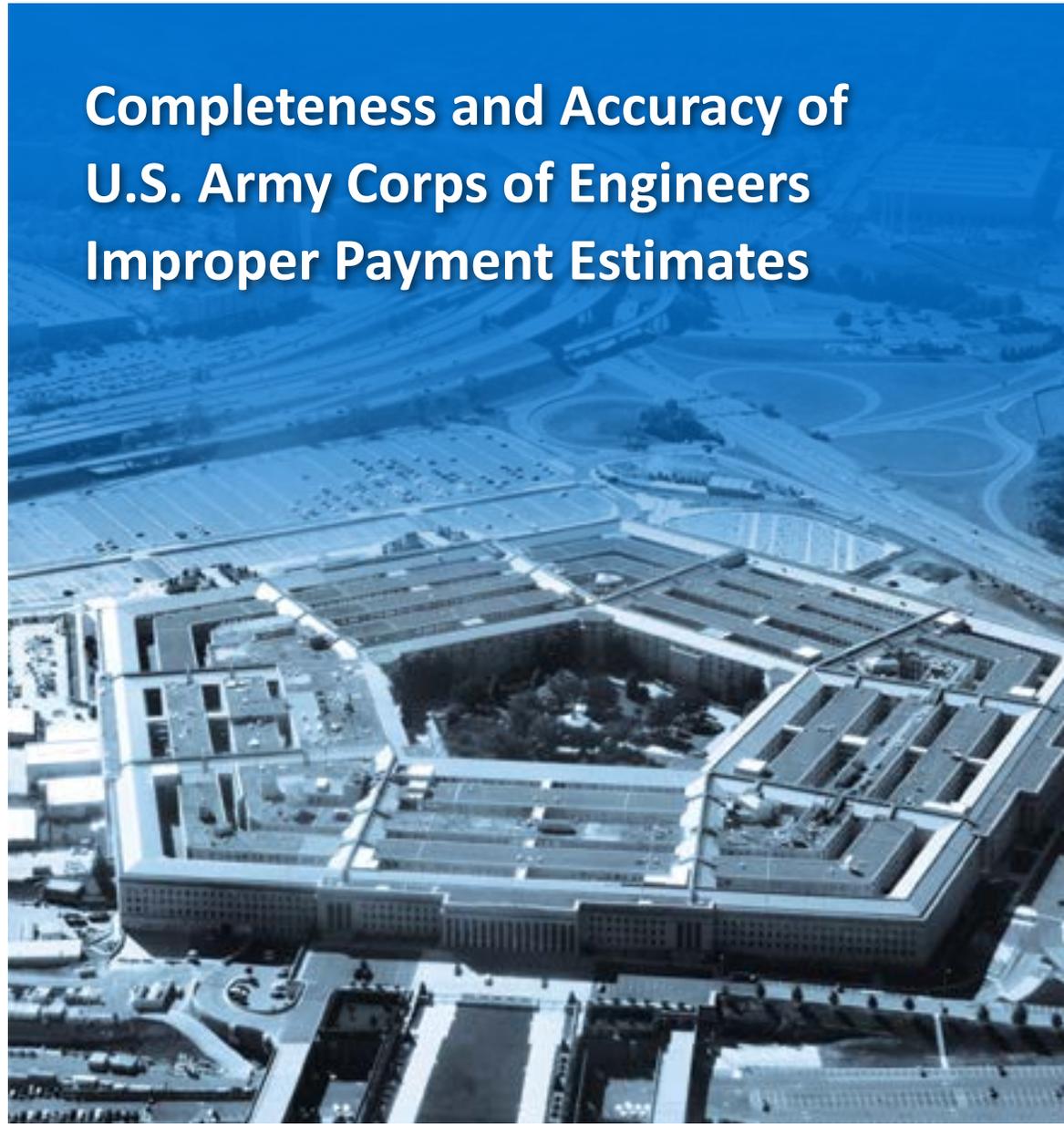




INSPECTOR GENERAL

U.S. Department of Defense

FEBRUARY 13, 2018



Completeness and Accuracy of U.S. Army Corps of Engineers Improper Payment Estimates

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Results in Brief

Completeness and Accuracy of U.S. Army Corps of Engineers Improper Payment Estimates

February 13, 2018

Objective

Our objective was to determine whether the U.S. Army Corps of Engineers (USACE) used a complete universe of payments and accurately identified improper payments when reporting improper payment estimates in the DoD FY 2016 Agency Financial Report (AFR) for the Commercial Pay and Travel Pay programs.

Background

Public Law 111-204, "Improper Payments Elimination and Recovery Act of 2010" (IPERA) requires agencies to report in the AFR a statistically valid estimate of improper payments for each program deemed susceptible to significant improper payments. Furthermore, OMB Circular A-123, Appendix C, consolidates and streamlines IPERA reporting requirements for all agencies and Inspectors General. Additionally, OMB guidance establishes requirements for estimating improper payments and subjecting payments to improper payment testing.

The USACE Commercial Pay and the USACE Travel Pay programs are 2 of 10 programs reported in the DoD FY 2016 AFR. The USACE Commercial Pay program reported total payments of \$18,158.00 million (\$18.16 billion), and no improper payments in the DoD FY 2016 AFR.¹ While the

¹ OMB Circular A-136 requires agencies to report in the AFR improper payments and total payments in millions and carried out to at least two decimal points. To stay consistent with totals reported by agencies in the AFR, we followed OMB's guidance and reported all totals in millions.

Background (cont'd)

USACE Travel Pay program reported total payments of \$188.00 million, and \$0.38 million in improper payment in the DoD FY 2016 AFR.

We reviewed FY 2016 payments in the USACE Travel and Commercial Pay programs and compared those payments to the total payments reported in the DoD FY 2016 AFR. To determine if USACE accurately identified improper payment, we analyzed USACE payment documentation and compared our conclusions to USACE testing results. Additionally, we discussed with USACE personnel total payments, improper payment testing, and procedures for identifying and reporting improper payments.

Findings

USACE Finance Center (UFC) personnel did not accurately report the total payments, the improper payment estimate, or the improper payment rate for the Commercial Pay program in the DoD FY 2016 AFR. Specifically, UFC personnel:

- inaccurately reported \$18,158.00 million of USACE commercial payments in the DoD FY 2016 AFR when UFC personnel should have reported \$17,895.79 million (\$17.90 billion), which is an overstatement of \$262.21 million;
- did not subject 15,165 Government purchase card (GPC) payments, valued at \$144.53 million, to improper payment testing; and
- did not identify improper payments in 9 of the 62 commercial payment sample items, valued at \$1.79 million, that we reviewed.

This occurred because UFC personnel did not:

- establish standard operating procedures for identification and reporting of commercial payments; and
- develop adequate standard operating procedures for reviewing commercial payments; or



Results in Brief

Completeness and Accuracy of U.S. Army Corps of Engineers Improper Payment Estimates

Findings (cont'd)

- coordinate internally with personnel responsible for post pay reviews of the GPC program to obtain the necessary documentation for IPERA reporting.

As a result, USACE understated the Commercial Pay program's improper payments in the DoD FY 2016 AFR. We project that UFC personnel made \$2.25 million in improper payments for the 1,293 sample items reviewed by USACE, which would have resulted in reporting improper payments and an improper payment rate for the Commercial Pay program in the DoD FY 2016 AFR. Instead, USACE reported \$0 in improper payments in the DoD FY 2016 AFR. Until USACE establishes adequate procedures to identify improper payments, USACE will not recover a potential \$2.22 million in questioned costs.

UFC personnel did not accurately report the Travel Pay universe, improper payment estimate, and the improper payment rate for the USACE Travel Pay program in the DoD FY 2016 AFR. Specifically, UFC personnel:

- understated their total travel payments in the DoD FY 2016 AFR by \$5.20 million;
- did not subject at least 26,400 travel payments, valued at \$14.77 million, to improper payment testing; and
- did not calculate the improper payment estimate in accordance with OMB guidance.

This occurred because UFC personnel did not establish standard operating procedures to identify and accurately report improper payment information; therefore, UFC personnel were non-compliant with IPERA requirements. In addition, UFC personnel did not follow procedures that would have assisted in developing statistically valid estimates. Moreover, the USACE Travel Pay program understated the improper payment estimate by at least \$3.73 million and the improper payment rate by at least 1.93 percent in the DoD FY 2016 AFR.

Until USACE corrects these issues with the Commercial Pay and Travel Pay programs, it will not be able to identify and take corrective actions, and recover improper payments. Furthermore, the DoD Improper Payment Program will continue to be non-compliant with IPERA requirements.

Recommendations

We recommend the Director, UFC, establish procedures to identify and include all commercial payments required within the improper payment estimates reported in the DoD AFR. The Director should subject all commercial payments to improper payment testing and should provide training to UFC personnel responsible for performing improper payment testing. In addition, the Director should review, research, and collect improper overpayments related to the 1,293 FY 2016 commercial payments selected for IPERA compliance testing.

In addition, the Director should subject all travel payments to improper payment testing and should include centrally billed travel accounts as part of the USACE Travel Pay program. To ensure all sample items are being reviewed, the Director should develop procedures to require a statistician to review and approve the improper payment estimates and track IPERA sample items. Furthermore, the Director should establish standard operating procedures to identify a complete and accurate universe, review selected payments, and ensure improper payment estimates for Travel Pay program are calculated properly.

Finally, the Director should implement a process of higher-level reviews prior to submitting to the Under Secretary of Defense (Comptroller)/Chief Financial Officer information for inclusion in the DoD AFR.



Results in Brief

Completeness and Accuracy of U.S. Army Corps of Engineers Improper Payment Estimates

Management Comments and Our Responses

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, UFC, agreed with the recommendations to:

- establish standard operating procedures for the Commercial Pay Program;
- implement a review process to verify accurate testing for improper payments is performed;
- subject all commercial payments to improper payment testing;
- implement a process for higher-level reviews prior to submitting information to the Under Secretary of Defense (Comptroller)/Chief Financial Officer for inclusion in the DoD AFR;
- update standard operating procedures for the Travel Pay program;
- develop procedures to require a statistician review and approve the improper payment estimate; and
- track IPERA sample item reviews.

Therefore, these recommendations are resolved but remain open. We will close these recommendations once we verify that USACE has implemented the planned corrective actions.

The Chief also agreed with the recommendation to train UFC personnel responsible for reviewing commercial payments. We verified that USACE has established training for commercial pay reviews and that the training was implemented for FY 2017; therefore, this recommendation is closed.

The Chief disagreed with our recommendation to review, research, and collect improper overpayments related to the 1,293 FY 2016 commercial payments selected for IPERA compliance testing. Therefore, this recommendation is unresolved.

The Chief did not meet the intent of our recommendation to subject all travel payments to improper payment testing. Although the Chief agreed with our recommendation, he did not provide planned actions to implement it. Therefore, this recommendation is unresolved.

We request the Director, UFC, provide details about actions planned to resolve these recommendations by March 15, 2018.

Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Director, U.S. Army Corps of Engineers, Finance Center	A.1.f, B.1.c	A.1.a, A.1.b, A.1.c, A.1.e, B.1.a, B.1.b, B.1.d, B.1.e, B.1.f	A.1.d

Please provide Management Comments by March 15, 2018.

The following categories are used to describe agency management comments to individual recommendations.

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



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

February 13, 2018

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY
CHIEF FINANCIAL OFFICER, U.S. ARMY CORPS OF ENGINEERS,
CIVIL WORKS

SUBJECT: Completeness and Accuracy of U.S. Army Corps of Engineers Improper Payment
Estimates (Report No. DODIG-2018-073)

We are providing this report for review and comment. The U.S. Army Corps of Engineers (USACE) Finance Center reported incomplete, inaccurate, and unreliable improper payment estimates in the DoD FY 2016 Agency Financial Report for the USACE Commercial Pay and Travel Pay programs. The USACE Finance Center inaccurately reported \$18,158.00 million (\$18.16 billion) of USACE commercial payments in the DoD FY 2016 AFR when UFC personnel should have reported \$17,895.79 million (\$17.90 billion), which is an overstatement of \$262.21 million, and understated the total improper payments. Furthermore, USACE Finance Center personnel understated the total payments for the Travel Pay program by \$5.20 million and the improper payment estimate by at least \$3.73 million. Until USACE Finance Center personnel accurately identify improper payments, they will not be able to identify and take corrective actions, and potentially recover questioned costs, to include a projected \$2.22 million in commercial overpayments. We conducted this audit in accordance with generally accepted auditing standards.

We considered comments on the draft report when preparing the final report. Comments from the Chief, Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, U.S. Army Corps of Engineers Finance Center, partially addressed the recommendations. We request additional comments on Recommendations A.1.f and B.1.c. DoD instruction 7650.03 requires that recommendations be resolved promptly. Therefore, we request the Director, UFC, provide comments by March 15, 2018.

Please send a PDF file containing your comments on the recommendations by March 15, 2018. Copies of your comments must have the actual signature of the authorizing office for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

If you have any questions or would like to meet to discuss the audit, please contact me at (614) 751-2912. We appreciate the cooperation and assistance received during the audit.

A handwritten signature in black ink, reading "Michael J. Roark", is positioned above the typed name.

Michael J. Roark
Assistant Inspector General
Readiness and Global Operations

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Introduction

Objective

Our objective was to determine whether the U.S. Army Corps of Engineers (USACE) used a complete universe of payments and accurately identified improper payments when reporting improper payment estimates in the DoD FY 2016 Agency Financial Report (AFR) for the Commercial Pay and Travel Pay programs.

We reviewed FY 2016 payments in both the USACE Travel and the USACE Commercial Pay programs and compared the payments to the total payments reported in the DoD FY 2016 AFR. We obtained, reviewed, and analyzed USACE payment documentation and compared our conclusions to USACE testing results. This review and comparison allowed us to determine if USACE accurately identified improper payments. Additionally, we discussed with USACE personnel the standard operating procedures (SOP) for identifying and reporting total payments, reviewing for improper payments, and calculating the improper payment estimates and rates reported in the DoD FY 2016 AFR. See Appendix A for our scope, methodology, and prior coverage.

Background

On July 22, 2010, the President of the United States signed Public Law 111-204, “Improper Payments Elimination and Recovery Act of 2010” (IPERA), which amended the “Improper Payments Information Act of 2002.” The Office of Management and Budget (OMB) issued guidance for agencies to implement the requirements of IPERA.² This guidance states that an “improper payment” is any payment that should not have been made or was made in an incorrect amount under legally applicable requirements. Incorrect amounts are overpayments or underpayments made to eligible recipients. Improper payments also include payments made to ineligible recipients, made for ineligible goods or services, or made for goods or services not received. Additionally, improper payments include payments made when an agency’s review was unable to determine whether the payments were proper, because of missing or insufficient documentation.

IPERA Requirements

IPERA requires agencies to produce a statistically valid estimate of improper payments for each program deemed susceptible to significant improper payments. IPERA defines a program as having significant improper payments when the total

² OMB Circular No. A-123, Appendix C, “Requirements for Effective Estimation and Remediation of Improper Payments,” October 20, 2014.

improper payments exceed \$10.00 million and 1.5 percent of total payments in the program, or \$100.00 million in improper payments. The heads of the agencies are required to include those estimates in the annual AFR.

Office of Management and Budget Requirements

OMB Circular No. A-123, Appendix C, consolidates and streamlines reporting requirements of IPERA for agencies and inspectors general. Additionally, the OMB Circular provides guidance to agencies to strengthen the statistical validity of improper payment estimates and to project those results to the entire program. The guidance requires agencies to design and document sampling plans. Moreover, it requires a statistician to review and certify that sampling plans will produce a statistically valid improper payment estimate. Finally, agencies are responsible for identifying the universe of payments for a program that should be subject to sampling, and for documenting the accuracy and completeness of the universe of payments.

DoD Financial Management Regulation

The DoD Financial Management Regulation (FMR) provides the DoD with guidance on the development and implementation of plans to identify, estimate, reduce, and eliminate future improper payments.³ The DoD FMR requires the quantification and estimation of improper payments for reporting purposes and the consolidation of departmental reporting requirements.

Agency Financial Report

The Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD[C]/CFO) identified the USACE Commercial Pay and the USACE Travel Pay as 2 of the 10 reporting programs in the Improper Payment section of the DoD FY 2016 AFR. The USACE Finance Center (UFC) consolidates IPERA data and then provides the data to USD(C)/CFO personnel for inclusion in the DoD AFR.⁴ The USACE Commercial Pay program reported total payments of \$18,158.00 million and \$0 of improper payments, while the Travel Pay program reported total payments of \$188.00 million and \$0.38 million of improper payments in the DoD FY 2016 AFR.⁵

In FY 2017, the OMB provided updated guidance to give agencies the option to report their total improper payments that resulted in an actual monetary loss to the Government. The OMB defined an actual monetary loss to the Government as an amount that should not have been paid and could be recovered. In the DoD FY 2017 AFR, the USACE Commercial Pay program reported total improper

³ DoD 7000.14-R, Financial Management Regulation, volume 4, chapter 14, "Improper Payments," June 2015.

⁴ Throughout the report, we considered the information that UFC personnel reported to the USD(C)/CFO as UFC personnel reporting the information in the FY 2016 DoD AFR.

⁵ In the FY 2017 AFR, the USACE Commercial Pay program reported total payments of \$8,945.05 million and \$163.20 of improper payments, while the Travel Pay program reported total payments of \$196.03 million and \$0.81 million of improper payments.

payments of \$163.20 million, of which USACE reported \$0 that resulted in an actual monetary loss to the Government. The USACE Travel Pay program reported \$1.58 million in improper payments with an estimated \$1.13 million total monetary loss to the Government.

Sample Selection of Commercial Payments

UFC personnel selected 1,293 commercial payments, valued at \$58.40 million, to develop the USACE Commercial Pay improper payment estimate for IPERA reporting. We designed a stratified random sample based on dollar values of commercial payments, and selected 62 of the 1,293 commercial payments, valued at \$36.88 million, to determine if UFC personnel accurately identified improper payments. Specifically, we selected:

- 28 payments valued over \$500,000;
- 19 payments valued between \$50,000 and \$500,000; and
- 15 payments valued between \$0 and \$50,000.

Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls. Internal controls should provide reasonable assurance that programs are operating as intended. The Instruction also requires DoD organizations to evaluate the effectiveness of the internal controls.⁶

We identified internal control weaknesses associated with USACE's processes for identifying and reporting improper payments. Specifically, UFC personnel did not establish effective procedures to identify and accurately report improper payment information for IPERA reporting purposes. Additionally, UFC personnel did not review all documentation required for identifying improper payments in the Commercial Pay program and did not follow their sampling plan for developing a statistically valid improper payment estimate for the Travel Pay program. We will provide a copy of the final report to the senior official responsible for internal controls at USACE.

⁶ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding A

The UFC Reported Unreliable Commercial Payments and Improper Payment Estimates in the DoD FY 2016 AFR

UFC personnel did not accurately report the total payments, the improper payment estimate, or the improper payment rate for the Commercial Pay program in the DoD FY 2016 AFR. Specifically, UFC personnel:

- inaccurately reported \$18,158.00 million of USACE commercial payments in the DoD FY 2016 AFR when UFC personnel should have reported \$17,895.79 million (an overstatement of \$262.21 million);
- did not subject 15,165 Government Purchase Card (GPC) payments, valued at \$144.53 million, to improper payment testing; and
- did not accurately identify improper payments in 9 of 62 commercial payment sample items, valued at \$1.79 million, that we reviewed.

This occurred because UFC personnel did not establish procedures for identification and reporting of commercial payments, and UFC personnel did not establish adequate procedures for reviewing commercial payments. In addition, UFC personnel did not coordinate internally with personnel responsible for post pay reviews of the GPC program to obtain the necessary documentation for IPERA reporting.

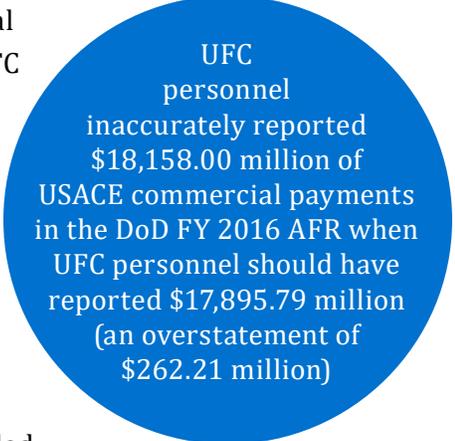
As a result, UFC personnel understated improper payments for the Commercial Pay program in the DoD FY 2016 AFR. We project that UFC personnel made \$2.25 million improper payments for the 1,293 sample items reviewed by USACE, which would have resulted in reporting improper payments and an improper payment rate for the Commercial Pay program in the DoD FY 2016 AFR.⁷ Until UFC personnel report an accurate universe of payments, subjects all payments to improper payment testing, and accurately identifies improper payments, USACE will not be able to identify and take corrective actions, and potentially recover a projected \$2.22 million in questioned costs.⁸ Furthermore, the USD(C)/CFO will continue to report unreliable estimates in the annual DoD AFR and the DoD Improper Payment Program will be non-compliant with IPERA requirements.

⁷ See Appendix B for our summary of the projection methodology.

⁸ DoD Manual 7600.07 "DoD Audit Manual" August 3, 2015, defines questioned costs as a costs questioned by DoD auditors because of alleged violations of law, regulation, contract, grant, cooperative agreement or other agreement; finding that, at the time of the audit, such costs is not supported by adequate documentation; or finding that the expenditure of costs for intended purposes is unnecessary or unreasonable.

The UFC Overstated Commercial Payments in the DoD FY 2016 AFR

UFC personnel did not accurately report commercial payments in the DoD FY 2016 AFR. Specifically, UFC personnel inaccurately reported \$18,158.00 million of USACE commercial payments in the DoD FY 2016 AFR when UFC personnel should have reported \$17,895.79 million (an overstatement of \$262.21 million).⁹ UFC personnel overstated the commercial payments by including payments from the USACE Travel Pay program and payments that were not required to be subjected to improper payment testing. Specifically, UFC personnel included:



UFC personnel inaccurately reported \$18,158.00 million of USACE commercial payments in the DoD FY 2016 AFR when UFC personnel should have reported \$17,895.79 million (an overstatement of \$262.21 million)

- \$188.85 million in travel payments that were tested and reported in the USACE Travel Pay program for improper payments;
- \$4.63 million of centrally billed travel account (CBA) payments that were not subject to testing in the Commercial Pay program;¹⁰
- \$28.02 million of intra-governmental payments that were not required to be tested for improper payments;¹¹
- \$16.06 million in reimbursement payments between USACE District Offices;¹² and
- \$24.91 million in returns on advance payments that are tied to local cost share agreements.¹³

UFC personnel indicated that the FY16 commercial payments were overstated in the DoD FY 2016 AFR because, instead of only commercial payments, they inadvertently included all payments made by USACE in FY 2016. Specifically, the Deputy Director of Finance summarized the payment information and provided it to USD(C)/CFO for IPERA reporting without conducting a review to validate the total included only commercial payments subject to improper payment testing. UFC personnel did not have SOPs to accurately identify and report commercial

⁹ The overstatement of total commercial payments did not impact USACE's Commercial Pay improper payment estimates. To be able to report \$0 improper payments in the FY 2016 DoD AFR, UFC personnel used a different process for identifying and selecting samples for improper payment testing.

¹⁰ See Finding B for discussion of CBA payments.

¹¹ OMB Circular A-123, Appendix C, states that agencies are not required to include intra-governmental payments in their IPERA testing and reporting.

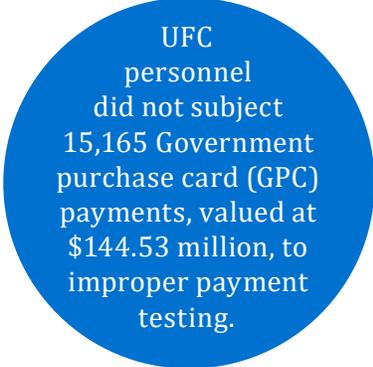
¹² These payments are considered intra-governmental and are not subject to improper payment testing.

¹³ OMB Circular A-123, Appendix C required only Federal funds be subject to IPERA requirements. UFC personnel stated local entities provide non-federal funds in advance for projects within that local community and the funds are accounted for separate from Federal funds. These advance payments are not subject to IPERA testing because they are non-federal funds.

payments in the DoD FY 2016 AFR. The Director, UFC, should establish SOPs to identify all commercial payments required for inclusion in the improper payment estimates and should accurately report those payments to USD(C)/CFO for inclusion in the DoD AFR. Furthermore, USACE should implement a process for higher-level reviews before submitting information to USD(C)/CFO for inclusion in the DoD AFR.

GPC Payments Were Not Subject to Improper Payment Testing

UFC personnel did not subject 15,165 Government purchase card (GPC) payments, valued at \$144.53 million, to improper payment testing. OMB guidance requires agencies to include payments on GPCs in their improper payment estimates.¹⁴ UFC personnel stated that they do not test GPC payments because they do not have access to supporting documentation maintained at other USACE offices.



UFC personnel did not subject 15,165 Government purchase card (GPC) payments, valued at \$144.53 million, to improper payment testing.

UFC personnel removed 53 GPC payments, valued at \$0.54 million, from the list of 1,293 payments selected for improper payment testing. As part of our statistical sample of 62 commercial payments, we reviewed 1 of the 53 GPC payments that UFC personnel removed from the universe of payments, and determined that USACE personnel could not provide sufficient documentation to support 10 transactions, totaling \$2,367, that were included in the payment.¹⁵ Specifically, we contacted personnel from the UFC and the USACE Directorate of Contracting to obtain supporting documentation for the GPC payment totaling \$5,127. USACE personnel provided a list of GPC transactions that totaled \$5,127; however, the documentation only supported \$2,760 of that payment amount. The GPC invoice did not include seven of the transactions, totaling \$2,150, that were provided by USACE personnel. In addition, three transactions, totaling \$217, did not have purchase requests to support the payment.¹⁶

UFC personnel did not test 53 GPC payments selected for review for improper payments because they did not coordinate with another USACE office to obtain supporting documentation for each payment. Instead, UFC personnel removed the items from the sample universe without requesting supporting documentation from the USACE Directorate of Contracting. The Director, UFC, should develop a methodology to subject all commercial payments, to include GPC payments, to improper payment testing.

¹⁴ OMB Circular No. A-123, Appendix C, Part IA.

¹⁵ The one GPC payment was reviewed as part of our 62 statistically selected commercial payments. The one GPC payment reviewed included multiple transactions totaling \$5,217.

¹⁶ Mathematical differences due to rounding.

The UFC Did Not Accurately Identify Improper Payments

UFC personnel did not accurately identify \$1.82 million in improper payments on 9 of the 62 payments reviewed, valued at \$5.67 million. The USACE Commercial Pay program reported \$0 in improper payments and a 0 percent improper payment rate in the DoD FY 2016 AFR. We project that UFC personnel authorized \$2.25 million in improper payments for the 1,293 sample items reviewed by USACE, which would have resulted in UFC personnel reporting improper payments and an improper payment rate for the Commercial Pay program in the DoD FY 2016 AFR.¹⁷ We projected that \$2.22 million of the improper payments were overpayments that we considered questioned costs.¹⁸



UFC personnel did not accurately identify \$1.82 million in improper payments on 9 of the 62 payments reviewed, valued at \$5.67 million.

We statistically selected and reviewed 62 commercial payments from the UFC sample population of 1,293 to determine if UFC personnel accurately identified improper payments. For the 1,293 sample items reviewed by USACE, we project that UFC personnel made \$2.25 million in improper payments. OMB defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Furthermore, OMB guidance states that a payment must be considered an improper payment when an agency's review is unable to determine whether a payment was proper because of insufficient, or lacking, documentation.¹⁹ The DoD FMR states that a contract or purchase order; receipt or acceptance report; and a proper invoice is sufficient documentation to support a proper payment.^{20,21} UFC personnel did not review sufficient documentation to accurately identify improper payments in 9 of the 62 payments we reviewed. For example:

- USACE improperly paid \$633,530 on February 3, 2016, because it paid for work outside the contract period of performance. The contract's period of performance ended on December 10, 2015; however, the contractor invoiced for work performed between December 16, 2015, and

¹⁷ The projected improper payments cannot be applied to the total payments for the Commercial Pay program. See Appendix A for the complete scope and methodology.

¹⁸ We projected that USACE made \$2.22 million in overpayments for the 1,293 accounts USACE tested for IPERA compliance. See Appendix B for a summary of projection methodology.

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

²⁰ DoD FMR Volume 10 Chapter 8, Section 0803.

²¹ FAR Clause 52.232-25, Prompt Payment, states a proper invoice must include contractor information, invoice date and number; the contract number or other authorization for supplies delivered; or services performed (including order number and line item number), description, quantity, and price of supplies or services; shipping and payment terms, contractor officials information, contract for defective invoice, taxpayer identification number, electronic funds transfer banking information; and any other information or documentation required by the contract.

January 15, 2016. USACE personnel did not execute the administrative action of extending the period of performance on the contract until July 11, 2016, which means payments for work performed between December 11, 2015, and July 10, 2016 were improper. UFC personnel did not identify this improper payment because they did not review the contract and period of performance when determining if this payment was proper or improper.

- USACE improperly paid \$45,544 when they made a payment outside of the contracts payment terms. The contract, which establishes payment events A – G, states that all events after event C shall be payable only upon the successful completion of those events. On March 18, 2016, the contractor submitted an invoice for work performed on events C, D, and E. However, the contractor only invoiced for 60 percent of event D and 75 percent of event E. On April 5, 2016, USACE improperly paid the full invoiced amount, to include payment for events D and E, prior to the completion of work on those events, as required in the contract. UFC personnel did not identify this improper payment because they did not review the payment terms of the contract when determining if the payment was proper or improper.

The USACE commercial payment review SOP, dated February 24, 2014, did not provide detailed guidance to determine if the USACE commercial payments were proper. In March 2017, UFC personnel issued an updated SOP that provides UFC personnel with instructions on reviewing commercial payments. However, as of July 2017, UFC personnel stated that they were not reviewing the necessary information, which includes contract payment terms and contract line items, to determine if a payment was proper. As established in the SOP, the Director, UFC, should provide training to UFC personnel responsible for reviewing commercial payments. Furthermore, the Director should implement a review process to verify that UFC personnel are accurately testing for improper payments. The Director should also review, research, and collect improper overpayments related to the 1,293 FY 2016 commercial payments selected for IPERA compliance testing.

Conclusion

UFC personnel reported incomplete, inaccurate, and unreliable improper payment information in the DoD FY 2016 AFR. UFC personnel overstated total commercial payments by \$262.21 million and understated the improper payment estimates. Until UFC personnel report an accurate universe of payments, subject all payments to improper payment testing, and accurately identify improper payments, USACE will not be able to identify and take corrective actions, and will not recover a

potential \$2.22 million in questioned costs. Furthermore, the USD(C)/CFO will continue to report unreliable estimates in the annual DoD AFR, and the DoD Improper Payment program will remain non-compliant with IPERA requirements. See Appendix C for details on potential monetary benefits.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend that the Director, U.S. Army Corps of Engineers Finance Center should:

- a. Establish standard operating procedures to identify all commercial payments required for inclusion in the improper payment estimates reported in the DoD Agency Financial Report.**

U.S. Army Corps of Engineers Finance Center Comments

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, UFC, agreed stating that USACE is finalizing formal standard operating procedures to document all corrective actions taken in FY 2017 for commercial pay.

Our Response

Comments from the Chief of Finance and Accounting Policy Division, Directorate of Resource Management, addressed the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we verify USACE finalizes the standard operating procedures, to include establishing policy for identifying all commercial payments required for inclusion in the improper payment estimates reported in the DoD Agency Financial Report.

- b. Implement a review process to verify that accurate and complete information is reported to the Under Secretary of Defense (Comptroller)/ Chief Financial Officer for inclusion in the DoD Agency Financial Report.**

U.S. Army Corps of Engineers Finance Center Comments

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, UFC, agreed stating the Deputy Director, USACE Finance Center, performed a final review of FY 2017 commercial payment data prior to submission to the USD(C)/CFO for inclusion in the DoD Agency Financial Report.

Our Response

Comments from the Chief of Finance and Accounting Policy Division, Directorate of Resource Management, addressed the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we verify the review process occurred for the FY 2017 IPERA submission.

- c. Require all commercial payments to have improper payment testing, including Government purchase card payments, and the results should be included in the U.S. Army Corps of Engineers Commercial Pay program improper payment estimate.**

U.S. Army Corps of Engineers Finance Center Comments

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, UFC, agreed stating all commercial payments, to include Government purchase card payments, were subject to improper payment testing in FY 2017 and the results were included in the USACE Commercial Pay program improper payment estimate.

Our Response

Comments from the Chief of Finance and Accounting Policy Division, Directorate of Resource Management, addressed the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we verify that all commercial payments, including Government purchase card payments, were subject to improper payment testing and the results were included in the Commercial Pay program improper payment estimates for FY 2017.

- d. Provide training to U.S. Army Corps of Engineers Finance Center personnel responsible for reviewing commercial payments, as established in the standard operating procedure.**

U.S. Army Corps of Engineers Finance Center Comments

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, UFC, agreed stating during the review of FY 2017 Commercial pay data, additional UFC personnel were trained and assigned to review commercial payments in accordance with the law for improper payment testing. He provided additional documentation verifying that a training was established and implemented for the Commercial Pay program.

Our Response

Comments from the Chief of Finance and Accounting Policy Division, Directorate of Resource Management, addressed the specifics of the recommendation. In addition, the chief provided documentation that the recommendation was implemented; therefore, the recommendation is closed.

- e. Implement a review process to verify that accurate testing for improper payments is being performed by U.S. Army Corps of Engineers Finance Center personnel.**

U.S. Army Corps of Engineers Finance Center Comments

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, UFC, agreed stating additional separation of duties have been implemented to ensure accurate testing for improper payments is being performed by UFC personnel. He stated beginning in FY 2017, a senior level review is required before data is submitted to the USD(C)/CFO for inclusion in the DoD Agency Financial Report.

Our Response

Comments from the Chief of Finance and Accounting Policy Division, Directorate of Resource Management, addressed the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we verify a review process was established to verify the accuracy of improper payment testing before the FY 2017 IPERA submission to the USD(C)/CFO.

- f. Review, research, and collect improper overpayments related to the 1,293 FY 2016 commercial payments selected for IPERA compliance testing.**

U.S. Army Corps of Engineers Finance Center Comments

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, UFC, disagreed with the recommendation stating results from the samples tested in FY 2016 commercial payments did not reveal overpayments that resulted in the loss of funds on behalf of the government. He stated an additional review would not be cost-effective as there are no identified improper overpayments to collect.

Our Response

Comments from the Chief of Finance and Accounting Policy Division, Directorate of Resource Management, did not address the specifics of the recommendation; therefore, the recommendation is unresolved. As identified in the report, UFC

personnel did not establish adequate procedures for reviewing commercial payments in FY 2016 for IPERA compliance testing. In addition, UFC personnel did not coordinate internally with personnel responsible for post pay reviews of the GPC program to obtain the necessary documentation for IPERA reporting. Without adequate reviews of all 1,293 FY 2016 commercial payments selected for IPERA compliance testing, USACE cannot determine if improper payments exist that resulted in a loss to the government. Therefore, we request the Director, UFC, describe specific actions on how she plans to review, research and collect improper payments related to the 1,293 FY 2016 commercial payments selected for IPERA compliance testing.

Finding B

The UFC Reported an Inaccurate Travel Payment Universe and Improper Payment Estimate in the DoD FY 2016 AFR

UFC personnel did not accurately report the total payments, the improper payment estimate, or the improper payment rate for the USACE Travel Pay program in the DoD FY 2016 AFR. Specifically, UFC personnel:

- understated their total travel payments in the DoD FY 2016 AFR by \$5.20 million;
- did not subject at least 26,400 travel payments, valued at \$14.77 million, to improper payment testing; and
- did not calculate the improper payment estimate in accordance with OMB guidance for the DoD FY 2016 AFR.

This occurred because UFC personnel did not establish effective SOPs to identify and accurately report improper payment information to comply with IPERA requirements. In addition, UFC personnel did not follow the sampling plan required by the OMB that would have assisted in developing a statistically valid estimate.

As a result, UFC personnel understated the estimated improper payments for the Travel Pay program by at least \$3.73 million and the improper payment rate by at least 1.93 percent in the DoD FY 2016 AFR. Until UFC personnel report a complete universe of payments, subject all travel payments to improper payment testing, and accurately identify improper payments, USACE will not be able to identify and take corrective actions and recover improper payments. Furthermore, the USD(C)/CFO will continue to report unreliable estimates in the annual DoD AFR and the DoD Improper Payment Program will remain non-compliant with IPERA requirements.

The UFC Understated Travel Payments in the DoD FY 2016 AFR

UFC personnel understated the travel payments in the DoD FY 2016 AFR by \$5.20 million. Specifically, UFC personnel understated the universe of travel payments by \$0.57 million and did not include \$4.63 million in centrally billed accounts (CBAs).²² Instead of the \$188.57 million in their universe of travel payments, UFC personnel reported \$188.00 million of travel payments in the

²² CBAs are provided to USACE activities to make travel arrangement for official Government travel. USACE is responsible for paying all CBA related expenses.

DoD FY 2016 AFR. This occurred because UFC personnel did not verify the information reported to the USD(C)/CFO for inclusion in the DoD FY 2016 AFR. The Director, UFC, should require higher-level reviews before submitting information to the USD(C)/CFO for inclusion in the DoD AFR.

UFC personnel also did not include \$4.63 million of CBAs in the Travel Pay universe. UFC personnel stated that CBA transactions are travel-related expenses, but they consider the transactions a contractual agreement between Citibank and USACE and therefore included CBAs in the USACE Commercial Pay program. However, UFC personnel did not subject CBA payments to testing in the Commercial Pay program because they did not have easy access to the supporting documentation maintained by the USACE Transportation Division. USD(C)/CFO personnel confirmed with Defense Finance and Accounting Service (DFAS) personnel that CBAs for the other DoD Departments and agencies were tested and reported as part of the DoD Travel Program in the DoD FY 2016 AFR. The Director, UFC, should update standard operating procedures to include centrally billed travel payments in the USACE Travel Pay program for IPERA reporting.

The UFC Did Not Subject all Travel Payments to Improper Payment Reviews

UFC personnel did not require improper payment testing of over \$14.77 million travel payments for its FY 2016 IPERA review. Specifically, UFC personnel excluded:

- 717 CBA payments, valued at \$4.63 million,
- 11,863 permanent change of station (PCS) voucher payments, valued \$2,500 and under, with a collected overall valued of \$8.31 million, and
- 13,820 local travel voucher payments, valued at \$1.83 million.



UFC personnel did not require improper payment testing of over \$14.77 million travel payments

OMB guidance requires agencies to design a sampling plan that includes all program payments.²³ Agencies can submit an alternative sampling plan for the OMB's review and approval; however, USACE did not submit a plan that indicated that any travel payments were excluded from improper payment testing in the DoD FY 2016 AFR. The Director, UFC, should require all travel payments, to include CBA payments, PCS payments, and local travel payments, to be subjected to improper payment testing.

²³ OMB Circular No. A-123, Appendix C, Parts I and II.

The UFC Excluded CBA Payments from Improper Payment Reviews

UFC personnel did not subject 717 CBA payments, valued at \$4.63 million, to improper payment testing. Although UFC personnel included these payments in the Commercial Pay universe, the payments were not subjected to any improper payment reviews. UFC personnel stated that they did not test CBA payments because they did not have access to the supporting documentation to determine if CBA payments were proper. According to USACE Transportation Division personnel, they maintain the supporting documentation and stated that they can provide it to UFC personnel to complete the IPERA testing.

The UFC Excluded PCS Payments \$2,500 and Under from Improper Payment Reviews

UFC personnel did not subject 11,863 PCS payments, valued \$2,500 and under, with an overall value of \$8.31 million, to improper payment testing. UFC personnel included these payments in their universe of \$188.00 million in travel payments in the DoD FY 2016 AFR; however, UFC personnel did not test the payments as part of their improper payment estimate. According to USACE's Travel Pay sampling plan, UFC personnel should have reviewed all PCS payments over \$2,500 and should have reviewed a sample of payments that were \$2,500 or less.²⁴

The reason this did not occur is because UFC personnel lacked oversight to ensure the FY 2016 Travel Pay sample included PCS payments that were \$2,500 or less. PCS payments that were \$2,500 or less accounted for 76 percent of the total PCS payments and 26 percent of the associated dollar value of PCS payments for FY 2016.

The UFC Excluded Local Travel from Improper Payment Reviews

UFC personnel did not perform improper payment testing on 13,820 local travel payments, valued at \$1.83 million. UFC personnel included local travel payments in their universe of \$188.00 million in travel payments in the DoD FY 2016 AFR; however, UFC personnel did not test the payments as part of their improper payment estimate. UFC personnel stated that they did not collect local travel receipts from USACE districts; therefore, they did not submit local travel payments for any post-pay review. Furthermore, UFC personnel indicated that low-dollar local travel vouchers might not have supporting documentation since receipts are only required for expenses of \$75 or more.

²⁴ The \$2,500 threshold in USACE's Travel Pay sampling plan does not include the cost of airfare.

The UFC Did Not Properly Calculate the Improper Payment Estimate for the DoD FY 2016 AFR

UFC personnel did not calculate the improper payment estimate for the DoD FY 2016 AFR in accordance with OMB guidance.²⁵ Specifically, UFC personnel did not:

- perform improper payment testing in accordance with the sampling plan;
- report the gross total of improper payments; or
- project the improper payments identified to the entire universe of payments.

OMB guidance requires a statistician to certify a sampling plan as statistically valid.²⁶ A statistician did not certify USACE's sampling plan and UFC personnel did not calculate the estimate in accordance with the plan. The Director, UFC, should require a statistician to review, certify, and approve the improper payment estimate, prior to submitting the information to the USD(C)/CFO for inclusion in the DoD AFR, to ensure the calculation was completed in accordance with both the OMB guidance and the approved USACE sampling plan. Furthermore, the Director should implement a process to track IPERA sample item reviews to ensure all IPERA sample payments are reviewed prior to calculating an improper payment estimate.

The UFC Did Not Perform Improper Payment Testing in Accordance with Its Sampling Plan

UFC personnel did not perform improper payment testing in accordance with the sampling plan. Specifically, UFC personnel:

- did not select the sample in accordance with their sampling plan;
- did not test all payments in the sample prior to reporting an improper payment estimate; and
- tested 515 payments that should not have been included in the sample, valued at \$0.10 million, that occurred in a fiscal year other than FY 2016.

OMB guidance requires agencies to produce statistically valid improper payment estimates and to include those estimates in the AFR. The agency must also include a summary of its sampling methodology plan in its AFR. The sampling and estimation plan must include a certification that the methodology will provide a statistically valid improper payment estimate.²⁷

²⁵ OMB Circular No. A-123, Appendix C, Parts I and II.

²⁶ OMB Circular No. A-123, Appendix C, Parts I and II.

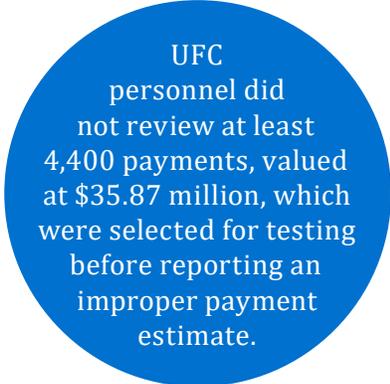
²⁷ OMB Circular No. A-123, Appendix C, Part IA.

The UFC Did Not Select the Sample in Accordance With the Plan

UFC personnel did not select their sample in accordance with their IPERA sampling plan. The sampling plan required a 100 percent review of all travel payments above \$2,500 and a sample review for both temporary duty (TDY) and PCS travel payments of \$2,500 or less. UFC personnel did not follow the sampling methodology for payments of \$2,500 or less. For example, the sampling plan required a sample size of 1,524 TDY payments; however, USACE's sample only included 342 payments. This occurred because UFC management did not provide the necessary oversight to ensure UFC personnel followed the methodology in their sampling plan.

The UFC Did Not Review All IPERA Sample Payments Prior to Reporting an Improper Payment Estimate

UFC personnel did not review at least 4,400 payments, valued at \$35.87 million, which were selected for testing before reporting an improper payment estimate in the DoD FY 2016 AFR. USD(C)/CFO issued the Improper Payment and Payment Recapture Programs section of the DoD FY 2016 AFR in November 2016. As of May 2017, UFC personnel were reviewing March 2016 TDY payments and FY 2016 second quarter PCS payments, which left, at a minimum, 6 months of payments untested. UFC personnel attributed the testing backlog to disaster related travel and staff turnover.²⁸



UFC personnel did not review at least 4,400 payments, valued at \$35.87 million, which were selected for testing before reporting an improper payment estimate.

Furthermore, in prior reports we recommended that the USD(C)/CFO coordinate with the DoD reporting components to develop, if appropriate, sample designs that are stratified by an appropriate variable, such as invoice or payment amount, for each DoD payment program.²⁹ The FY 2016 sample selection for Travel Pay contained over 7,300 TDY payments and 3,700 PCS payments. USACE could have reduced its sample by dividing the travel universe into strata, as recommended. Specifically, the change to a stratified design can reduce USACE's Travel Pay sample universe by approximately 75 percent. In April 2017, USD(C)/CFO management stated that, in coordination with DFAS, the office would work to ensure that sample designs are stratified by an appropriate variable for each DoD improper payment program. The estimated completion date is November 15, 2018. During the course

²⁸ Federal Emergency Management Agency (FEMA) funded travel is prioritized for review.

²⁹ DODIG-2015-121. "DoD Met Most Requirements of the Improper Payments Elimination and Recovery Act in FY 2014, but Improper Payment Estimates Were Unreliable," May 12, 2015.

DODIG-2016-086. "DoD Met Most Requirements of the Improper Payments Elimination and Recovery Act in FY 2015, but Improper Payment Estimates Were Unreliable," May 3, 2016.

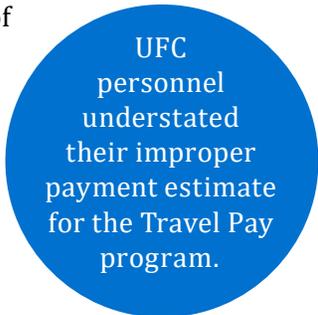
of our audit, UFC personnel took action to stratify the Travel program's sampling plan. Therefore, we are not making a recommendation related to the USACE Travel Pay sample design and will review the implementation of the sampling plan during future IPERA compliance audits. See the Management Actions Taken section for additional information.

The UFC Included Payments Outside of the IPERA Sample

UFC personnel included 515 payments, valued at \$0.10 million, in its FY 2016 improper payment testing that were not FY 2016 payments. OMB guidance states that, to the extent possible, payments used for testing should match the fiscal year being reported.³⁰ UFC personnel reported that they used FY 2016 payments to calculate their improper payment estimate; however, the reported estimate included improper payments from before FY 2016. UFC personnel stated that this occurred because they could not differentiate between payments tested to calculate the improper payment estimate and payments tested to comply with the USACE internal control program.

The UFC Did Not Report Gross Total of Improper Payments

UFC personnel incorrectly calculated their improper payment estimate using the net total of improper overpayments and underpayments. OMB guidance requires agencies to determine an improper payment estimate based on the gross total of overpayments and underpayments.³¹ Instead of the gross total, the UFC reported a net total of \$381,831 based on the \$412,078 of overpayments and \$30,246 of underpayments, which were identified during its improper payment reviews. UFC personnel reported a net total due to a calculation error embedded in the Microsoft Excel spreadsheet used by the UFC to calculate its annual improper payment estimate. As a result, UFC personnel understated their improper payment estimate for the Travel Pay program.



UFC personnel understated their improper payment estimate for the Travel Pay program.

The UFC Did Not Report Projected Improper Payments in the DoD FY 2016 AFR

UFC personnel reported \$0.38 million of improper payments in the DoD FY 2016 AFR, which was the net improper payments identified during the FY 2016 testing, as shown in Table 1. OMB guidance requires agencies to project the improper payments identified to the universe of tested payments.³² UFC personnel did not

³⁰ OMB Circular No. A-123, Appendix C, Part IA.

³¹ OMB Circular No. A-123, Appendix C, Part IA.

³² OMB Circular No. A-123, Appendix C, Part IA.

project their improper payments to the sample, as required. As shown in Table 1, if UFC personnel had identified all travel payments and subjected them to improper payment testing, USACE, at a minimum, would have reported \$4.11 million in improper payments. As a result, USACE Travel Pay program understated the improper payment estimate by at least \$3.73 million and the improper payment rate by at least 1.93 percent in the DoD FY 2016 AFR.

Table 1. Differences in Improper Payment Calculation

	Total Travel Payments	Total Payments Reviewed	Total Improper Payments Identified	Estimated Improper Payments	Improper Payments Rate
Incorrect UFC Calculation	\$188,000,000 ¹	\$32,206,135	\$381,831	\$380,000 ¹	0.20% ¹
OIG Calculation	\$193,198,954	\$19,360,146 ²	\$412,215	\$4,113,577 ³	2.13% ³

¹ As reported in the FY 2016 DoD AFR.

² Includes all TDY payments with a reviewed travel order number and all PCS payments reviewed for the first quarter of FY 2016.

³ Calculated in accordance with the methodology currently used by UFC and not the methodology in the USACE Travel Pay sampling plan.

The UFC Did Not Develop an Adequate Improper Payment Review Process for the Travel Program

UFC personnel did not develop adequate SOPs to identify and accurately report improper payment information for IPERA reporting requirements. UFC personnel developed TDY and PCS SOPs for testing payments; however, the procedures did not outline the specific procedures to identify and report improper payments. Furthermore, UFC personnel stated that the TDY SOP was outdated, and the personnel responsible for testing payments stated that they did not use either procedure.

UFC personnel did not develop adequate SOPs to collect improper payment information for IPERA reporting purposes. UFC personnel provided us with multiple improper payment results for the Travel Pay program but could not recreate the total improper payments reported in the DoD FY 2016 AFR.

Furthermore, UFC personnel developed an IPERA sampling plan to calculate a statistically valid estimate and comply with IPERA reporting requirements; however, personnel did not follow the plan. UFC personnel stated that they could not differentiate between payments selected as part of their IPERA and Internal Control reviews, and they did not have SOPs to verify the information reported for inclusion in the DoD FY 2016 AFR. Additionally, the UFC's sampling plan included

an inefficient methodology for selecting a sample size and calculating its improper payment estimate. USACE reported inaccurate improper payment information because there was no standardized procedures and because it did not follow its approved sampling plan. The Director, UFC should establish an effective improper payment review process, including SOPs, to identify a complete and accurate universe of payments, review selected payments for improper payments, and ensure improper payment estimates for the Travel Pay program are calculated consistently, accurately, and in accordance with the approved IPERA sampling plan.

Management Action Taken

During the audit, we briefed UFC personnel on using a stratified sample to improve the efficiency of the sample design; as a result, UFC personnel took action by developing a new IPERA Sampling Plan for the Travel Pay program in July 2017. The new plan outlines procedures to select USACE's sample for IPERA reporting purposes and changed the methodology from a simple random sample to a stratified random sample with variable design. The change to the stratified design is expected to reduce the required number of reviews from over 7,000 to approximately 1,200. According to the plan, the sampling and estimation methodology is statistically sound, and will produce a statistically valid estimate, as required by IPERA and specified in OMB guidance. Additionally, UFC personnel were in the process of implementing a change in their system that would indicate which payments UFC personnel reviewed as part of the IPERA sample, and which payments were reviewed as part of USACE's internal control policy.

Conclusion

UFC personnel reported incomplete, inaccurate, and unreliable improper payment information for the USACE Travel Pay program in FY 2016. UFC personnel understated the estimated improper payments by at least \$3.73 million, and the improper payment rate by at least 1.93 percent. Until UFC personnel establish an effective improper payment review process, USACE will not be able to identify and take corrective actions, and recover improper payments. Furthermore, UFC personnel will continue to report unreliable estimates in the annual DoD AFR, and the DoD Improper Payment Program will remain non-compliant with IPERA requirements.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend the Director, U.S. Army Corps of Engineers Finance Center:

- a. **Implement a process for higher-level reviews before submitting information to the Under Secretary of Defense (Comptroller) for inclusion in the DoD Agency Financial Report.**

U.S. Army Corps of Engineers Finance Center Comments

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, UFC, agreed stating the review process for the FY 2017 travel payment data included a final review by the Deputy Director, UFC prior to submission to the USD(C) for inclusion in the DoD Agency Financial Report.

Our Response

Comments from the Chief of Finance and Accounting Policy Division, Directorate of Resource Management, addressed the specifics of the recommendation; therefore, the recommendation is resolved but remains open. We will close the recommendation once we verify UFC personnel are performing a higher-level review before submitting the information to the USD(C)/CFO for inclusion in the DoD Agency Financial Report.

- b. **Update standard operating procedures to include centrally billed travel payments in the U.S. Army Corps of Engineers Travel Pay program for Improper Payments Elimination and Recovery Act reporting.**

U.S. Army Corps of Engineers Finance Center Comments

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, UFC, disagreed, stating beginning in FY 2017, USACE includes centrally billed payments in the Commercial pay program for IPERA reporting because the obligation in the CEFMS is set up as a contractual obligation with the commercial vendor.

Our Response

Although the Chief disagreed with the recommendation, the comments from the Chief of Finance and Accounting Policy Division, Directorate of Resource Management, satisfied the intent of the recommendation; therefore the recommendation is resolved but remains open. As identified in the report, centrally billed travel payments were included in the Commercial Pay universe;

however, were not subjected to improper payment testing. Although we recommended these payments be included in the Travel Pay program for IPERA, UFC has provided a rationale for including them in the Commercial Pay program and the intent of the recommendation was to ensure UFC subjected the payments to improper payment testing. We will close the recommendation once we verify the standard operating procedure includes the centrally billed travel payments in the USACE Commercial Pay program for IPERA reporting along with confirmation that centrally billed travel payments are included in the USACE Commercial Pay program for IPERA reporting in FY 2017.

- c. **Subject all travel payments, to include centrally billed account payments, permanent change of station payments, and local travel payments, to improper payment testing.**

U.S. Army Corps of Engineers Finance Center Comments

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, UFC, agreed with the recommendation, however did not provide specific actions on how they will implement the recommendation.

Our Response

Comments from the Chief of Finance and Accounting Policy Division, Directorate of Resource Management, did not address the specifics of the recommendation; therefore the recommendation is unresolved. Specific actions USACE will take to subject all travel payments to improper payment testing and support that all travel payments were included in the FY 2017 improper payment testing, will meet the intent of our recommendation. We request the Director, UFC, describe the specific actions that USACE will take to subject all travel payments to improper payment testing.

- d. **Develop procedures to require a statistician review and approve the improper payment estimate, prior to submitting the information to the Under Secretary of Defense (Comptroller) for inclusion in the DoD Agency Financial Report, to ensure the calculation was completed in accordance with Office of Management and Budget guidance and the approved U.S. Army Corps of Engineers sampling plan.**

U.S. Army Corps of Engineers Finance Center Comments

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, UFC, disagreed with the recommendation, stating the USACE sampling plan is approved/certified by a statistician and the sampling methodology and formulas are readily available to validate the improper payment estimate.

Our Response

Although the Chief disagreed with the recommendation, the comments from the Chief of Finance and Accounting Policy Division, Directorate of Resource Management, satisfied the intent of the recommendation; therefore the recommendation is resolved but remains open. As identified in the report, UFC personnel did not perform improper payment testing in accordance with the sampling plan. However, based on the response to Recommendation B.1.a, UFC implemented a higher level review. UFC management performing a review of the improper payment estimate to ensure it is in accordance with the statistician approved/certified sampling plan, meets the intent of our recommendation. The Deputy Director, UFC provided the updated FY 2017 Travel Pay sample plan, which was reviewed and signed by a statistician. We will close the recommendation once we verify UFC personnel are performing a higher-level review to ensure compliance with the approved plan before submitting the information to USD(C) for inclusion in the DoD AFR.

- e. Track Improper Payments Elimination and Recovery Act sample item reviews to ensure all sample payments are reviewed prior to calculating an improper payment estimate.**

U.S. Army Corps of Engineers Finance Center Comments

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, UFC, agreed stating all IPERA sample items are maintained on a shared network drive for review/audit. All audits are completed prior to calculating an improper payment estimate.

Our Response

Comments from the Chief of Finance and Accounting Policy Division, Directorate of Resource Management, addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the UFC personnel track and review sample items prior to calculating an improper payment estimate.

- f. Establish standard operating procedures to establish an effective Improper Payments Elimination and Recovery Act review process that include procedures to:**
- 1. Identify a complete and accurate universe of payments.**
 - 2. Review selected payments for improper payments.**
 - 3. Ensure improper payments estimates for the Travel Pay program are calculated consistently, accurately, and in accordance with the approved Improper Payments Elimination and Recovery Act sampling plan.**

U.S. Army Corps of Engineers Finance Center Comments

The Chief of Finance and Accounting Policy Division, Directorate of Resource Management, responding for the Director, UFC, agreed stating the UFC is finalizing formal SOPs to document all corrective actions taken in FY 2017 for travel payments. Corrective actions include identifying a complete and accurate universe of payments utilizing the check register in CEFMS, reviewing all selected payments in the sample for improper payments, and calculating consistent and accurate improper payment estimates in accordance with the approved USACE IPERA sampling plan.

Our Response

Comments from the Chief of Finance and Accounting Policy Division, Directorate of Resource Management, addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation after we verify USACE finalizes the standard operating procedures and it includes policy to identify a complete and accurate universe of payments, review selected payments for improper payments, and ensure improper payment estimates for the Travel Pay program are calculated consistently, accurately, and in accordance with the approved IPERA sampling plan.

Appendix A

Scope and Methodology

We conducted this performance audit from April 2017 through December 2017 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.

Review of Documentation and Interviews

To obtain information and documentation related to USACE improper payments for the Commercial and Travel Pay programs, we interviewed or visited personnel in the following offices:

- Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, Washington, D.C.;
- U.S. Army Corps of Engineers Headquarters, Washington, D.C.; and
- U.S. Army Corps of Engineers Finance Center (UFC) and Transportation Division, Millington, TN.

We met with UFC personnel and discussed the USACE process for identifying total payments for the Commercial and Travel Pay programs, the payments selected for improper payment testing, and the procedures used to perform improper payment testing. To determine the completeness of USACE payments subjected to improper payment testing, we requested the check register for USACE travel and commercial payments and compared the total payments for each program to the reported payments in the DoD FY 2016 AFR. We discussed the differences with UFC personnel.

To determine whether USACE accurately identified improper payments in the FY 2016 Improper Payments Section of the DoD FY 2016 AFR, we obtained the payments that UFC personnel tested and the results for both the Commercial and Travel Pay programs. However, USACE could not recreate its sample of travel payments tested; therefore, we could not select sample items to review for accuracy. Alternatively, we reviewed the UFC process for:

- selecting a sample of travel payments to test;
- testing selected travel payments;
- calculating a statistically valid improper payment estimate for travel payments; and
- reporting accurate results in the DoD FY 2016 AFR.

For the Commercial Pay program, UFC personnel selected for testing 1,293 commercial payments, valued at \$58.40 million. From the UFC sample of 1,293 commercial payments, we coordinated with the DoD OIG Quantitative Methods Division (QMD) to select a sample of commercial payments to review. QMD analysts used a stratified random sample, based on dollar value, and selected 62 commercial payments, valued at \$36.88 million. Specifically, our sample included:

- 28 payments over \$500,000;
- 19 payments between \$50,000 and \$500,000; and
- 15 payments between \$0 and \$50,000.

To determine whether USACE accurately identified improper payments for the Commercial Pay program, we obtained and reviewed supporting documentation, including contractor invoices; CEFMS obligation and payment information; and contracts, delivery orders and modifications for the 62 payments. We provided the results of our review to QMD analysts to project any improper payments identified to the 1,293 USACE Commercial Pay sample items.

We also obtained, reviewed, and analyzed public law, OMB guidance, and DoD guidance on improper payments. Specifically, we reviewed:

- Public Law 107-300, “Improper Payments Information Act of 2002,” November 26, 2002;
- Public Law 111-204, “Improper Payments Elimination and Recovery Act of 2010,” July 22, 2010;
- OMB Circular No. A-123, Appendix C, “Requirements for Effective Estimation and Remediation of Improper Payments,” October 20, 2014; and
- DoD Financial Management Regulation volume 4, chapter 14, “Improper Payments,” June 2015.

Use of Computer-Processed Data

We relied on computer-processed data obtained from CEFMS throughout the audit. CEFMS is USACE’s primary financial management system used for all financial transactions. To determine if USACE accurately reported improper payment information in the DoD FY 2016 AFAR, we relied on the CEFMS data UFC personnel used to develop improper payment estimates. We concluded that computer processed data obtained from CEFMS was sufficiently reliable for the purposes of the audit. We established the reliability of the data by reviewing key system processes, matching commercial transaction data to contract

documentation, verifying transaction data in CEFMS modules, and reviewing the USACE Civil Works FY 16 Statement of Assurance and Notice of Findings and Recommendations. We did not identify any discrepancies in the data.

Use of Technical Assistance

We received technical assistance from the DoD OIG QMD. QMD analysts provided the statistical sample of Commercial Pay transactions for review. See Appendix B for a summary of the sampling methodology.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the DoD OIG issued six reports discussing improper payment reporting for USACE.

Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

GAO

Report No. GAO-13-227, “Significant Improvements Needed in Efforts to Address Improper Payments Requirements,” May 13, 2013

The DoD did not adequately implement key provisions of the Improper Payments Information Act of 2002 and the Improper Payment Elimination and Recovery Act of 2010. Additionally, the GAO found significant deficiencies in the DoD’s policies and procedures to address other key improper payment requirements.

DoD OIG

Report No. DODIG-2017-078, “The DoD Did Not Comply With the Improper Payment Elimination and Recovery Act in FY 2016,” May 8, 2016

The DoD did not comply with five of the six IPERA requirements. Because of the DoD’s noncompliance with IPERA, the Under Secretary of Defense (Comptroller)/Chief Financial Officer must submit a report to Congress describing the actions the DoD will take to become compliant with IPERA.

Report No. DoDIG-2016-086, “DoD Met Most Requirements of the Improper Payments Elimination and Recovery Act in FY 2015, but Improper Payment Estimates Were unreliable,” May 3, 2016

DoD met five of the six IPERA requirements. However, the improper payment estimates were not reliable and DoD did not meet the reduction target for the DoD Travel Pay program for the fourth consecutive year.

Report No. DODIG-2015-121, “DoD Met Most Requirements of the Improper Payments Elimination and Recovery Act in FY 2014, but Improper Payment Estimates Were Unreliable,” May 12, 2015

The DoD met five of the six IPERA requirements; however, the improper payment estimates were not reliable. The DoD could not ensure that all required payments were reviewed, which resulted in unreliable estimates and rates. The DoD did not meet the requirement to achieve the reduction target for the DoD Travel Pay program.

Report No. DODIG-2014-059, “DoD Efforts to meet the Requirements of the Improper Payments Elimination and Recovery Act in FY 2013,” April 15, 2014

The DoD met five of the six IPERA requirements. However, the DoD’s inability to ensure all required payments were reviewed resulted in unreliable estimates and rates. Furthermore, the DoD did not meet the reduction targets for five of its eight payment programs with established targets.

Report No. DODIG-2013-054, “DoD Efforts to Meet the Requirements of the Improper Payments Elimination and Recover Act in FY 2012,” March 13, 2013

The DoD met five of the six IPERA requirements. However, the DoD did not meet the established reduction target rate for the DFAS Travel Pay program.

Appendix B

Statistical Sampling Methodology and Analysis

We worked with the DoD OIG QMD to develop a statistical sample to project the amount of improper payments for USACE's Commercial Pay sample.

Population and Sample Plan

We obtained the universe of USACE's commercial payments subjected to testing for reporting in the DoD FY 2016 AFR. USACE's sample universe consisted of 1,293 payments, valued at \$58.40 million. QMD analysts used a stratified random sample, based on dollar value, and selected 62 payments, valued at \$36.88 million. QMD analysts stratified the population into three groups and selected the sample, as shown in Table 2.

Table 2. Stratified Population and Sample for Commercial Pay

Stratum Description	Population	Dollar Value	Sample	Dollar Value
Payments greater than \$500,000	28	\$34,523,572	28	\$34,523,572
Payments between \$20,000 and \$500,000	120	\$17,691,209	19	\$2,305,227
Payments between \$0 and \$20,000	1,145	\$6,187,857	15	\$54,511
Total	1,293	\$58,402,638	62	\$36,883,310

Source: The DoD OIG

Statistical Projections

Based on our results, QMD analysts projected at a 90 percent confidence level that USACE's total improper payments for the Commercial Pay program were between \$1,824,841 and \$2,772,990, with a point estimate of \$2,248,119, as shown in Table 3.

Table 3. Projected Improper Payments for Commercial Pay

	Lower Bound	Point Estimate	Upper Bound
Dollar Value	\$1,824,841	\$2,248,119	\$2,772,990

Source: The DoD OIG

In addition to projecting total gross improper payments, QMD analysts projected at a 90 percent confidence level that USACE’s total overpayments for the Commercial Pay program were between \$1,824,841 and \$2,742,990, with a point estimate of \$2,218,119, as shown in Table 4.

Table 4. Projected Overpayments for Commercial Pay

	Lower Bound	Point Estimate	Upper Bound
Dollar Value	\$1,824,841	\$2,218,119	\$2,742,990

Source: The DoD OIG

Appendix C

Potential Monetary Benefits

Table 5.

	Type of Benefit	Amount of Benefit	Account
A.1.f	Questioned Costs	\$2.22 million	Multiple accounts.

Source: The DoD OIG

Management Comments

U.S. Army Corps of Engineers Finance Center



DEPARTMENT OF THE ARMY
U.S. ARMY CORPS OF ENGINEERS
441 G STREET NW
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CERM-F

January 11, 2018

Project: No. D2017-D000CL-0128.000
Inspector General, U.S. Department of Defense

Title: Completeness and Accuracy of U.S. Army Corps of Engineers Improper Payment Estimates

Recommendation A.1.a: Establish standard operating procedures to identify all commercial payments required for inclusion in the improper payment estimates reported in the DoD Agency Financial Statements.

Response: CONCUR with Recommendation: The U.S. Army Corps of Engineers (USACE) is finalizing formal standard operating procedures (SOPs) to document all corrective actions taken in FY 2017 for commercial payments.

Recommendation A.1.b: Implement a review process to verify that accurate and complete information is reported to the Under Secretary of Defense (Comptroller)/Chief Financial Officer for inclusion in the DoD Agency Financial Statements.

Response: CONCUR with Recommendation: The review process for the FY17 commercial payment data included a final review by the Deputy Director, USACE Finance Center (UFC) prior to submission to USD(C) for inclusion in the DoD Agency Financial Statements.

Recommendation A.1.c: Require all commercial payments to have improper payment testing, including Government purchase card payments, and the results should be included in the U.S. Army Corps of Engineers Commercial Pay program improper payment estimate.

Response: CONCUR with Recommendation: All commercial payments, to include Government purchase card payments, were subject to improper payment testing in FY 2017 and the results were included in the USACE Commercial Pay program improper payment estimate.

U.S. Army Corps of Engineers Finance Center (cont'd)

CERM-F
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Recommendation A.1.d: Provide training to U.S. Army Corps of Engineers Finance Center personnel responsible for reviewing commercial payments, as established in the standard operation procedure.

Response: CONCUR with Recommendation: During the review of FY 2017 Commercial pay data, additional UFC personnel were trained and assigned to review commercial payments in accordance with the law for improper payment testing.

Recommendation A.1.e: Implement a review process to verify that accurate testing for improper payments is being performed by U.S. Army Corps of Engineers Finance Center personnel.

Response: CONCUR with Recommendation: Additional separation of duties have been implemented to ensure accurate testing for improper payments is being performed by UFC personnel. Beginning in FY 2017, senior level review is required before data is submitted to USD(C) for inclusion in the DoD Agency Financial Statements.

Recommendation A.1.f: Review, research, and collect improper overpayments related to the 1,293 FY 2016 commercial payments selected for IPERA compliance testing.

Response: NONCONCUR with Recommendation: Results from samples tested in FY 2016 commercial payments did not reveal overpayments that resulted in the loss of funds on the behalf of the government. As such, there are no identified improper overpayments to collect and additional review/research would not be cost-effective.

Recommendation B.1.a: Implement a process for higher-level reviews before submitting information to the Under Secretary of Defense (Comptroller) for inclusion in the DoD Agency Financial Report.

Response: CONCUR with Recommendation: The review process for the FY 2017 travel payment data included a final review by the Deputy Director, UFC prior to submission to USD(C) for inclusion in the DoD Agency Financial Statements.

Recommendation B.1.b: Update standard operating procedures to include centrally billed travel payments in the U.S. Army Corps of Engineers Travel Pay program for Improper Payments Elimination and Recovery Act reporting.

Response: NONCONCUR with Recommendation: Beginning in FY 2017, USACE includes centrally billed payments in the Commercial Pay program for Improper Payments Elimination and Recovery Act reporting because the obligation in the Corps

U.S. Army Corps of Engineers Finance Center (cont'd)

CERM-F
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of Engineers Financial Management System (CEFMS) is set up as a Contractual obligation with the commercial vendor.

Recommendation B.1.c: Subject all travel payments, to include centrally billed account payments, permanent change of station payments, and local travel payments to improper payment testing.

Response: CONCUR with Recommendation

Recommendation B.1.d: Develop procedures to require a statistician review and approve the improper payment estimate, prior to submitting the information to the Under Secretary of Defense (Comptroller) for inclusion in the DoD Agency Financial Report, to ensure the calculation was completed in accordance with Office of Management and Budget guidance and the approved U.S. Army Corps of Engineers sampling plan.

Response: NONCONCUR with Recommendation: The USACE sampling plan is approved/certified by a statistician and the sampling methodology and formulas are readily available to validate the improper payment estimate.

Recommendation B.1.e: Track Improper Payments Elimination and Recovery Act sample item reviews to ensure all sample payments are reviewed prior to calculating an improper payment estimate.

Response: CONCUR with Recommendation: All Improper Payments Elimination and Recovery Act sample items are maintained on a shared network drive for review/audit. All audits are completed prior to calculating an improper payment estimate.

Recommendation B.1.f: Establish standard operating procedures to establish an effective Improper Payments Elimination and Recovery Act review process that include procedures to:

1. Identify a complete and accurate universe of payments.
2. Review selected payments for improper payments.
3. Ensure improper payments estimates for the Travel Pay program are calculated consistently, accurately, and in accordance with the approved Improper Payments Elimination and Recovery Act sampling plan.

Response: CONCUR with Recommendation: The UFC is finalizing formal SOPs to document all corrective actions taken in FY 2017 for travel payments. Corrective actions include identifying a complete and accurate universe of payments utilizing the check register in CEFMS, reviewing all selected payments in the sample for improper payments, and calculating consistent and accurate improper payment estimates in

U.S. Army Corps of Engineers Finance Center (cont'd)

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accordance with the approved USACE Improper Payments Elimination and Recovery Act sampling plan.

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WARD [REDACTED]

Michael E . Walsh, CPA
Chief, Finance and Accounting Policy Division
Directorate of Resource Management

Acronyms and Abbreviations

AFR	Agency Financial Report
CBA	Centrally Billed Account
CEFMS	Corps of Engineers Financial Management System
DFAS	Defense Finance and Accounting Service
FMR	Financial Management Regulation
GAO	Government Accountability Office
GPC	Government Purchase Card
IPERA	Improper Payments Elimination and Recovery Act of 2010
OMB	Office of Management and Budget
PCS	Permanent Change of Station
SOP	Standard Operating Procedure
TDY	Temporary Duty
UFC	U.S. Army Corps of Engineers Finance Center
USACE	U.S. Army Corps of Engineer
USD(C)/ CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD

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U.S. DEPARTMENT OF DEFENSE

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