programs are in Phase 1, and what programs are in Phase 2.

For example, according to the DoD FMR, volume 4, chapter 14, the DoD Intelligence Agencies must follow the PIIA guidelines and reporting requirements from the Office of the Director of National Intelligence, National Intelligence Program.¹⁷ However, when asked how the DoD ensured the complete reporting of Intelligence Agency payments, the OUSD(C)/CFO could not confirm that it properly reported Intelligence Agency payments. The OUSD(C)/CFO instead referred to future updates of OMB Circular No. A-123, Appendix C, for clarification on the reporting of Intelligence Agency payments.¹⁸ Therefore, despite payment integrity requirements requiring all programs greater than \$10 million to be reviewed, the OUSD(C)/CFO could not confirm that any Intelligence Agency payments meeting this criteria were reviewed.

Furthermore, in conducting its reviews of the DoD's risk assessments, the DoD OIG identified universes of payments that were processed under a program but were not reported or assessed by the DoD. Although the DoD is currently identifying its programs and bringing them into compliance through their Phase 1 and Phase 2 assessments, the OUSD(C)/CFO, in its oversight role, has not demonstrated that it understands the outlays identified in each program and where the outlays are reported.

DoD personnel did not provide enough information that specifically defined all the DoD's programs and what specific types of payments the programs cover. For example, the MHB-TRICARE Pharmacy Program (TPharm) does not include the mail-order portion of TRICARE Pharmacy payments as they were covered by a different program and agency. However, DHA and OUSD(C)/CFO personnel did not disclose in the risk assessment that the mail order portion of the program was not reported in the MHB-TPharm program. In addition, there was no overarching documentation that established in which program each payment was covered.

¹⁷ DoD FMR, volume 4, chapter 14, stated that classified payments are excluded from public reporting.

¹⁸ As of March 20, 2025, the OMB has yet to publish updates to OMB Circular No. A-123, Appendix C.

The OUSD(C)/CFO has neither identified all programs that the DoD should assess for the PIIA nor the universes of outlays covered by each program. Without defined programs covering all outlays, the DoD could have improper payments that never have a chance to be identified through the payment integrity reporting. As a result, the DoD would not be able to identify the cause of improper payments or implement corrective actions to mitigate the risk of improper payments. Without reviewing all programs, the DoD has fewer opportunities to identify fraud, waste, and abuse and recover improper payments. According to payment integrity guidance, if a program is greater than \$10 million, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO) should report on the program. Therefore, as a way to oversee the DoD's Payment Integrity program, the USD(C)/CFO should develop and implement a methodology to identify all DoD outlays and the programs with which they are associated and verify that the programs' universes of payment transactions include all outlays related to each respective program.

Without reviewing all programs, the DoD has fewer opportunities to identify fraud, waste, and abuse and recover improper payments.

In addition, the DoD OIG determined in a prior audit that the DoD did not support the use of Ukraine assistance funds in accordance with the Ukraine Supplemental Appropriations Acts and DoD policies.¹⁹ The DoD OIG determined that \$1.1 billion Ukraine assistance funds were classified as questioned costs because at the time of the audit the costs were not supported by adequate documentation. This leads to a concern that the supplemental funding that is used to support disaster and emergency events are high-risk for the DoD Payment Integrity program. Although prior audits have identified concerns with supplemental funds and the related Disaster Emergency Fund Code (DEFC) values, the DoD did not identify the payments with DEFC values as a high-risk area within its risk assessments. By not taking the supplemental funding and related DEFC values into consideration when identifying risk, the DoD could be overlooking high-risk payments that are significant to the Payment Integrity program. Therefore, the USD(C)/CFO should determine whether payments associated with disaster emergency funds should be considered as a high-risk payment type identified within the DoD's Payment Integrity portfolio. If so, develop a methodology to publicly report the improper payments associated with the DoD's use of disaster emergency funds.

¹⁹ Report No. DODIG-2025-007, "Audit of the DoD's Execution of Funds to Assist Ukraine," October 18, 2024.

The DHA Did Not Produce Sufficient Improper Payment Risk Assessments

The DHA's risk assessments for three of the five MHB TRICARE programs did not contain sufficient information to support how the agency arrived at its risk

DHA personnel did not document or effectively support how factors affected their programs' susceptibility to significant improper payments.

determinations, or how it determined that the total risk level was low.²⁰

This occurred because DHA personnel did not document or effectively support how factors affected their programs' susceptibility to significant improper

payments. Specifically, as part of the DHA's risk determination, the risk assessment did not:

- support the estimate DHA personnel relied on when determining the risk,
- document the third-parties' internal controls that DHA personnel relied on in determining risk, or
- demonstrate the impact of other audit agency findings and recommendations.

The DHA Did Not Support the Relied-Upon Estimate

While DHA personnel based their determination for the MHB–East Region, MHB–West Region, and MHB–TMEP risks on the historic reporting of the DHA's improper payment estimates, the DHA did not support the methodology for developing the improper and unknown payment estimate. Specifically, the DHA could not provide the universe of payment transactions that DHA personnel used to develop the estimate. According to the Government Accountability Office (GAO) in GAO-14-704G, "Standard for Internal Control in the Federal Government," September 2014, (the Green Book) management should clearly document internal controls and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. Additionally, the guidance states that documentation and records should be properly managed and maintained. DHA personnel stated that the universe of payment transactions used to develop the estimates is no longer available, and the information in the system from which the DHA pulled the universe, no longer supports that universe. Specifically, DHA personnel sampled from a universe of claims transactions, instead of a universe of payment transactions. The universe of claims transactions updates every day and includes the current total claim amount at any given time, without maintaining a record of what the universe of claims transactions was when the

²⁰ MHB–East Region Program, MHB–West Region Program, and MHB–TRICARE Medicare Dual Eligible Program (TMEP).

sample was pulled. Therefore, while the DHA relied on the estimates to make its risk determination, without a record of what the sample universe of claims transactions was in all four quarters, it could not support that the estimates were reliable.

The DHA Did Not Document the Third-Party Key Internal Controls

The DHA relied on contractor requirements as key internal controls for determining risk of its programs but did not document those third-party key controls in the risk assessments. According to the MHB–East Region and MHB–West Region risk assessments, for all seven areas of risk assessed, the DHA implemented and assured both internal and external controls while identifying appropriate tolerance to assist in prevention and mitigation of improper payments. Furthermore, the risk assessments provided broad statements on the controls the DHA identified, tested, and relied on to make its low-risk determination. For example, when discussing the Complexity Risk Category, the DHA stated that the third-party is the payee for most payments made by the program and that payment determinations are made in conjunction with contract requirements, TRICARE manual guidance, and through automated systems that have built-in quality control features to ensure clean and accurate data. However, when asked to demonstrate what key controls the DHA discussed throughout the risk assessments, the DHA could not support the specific key controls of the third-party it relied on and referred to the third-party for the third-party to provide the controls.

The DHA could not support the specific key controls of the third-party it relied on and referred to the third-party for the third-party to provide the controls.

To support its review of the third-party internal controls, the DHA provided the results of its monitoring of the positive and negative incentives for performance. The DHA indicated that because the incentives are based on the claim’s accuracy levels, if no disincentives are identified, then the third-party controls over the payments are working. However, as previously stated, the DHA could not support the specific controls of the third-party these reviews supported. Therefore, while the DHA relied on the third-party controls to make its risk determination, the DHA could not support or demonstrate the quality of the controls.

The DHA Risk Assessments Did Not Consider Prior Recommendations

The DHA has not implemented corrective actions to address an FY 2015 GAO recommendation to implement a more comprehensive TRICARE improper payment measurement methodology that included medical record reviews. In Report No. GAO-15-269, GAO personnel found that the DHA used a methodology

for measuring TRICARE improper payments that is less comprehensive than the methodology used to measure improper payments in Medicare, as the DHA does not evaluate the medical necessity of services provided.²¹

To determine the feasibility of incorporating medical record reviews (MRRs) into their methodology, DHA personnel conducted two focus studies in FY 2020 and FY 2021 over the MHB–East Region and the MHB–West Region. According to DHA personnel, during these focus studies, the DHA encountered barriers to gathering documentation from providers and incorporating results into existing methodology to conduct the studies for improper payment estimates. The studies found that, in FY 2021, 28 percent of the MHB–East Region claims that the DHA tested had insufficient or no documentation, and 67 percent of the MHB–West Region claims that the DHA tested had insufficient or no documentation.

DHA personnel stated that because the process to receive supporting documentation for MRRs takes 2 years, the DHA could not obtain documentation to complete MRR focus studies and closed the focus studies. The DHA concluded that insufficient or total lack of documentation was the finding of the focus studies. Because it could not obtain supporting documentation to complete MRR focus studies, the DHA did not test whether there would be a difference between MRRs and its current testing methodology. According to the Green Book, management should clearly document internal controls, all transactions, and other significant events in a manner that allows the documentation to be readily available for examination.

DHA personnel did not support or demonstrate that implementing corrective actions to the GAO's outstanding recommendation would not increase the improper payments to exceed the statutory threshold.

Instead, according to DHA personnel, the DHA proposed a new methodology to address the previous recommendation to include MRRs. However, DHA personnel proposed a predictive methodology that is a new sampling methodology and not

a new review methodology, which does not address the improper payment reviews, as the MRRs would. Therefore, DHA personnel did not support or demonstrate that implementing corrective actions to the GAO's outstanding recommendation would not increase the improper payments to exceed the statutory threshold. Furthermore, as of March 2025, the GAO's website stated that to fully implement the recommendation, the DHA will need to publicly note the results of MRRs as part of its improper payment reporting.²²

²¹ Report No. GAO-15-269, "Improper Payments, TRICARE Measurement and Reduction Efforts Could Benefit from Adopting Medical Record Reviews," February 18, 2015.

²² The GAO website can be accessed at <http://www.gao.gov>.

The current risk assessments for the MHB–East Region and MHB–West Region, and MHB–TMEP did not support the DHA’s determination of whether the programs are likely to make improper and unknown payments above or below the statutory threshold. To ensure that future risk assessment methodologies the DHA uses to develop its risk assessments adequately conclude on whether the DHA is likely to make improper and unknown payments above or below the statutory threshold, the DHA should:

- reassess the MHB–East Region, MHB–West Region, and MHB–TMEP programs to fully document and support the specific information it relied on, including the internal controls; and
- reassess the risk of the TRICARE programs if the GAO requires public reporting of the results of the MRRs to close its recommendation.

The DoD Travel Pay Navy–DTS Exceeded Thresholds

The Navy relied on an improper and unknown payment estimate that exceeded the threshold, but the Navy did not identify its DoD Travel Pay Navy–DTS program as being susceptible to significant improper payments. This occurred because, when developing the Phase 1 risk assessment, OUSD(C)/CFO and Navy personnel did not adequately apply the PIIA guidance to determine the program’s susceptibility to significant improper payments.

The Navy relied on an improper and unknown payment estimate that exceeded the threshold, but did not identify its program as being susceptible to significant improper payments.

According to the payment integrity requirements, in developing the risk assessments, the DoD must determine whether the program exceeds the statutory threshold to determine the program’s reporting phase, such as Phase 1 or Phase 2. The PIIA identifies the statutory threshold as:

- \$10 million of all reported program or activity payments of the DoD made during that fiscal year and 1.5 percent of program outlays, or
- \$100 million.

The DoD Travel Pay Navy–DTS risk assessment reported that while the Navy created the risk assessment based on quantitative assessments, the Navy relied on testing results from the FY 2023 reporting cycle. These results projected an improper and unknown payment amount of \$88 million with a rate of 5.03 percent, which were significantly above the statutory threshold of 1.5 percent of program outlays and \$10 million of all the programs payments made during the reporting period. According to payment integrity requirements, the DoD should have determined through the risk assessment that its total annual improper plus

unknown payments were likely to be above the statutory threshold. As a result, the Navy should have determined that the program will report in Phase 2 for FY 2025. Therefore, the Navy should reevaluate the DoD Travel Pay Navy-DTS program and report the program’s estimates in the appropriate PIIA reporting phase.

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 2024 AFR for all six DoD programs required to report estimates. This occurred because the DoD did not identify complete universes of payment transactions it used to produce its improper and unknown payment estimates for all six programs that were required to report estimates.

However, the DoD took actions to better define its programs by breaking out the programs into smaller, more discrete payment populations with similar characteristics and internal control profiles. Because the DoD broke out the programs into small populations, we are updating recommendations to realign them with the new DoD program structure. See Table 6 in Appendix D for status of prior recommendations.

DFAS’ Efforts to Reconcile its Universes of Payment Transactions

In the FY 2023 PIIA compliance report, the DoD OIG found that 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 its programs that were required to report estimates in FY 2023.²³ DFAS personnel are taking steps to develop a methodology to identify complete universes of payment transactions and identify the programs associated with those universes. For example, DFAS personnel developed a system matrix that was designed to ensure that DFAS captured all systems contributing to the universes of payment transactions. While developing the matrix, DFAS personnel identified payments that were not included in the current universes of payment transactions and are still working to finalize the matrix. DFAS personnel also developed a methodology

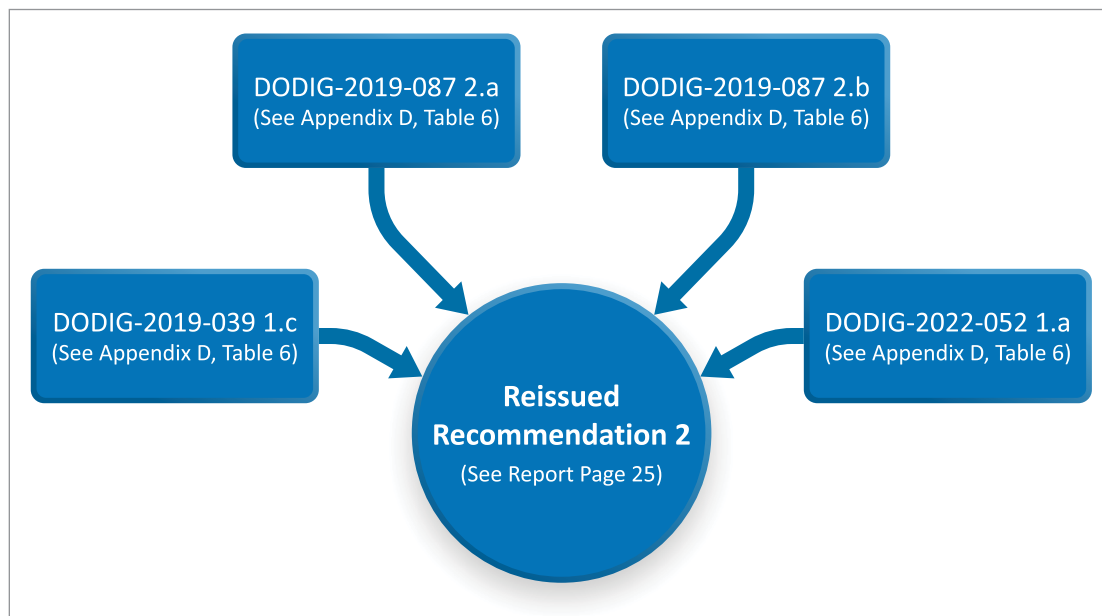
²³ Report No. DODIG-2024-088, “Audit of the Department of Defense’s FY 2023 Compliance with Payment Integrity Information Act Requirements,” May 22, 2024.

to reconcile a small population of civilian payments to the entitlement systems. However, according to DFAS personnel, they did not implement the methodology for the more complex programs because of underlying data integrity issues.

Additionally, DFAS personnel asserted that the DFAS System and Organization Controls (SOC 1) reports related to DoD payments should ensure the completeness of its universes of payment transactions. However, the System and Organization Controls reports discuss the results of the review of the services DFAS provided and the design and effectiveness of the internal controls asserted to by DFAS. The reports do not validate the completeness of the information DoD organizations transferred to DFAS or the controls in place at those organizations. Therefore, we could not rely on the System and Organization Controls reports to determine the completeness of the universes of payment transactions.

While the DoD attempted to identify a methodology for developing complete universes of payment transactions, it did not develop and implement an effective methodology for FY 2024. Therefore, the DoD reported another year of unreliable estimates for the six programs reporting estimates. We did not make new recommendations to address the DoD's incomplete universes of payment transactions; however, we did update the prior recommendations to better address the new structure of the DoD's Payment Integrity program. Figure 5 illustrates the four recommendations that will be closed and reissued to better align with the current program structure.

Figure 5. Prior Recommendations Closed and Reissued



Source: The DoD OIG.

Conclusion

The DoD complied with four of the six payment integrity requirements in FY 2024; however, the DoD conducted inadequate risk assessments and published unreliable improper payment estimates. Specifically, the DoD did not have an effective methodology to confirm the completeness of its Payment Integrity programs, it did not effectively support its risk determinations, and it did not identify complete universes of payment transactions associated with its estimates. The DoD will not be fully compliant with payment integrity requirements until 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 14th consecutive year that the DoD has not produced reliable estimates and the 4th consecutive year that the DoD has not complied with PIIA improper payment reporting requirements.²⁴

The DoD continues to improve its process for identifying improper payments by better defining its programs by breaking out the programs into smaller, more discrete payment populations with similar characteristics and internal control profiles. However, the DoD has yet to fully implement corrective actions to address

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.

prior DoD OIG recommendations concerning the development of the improper payment estimates for its programs. 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. 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 OMB Circular No. A-123, Appendix C, the agency will treat any noncompliance in FY 2024 as the 1st year of noncompliance, for each program found to be noncompliant. According to the PIIA, if an agency is noncompliant in a fiscal year, the agency head of the Executive agency must submit a plan to Congress describing the actions the agency will take to come into compliance. OMB Circular No. A-123, Appendix C further requires that for each program deemed noncompliant, the agency will describe the actions that

²⁴ In addition to not complying with the PIIA for four consecutive years, the DoD did not comply with the nine previous years of improper payment reporting requirements.

the agency will take to come into compliance, in the OMB Annual Data Call. This information will be published to PaymentAccuracy.gov and will serve as the plan that agencies are required to submit to the appropriate authorizing appropriations committees of Congress. Because the DoD did not comply with PIIA requirements, the USD(C)/CFO should take action to submit to the OMB, the planned actions that the DoD will take for the 10 noncompliant programs. This should include, measurable milestones to be accomplished in order to achieve compliance for each program, designate a senior executive who will be accountable for the progress of the DoD to come into compliance for each program and establish an accountability mechanism, with appropriate incentives and consequences tied to the success of the official designated to lead the efforts of the DoD to come into compliance for each program.

Management Comments on the Finding and Our Response

The Assistant Director, Resources and Personnel Integration, responding for the DHA Director, provided comments on the Finding. The Assistant Director stated that the DHA would like to better understand the DoD OIG's concern related to the quantifiable metrics for each program, adding that the programs would not exceed the statutory threshold without catastrophic failures across the mitigation process. The Assistant Director also asserted that the third-party internal controls were documented in the risk assessments and that the DHA fulfilled the OMB Circular No. A-123, Appendix C requirement to review the results of prior audits to take into account whether they impact the risk for improper payments in the programs. Furthermore, the Assistant Director asserted that the DHA met the overarching intent of the PIIA and successfully assessed the risk of improper payments for its five programs, using quantitative and qualitative methods. The Assistant Director added that the DHA's internal controls directly contributed to the reduction of improper payments by implementing effective corrective actions and program specific, risk-based analyses.

Additionally, the Assistant Director stated that DoD OIG statisticians determined that the estimates relied on in the risk assessments were not statistically valid to determine PIIA compliance. However, the DHA statistical methodology used to determine an estimated error rate was based, in part, on recommendations from the DoD OIG. The Assistant Director asserted that the DHA clarified adjustments to the sampling methodology through several submissions of supporting documentation to the DoD OIG. For the full text of the Assistant Director's comments, see the Management Comments section of the report.

Our Response

The MHB–East Region, MHB–West Region, and MHB–TMEP programs’ risk assessments did not contain sufficient documentation to determine how the DHA arrived at its risk determination with the controls documented in the risk assessment. The risk assessments used improper payment estimate rates that the DoD OIG has not reviewed and approved. The DHA also used a qualitative approach in determining its risk, but did not adequately document the key controls it relied on in making its low-risk determination. In determining compliance, the PIIA requires the DoD OIG to take into account the adequacy of the DHA risk assessments. Furthermore, the PIIA requires the agency (the DHA) to take into account risk factors that are likely to contribute to the susceptibility of significant improper payments, including how significant deficiencies in other relevant management findings impact payments and the reliability of improper payment estimates previously reported.

Additionally, this report did not address the statistical methods the DHA used when developing the historical improper payment estimates. However, as noted in the report, the DHA could not provide the universe of payment transactions used to develop the estimate, and therefore, could not support that the estimates were reliable. In addition, in January 2022, the DoD OIG issued a report on the reliability of the MHB program’s improper payment estimate produced by the DHA.²⁵ In the report, we recommended that the DHA Director update the sampling methodology to consider data characteristics and ensure that the sampling methodology is appropriate, including a reasonable number of sample items.²⁶ According to DHA personnel, they have taken action to address this recommendation by developing a new risk-based predictive modeling sampling methodology. However, the methodology was not fully implemented in FY 2024. Therefore, the DHA did not implement an effective methodology for reporting reliable estimates in FY 2024. Please see Appendix D, Table 5, for the status of all outstanding recommendations.

²⁵ Report No. DODIG-2022-052, “Audit of the Defense Health Agency’s Reporting of Improper Payment Estimates for the Military Health Benefits Program,” January 11, 2022.

²⁶ Report No. DODIG-2022-052, “Audit of the Defense Health Agency’s Reporting of Improper Payment Estimates for the Military Health Benefits Program,” January 11, 2022, Recommendation 1.b.

Recommendations, Management Comments, and Our Response

Recommendation 1

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

- a. **Develop and implement a tool to improve the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD's oversight of the programs that includes a method for establishing new programs, including how it determines the date of establishment.**

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

The Deputy Chief Financial Officer (DCFO), responding for the USD(C)/CFO, agreed with the recommendation and stated that the DoD will develop and implement a methodology for identifying and documenting new programs. The DCFO anticipates completing this action by March 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 the USD(C)/CFO provides documentation and we verify that the DoD has implemented a tool to improve the OUSD(C)/CFO's oversight of the programs that includes a method for establishing new programs, including how it determines the date of establishment.

- b. **Determine whether payments associated with disaster emergency funds should be considered as a high-risk payment type identified within the DoD's Payment Integrity portfolio. If so, develop a methodology to publicly report the improper payments associated with the DoD's use of disaster emergency funds.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that the DoD will develop and implement a methodology for the DoD to determine whether payments associated with disaster emergency funds should be considered high-risk payment types within the DoD's Payment Integrity portfolio. If such a determination is made, the DoD will develop a methodology to publicly report improper payments. The DCFO anticipates completing this action by March 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 the USD(C)/CFO provides documentation and we verify that the DoD has determined whether payments associated with disaster emergency funds should be considered high-risk, and, if necessary, the DoD has developed a methodology to publicly report the improper payments associated with the DoD's use of disaster emergency funds.

- c. **Submit for the Military Health Benefits–TRICARE East Region Program; Military Health Benefits–TRICARE West Region Program; Military Health Benefits–TRICARE Medicare Eligible Program; Military Pay Army–National Guard, Civilian Pay–Army, Civilian Pay–Other Defense Organization, DoD Travel Pay Army–Defense Travel System, DoD Travel Pay Navy–Defense Travel System, DoD Travel Pay Department of the Air Force–Defense Travel System, and Commercial Pay–Mechanization of Contract Administration Services programs to the Office of Management and Budget, the planned actions that the DoD will take to come into compliance, including actions to:**
- **Develop measurable milestones to be accomplished in order to achieve compliance for each program or activity.**
 - **Designate a senior executive who will be accountable for the progress of the DoD to come into compliance for each program in this recommendation.**
 - **Establish an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the official designated to lead the efforts of the DoD to come into compliance for each program.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that the DoD will provide the information as required for each program in its first year of noncompliance in the FY 2025 OMB data call. The DCFO anticipates completing 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 the DoD has provided the information as required for each program in its first year of noncompliance in the annual OMB data call.

Recommendation 2

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with DoD Components, develop and implement a methodology to:

- **Identify all DoD outlays and the programs with which they are associated.**
- **Verify that the programs' universes of payment transactions include all outlays related to each respective program.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that the DoD will continue efforts to develop and implement a process for identifying all DoD outlays and substantiating a complete universe of payment transactions for each associated program. The DCFO anticipates completing this action by June 2027.

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 DoD has identified all DoD outlays and the programs with which they are associated and has verified that the programs' universes of payment transactions include all outlays related to each respective program.

Recommendation 3

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) reevaluate the DoD Travel Pay Navy-Defense Travel System program and report the program's estimates in the appropriate Payment Integrity Information Act reporting phase.

Assistant Secretary of the Navy (Financial Management and Comptroller) Comments

The Acting Assistant Secretary of the Navy (Financial Management and Comptroller) agreed with the recommendation and stated that the Department of the Navy will move the program into Phase 2 beginning in FY 2026, where it will remain until the program measures below the statutory threshold. The Acting Assistant Secretary expected to complete this action by August 2026.

Our Comments

Comments from the Acting Assistant Secretary of the Navy (Financial Management and Comptroller) 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 Department of the Navy has reevaluated the DoD Travel Pay Navy–Defense Travel System program and has reported the program’s estimates in the appropriate Payment Integrity Information Act reporting phase.

Recommendation 4

We recommend that the Director of the Defense Health Agency, in future risk assessment methodologies:

- a. Reassess the Military Health Benefits–TRICARE East Region Program, Military Health Benefits–TRICARE West Region Program, and Military Health Benefits–TRICARE Medicare Eligible Program to fully document and support the specific information it relied on, including the internal controls.**

Director of the Defense Health Agency Comments

The Assistant Director Resources and Personnel Integration, responding for the DHA Director, disagreed with the recommendation, stating that the phrases “fully document” and “support specific information” discussed in the recommendation are unclear, adding that it is also unclear which controls did not meet the DoD OIG’s standards. The Assistant Director also asserted that the DoD OIG requested that contractor personnel be required to provide detailed proprietary information about internal controls; however, according to the Federal Acquisition Regulation, the DHA is unable to compel contractors to provide this information. The Assistant Director explained that the documentation provided included specific contract performance reviews related to oversight of the listed internal controls and that the DHA is unclear as to why some programs passed the risk assessment audit and others did not, when the DHA applied the same methodology to each assessment.

Our Response

Comments from the Assistant Director of Resources and Personnel Integration did not address the specifics of the recommendation; therefore, the recommendation is unresolved. The DoD OIG found that the DHA did not adequately document, in three of its five risk assessments, the key (specific) internal controls that it relied on to mitigate improper payments. In response to the DoD OIG's findings, the DHA stated that it relied on DHA-controlled reporting and testing measures to ensure contract requirements are met and that "...key controls are documented in the form of reports, memos, CDRLs [Contract Data Requirements List], contract verbiage, manual language, and ongoing testing and performance reviews." In reviewing the risk assessments, the DoD OIG determined that the DHA included broad statements regarding the controls it relied on to make its low-risk determination. Therefore, the DHA should document the key internal controls that it relied on when determining the level of risk and demonstrate how those key internal controls mitigate the risk of improper payments. Furthermore, the DoD OIG did not request contractor personnel be required to provide detailed proprietary information. Instead, we requested that the DHA provide evidence and documentation to support that the controls it relied upon had been observed by DHA personnel, and that the controls have been determined to be effective.

Additionally, the DoD OIG determined the DHA adequately documented its level of risk for two of its MHB programs. The DoD OIG made this determination through discussions with the third-party contractor, in which the DoD OIG obtained enough information to understand the controls in place to mitigate the risk. However, the DHA did not provide sufficient evidence and documentation for the other three MHB programs (MHB-East Region, MHB-West Region, and MHB-TMEP) that did not comply with the PIIA. We request that the DHA Director provide additional comments that clarify their current plans to address the unresolved recommendations within 30 days of this report.

- b. Reassess the risk of the TRICARE programs if the Government Accountability Office requires public reporting of the results of the medical records reviews to close its recommendation.**

Director of the Defense Health Agency Comments

The Assistant Director of Resources and Personnel Integration, responding for the DHA Director, disagreed with the recommendation and stated that the DHA will reassess its risk assessments as part of the 3-year cycle, making changes as

necessary, and conduct quarterly assessments on each program. Additionally, the Assistant Director determined that a 2015 GAO audit recommendation is not applicable to the reorganized MHB programs for the following reasons.

- The risk assessment included the DHA's determination that the identification and root cause analysis of improper payments are accounted for through the current processes and the implementation of the alternate solution (predictive methodology).
- The GAO recommendation would not impact the overall reporting of improper payments because the DHA reports documentation errors and delays as improper payments, not as unknown payments, and these improper payments are already calculated toward the total improper payment rate.
- The current version of OMB Circular No. A-123, Appendix C, no longer discusses the subject of medical necessity and therefore omits the need for the GAO recommendation.
- The DHA submitted a closure packet to the GAO in 2023 and is not able to comply with or complete the outstanding recommendations that exist outside the scope of the DHA.

Our Response

Comments from the Assistant Director of Resources and Personnel Integration did not address the specifics of the recommendation; therefore, the recommendation is unresolved. As of May 2025, the GAO states that to fully address GAO-15-269, Recommendation 1, the DHA should publicly note the results of its MRRs as part of its improper payment reporting. Therefore, if the GAO requires this action of the DHA to close the recommendation, then the DHA must reevaluate its improper payment risk determination to address our recommendation. In response to the DHA's concerns, we provided the following responses.

- Although the DHA has developed a new risk-based predictive sampling methodology, it was not fully implemented in FY 2024.
- Although the DHA reports documentation errors and delays as improper payments, instead of unknown payments, the DHA did not implement MRRs consistent with the GAO recommendation. As the DoD OIG stated in the report, when the DHA conducted two focus studies related to the GAO recommendation, the DHA encountered barriers to obtaining supporting documentation and determined the MRRs to be unfeasible and costly. The studies found that 28 percent of the MHB-East Region claims and 67 percent of the MHB-West Region claims had insufficient or no documentation. However, during the same time period, the DHA reported an improper payment rate of 1.09 percent for the MHB-East

Region and 0.77 percent for the MHB–West Region. Therefore, the DHA’s identification of these significant documentation issues during its MRR focus studies, increases the risk that incorporating MRRs would reveal a higher rate of improper or unknown payments than the DHA reported.

- While the prior version of OMB Circular No. A-123, Appendix C included “medical necessity” as 1 of the 14 improper payment root cause categories, OMB broadened these categories in the current version of the Circular to 5 improper payment root cause categories. Though the OMB removed “medical necessity” from the language, the current Circular does not exclude the DoD OIG from considering factors that may impact the improper and unknown payment rate.
- The DHA is responsible for taking action to close its recommendations. Once the GAO concludes its review of the DHA’s closure package, we will revisit this recommendation.

We request that the DHA Director provide additional comments that clarify their current plans to address the unresolved recommendations within 30 days of this report.

Appendix A

Scope and Methodology

We conducted this performance audit from July 2024 through April 2025 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 2024 AFR, we interviewed personnel from the following agencies.

- DFAS
- OUSD(C)/CFO
- DHA
- Army
- Navy
- USMC
- Air Force

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

We reviewed the following guidance on PIIA reporting requirements for FY 2024.

- Public Law No. 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. In particular, we assessed controls related to the OUSD(C)/CFO reporting processes, determinations of the program universes of payment transactions, development of the improper payment estimates for each program, development and execution of corrective action plans, and publishing of risk assessments. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

Use of Computer-Processed Data

We relied on computer-processed data included in the Payment Integrity Information Act section of the DoD FY 2024 AFR and supporting documents to perform this audit. The FY 2024 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, 2024. We concluded that the financial data within the DoD FY 2024 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 risk assessments for five DHA programs that submitted risk assessments for the DoD's FY 2024 PIIA reporting cycle. They determined that the statistical methods proposed in the risk assessments will produce estimates that are not appropriate to determine whether the programs had total annual improper payments plus unknown payments that were above or below the statutory threshold.

Appendix B

Prior Coverage

During the last 5 years, the DoD Office of Inspector General (DoD OIG) issued nine reports discussing improper payment reporting requirements and GAO issued one report.

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

Unrestricted GAO reports can be accessed at <http://www.gao.gov>.

DoD OIG

Report No. DODIG-2024-088, “Audit of the Department of Defense’s FY 2023 Compliance with Payment Integrity Information Act Requirements,” May 22, 2024

The DoD OIG determined that the DoD did not comply with PIIA requirements in its FY 2023 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 eight DoD programs required to report estimates.

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 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 2 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 Improper Payments Elimination and Recovery Act (IPERA) requirements by publishing all required information in the Payment Integrity section of the AFR; conducting program-specific risk assessments; publishing corrective action

plans; and reporting an improper payment rate of less than 10 percent for each of the eight programs that included an improper payment estimate in the FY 2019 AFR. However, the DoD did not fully comply with two of the six IPERA requirements.

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

The DoD OIG determined that the DoD complied with three of the six IPERA requirements by publishing all required information in the Payment Integrity section of the AFR; conducting program-specific risk assessments; and reporting an improper payment rate of less than 10 percent for each of the eight programs that included an improper payment estimate in the FY 2018 AFR. However, the DoD did not fully comply with three of the six IPERA requirements.

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

The DoD OIG determined that the DoD produced an incomplete and inaccurate improper payment estimate for the DFAS Commercial Pay program for the first two quarters of the FY 2018 IPERA reporting period. The estimate calculation did not include the results of \$5.7 billion of transportation; Government Purchase Card; and Army overseas payments. In addition, DFAS personnel did not have sufficient controls in place to validate the accuracy and completeness of the commercial payment universe of payment transactions used for developing the DFAS portion of the estimate.

GAO

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

The GAO determined that the DHA, the agency within the DoD responsible for administering the military health program known as TRICARE, uses a methodology for measuring TRICARE improper payments that is less comprehensive than the methodology used to measure improper payments in Medicare. Both methodologies evaluate a sample of health care claims paid or denied by the contractors that process the programs’ claims. However, DHA’s methodology only examines the claims processing performance. DHA does

not examine the underlying medical record documentation to discern whether each sampled payment was supported. Without examining the medical record, DHA does not verify the medical necessity of services provided. The agency also does not validate that the diagnostic and procedural information reported on the claim matches the care and services documented in the medical record. DHA's less comprehensive approach limits its ability to address the causes of improper payments in the TRICARE program.

Appendix C

The DoD's FY 2024 Compliance with PIIA Requirements

We determined that the DoD did not comply with PIIA requirements when conducting its risk assessments and publishing unreliable improper and unknown estimates. See Table 4 for the DoD's compliance with PIIA requirements at the program level.

Table 4. The DoD FY 2024 Compliance with PIIA Requirements

Payment Integrity Requirements	DoD Overall Compliance	Civilian Pay–Navy	DoD Travel Pay DAF–RTS	DoD Travel Pay Navy–DTS	DoD Travel Pay Navy–IATS	DoD Travel Pay USMC–IATS	DoD Travel Pay USMC–MCTFS	MHB–East Region	MHB–West Region	MHB–TMEP	MHB–TPharm	MHB–TOP	Military Pay Navy–Active Duty	Military Pay Navy–Reserve	Military Pay USMC–Active Duty	Military Pay USMC–Reserve	Military Pay Army–National Guard	Civilian Pay–Army	Civilian Pay–ODO	DoD Travel Pay–Army DTS	DoD Travel Pay DAF–DTS	Commercial Pay–MOCAS
AFR Published in Accordance with OMB Guidance	✓																					
Conduct Risk Assessments	✗	✓	✓	✗	✓	✓	✓	✗	✗	✗	✓	✓	✓	✓	✓	✓						
Published Reliable Estimates	✗																✗	✗	✗	✗	✗	✗
Published CAP	✓																		✓	✓	✓	
Published Reduction Targets	✓																		✓	✓	✓	
Reported Rate Under 10 Percent	✓																✓	✓	✓	✓	✓	✓

LEGEND



Compliant



Not Compliant

Note: The Payment Integrity requirements apply to each program based on the status of the program. Therefore, not every program will have a compliance indicator.

Source: The DoD OIG.

Appendix D

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 5 shows the status of all DoD OIG Payment Integrity audit recommendations.

Table 5. Status of DoD OIG Recommendations from Prior Payment Integrity Compliance Reports as of May 16, 2025

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	6	0
DODIG-2019-087	10	10	0
DODIG-2020-083	4	4	0
DODIG-2021-024	10	10	0
DODIG-2021-080	7	7	0
DODIG-2022-052	4	3	1
DODIG-2022-108	7	6	1
DODIG-2023-075	4	3	1
DODIG-2024-088	3	2	1
Total	115	111	4

Source: The DoD OIG.

At the time of this report, the DoD had closed 111 of 115 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 2024, the DoD had 13 open recommendations from prior improper payment compliance audit reports. Since April 2024, the DoD OIG closed 9 recommendations, while 4 recommendations remain open. Table 6 shows the status of these 13 recommendations.

Table 6. Status of Open Recommendations Reported in Report No. DODIG-2024-088 as of May 16, 2025

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.	Closed: Because of the DoD’s restructure of its Phase 2 programs, by breaking them out into more discrete payment populations, the details discussed in this recommendation are no longer applicable, though the DoD is still unable to identify all types of payments or verify that there is an existing risk assessment or sampling plan that covers all payment types. Therefore, we have decided to administratively close this recommendation and reissue it in a new recommendation to better align with the new programs. See Recommendation 2 of this report.
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.	Closed: Because of the DoD’s restructure of its Phase 2 programs, by breaking them out into more discrete payment populations, the details discussed in this recommendation are no longer applicable, though the DoD has still not developed a process that uses the amount paid for the commercial payments. Therefore, we have decided to administratively close this recommendation and reissue it in a new recommendation to better align with the new programs. See Recommendation 2 of this report.
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.	Closed: Because of the DoD’s restructure of their Phase 2 programs, by breaking them out into more discrete payment populations, the details discussed in this recommendation are no longer applicable, though the DoD has still not developed and implemented sufficient control measures in the population review process to ensure that it includes all necessary payments. Therefore, we have decided to administratively close this recommendation and reissue it in a new recommendation to better align with the new programs. See Recommendation 2 of this report.

Table 6. Status of Open Recommendations Reported in Report No. DODIG-2024-088 as of May 16, 2025 (cont'd)

Recommendation		Status
DODIG-2022-052		
1.a	We recommended that the DHA Director develop and implement procedures to use the actual paid amounts in sample populations.	Closed: Because of the DoD's restructure of their Phase 2 programs, by breaking them out into more discrete payment populations, the details discussed in this recommendation are no longer applicable, though the DHA has still not developed procedures to use the actual paid amounts in the sample populations. Therefore, we have decided to administratively close this recommendation and reissue it in a new recommendation to better align with the new programs. See Recommendation 2 of this report.
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.	Resolved: Though DHA personnel have taken action to address this recommendation, by developing a new risk-based predictive modeling sampling methodology, it was not fully implemented in FY 2024. Therefore, this recommendation remains open. We will close this recommendation when we determine that the DHA has fully implemented its updated sampling methodology to consider data characteristics and ensured that the sampling methodology is appropriate, including a reasonable number of sample items. Estimated completion date: June 2025
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.	Closed: We verified that the DHA updated its improper payment review processes to ensure that it uses a payment definition that complies with the Payment Integrity Information Act of 2019.
DODIG-2022-108		
2.a	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.	Resolved: 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, Military Retirement Pay and Commercial Pay—MOCAS programs. However, for FY 2024, the audit team could not assess the 11 Commercial Pay programs that are still drafting risk assessments. We will close this recommendation once we confirm that the DoD has developed a risk-based strategy that targets high-risk commercial payments for the remaining 11 programs based on the characteristics of the payments. Estimated completion date: May 2026

Table 6. Status of Open Recommendations Reported in Report No. DODIG-2024-088 as of May 16, 2025 (cont'd)

Recommendation		Status
DODIG-2023-075		
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 of 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.	Closed: We determined that due to the congressional letters submitted by the OUSD(C)/CFO stating that the DoD has broken the Phase 2 programs into more discrete payment populations and the implementation of these programs for the FY 2024 PIIA audit, the recommendation is closed.
2.a	We recommended that the Director, Defense Finance and Accounting Service for the Hawaii water contamination evacuation travel payments: <ul style="list-style-type: none"> comply with the Office of Management and Budget Circular No. A-123, Appendix C, by reclassifying the payments in question as Unknown Payments; and 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. 	Closed: The audit team determined that, due to the Army Audit Agency's audit which resulted in a review of the payment documentation by the Deputy Assistant Secretary of the Army (Financial Operations and Information), coupled with the recommendations, the intent of the recommendation is met, and is closed.
2.b	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.	Resolved: 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 universe of transactions 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. 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. Estimated completion date: June 2025

Table 6. Status of Open Recommendations Reported in Report No. DODIG-2024-088 as of May 16, 2025 (cont'd)

Recommendation		Status
DODIG-2024-088		
1.a	We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, ensures DoD Components develop and implement a process to identify the characteristics of the data included in the variances from the universe of transactions.	<p>Resolved: The DoD took steps to identify the characteristics of the data by breaking 16 programs into 48 small programs. However, the DoD continues to be unable to reconcile the difference between entitlement and disbursing systems.</p> <p>We will consider closing this recommendation when the DoD ensures that the DoD Components develop and implement a process to identify characteristics of data included in the variance from the universe of transactions.</p> <p>Estimated completion date: June 2027</p>
1.b	<p>We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD 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.</p> <ol style="list-style-type: none"> 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. 	<p>Closed: On July 10, 2024, the OUSD(C)/CFO submitted documentation including Payment Integrity Letters to congressional committees, the Director of the OMB, and the Comptroller General. The documentation detailed the DoD's plan to bring the programs into compliance with the PIIA.</p>
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.	<p>Closed: DFAS personnel provided sufficient documents to show that they had developed and implemented internal controls, such as coordinating with the stakeholders that process commercial payments, to review the characteristics of MOCAS commercial payments to determine whether the payments have a higher risk of being improper. Specifically, DFAS personnel implemented internal controls to determine that the recoupments of financing were high-risk characteristics for FY 2024 and that potentially the manual payments and payments involving manual entitlements in addition to the recoupment of financing were high-risk characteristics for FY 2025. Therefore, this recommendation is closed.</p>

Source: The DoD OIG.

Management Comments

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



COMPTROLLER

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

May 6, 2025

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 Fiscal Year 2024 Compliance with Payment Integrity Information Act
Requirements,” Project No. D2024-D000FL-0156.000

Our office received the subject draft report, dated April 11, 2025. Attached are our
responses to your recommendations for review.

The Department of Defense (DoD or Department) met the overarching intent of the
Payment Integrity Information Act of 2019 (PIIA) and Office of Management and Budget
Circular A-123, Appendix C by establishing Payment Integrity as a top management priority to
develop effective methodologies for the identification, prevention, and recovery of improper
payments. In fiscal year (FY) 2024, DoD achieved PIIA compliance with four out of the six
compliance criteria. Notably, the Department achieved a program-specific compliance rate of 79
percent, a 29 percent increase from FY 2023.

The FY 2024 reorganization of the Payment Integrity portfolio improved transparency
and expanded the Department’s ability to adopt a more granular approach to identifying the
causes of improper payments, resulting in improved decision-making, more efficient allocation
of resources, and the implementation of effective controls. These internal controls directly
contributed to the reduction of improper payments through corrective actions, audit performance
timeline execution standards, and program-specific working groups. Further, the Department
worked diligently to identify \$1.83 billion in monetary losses (or overpayments) and recovered
\$1.68 billion in FY 2024, demonstrating proper stewardship of funding through the payment
recovery audits.

The Department continues to develop a process for substantiating the universe of
transactions to produce reliable, improper, and unknown payment estimates. My staff point of
contact is [REDACTED], at [REDACTED] or [REDACTED].

PIERCE.TINA.MA [REDACTED]
RIE [REDACTED]
Tina M. Pierce
Deputy Chief Financial Officer

Attachment:
As stated

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

DOD OIG DRAFT REPORT - DATED APRIL 11, 2025

PROJECT NO. Project No D2024-D000FL-0156.000

“Audit of the Department of Defense’s FY 2024 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. “Develop and implement a tool to improve the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD’s oversight of the programs that includes a method for establishing new programs, including how it determines the date of establishment.”

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)

(OUSD(C)) RESPONSE TO RECOMMENDATION 1a: Concur. The DoD will develop and implement a methodology for identifying and documenting new programs.

Estimated completion date is March 2026.

- b. “Determine whether payments associated with disaster emergency funds should be considered as a high-risk payment type identified within the DoD’s Payment Integrity portfolio. If so, develop a methodology to publicly report the improper payments associated with the DoD’s use of disaster emergency funds.”

OUSD(C) RESPONSE TO 1b: Concur. There are concerns from DoD OIG that payments under disaster emergency fund codes (DEFC), as seen in the Ukraine supplemental funds audit, were not flagged as high risk. There are challenges with breaking out supplemental payments by appropriations or DEFC codes into separate programs compared to the existing categorization methodology (e.g., travel, contracts, pay). However, the DoD will include in its methodology to identify new programs in response to Recommendation 1a, a process to determine whether payments associated with disaster emergency funds should be considered high-risk payment types within the DoD’s Payment Integrity portfolio. If such a determination is made, the DoD will develop a methodology to publicly report said improper payments.

- c. “Submit for the Military Health Benefits–TRICARE East Region Program; Military Health Benefits–TRICARE West Region Program; Military Health Benefits–TRICARE Medicare Eligible Program; Military Pay Army–National Guard, Civilian Pay–Army, Civilian Pay–Other Defense Organization, DoD Travel Pay Army–Defense Travel System, DoD Travel Pay Navy–Defense Travel System, DoD Travel Pay Department of

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

the Air Force–Defense Travel System, and Commercial Pay–Mechanization of Contract Administration Services programs to the Office of Management and Budget, the planned actions that the DoD will take to come into compliance, including actions to:

1. Develop measurable milestones to be accomplished in order to achieve compliance for each program or activity.
2. Designate a senior executive who will be accountable for the progress of the DoD to come into compliance for each program in this recommendation.
3. Establish an accountability mechanism, such a performance agreement, with appropriate incentives and consequences tied to the success of the official designated to lead the efforts of the DoD to come into compliance for each program.”

OUS(D) RESPONSE TO 1c: Concur. The DoD recognizes that this is not a separate Congressional reporting requirement outside of the annual OMB data call. The DoD will provide the information as required for each program in their first year of non-compliance in the FY 2025 OMB data call. The DoD notes that this requirement does not necessarily warrant the same remedial actions mandated for programs with non-compliance determinations over consecutive years.

Estimated completion date is June 2026.

RECOMMENDATION 2

“We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with DoD Components, develop and implement a methodology to:

1. Identify all DoD outlays and the programs with which they are associated.
2. Verify that the programs’ universes of payment transactions include all outlays related to each respective program.”

OUS(D) RESPONSE TO 2: Concur. This recommendation merges several prior open audit recommendations. The DoD OIG has not performed reviews of programs that did not develop fully substantiated universe of transactions (UoTs). The incomplete UoTs have continued to compromise the reliability of improper payment estimates. The DoD will continue efforts to develop and implement a process for identifying all DoD outlays and substantiating a complete UoT for each associated program.

Estimated completion date is June 2027.

Office of the Assistant Secretary of the Navy (Financial Management and Comptroller)



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY OF THE NAVY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

MAY 01 2025

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Department of the Navy Response to the Department of Defense Inspector General
Draft Report "Audit of the Department of Defense's FY24 Compliance with
Payment Integrity Information Act Requirements"

This memorandum is in response to the recommendation in the subject audit that the Assistant Secretary of the Navy (Financial Management and Comptroller) reevaluate whether the Department of the Navy's travel program for the US Navy Defense Travel System is in the correct phase under the Payment Integrity Information Act of 2019.

Attached is my response to the audit's recommendation.

The point of contact for this matter is [REDACTED] who may be reached at [REDACTED] or [REDACTED]

Alaleh A. Jenkins
Assistant Secretary of the Navy
(Financial Management and Comptroller)
(Acting)

Attachments:
As Stated

Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) (cont'd)

DOD IG DRAFT REPORT DATED APRIL 11, 2025
D2024-D000FL-0156.000

“Audit of the Department of Defense’s FY 2024 Compliance with Payment Integrity Information Act Requirements”

RECOMMENDATION 3:
We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) reevaluate the DoD Travel Pay Navy–Defense Travel System program and report the program’s estimates in the appropriate Payment Integrity Information Act reporting phase.

DEPARTMENT OF THE NAVY (DON) RESPONSE:
The DON concurs. In the Department of Defense (DoD) remediation plan to Congress for fiscal year 2024, the Under Secretary of Defense (Comptroller) (OUSD (C)) informed Congress that DoD restructured the DoD Travel Program into DoD component-level travel programs. Based on DoD’s interpretation of the improper payments statutory threshold, OUSD(C) restructured travel for the US Navy Defense Travel System (USN DTS) as a Phase 1 (Risk Assess) program. During the DoD Office of Inspector General (DoD OIG) annual audit of DoD’s compliance with the Payment Integrity Information Act of 2019, DoD OIG staff disagreed with DoD’s interpretation of the statutory threshold, and clarified the \$10M in the 1.5% and \$10M threshold was based on improper and unknown payments, and was not a measure of defining a program. Based on the clarification and the last measured improper payment rate of USN DTS as 5.03% and \$88M, above the 1.5% and \$10M threshold, the DON will move the program into Phase 2 (Statistical Sampling) beginning in FY26 until the program measures below the statutory threshold.

Defense Health Agency



DEFENSE HEALTH AGENCY
7700 ARLINGTON BOULEVARD, SUITE 5101
FALLS CHURCH, VIRGINIA 22042-5101

April 24, 2025

**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 2024 Compliance with Payment Integrity Information Act Requirements," Project No. D2024-D000FL-0156.000

The Defense Health Agency (DHA) received the subject draft report, dated April 11, 2025. Attached are the responses to the DoD Office of Inspector General (DoD IG) recommendations. In addition, after reviewing the full draft, DHA provides additional comments in response to several comments included in the report.

The DoD IG indicated that DHA risk assessments of the Military Health Benefits (MHB) health care programs did not contain sufficient information about the methodology used by the agency to arrive at its risk determinations, or adequately concluded, that the total risk level was low. These comments would not be applicable to all the MHB programs because two program risk assessments were determined to be sufficient, and not all the programs were found to be low risk. DHA would like to better understand the concern of improving quantifiable metrics for the individual specific programs. Additionally, even with an increase in improper payments, it is very unlikely any of the programs would exceed the threshold without catastrophic failures across all realms of the risks and mitigation processes.

DHA found that several comments regarding missing or incomplete information were indeed addressed in the risk assessments, responses to "provided by client" (PBC) documentation, and walkthrough demonstrations. The DoD IG report expresses concern regarding DHA's reliance on third party controls to determine risk. The third-party external controls were documented throughout the risk assessment to substantiate the definition of 'residual' risk that exists once DHA receives claims data, that is subject to internal controls. DHA did not rely on external controls to define the risk level of each program. DoD IG personnel did meet with some of the contractors to discuss these controls. The contractor's proprietary documentation is outside of the Government's legal authority to provide.

DoD IG found that DHA needs to demonstrate the impact of other audit agency findings and recommendations. According to Office of Management and Budget (OMB) Circular A-123 Appendix C regarding other audit agency findings and recommendations, "With that in mind, when developing a risk assessment methodology, agencies are encouraged to review the results of audits, examinations and legal actions of the OIG and take into account whether they impact

Defense Health Agency (cont'd)

the risk of improper payments in the program.” The requirement is only to evaluate and take open findings into account if they would push the improper payments above the threshold of the statutes. Therefore, by including the review of several DoD IG and Government Accountability Office (GAO) prior recommendations, and explaining the reviews conducted through PBC submission to DoD IG, DHA fulfilled the requirement as outlined by OMB.

Lastly, DoD IG statisticians determined that the risk assessments pointed out statistical methods that were not appropriate to determine whether the programs had total annual improper payments plus unknown payments that were above or below the statutory threshold. The statistical methodology currently being used by DHA to determine an estimated error rate is based on recommendations from the DoD IG Data Analytics Team and from the scholarly text entitled, “Sampling of Populations: Methods and Applications” by Levy and Lemeshow (1991). The adjustments to the sampling methodology were clarified through several PBC submissions.

The Department of Defense (DoD) met the overarching intent of the Payment Integrity Information Act of 2019 (PIIA) and 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 created five new Military Health Benefits programs, East, West, TRICARE Medicare Dual Eligible, TRICARE Pharmacy, and TRICARE Overseas, to ensure that the unique characteristics of each program were given adequate consideration. In compliance with the Phase 1 requirements in Appendix C of OMB Circular A-123, DHA successfully assessed the risk of improper payments for five new programs using quantitative and qualitative methods.

DHA enhanced its processes as a direct result of prior audit reports issued by the DoD IG. These internal controls directly contributed to the reduction of improper payments by implementing effective corrective actions and program-specific and risk-based analyses. Efforts continue to improve processes for substantiating the universe of transactions to produce reliable improper payment estimates. All these improvements will result in the Department achieving full PIIA compliance.

We appreciate DoD IG review of these payment integrity programs. My point of contact is [REDACTED], at [REDACTED] or [REDACTED]

GOODMAN.ROBERT.
LOWELL [REDACTED]
Robert L. Goodman, SES
Assistant Director
Resources and Personnel Integration

Attachments:
As stated

Defense Health Agency (cont'd)

IG DRAFT REPORT DATED APRIL 11, 2025
PROJECT NO. D2024-D000FL-0156.000

AUDIT OF THE DEPARTMENT OF DEFENSE'S FY 2024 COMPLIANCE WITH
PAYMENT INTEGRITY INFORMATION ACT REQUIREMENTS
PROJECT NO. D2024-D000FL-0156.000
DEFENSE HEALTH AGENCY COMMENTS TO THE DOD OIG RECOMMENDATION

RECOMMENDATION 4

"We recommend that the director of the Defense Health Agency, in future risk assessment methodologies":

a. "Reassess the Military Health Benefits-TRICARE East Region Program, Military Health Benefits-TRICARE West Region Program, and Military Health Benefits-TRICARE Medicare Eligible Program to fully document and support the specific information it relied on, including the internal controls."

DEFENSE HEALTH AGENCY RESPONSE TO RECOMMENDATION 4a: Non-concur. The Department non-concurs with the recommendation based on the following statements: DHA is unclear of the definitions of "fully document" and "support specific information" that DoD Office of the Inspector General (OIG) wrote in the recommendation. Of the internal and external controls included in the three risk assessments, it is unclear which controls did not meet OIG's standards, and OIG has not provided itemization of the specific controls considered complete, and which ones require follow up to pass. During the audit period, OIG stated that walkthrough demonstrations showing upstream external controls sufficed to augment the internal controls represented in the risk assessments. After the walkthroughs, OIG requested that contractor personnel be mandated to provide detailed proprietary information on their controls. In accordance with the Federal Acquisition Regulation, DoD is unable to compel TRICARE private sector care contractors to provide proprietary information that is not contractually mandated.

PBC submissions throughout the audit period included specific contract performance reviews related to oversight of the listed internal controls.

Each of the five risk assessments contained the same methodology and relevant internal and external controls for their respective programs. It is unclear to DHA why some programs passed the risk assessment audit and others did not. (see comment 5).

b. "Reassess the risk of the TRICARE programs if the Government Accountability Office requires public reporting of the results of the medical records reviews to close its recommendation."

DEFENSE HEALTH AGENCY RESPONSE TO RECOMMENDATION 4b: Non-concur. The Department non-concurs with the recommendation based on the following information: The risk assessments for each of the Military Health Benefits programs are on a cyclical reassessment timeline for review each fiscal year. If conditions change that would affect areas of the risk

Defense Health Agency (cont'd)

assessment, per PIIA Phase 1 program guidance, the agency is required to make updates to the risk assessment. A recommendation from OIG to conduct further assessment is not required, PIIA requires a minimum of review every three years for all Phase 1 programs. DHA-CRM conducts recurrent quarterly assessments on each program throughout the fiscal year to adjust resource assignment, manage potential changes to risk, and allocate studies and future work accordingly.

An open 2015 GAO audit recommendation related to medical records review has been determined, by DHA, not applicable to the reorganized Military Health Benefits programs. DHA reviewed the implications of the current open recommendations across agencies and determined in the risk assessments that the identification and root causes of improper payments are adequately controlled through the current processes and the implementation of the alternate solution previously submitted to GAO and OIG. The overall risk level of the Military Health Benefits programs is not affected by the open priority recommendation OIG cited. The GAO recommendation was not specific to any one Military Health Benefits program, and DHA is unclear on why OIG believes it would be impactful to three out of the five programs.

DHA cannot comply with recommendations that are contingent upon another agency's future potential actions. There is no way for DHA to comply or complete outstanding recommendations that exist outside of the scope of DHA. DHA submitted a closure packet to GAO in 2023. DHA asserts that the recommendation no longer applies for several reasons including DoD reorganized the DHA Military Health Benefits programs in 2023, creating a 'change in condition' that impacts how the reporting of improper payments is done.

The subject of medical necessity was removed from the current revision of OMB Circular A-123, Appendix C and is no longer required for reporting, impacting the necessity of the GAO recommendation. The laws governing the original GAO recommendations have been repealed and replaced and can no longer be referenced and/or implemented as outlined by the 2015 report. The regulations and guidance that repealed and replaced prior guidance referenced in the original report include the following: OMB Circular No. A-123, Appendix C, updated on March 5, 2021; DoD FMR volume 4, chapter 14; DoD Regulation 7000.14-R, "DoD Financial Management Regulation"; OMB Circular No. A-136, "Financial Reporting Requirements", updated on May 30, 2024; Public Law, No. 116-117, "Payment Integrity Information Act of 2019", March 2, 2020 (PIIA).

The implementation of the GAO recommendation as written in 2015 would not impact the overall reporting of improper payments from DHA to DoD. DHA reports documentation errors and delays as improper payments proactively, not as unknown payments. Therefore, the findings of those errors are already calculated towards the total IP rate that DHA reports through DoD for PIIA compliance.

On page 12 of the draft report, as cited from the DoD AFR, OIG stated that DoD is better able to identify the causes of improper and unknown payments and identify corrective actions as a result of breaking out programs into smaller, more discreet programs, which supports the resolution of the GAO recommendation and DHA's position that the identification of improper payments and

Defense Health Agency (cont'd)

root cause analysis of improper payments will be adequately accounted for post-reorganization of the Military Health Benefits programs, not requiring implementation of the GAO recommendation from 2015.

Acronyms and Abbreviations

AFR	Agency Financial Report
CAPS-W	Computerized Accounts Payable System for Windows
CRSC	Combat-Related Special Compensation
DAF	Department of the Air Force
DAI	Defense Agencies Initiative
DEAMS	Defense Enterprise Accounting and Management System
DEFC	Disaster Emergency Fund Code
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DTS	Defense Travel System
EBS	Enterprise Business System
FABS	Financial Accounting and Business System
FMR	Financial Management Regulation
GFEBs	General Fund Enterprise Business System
IAPS	Integrated Accounts Payable System
IATS	Integrated Automated Travel System
MCTFS	Marine Corps Total Force System
MHB	Military Health Benefits
MOCAS	Mechanization of Contract Administration Services
MRR	Medical Records Review
NERP	Navy Enterprise Resource System
ODO	Other Defense Organization
OMB	Office of Management and Budget
OUSDC(C)/CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
PIIA	Payment Integrity Information Act of 2019
RTS	Reserve Travel System
SAVES	Standard Voucher Examination System
TFMS	Transportation Financial Management System
TMEP	TRICARE Medicare Eligible Program
TOP	TRICARE Overseas Program
TPharm	TRICARE Pharmacy Program
USACE	U.S. Army Corps of Engineers
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
USMC	U.S. Marine Corps

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U.S. DEPARTMENT OF DEFENSE

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**For more information about DoD OIG
reports or activities, please contact us:**

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