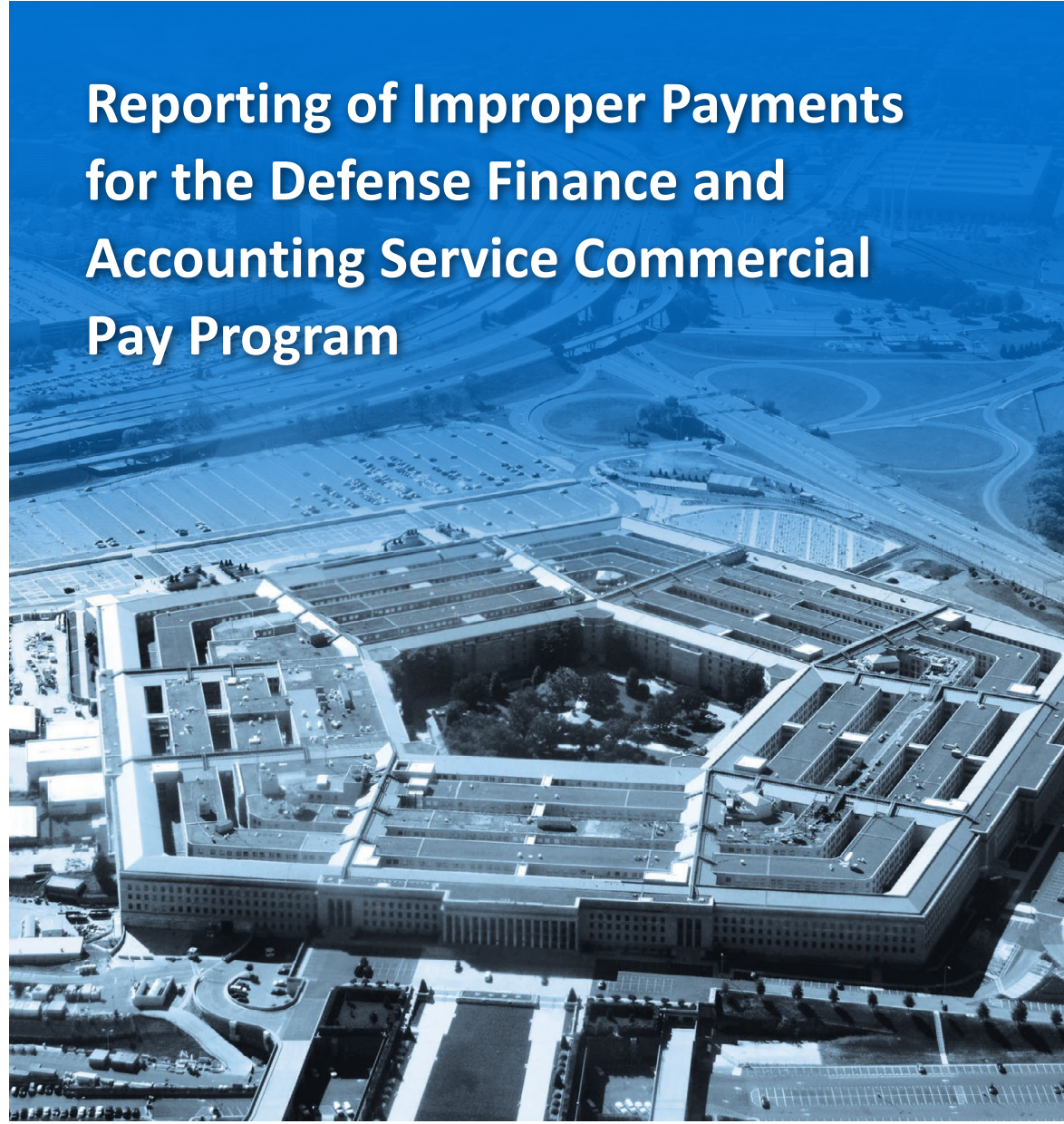




INSPECTOR GENERAL

U.S. Department of Defense

DECEMBER 21, 2018



Reporting of Improper Payments for the Defense Finance and Accounting Service Commercial Pay Program

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





Results in Brief

Reporting of Improper Payments for the Defense Finance and Accounting Service Commercial Pay Program

December 21, 2018

Objective

We determined whether the DoD developed accurate and complete improper payment estimates for the Defense Finance and Accounting Service (DFAS) Commercial Pay Program during the first two quarters of FY 2018.

Background

Federal legislation requires agencies to conduct risk assessments to identify programs that are susceptible to significant improper payments and to produce a statistically valid estimate of improper payments for those programs considered susceptible to significant improper payments. Additionally, Office of Management and Budget guidance establishes requirements for agencies to design and document a sampling and estimation plan, test a sample of program payments for improper payments, and project the testing results to the entire program.

The DFAS Commercial Pay program is one of the programs reported in the DoD Agency Financial Report (AFR). Although the DoD titled this program "DFAS Commercial Pay," the program includes commercial payments made by Military Departments, Defense agencies, and field activities, with the exception of the U.S. Army Corps of Engineers, which is reported separately. Commercial payments include payments for transportation bills, government purchase card purchases, and purchases of goods or services from contractors. The DFAS Commercial Pay program reported total payments of \$259.2 billion, and \$0.86 million of estimated improper payments in the DoD FY 2017 AFR.

Findings

The DoD produced an incomplete and inaccurate improper payment estimate for the first two quarters of the DFAS Commercial Pay Program FY 2018 Improper Payment Elimination and Recovery Act reporting period. The calculation of the improper payment estimate did not include the results of improper payment reviews for:

- \$2.2 billion of DoD transportation payments,
- \$2.4 billion in government purchase card payments, or
- \$1.1 billion in Army payments made at selected overseas offices.

This occurred because Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD[C]/CFO) personnel relied on the DFAS Commercial Pay sampling plan without performing risk assessments or understanding the impact of the limited scope of the plan on the accuracy of the DoD's commercial payment estimate.

In addition, DFAS Enterprise Solutions and Standards (ESS) personnel did not have sufficient controls in place to validate the accuracy and completeness of the commercial payments population used for developing the DFAS portion of the improper payment estimate. Specifically, DFAS ESS personnel:

- incorrectly excluded \$221 million in payments when combining the payment data files from 3 of 15 systems, and
- incorrectly included \$783.6 million in intragovernmental payments in the population of payments tested for improper payments.

This occurred because DFAS ESS personnel did not coordinate with the appropriate systems personnel for each of the data systems to validate that the search criteria used for the sampling methodology was correct. Additionally, DFAS ESS procedures did not include sufficient control measures to ensure that DFAS received and correctly processed all the data files the systems submitted to DFAS for inclusion in the population.



Results in Brief

Reporting of Improper Payments for the Defense Finance and Accounting Service Commercial Pay Program

Findings (cont'd)

As a result, the DoD did not comply with the statutory requirements and will continue to produce unreliable estimates if it does not improve its internal control system. Also, the DFAS Commercial Pay program may miss the opportunity to promptly detect, prevent, and recover improper payments of Federal funds.

Recommendations

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

- develop and implement procedures to ensure that estimates of transportation and government purchase card improper payments are included in the DoD estimate for the AFR;
- evaluate the Army's Improper Payments Elimination and Recovery Act compliance procedures and sampling plan to determine whether it would be more cost effective to incorporate improper payments testing at overseas locations into the DFAS Commercial Pay sampling plan;
- conduct an annual review within all Components to identify all types of commercial payments and verify that existing risk assessments and sampling plans encompass all payments; and
- update the DoD Financial Management Regulation to define the types of payments in the DFAS Commercial Pay program and identify which Components are responsible for testing and reporting improper payment estimates within the DFAS Commercial Pay program.

We also recommended that the DFA ESS Director, in coordination with the USD(C)/CFO, develop a memorandum of understanding for each payment system, documenting the payment data requirements from each system.

Management Comments and Our Response

The Deputy CFO, responding for the USD(C)/CFO, and the DFAS, Director, agreed with all recommendations and addressed all specifics of the recommendations; therefore, the recommendations are resolved but remain open. We will close the recommendations after verifying that the actions presented by management have been implemented.

Please see the Recommendations Table on the next page for the status of the recommendations.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense (Comptroller), Chief Financial Officer, DoD	None	1.a, 1.b, 1.c, 1.d, 2	None
Defense Finance and Accounting Service, Enterprise Solutions and Standards, Director	None	2, 3	None

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

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





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

December 21, 2018

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

SUBJECT: Reporting of Improper Payments for the Defense Finance and Accounting
Service Commercial Pay Program (Report No. DODIG-2019-039)

We are providing this report for your information and use. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. Comments from the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments.

If you have any questions or would like to meet to discuss the audit, please contact me at (703) 601-5945 (DSN 329-5945). We appreciate the cooperation and assistance received during the audit.

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

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

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Introduction

Objective

We determined whether the DoD reported an accurate and complete improper payments estimate for the Defense Finance and Accounting Service (DFAS) Commercial Pay program for its Improper Payments Elimination and Recovery Act (IPERA) reporting. To achieve the objective, we reviewed the calculation of the improper payment estimates for the first two quarters of the FY 2018 IPERA reporting period. See Appendix A for the audit scope and methodology and Appendix B for prior audit coverage related to the audit objective.

Background

On January 10, 2013, the President signed the “Improper Payments Elimination and Recovery Improvement Act of 2012,” which amended the “Improper Payments Elimination and Recovery Act of 2010” (IPERA) and the “Improper Payments Information Act of 2002.” Office of Management and Budget (OMB) Circular No. A-123 provides guidance for agencies to implement the requirements of the Acts.¹

The Acts identify a payment as any transfer or commitment for future transfer of Federal funds to any non-Federal person or entity that is “made by a Federal agency, a Federal contractor [vendor], a Federal grantee, or a governmental or other organization administering a Federal program.”² The Acts and OMB guidance state 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 or for ineligible goods or services and payments for goods or services not received. However, an improper payment does not always result in an actual monetary loss to the Government. If the recipient was paid the correct amount but the agency could not find the necessary supporting documentation when reviewing the payment for accuracy, then the reviewing agency would consider the payment an improper payment.

¹ OMB Circular No. A-123, “Management’s Responsibility for Internal Controls,” appendix C, June 26, 2018.

² DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 10, chapter 8, “Commercial Payment Vouchers and Supporting Documentation,” uses the terms contractors and vendors interchangeably. For the purposes of this report, the term vendor will be used.

DFAS Commercial Pay Program

In the FY 2017 Agency Financial Report (AFR), the DoD reported improper payments for nine programs. The DFAS Commercial Pay program estimated \$0.86 million in improper payments, based on reviewing a sample from \$259 billion in commercial payments in FY 2017. For FY 2018, the DoD projected that the program would have \$104 million in improper payments for \$260 billion in commercial payments. Table 1 shows the payments, improper payment rates, and estimated improper payment amounts for each of the programs in FY 2017.

Table 1. DoD FY 2017 Estimated Improper Payments Reporting

Program	FY 2017 Payments (in Millions)	Improper Payment Rate (percent)	Estimated Improper Payments Total (in Millions)
DFAS Commercial Pay	\$259,165	0.0 ¹	\$1
Navy Commercial Bill Pay Office Naples (Italy) ²	570	0	0
U.S. Army Corps of Engineers Commercial Pay	8,945	1.82	163
Military Health Benefits	23,883	0.63	150
Military Pay	96,777	0.19	183
Civilian Pay	61,811	0.11	68
Military Retirement	60,354	0.21	128
DoD Travel Pay	5,280	4.99	263
U.S. Army Corps of Engineers Travel Pay	196	0.81	2

¹ Rounded down from 0.0003 percent.

² Effective FY 2018, the Navy Commercial Bill Pay Office Naples payments were reviewed and reported as part of the DFAS Commercial Pay program.

Source: The DoD FY 2017 AFR.

The DoD Financial Management Regulation (DoD FMR) describes commercial payments as payments made to vendors. Although the DoD titled this program “DFAS Commercial Pay,” the program includes commercial payments made by Military Departments, Defense agencies, and field activities (referred to as Components), with the exception of the U.S. Army Corps of Engineers, which is reported separately. Commercial payments include payments for transportation bills, government purchase card (GPC) purchases, and purchases of material or services from vendors.

Improper Payments Estimate Requirements

The Acts require agencies to conduct risk assessments to identify programs that are susceptible to significant improper payments and to produce a statistically valid estimate of improper payments for those programs considered susceptible to significant improper payments. If an agency determines a program is not susceptible to significant improper payments, the agency must perform a risk assessment of that program at least once every 3 years.³ An agency must include all identified improper payments in its reported estimates, regardless of whether the agency recovered the improper payment. Furthermore, the Acts require agencies to include purchase card (Government purchase cards) payments in their risk assessments and, where appropriate, in the improper payments estimate.

OMB Circular No. A-123 provides guidance to agencies implementing the Acts' requirements to identify, reduce, and report on improper payments. The guidance requires agencies to design and document a sampling and estimation plan, prepared by a statistician, to test a sample of program payments for improper payments and then project the results to the entire program. An agency official must certify that the sampling and estimation methodology will produce a statistically valid estimate.

The DoD FMR requires DoD programs to quantify and estimate improper payments for reporting purposes and provides for the implementation of plans to identify, estimate, reduce, and eliminate future improper payments.⁴ The DoD FMR also requires that all DoD Components that entitle (process or compute) payments that are not currently measuring and reporting improper payments to conduct risk assessments of their payment processes to identify areas susceptible to significant improper payments and establish controls to mitigate risks. The DoD FMR further requires that components conduct random post-payment reviews of a statistically valid sample of the population to estimate improper payments for the total population.

Improper Payment Reporting Roles and Responsibilities

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

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO), oversees DoD improper payments reporting, including reporting for the DFAS Commercial Pay program. According to the DoD FMR, the USD(C)/CFO:

- reviews the Components' statistical sampling plans to ensure completeness;

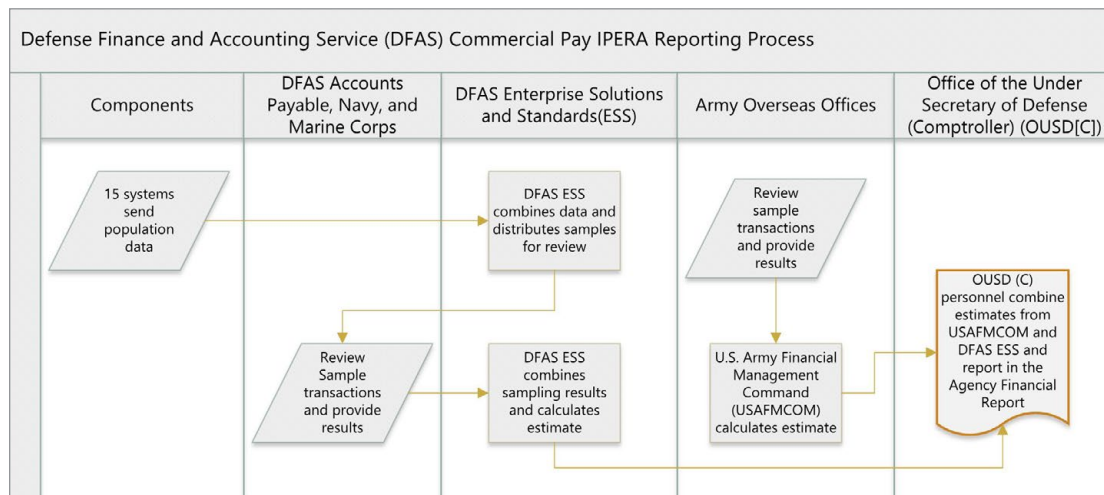
³ The Acts define a program as having significant improper payments when the total annual improper payments exceed either: both \$10 million and 1.5 percent of total payments in the program, or \$100 million in improper payments.

⁴ DoD FMR, volume 4, chapter 14, "Improper Payments."

- forwards the sampling plans to OMB personnel for review;
- compiles the annual AFR submissions by the reporting Components;
- ensures reporting requirements are met;
- reviews, edits, and consolidates the Component-level information into a summary-level report; and
- maintains and updates DoD FMR chapters that cover improper payments requirements.⁵

The following Figure shows the process for reporting improper payment estimates for the AFR.

Figure. Improper Payments Estimation Process for the DFAS Commercial Pay Program



Source: The DoD OIG.

Defense Finance and Accounting Service

The DFAS Enterprise Solutions and Standards (ESS), Post Pay Review and Analysis office, has primary responsibility within DFAS for the DFAS Commercial Pay program reporting and compliance with the Acts and OMB guidance.⁶ DFAS ESS personnel develop the sampling and estimation plan to produce the DFAS Commercial Pay program improper payment estimates for DFAS.

⁵ DoD FMR volume 4, chapter 14, "Improper Payments."

⁶ The DFAS Commercial Pay sampling plan does not include commercial pay improper payment estimates for the U.S. Army Corps of Engineers and for select overseas U.S. Army locations.

The DFAS Commercial Pay Improper Payment Review FY 2018 Sampling Methodology plan used a population of commercial payments from 15 systems.⁷ Appendix C in this audit report identifies the 15 systems and the Components that used those systems.

DFAS ESS personnel completed quarterly samplings of commercial payments from the Mechanization of Contract Administration Services (MOCAS) population and the non-MOCAS population, and they added the results of the quarterly samplings together for the annual estimate of improper payments reported to the USD(C)/CFO.⁸ Table 2 illustrates the commercial payments by sampling population for the first two quarters of the FY 2018 reporting period.⁹

Table 2. Commercial Payments for First Two Quarters of FY 2018 Reporting Period

Source System for Payments	Payments ¹ (in Millions)	Estimated Improper Payments (in Millions)
MOCAS	\$82,115	\$0
Non-MOCAS ²	64,096	14
Total	\$146,211	\$14

¹ Total universe of commercial payments from which DFAS selected a sample for testing.

² Appendix C lists the 14 of 15 systems that DFAS ESS identified as non-MOCAS systems.

Source: The DoD OIG, using data provided by the Components.

The DFAS ESS Post Pay Review and Analysis office, in collaboration with DFAS ESS Accounts Payable, is responsible for post-payment reviews of the DFAS sampled populations, which includes the Components in Appendix C of this audit report, to identify improper payments. DFAS post-payment review teams review and evaluate the documentation available to support each transaction selected as part of the quarterly, statistical sample to determine if the payments were accurate.

The DFAS ESS Post Pay Review and Analysis office developed internal guidelines for the performance of post-pay reviews that documented the standard operating procedures for the Commercial Pay post-pay reviewers within DFAS. Army and Navy personnel perform their own post-pay reviews of overseas commercial payments made by the Army Finance Offices in Korea, Italy, and Belgium and by the Navy commercial bill paying offices in Singapore and Italy.

⁷ The DFAS ESS plan describes the 15 sources of payment data as entitlement systems. However, they are a combination of entitlement and disbursement systems. For this report, we will continue to refer to them as 15 systems.

⁸ The MOCAS system contains financial data of contracts administered by the Defense Contract Management Agency and paid by DFAS Columbus. All other contracts paid by DFAS locations are considered non-MOCAS Vendor Pay contracts.

⁹ The DoD FY 2018 reporting period is July 2017 through June 2018.

Review of Internal Controls

DoD Instruction 5010.40 requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls.¹⁰

We identified internal control weaknesses associated with the processes for preparing improper payments estimates for the DFAS Commercial Pay program. Specifically, the USD(C)/CFO did not conduct a risk assessment or regular reviews to identify all types of commercial payments and their associated risks within the DFAS Commercial Pay program. Additionally, DFAS did not have controls in place to ensure the accuracy and completeness of the commercial payments population used for developing the DFAS portion of the improper payment estimate. We will provide a copy of the report to the senior officials responsible for internal controls.

¹⁰ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

The DoD Developed Unreliable Estimates for the DFAS Commercial Pay Program

The DoD produced an incomplete and inaccurate improper payment estimate for the DFAS Commercial Pay Program by excluding \$5.7 billion in commercial payments from the population used for calculating the FY 2018 first and second quarter estimates. This occurred because USD(C)/CFO personnel relied on the DFAS Commercial Pay sampling plan without performing risk assessments or understanding the impact of the limited scope of the plan on the accuracy of the DoD's commercial payment estimate.

Furthermore, DFAS ESS personnel incorrectly excluded an additional \$221 million from 3 of the 15 systems that the DoD used to process commercial payments and improperly included \$783.6 million of intragovernmental payments in the population used for sample testing. This occurred because DFAS ESS personnel did not have sufficient controls to ensure that they had a complete and accurate population of commercial payments for developing the DFAS portion of the estimate.

As a result, the DoD did not comply with the requirements of the Acts when Components improperly included intragovernmental payments, excluded GPC and selected overseas payments from their improper payments reviews, and excluded transportation payments from improper payment reporting. Also, the DFAS Commercial Pay program lost the opportunity to identify and recover overpayments made from the GPC and overseas payment populations that were incorrectly excluded from reviews for IPERA reporting purposes. Furthermore, because DoD personnel did not review these payment populations, they missed the opportunity to determine whether additional funding or resources would be necessary to correct the root causes of any improper payments associated with these payments.

Inaccurate and Incomplete Estimate

The DoD produced an incomplete and inaccurate improper payment estimate for the first two quarters of the DFAS Commercial Pay Program FY 2018 IPERA

The DoD's calculation of an improper payment estimate . . . did not include an estimate of improper payments for \$5.7 billion in commercial payments.

reporting period. Although DFAS ESS personnel developed an estimate of \$14 million in improper payments for the first two quarters of the FY 2018 IPERA reporting period, the estimate did not take into consideration the correct categories of commercial payments completed by DoD Components. Specifically, the DoD's calculation of an improper payment

estimate for the first two quarters of FY 2018 did not include an estimate of improper payments for \$5.7 billion in commercial payments, including:

- \$2.2 billion of DoD transportation payments that the General Services Administration (GSA) reviewed;
- \$2.4 billion in GPC payments; or
- \$1.1 billion in Army payments made at selected overseas offices.

USD(C)/CFO personnel receive improper payments estimate submissions from DFAS ESS and U.S. Army Financial Management Command (USAFMCOM) personnel for the DFAS Commercial Pay program. DFAS ESS personnel developed their improper payments estimates for the DFAS portion of the DFAS Commercial Pay program based on a statistically valid sampling plan, as required by OMB Circular No. A-123.¹¹ The sampling plan described the methodology for:

- identifying the population of commercial payments subject to review,
- selecting a sample for post-payment reviews, and
- estimating total improper payments based on the results of the post-payment reviews.

In the sampling plan, DFAS ESS personnel stated that they intentionally excluded from the population the “negative and zero-dollar payments, payments reviewed under other plans (such as Government Purchase Card payments) and classified payments.” Although not documented in the plan, DFAS ESS personnel also excluded transportation payments from the population.

¹¹ The DFAS Commercial Pay sampling plan does not include commercial pay improper payment estimates for the U.S. Army Corps of Engineers and for select overseas Army locations.

Transportation Payments Excluded From Estimates

The USD(C)/CFO did not receive the results of GSA's reviews of \$2.2 billion of the DoD's transportation payments so that it could include the results in the DoD's annual estimate. As part of its congressionally mandated responsibility to perform oversight of transportation bill payments, the GSA Transportation Audits Division performs monthly post-payment audits of all Federal agency transportation billing documents for validity, propriety, and conformity of rates with tariffs, quotes, agreements, and contracts.¹² GSA personnel send a monthly report of the DoD overcharges identified during the audits to DFAS Operations personnel.

DFAS ESS personnel were aware that GSA personnel performed transportation post-payment audits and that the DFAS Commercial Pay sampling methodology excluded transportation payments from its population of payments subject to sampling. However, DFAS ESS personnel did not document this exclusion of the transportation payments in their sampling plan. USD(C)/CFO personnel stated that they did not receive the GSA reports and, as of June 2018, had not evaluated the scope of GSA's post-payment audits to determine whether the results could be relied upon for IPERA reporting. USD(C)/CFO personnel relied on the DFAS Commercial Pay sampling plan to produce estimates for the DFAS Commercial Pay program and were not aware that transportation payments were not included in the DoD's improper payments testing. As a result, the DoD improper payment estimates for the first two quarters of FY 2018 did not include the \$3.3 million of improper payments that GSA identified in its transportation audits. The USD(C)/CFO should evaluate whether the GSA post-payment audits of the DoD transportation bills meet the requirements of the Acts and develop and implement the appropriate procedures to include transportation improper payments in the DoD estimate for the AFR.

As a result, the DoD improper payment estimates . . . did not include the \$3.3 million of improper payments that GSA identified in its transportation audits.

Government Purchase Card Payments Excluded From Estimates

DFAS ESS personnel did not include \$2.4 billion of GPC payments from the first and second quarter of FY 2018 in their population of commercial payments for improper payment testing as required by the Acts and OMB. The Acts require agencies to include purchase card payments in the program risk assessments that the agencies are required to complete every 3 years and, if applicable, in the program improper payments estimates. OMB allows agencies to submit sampling

¹² Section 3726, title 31, United States Code, 2012.

plans and report improper payments estimates in the AFR instead of performing a risk assessment. Therefore, agencies that choose to report improper payments estimates in the AFR are required to include GPC payments in a statistically valid sampling plan for that program.

According to the DFAS Commercial Pay sampling plan, DFAS ESS personnel intentionally excluded GPC payments from the population of commercial payments tested for improper payments because the GPC payments were “reviewed under other plans.” DFAS ESS has been excluding GPC payments from its sampling methodology since at least 2015. However, DFAS did not identify another DoD sampling and estimation plan that included the GPC payments. DFAS ESS personnel explained that they excluded GPC payments because another agency was reviewing the payments and that it was USD(C)/CFO’s responsibility to ensure sufficient GPC improper payment testing and reporting. Although USD(C)/CFO personnel were aware that DFAS ESS personnel documented the exclusion of the GPC payments in the DFAS Commercial Pay sampling plan, the USD(C)/CFO did not develop procedures to ensure that the DoD improper payment estimate

As a result, the DoD has not complied with the Acts or OMB requirements to assess and report on GPC improper payments.

included the results of the reviews of GPC payments. Instead, the USD(C)/CFO continued to rely on the DFAS sampling methodology. As a result, the DoD has not complied with the Acts or OMB requirements to assess and report on GPC improper payments. Also, the DoD understated its total payments and total

estimated improper payments in the AFR for the DFAS Commercial Pay program because it did not include the GPC payments.

Prior audits have identified GPC usage as vulnerable to misuse, and the Acts and OMB guidance require agencies to include GPC payments in their risk assessment process and improper payments estimates.¹³ As a result of this audit, USD(C)/CFO personnel acknowledged that GPC payments should be reviewed for improper payments. Accordingly, USD(C)/CFO personnel started to examine where responsibility should be designated to implement an improper payments review of GPC payments in the future that will meet the Acts and OMB requirements. USD(C)/CFO personnel identified that the Defense Procurement Acquisition Policy Directorate and DoD Components performed reviews of GPC payments for compliance with GPC regulations and policies and to identify GPC misuse, fraud, and abuse, as required by Public Law 112-194 “Government Charge Card Abuse Prevention Act of 2012,” October 5, 2012. However, USD(C)/CFO personnel have not determined whether those GPC reviews were sufficient to meet IPERA improper payments reporting requirements. Furthermore, USD(C)/CFO personnel

¹³ See the Prior Coverage section in Appendix B of this report.

did not expect to complete their reviews in time to include estimated GPC improper payments in the FY 2018 AFR. The USD(C)/CFO should conduct a risk assessment of GPC payments and, as necessary, develop and implement procedures to ensure DoD GPC payments are reviewed for improper payments and the results are reported to the USD(C)/CFO for inclusion in the DoD's annual AFR.

Selected Army Overseas Paying Offices Were Excluded From Estimate

USAFMCOM personnel excluded \$1.1 billion in payments made at selected overseas paying offices from the Army's commercial payment population for the first two quarters of FY 2018 IPERA reporting. The Acts and OMB guidance require all DoD Components to include any payments made to non-Federal persons and entities in their improper payments testing. According to the Financial Services Director, USAFMCOM personnel could not readily identify which payments from the Kosovo, Saudi Arabia, Kuwait, and 175th Financial Management Support Center locations were subject to improper payments testing; therefore, the Army did not conduct testing on the payments made at those locations. However, USAFMCOM personnel at the Italy Finance Office, Benelux Finance Office, and Army Finance and Accounting Service-Korea office were able to identify commercial payments from the Deployable Disbursing System and reviewed those payments to determine if any improper payments occurred.

The USAFMCOM Financial Services Director stated that the dollar value of the payments processed at the Kosovo, Saudi Arabia, Kuwait, and 175th Financial Management Support Center locations were not material to the Army's financial statements. However, the DoD FMR and OMB guidance do not limit the requirement for improper payment testing to payments material to the financial statements. As a result, the Army did not include a complete population of payments from its overseas paying offices, impacting the accuracy of the DFAS Commercial Pay improper payment estimate and the ability of the DoD to comply with the Acts.

The DFAS Commercial Pay sampling plan has excluded payments made by Army overseas locations since at least FY 2016.

The DFAS Commercial Pay sampling plan has excluded payments made by Army overseas locations since at least FY 2016. However, the DFAS plan included in its population the overseas payments made by the other Military Departments, and DFAS ESS personnel forwarded the transactions selected for sample testing to the originating paying offices for a post-payment review. USD(C)/CFO personnel were not aware that during the first two quarters of FY 2018 the Army was not reviewing all of its overseas commercial payments. USD(C)/CFO personnel are responsible for reviewing risk assessments and sampling

plans for compliance with OMB guidance. Therefore, the USD(C)/CFO should have realized that the only DFAS Commercial Pay program risk assessment and sampling plan was prepared by DFAS ESS personnel, and that DFAS did not include an assessment of the risk of improper payments at Army overseas locations. USD(C)/CFO personnel were not aware of the scope of commercial payments made at Army overseas locations or the impact excluding payments at selected Army locations would have on the DoD's improper payment estimate.

During the DoD OIG audit of the DoD's FY 2017 compliance with IPERA, the audit determined that the Army did not have a sampling plan in place for its commercial pay improper payments testing at its overseas locations. A compliant sampling plan would have identified the complete population of Army overseas commercial payments and a methodology to select a sample of payments for testing and produce a statistically valid estimate of improper payments in the population.¹⁴ The Army also did not have a sampling plan in place for the FY 2018 reporting period. In response to the audit report, the USAFMCOM Financial Services Director established a milestone of August 2018 to develop a sampling plan for submission to the USD(C)/CFO and OMB; however, as of October 2018, the Army had not completed its plan. When reviewing USAFMCOM's new sampling plan and DFAS ESS's updated DFAS Commercial Pay sampling plan for FY 2019, USD(C)/CFO personnel could consider potential increased efficiencies in FY 2020 if the DoD combines Army overseas payments with the DFAS Commercial Pay sampling plan. USAFMCOM could make use of DFAS ESS personnel's expertise in developing samples and calculating the total estimated improper payments based on the results of post-payment reviews of those samples. The USD(C)/CFO and DFAS ESS, in coordination with USAFMCOM, should evaluate the Army's IPERA compliance procedures and sampling plan to determine whether it would be more effective to incorporate improper payments testing at Army overseas locations into the DFAS Commercial Pay sampling plan. Based on the results of its assessment, the USD(C)/CFO should submit to OMB either a modified DFAS Commercial Pay sampling plan that incorporates the Army overseas payments or both the FY 2019 DFAS Commercial Pay plan and the Army sampling plan.

¹⁴ Report No. DODIG-2018-115, "DoD FY 2017 Compliance With the Improper Payments Elimination and Recovery Act Requirements," May 9, 2018.

The DoD Has Not Performed Regular Assessments of the DFAS Commercial Pay Program

The lack of a comprehensive DFAS Commercial Pay program risk assessment, as well as sampling plans covering all payments, resulted in incomplete and inaccurate improper payment

The lack of a comprehensive DFAS Commercial Pay program risk assessment, as well as sampling plans covering all payments, resulted in incomplete and inaccurate improper payment estimates.

estimates. USD(C)/CFO personnel relied on a commercial pay risk assessment and DFAS Commercial Pay sampling plan that DFAS ESS personnel developed; however, they did not realize that the scope of the DFAS plan was limited to those Components that DFAS supported or agreed to incorporate within its sampling plan instead of all DoD commercial payments.

OMB requires agencies to implement a systematic method of reviewing all of its programs and re-perform a program's risk assessment when there has been a significant change in the program, considering factors such as the complexity of the program, volume of payments, inherent risks of improper payments due to the nature of the program or operations, and recent changes in practices and procedures. Also, when a program's payments are performed partially by an agency and partially by a service provider, the agency and the service provider should assess the portion of the payment process within the control of each entity.

In FY 2016, DFAS ESS personnel completed a limited risk assessment of commercial payments that focused on payments entitled or processed by DFAS locations. The risk assessment report stated that DFAS evaluated the risk associated with 12 systems used to entitle invoices, resulting in an overall risk level for the DFAS Commercial Pay program as high. In FY 2017, DFAS ESS re-issued its assessment report stating that there were no changes in its risk assessment results. However, the DoD has not performed a comprehensive risk assessment of commercial payment operations within all Components, including invoices processed and payments made by non-DFAS financial offices and the types of payments that DFAS ESS personnel intentionally excluded from their sampling plan and post-payment reviews. For instance, the DoD does not have a risk assessment that addresses the risk of improper payments for overseas payments, GPC payments, and transportation payments. Furthermore, the USD(C)/CFO did not define the DFAS Commercial Pay program within the DoD FMR and provide direction to Components on the types of payments to include and exclude from their risk assessments and their commercial payments populations subject to testing for improper payments.

The DoD FMR requires Components to perform risk assessments to identify programs susceptible to significant improper payments, but the USD(C)/CFO did not have procedures in place to ensure that the Components completed risk assessments that addressed all defined commercial payments and that the appropriate sampling plans were in place. Instead, USD(C)/CFO personnel relied on the DFAS ESS risk assessment and on the DFAS Commercial Pay sampling plan that DFAS ESS personnel developed. Also, USD(C)/CFO personnel did not conduct regular reviews of the commercial payment program, in coordination with the Components, to identify changes in the types of payments made across all DoD Components that would require new or revised risk assessments. As a result, the USD(C)/CFO did not clearly define the scope and complexity of the DFAS Commercial Pay program, verify that existing risk assessments addressed all DoD commercial payments, and ensure that all of the defined commercial payment types were covered by a sampling plan for all Components.

The USD(C)/CFO initiated action in FY 2018 to improve its oversight of the DoD's improper payments program. In June 2018, the USD(C)/CFO and DFAS finalized the charter establishing the DoD Improper Payments Senior Accountable Officials (SAO) Steering Committee. Composed of senior officials from the Military Departments and DoD agencies, the committee's mission includes providing oversight to the DoD improper payments program, implementing best practices, monitoring performance, and driving action for compliance with IPERA. Also, an Action Officers Working Group is tasked with providing subject matter expert support to the SAO Steering Committee.¹⁵ The USD(C)/CFO and DFAS, through the Senior Accountable Officials Steering Committee and Action Officers Working Group, should conduct an annual review of the Commercial Pay program to identify all types of payments made across DoD Components; verify that existing risk assessment and sampling plans cover all defined commercial payment types; and update risk assessments and sampling plans for segments of the program that experienced a significant change in legislation or a significant increase in its funding level.

Furthermore, the DoD FMR does not define the DFAS Commercial Pay program or provide direction to Components with examples of the types of payments to include and exclude from the commercial payments populations subject to testing for improper payments. Therefore, Components inconsistently applied methodologies for identifying commercial payments. The USD(C)/CFO should update the DoD FMR volume 4, chapter 14, to define the types of payments in the DFAS Commercial Pay program and identify which Components are required to test and report improper payments estimates for each type of commercial payment within the DFAS Commercial Pay program.

¹⁵ The Action Officers Working Group consists of subject matter experts at the General Service Pay Grade 14/15 or Military Pay Grade O5/O6 level.

DFAS ESS Personnel Made Errors When Developing the Commercial Payment Population

DFAS ESS personnel incorrectly excluded commercial payments from 3 of 15 systems and improperly included intragovernmental payments in the population tested for improper payments. DFAS ESS personnel stated that they modified the original populations submitted from the 15 systems to exclude certain types of payments from the population used for sample testing.¹⁶ However, the initial reviews that DFAS ESS personnel performed of the modified population used for sample testing did not detect the following errors.

- DFAS ESS personnel excluded \$221 million in commercial payments processed through 3 of the 15 systems:
 - \$7 million in commercial payments from the U.S. Marine Corps Local Payment system,
 - \$109 million in commercial payments from the population of the Navy Commercial Bill Pay Office–Naples located in Italy, and
 - \$105 million in commercial payments from the Navy Enterprise Resource Planning (NERP) population.
- DFAS ESS personnel incorrectly included \$783.6 million in intragovernmental payments in the population of payments tested for improper payments.¹⁷

DFAS ESS Personnel Excluded Commercial Payments

DFAS ESS personnel made processing errors when combining the payment data files from 3 of the 15 systems during the first two quarters of FY 2018 that resulted in \$221 million in commercial payments being excluded from the population sampled for review.

DFAS ESS personnel did not include \$7 million in commercial payments from the U.S. Marine Corps Local Payment system due to a coding error when adding this new system into the population. After we identified the coding error, DFAS ESS personnel corrected it and added the omitted payments to the fourth-quarter population of payments for testing.

DFAS ESS personnel made processing errors . . . that resulted in \$221 million in commercial payments being excluded from the population sampled for review.

¹⁶ The population used for sampling, or “post-exclusion” population, is the total population less transactions removed from the population by DFAS ESS personnel. This includes, for example, payments with a negative dollar amount, GPC payments, and transportation payments.

¹⁷ Intragovernmental payments do not meet the Act’s definition of a payment and, therefore, improper payment reviews are not required.

DFAS ESS personnel also did not include \$109 million in commercial payments from the Navy Commercial Bill Pay Office–Naples population when they excluded 2 months of first-quarter payments from the population. According to DFAS ESS personnel, the error occurred when DFAS ESS personnel uploaded the data into the data analytics software used to combine source data files. DFAS ESS personnel added the missing 2 months of payments to the fourth-quarter population for sampling after we identified the error.

DFAS ESS personnel did not include \$105 million in commercial payments from the NERP population. In FY 2018, DFAS ESS transitioned from including a portion of Navy payments to including all payments made through NERP in the DFAS Commercial Pay sampling plan. In modifying the Navy population for sample selection, DFAS ESS personnel did not update their processes to include payments for the Strategic Systems Program and the Office of Naval Research, which resulted in DFAS ESS personnel incorrectly excluding \$95.5 million in commercial payments made through NERP. DFAS ESS personnel also did not include an additional \$9.5 million from the population when file format differences caused another Navy location's payments to be excluded. DFAS ESS personnel corrected the methodology errors in both cases and included the missing payments in the fourth quarter population for testing after we identified the error.

Intragovernmental Payments Improperly Included in Estimate

DFAS ESS personnel improperly included \$783.6 million in payments made by DoD agencies to other DoD agencies in the universe of payments subject to sampling and review. The Acts and OMB requirements for improper payment assessments and testing applies to agency payments made to non-Federal persons and entities. The populations provided to DFAS ESS personnel from the General Fund Enterprise Business System, Standard Accounting and Reporting System/One Pay, Integrated Accounts Payable System, Enterprise Business System, Defense Agencies Initiative, Defense Enterprise Accounting and Management System, Commercial Bill Pay Office Naples, Commercial Bill Pay Office Singapore, and the Computerized Accounts Payable System for Windows included payments made to other Federal entities for sample testing. By including intragovernmental payments, which are not required to be reviewed, in the population of payments, the population becomes diluted and it potentially decreases the number of payments to non-Federal entities selected for improper payment review.

According to DFAS ESS personnel, they did not intend to test intragovernmental payments. They further stated that the methodology they used to consolidate the populations and exclude payments did not search for intragovernmental payments because the DFAS ESS personnel were not aware that the payments were in the

population. DFAS ESS and the 15 systems personnel supplying the population did not have a written agreement that contained a uniform, defined set of data requirements to follow, specifying the appropriate types of commercial payments to include and the types of payments to exclude from the populations.

DFAS ESS Personnel Did Not Conduct Sufficient Reviews Ensuring the Population Was Complete and Accurate

DFAS ESS personnel did not have controls in place to ensure the accuracy and completeness of the commercial payments population used for developing the DFAS portion of the improper payment estimate. This occurred because DFAS ESS personnel did not coordinate with the appropriate systems personnel for each of the data systems to validate that the search criteria used by the sampling methodology was correct, based on the design and structure of the systems. In addition, the processing errors from U.S. Marine Corps Local Payment system, Navy Commercial Bill Pay Office–Naples, and NERP occurred because DFAS ESS review procedures did not include sufficient control measures to ensure that DFAS received and correctly processed all of the files and data that the systems submitted.

Because of this audit, DFAS ESS personnel implemented additional control procedures in the fourth quarter to validate that each system’s payment population was successfully incorporated into the overall population of payments. Specifically, DFAS ESS personnel initiated a three-tier check on the total quarterly population of payments before selecting the sample for testing. These additional reviews include processes to review for specific details, such as exclusions from the original population and how each exclusion applies to each system. The Director of DFAS ESS should develop a memorandum of understanding for each system, documenting the payment data requirements from each system that includes: (a) a detailed description of payments to exclude from the population; (b) a definition of the types of commercial payments to include in the population; and (c) documentation of how each system identifies the payment-related data elements.

Conclusion

By excluding certain types of payments in the populations tested for improper payments and by improperly including intragovernmental payments, the DoD did not review portions of the DFAS Commercial Pay program and potentially diluted the payment population and decreased the number of payments to non-Federal entities selected for improper payment review. As a result, the DoD did not comply with the requirements of the Acts. In addition, the DFAS Commercial Pay

program did not have the opportunity to identify and recover Federal funds for the overpayments made from the GPC and overseas payments populations that were incorrectly excluded from improper payment reviews and IPERA reporting. Improper payment testing allows DoD Components to identify and correct over- and under-payments, as well as identify the root causes of the improper payments and implement internal controls that will prevent or reduce future improper payments. Therefore, once Component personnel identify the improper payments in those categories of payments that were excluded in FY 2018, they should conduct a root-cause analysis of the improper payments and implement the appropriate corrective actions within their area of responsibility, as required by the Acts, strengthening internal controls to reduce or prevent future improper payments. Furthermore, the DoD could realize reduced costs within the DFAS Commercial Pay program by making payments correctly when first paid.

Prior to this audit, USD(C)/CFO personnel were not aware of the Components' inconsistent methodologies for identifying commercial payments. They also were unaware that the DFAS Commercial Pay sampling plan did not address commercial payment processes performed by non-DFAS personnel. For example, USD(C)/CFO personnel were not aware of the types of commercial payments that the DFAS Commercial Pay sampling plan methodology excluded from its population of payments for improper payments testing, such as transportation payments. Therefore, the USD(C)/CFO did not have a process in place to obtain an estimate for the excluded populations, such as obtaining an estimate of transportation improper payments from GSA. A risk assessment would allow the USD(C)/CFO to identify the scope of payments covered by the DFAS Commercial Pay program and ensure that sampling plans are in place to estimate improper payments for all of the categories

The DoD has been reporting unreliable improper payment estimates for the DFAS Commercial Pay program in the annual AFR.

identified for the DFAS Commercial Pay program.

The DoD has been reporting unreliable improper payment estimates for the DFAS Commercial Pay program in the annual AFR. The DoD will continue to produce

unreliable estimates if it does not improve its internal control system and may miss the opportunity to prevent, promptly detect, and recover improper payments of Federal funds.

Other Matters of Interest

USD(C)/CFO personnel were not fully aware of the limits of the improper payments estimate that DFAS ESS provided to the USD(C)/CFO, which was based on the DFAS Commercial Pay sampling plan. The DFAS Commercial Pay sampling plan and the methodology that DFAS ESS personnel used to identify a population of payments for sampling did not reflect all changes in the program and did not contain a consistent methodology for developing a population. For instance, the DFAS ESS methodology to determine a quarterly population of commercial payments for sampling did not consistently identify the actual amount paid to the recipient. Instead, DFAS ESS personnel used the invoice paid amount, which did not include vendor discounts.

According to the Acts and OMB guidance, improper payment is defined as a payment made in an incorrect amount under legal, contractual, or other legally applicable requirements, as well as any payment that does not account for credit for applicable discounts. This means that the DoD should determine whether the net amount paid to the recipient, which is the total paid amount on the payment voucher, was the correct amount after taking into consideration invoice discounts offered, legally required interest payments for late invoice payments, or other terms under the contract or law. However, the amount that DFAS ESS personnel identified as the paid amount for the improper pay review did not take into consideration all of the required elements of a payment.

A thorough review of program sampling plans for compliance with the Acts and OMB guidance would allow the USD(C)/CFO to take into consideration whether each program's sampling methodology correctly identifies the payment amount to test for improper payments. If the DoD's programs do not accurately identify their payments, they will not develop an accurate and reliable estimate of improper payments for the AFR. During the annual audit of the DoD's compliance with the Acts, the OIG will evaluate how accurately each program is identifying and testing payments.

Recommendations, Management Comments, and Our Response

Recommendation 1

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

- a. Evaluate whether the General Services Administration post-payment audits of the DoD transportation bills meet the requirements of a post-payment audit performed for Improper Payments Elimination and Recovery Act purposes and develop and implement the appropriate procedures to include transportation improper payments in the DoD estimate for the Agency Financial Report.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that USD(C)/CFO personnel will evaluate whether GSA post-payment audits of DoD transportation bills meet the requirements of a post-payment audit under the requirements of IPERA and develop and implement procedures to report improper transportation payments in the AFR. The estimated completion date is June 30, 2019.

Our Response

Comments from the DCFO addressed all the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close Recommendation 1.a upon reviewing the results of the USD(C)/CFO's evaluation of the GSA post-payment audits and verifying that USD(C)/CFO has developed and implemented procedures to report improper transportation payments in the AFR.

- b. Conduct a risk assessment of government purchase card payments and, as necessary, develop and implement procedures to ensure that DoD government purchase card payments are reviewed for improper payments and that the results are reported to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, for inclusion in the DoD's annual Agency Financial Report.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that USD(C)/CFO personnel, in coordination with DFAS, will conduct a quantitative risk assessment of government purchase card payments, and the result of the risk assessment and testing will be reported in the FY 2019 AFR. The estimated completion date for the quantitative risk assessment and testing is June 30, 2019.

Our Response

Comments from the DCFO addressed all the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we review the quantitative risk assessment and verify that the results were reported in the FY 2019 AFR.

- c. In coordination with the Defense Finance and Accounting Service, Enterprise Solutions and Standards Director, conduct an annual review of the Defense Finance and Accounting Service Commercial Pay program through the Senior Accountable Officials Steering Committee and Action Officers Working Group to identify all types of payments made across DoD Components; verify that existing risk assessments and sampling plans cover all defined commercial payment types; and update risk assessments and sampling plans for program segments that experienced a significant change in legislation or a significant increase in funding level.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that USD(C)/CFO personnel, in coordination with the DFAS Director, ESS, will conduct a review of the DFAS Commercial Pay program and present the results to the DoD Improper Payments Senior Accountable Officials Steering Committee. Furthermore, the DCFO stated that the objectives of the DoD [DFAS] Commercial Pay review will be to: 1) assess the completeness of the DFAS Commercial Pay populations, 2) verify that existing risk assessments are being performed and documented, 3) verify that the sampling plans include all commercial payment types, and 4) identify and document significant changes effecting DoD IPERA programs. The estimated completion date for the initial review of the Commercial Pay program is June 30, 2019.

Our Response

Comments from the DCFO addressed all the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation when we verify that 1) the USD(C)/CFO developed and implemented an annual review process of the DFAS Commercial Pay Program to identify all types of payments made across DoD Components, 2) existing risk assessments and sampling plans covered all defined commercial payment types, and 3) the USD(C)/CFO updated risk assessments and sampling plans for program segments that experienced a significant change in legislation or a significant increase in funding level.

- d. **Update the DoD Regulation 7000.14-R, “DoD Financial Management Regulation”, volume 4, chapter 14, to define the types of payments in the DFAS Commercial Pay program and identify which Components are responsible for testing and reporting improper payments estimates for each type of commercial payment within the DFAS Commercial Pay program.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that the USD(C)/CFO will update DoD FMR, volume 4, chapter 14, to clarify the types of payments (by reporting program) that should be reviewed or tested for improper payments. The update to the Financial Management Regulation is expected to be completed by November 30, 2019.

Our Response

Comments from the DCFO addressed all the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the USD(C)/CFO updated the DoD FMR with the recommended changes.

Recommendation 2

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Defense Finance and Accounting Service, Enterprise Solutions and Standards Director, in coordination with the Army Financial Management Services Director, evaluate the Department of the Army’s Improper Payments Elimination and Recovery Act compliance procedures and sampling plan to determine whether it would be more cost effective to incorporate improper payments testing at overseas locations into the Defense Finance and Accounting Service Commercial Pay sampling plan, and submit to the Office of Management and Budget either:

- **the modified Defense Finance and Accounting Service Commercial Pay sampling plan that incorporates the Army overseas payments, or**
- **both the original FY 2019 Defense Finance and Accounting Service Commercial Pay sampling plan and the new Army sampling plan.**

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

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation and stated that the evaluation will include analyses to support the completeness of the overseas commercial pay disbursement population and the procedures necessary to ensure that Improper Payments Elimination and Recovery Act testing of the complete population can occur on a timely and recurring basis. This evaluation and review is expected to be completed by June 30, 2019.

Director, Army Financial Services, U.S. Army Financial Management Command Unsolicited Comments

Although not required to comment, the Deputy Assistant Secretary of the Army, Financial Operations, agreed with the recommendation and stated that DFAS has incorporated the commercial payments made by Kuwait and Saudi Arabia Army offices in the FY 2019 DFAS sampling and review plan. In addition, the Deputy Assistant Secretary of the Army, Financial Operations, stated that the Army plans to incorporate Kosovo and Hawaii into the FY 2020 DFAS sampling plans. This change to the sample plans is expected to be completed by July 2019.

Our Response

Comments from the DCFO addressed all the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the USD(C)/CFO submitted to OMB a sampling plan incorporating the Army overseas payments.

Recommendation 3

We recommend that the Defense Finance and Accounting Service, Enterprise Solutions and Standards Director, develop a memorandum of understanding for each payment system, documenting the payment data requirements from each system that includes: (a) a detailed description of payments to exclude from the population; (b) a definition of the types of commercial payments to include in the population; and (c) documentation of how each system identifies the payment-related data elements.

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

The DCFO and the DFAS ESS Director, working in coordination, agreed with the recommendation to develop a memorandum of understanding for each payment system and document the payment data requirements from each system. The estimated completion date for the memorandums of understanding is June 30, 2019.

Our Response

Comments from the DCFO addressed all the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close this recommendation once the DFAS ESS Director provides the memorandums of understandings developed for each payment system.

Appendix A

Scope and Methodology

We conducted this performance audit from April 2018 through October 2018 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 the DoD improper payments for the DFAS Commercial Pay program, for the period of July through December 2017, we interviewed or sent questionnaires to personnel at the following locations.

- DFAS locations at Indianapolis, Cleveland, Columbus, Limestone, Rome, and Japan
- Army Benelux Finance Office in Belgium
- Army Italy Finance Office in Vicenza, Italy
- Army Finance and Accounting Service–Korea in Camp Humphreys, South Korea

We discussed with the personnel how they compiled their population of transactions used for testing and the processes they used to determine if a transaction is an improper payment. We tested their process for creating the population of transactions to determine whether the DoD calculated accurate and complete improper payment estimates. Although we tested their process, we did not review the transaction-level data used in the sample because we determined the population used to develop the improper payment estimate was inaccurate and incomplete.

We obtained and reviewed the following guidance on improper payments to assess whether DoD Components complied with the requirements.

- 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
- Public Law 112-248, “Improper Payments Elimination and Recovery Improvement Act of 2012,” January 10, 2013

- OMB Circular No. A-123, appendix C, “Requirements for Effective Estimation and Remediation of Improper Payments,” October 20, 2014
- OMB Circular No. A-123, appendix C, “Requirements for Payment Integrity Improvement,” June 26, 2018
- DoD Financial Management Regulation, volume 4, chapter 14, “Improper Payments,” June 2015

Use of Computer-Processed Data

We relied on computer-processed data that personnel used from July through December 2017 to create their populations that were used for testing of transactions for improper payments. The list of systems we relied upon is located in Appendix C. From the 15 systems, we obtained the system-generated data provided by system personnel, which DFAS ESS used to create the sample population. We validated this data by using the system-generated data and applying the search criteria used by DFAS ESS personnel to re-perform the exclusions to the data in order to re-create the population used to determine the improper payment estimate. In addition, the Army overseas locations provided their system-generated data, which we validated based on their search criteria. The computer-processed data we used were sufficiently reliable to support the audit finding and conclusions in this report.

Use of Technical Assistance

During the audit, we requested and received technical assistance from the DoD OIG Quantitative Methods Division on the appropriateness of the methodology used for the DFAS Commercial Pay sampling plan.

Appendix B

Prior Coverage

During the last 5 years, the GAO and the DoD Office of Inspector General (DoD OIG) issued 11 reports discussing improper payment reporting requirements.

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

GAO

Report No. GAO-18-377, “Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes,” May 2018

The GAO reported that for FY 2017, classified payments are not included in the DFAS Commercial Pay program.

Report No. GAO-17-276, “Little Evidence of Potential Fraud Found in Small Purchases, but Documentation Issues Exist,” February 2017

The GAO reported that agencies have not consistently maintained required documentation of the approval process, which can increase the risk of purchase card misuse.

Report No. GAO-14-10, “The Defense Finance and Accounting Service Needs to Fully Implement Financial Improvements for Contract Pay,” June 2014

The GAO reported that DFAS’s ability to process, record, and maintain accurate and reliable contract pay transaction-data is questionable until DFAS corrects the deficiencies.

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

The GAO reported that the DoD did not adequately implement key provisions of the Improper Payments Information Act of 2002 and the Improper Payments Elimination and Recovery Act of 2010. With regard to estimating improper payments, the DoD should establish and implement key quality assurance procedures to ensure the completeness and accuracy of sampled populations.

DoD OIG

Report No. DODIG-2018-115, “DoD FY 2017 Compliance With the Improper Payments Elimination and Recovery Act Requirements,” May 9, 2018

The DoD OIG determined that the DoD did not publish statistically valid improper payment estimates for the DoD Commercial Pay program. Specifically, the program did not include improper pay estimates for FY 2017 vendor payments made by Army paying office in Belgium nor did the Army have an approved sampling plan in place for its commercial payments in FY 2017.

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

The DoD OIG determined that the DoD did not ensure that all required payments were included in the DoD Commercial Pay program. Specifically, the DFAS Commercial Pay program did not included \$6.6 billion in payments.

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

The DoD OIG determined that the DoD could not ensure that all required payments were reviewed, which resulted in unreliable estimates and rates. Specifically, the DoD was unable to verify that approximately \$327 billion in disbursed obligations were assessed for risk of improper payments.

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 OIG determined that the DoD could not ensure that all required payments were reviewed, which resulted in unreliable estimates and rates. Specifically, Navy excluded two commands and one sub-command from improper payment testing without assessing the risk of improper payments within those commands.

Report No. DODIG-2015-068, “DoD Methodologies to Identify Improper Payments in the Military Health Benefits and Commercial Pay Programs Need Improvement,” January 14, 2015

The DoD OIG determined that the DFAS and Defense Health Agency methodologies resulted in unreliable improper payment estimates, limiting the DoD’s ability to identify and report improper payments, determine underlying weaknesses that cause improper payments, and initiate corrective actions to reduce the improper payments.

Report No. DODIG-2015-060, "U.S. Southern Command Government Purchase Card Controls Need Improvement to Prevent Improper Purchases," December 19, 2014

The DoD OIG determined that U.S. Southern Command cardholders did not complete purchases in accordance with GPC Program guidance.

Report No. DODIG-2013-117, "Enhanced Oversight Needed for Nontactical Vehicle Fleets in the National Capital Region," August 15, 2013

The DoD OIG determined that the GPC was used inappropriately to make payments without a valid contract.

Appendix C

DFAS Commercial Pay Systems and Users

The following table shows the 15 systems that are the sources of commercial payments records and the Components that use them.

Table 3. Source Systems for Commercial Payments and Component Users

Systems	DoD Component Using the System
MOCAS	DFAS
Non-MOCAS Systems:	
General Funds Enterprise Business System	Army
Standard Accounting and Reporting System/One Pay	Army, Defense Contract Management Agency, Defense Finance and Accounting Service (DFAS), Defense Information Systems Agency (DISA), Outside DoD, Navy, U.S. Marine Corps (USMC)
Navy Enterprise Resource Planning	Navy
Computerized Accounts Payable System for Windows	USMC, Army, DFAS
Integrated Accounts Payable System	Air Force, National Geospatial Intelligence Agency, Defense Security Service, DFAS
Enterprise Business System	Army, DFAS, Defense Legal Services Agency, Navy, Air Force, USMC
Defense Agency Initiative	Defense agencies
Defense Enterprise Accounting and Management System	Air Force, DFAS, U.S. Transportation Command
Standard Automated Voucher Examination System	Defense Commissary Agency
Financial Accounting and Budget System	DISA
Transportation Financial Management System	Army, DFAS, U.S. Transportation Command
Naples Commercial Bill Pay Office (Standard Accounting and Reporting System/One Pay)	Navy
Singapore Commercial Bill Pay Office (ITS.gov)	Navy
USMC Local Disbursements – Deployable Disbursing System	USMC

Source: DFAS ESS personnel.

Management Comments

Under Secretary of Defense (Comptroller)/Chief Financial Officer



COMPTROLLER

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

NOV 29 2018

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

SUBJECT: Department of Defense Inspector General Draft Audit Report, "Reporting of
Improper Payments for the DFAS Commercial Pay Program"
(Project No. D2018-D000FL-0131.000)

We received the subject draft report, dated October 30, 2018, and reviewed your
recommendations to the Under Secretary of Defense (Comptroller)/Chief Financial Officer.
Responses to your recommendations are attached.

To reduce improper payments, in fiscal year 2017 the Department of Defense (DoD)
established a committee of senior accountable officials from agencies who generate payments.
The committee is collaboratively co-chaired by the Deputy Director of Operations, Defense
Finance and Accounting Service, and me. Together, members actively oversee our payment
integrity program, drive implementation of best practices, monitor performance, and drive
actions for achieving compliance with the Improper Payments and Elimination and Recovery Act
of 2010. The committee uses cross-functional communication among financial and senior DoD
management, the DoD Office of Inspector General, and the Government Accountability Office to
implement reduction efforts, and will continue to do so to address problems found in this audit.

Thank you for the opportunity to review and comment on the draft audit report. My
staff point of contact is [REDACTED].

Mark E. Easton
Deputy Chief Financial Officer

Attachment:
As stated

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

DOD IG DRAFT REPORT - DATED OCTOBER 30, 2018
PROJECT NO. D2018-D000FL-0131.000
"REPORTING OF IMPROPER PAYMENTS FOR THE DFAS COMMERCIAL PAY PROGRAM"

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

RECOMMENDATION 1a:

1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:
 - a. Evaluate whether the General Services Administration post-payment audits of the DoD transportation bills meet the requirements of a post-payment audit performed for Improper Payments Elimination and Recovery Act purposes, and develop and implement the appropriate procedures to include transportation improper payments in the DoD estimate for the Agency Financial Report.

OUSDC RESPONSE TO 1a: Concur. OUSDC will evaluate (i) whether the General Services Administration (GSA) post-payment audits of DoD transportation bills meet the requirements of a post-payment audit under the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA); and (ii) develop and implement procedures to report transportation improper payments in the annual DoD Agency Financial Report (AFR). It should be noted that the GSA post-payment audit is conducted under the authority and requirements of 31 U.S.C. § 3726, "Payment for Transportation," rather than under the requirements for IPERA. This evaluation will include internal DoD consultations with appropriate resources, including the Office of General Counsel. This evaluation is expected to be completed by June 30, 2019.

RECOMMENDATION 1b:

1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:
 - b. Conduct a risk assessment of government purchase card payments and, as necessary, develop and implement procedures to ensure that DoD government purchase card payments are reviewed for improper payments and that the results are reported to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, for inclusion in the DoD's annual Agency Financial Report.

OUSDC RESPONSE TO 1b: Concur. OUSDC, in coordination with the Defense Finance and Accounting Service (DFAS), will conduct a quantitative risk assessment of government purchase card payments similar to what is required for the "regular" improper payment estimate derived from annual IPERA testing. The results of the government purchase card payments risk

Attachment

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

assessment and testing will be reported in the FY 2019 AFR. The quantitative risk assessment and testing is expected to be completed by June 30, 2019.

RECOMMENDATION 1c:

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

- c. In coordination with the Defense Finance and Accounting Service, Enterprise Solutions and Standards Director, conduct an annual review of the Defense Finance and Accounting Service Commercial Pay program through the Senior Accountable Officials Steering Committee and Action Officers Working Group, to identify all types of payments made across DoD Components; verify that existing risk assessments and sampling plans cover all defined commercial payment types; and update risk assessments and sampling plans for program segments that experienced a significant change in legislation or a significant increase in its funding level.

OUSDC(C) RESPONSE TO 1c: Concur. OUSDC(C), in coordination with DFAS' Director, Enterprise Solutions and Standards (ESS), will conduct a review of the Commercial Pay program and present the results to the DoD Improper Payments Senior Accountable Officials Steering Committee (the Committee). The Committee was established in FY 2017 to provide proactive oversight of the DoD Payment Integrity Program, drive implementation of best practices, monitor performance, and drive actions for achieving IPERA compliance. The Committee's activities are based on open cross-functional communication among financial and senior DoD management, the DoD Office of Inspector General, and the Government Accountability Office. The Committee is co-chaired by the OUSDC(C) Deputy Chief Financial Officer and the DFAS Deputy Director, Operations and includes Senior Executive Service representatives from the Military Services and numerous other DoD components that generate payments both directly and through DFAS.

The objectives of the DoD Commercial Pay program review will be to:

1. Assess the completeness of the current Commercial Pay program payment populations by identifying all types of significant payments made across DoD Components and determining whether they are appropriately included in the program;
2. Verify that existing quantitative and/or qualitative risk assessments, as appropriate, are being performed and documented on a timely basis for all defined commercial payment types;
3. Verify that sampling plans include the complete population of all defined commercial payment types; and

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

4. Identify and document significant changes in legislation and/or significant increases in funding levels effecting DoD IPERA programs and update risk assessments and sampling plans accordingly.

For the Commercial Pay program, as well as the other programs within the overall DoD IPERA Program, DoD is working to ensure the consistency between the transaction population subjected to testing under IPERA to the population of transactions subjected to audit testing by DoD's independent financial statement auditors. Consistency between these transaction populations is critical to supporting the completeness assertion for financial reporting and IPERA compliance.

The initial review of the Commercial Pay program is expected to be completed by June 30, 2019.

RECOMMENDATION 1d:

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

- d. Update the DoD Regulation 7000.14-R, "DoD Financial Management Regulation", volume 4, chapter 14, to define the types of payments in the DFAS Commercial Pay program and identify which Components are responsible for testing and reporting improper payments estimates for each type of commercial payment within the DFAS Commercial Pay program.

OUSD(C) RESPONSE TO 1d: Concur. OUSD(C) will update DoD Regulation 7000.14-R, DoD Financial Management Regulation (FMR), Volume 4, Chapter 14, to clarify the types of payments (by reporting program) that should be reviewed or tested for improper payments. This update will also include identification, by IPERA program, of the DoD component(s) responsible for testing and reporting improper payments estimates. The revised Chapter will be coordinated, as applicable, with DoD stakeholders across the Components for comment and input prior to publication. The update to the FMR is expected to be completed by November 30, 2019.

RECOMMENDATION 2:

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Defense Finance and Accounting Service, Enterprise Solutions and Standards Director, in coordination with the Army Financial Management Services Director, evaluate the Department of the Army's Improper Payments Elimination and Recovery Act compliance procedures and sampling plan to determine whether it would be more cost effective to incorporate improper payments testing at overseas locations into the Defense Finance and Accounting Service Commercial Pay sampling plan, and submit to the Office of Management and Budget either:

- the modified Defense Finance and Accounting Service Commercial Pay sampling plan that incorporates the Army overseas payments, or

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

- both the original FY 2019 Defense Finance and Accounting Service Commercial Pay sampling plan and the new Army sampling plan.

OUSD(C) RESPONSE TO RECOMMENDATION 2: Concur. OUSD(C) and DFAS ESS, in coordination the Army Financial Management Services Director, will evaluate and review the Army's current IPERA compliance procedures and sampling plan including how disbursements for overseas locations are addressed. This evaluation and review will consider, among other things, the cost effectiveness of incorporating improper payments testing at overseas locations into the DFAS Commercial Pay sampling plan. The evaluation will also include analyses to support the completeness of the overseas commercial pay disbursement population and the procedures necessary to ensure that IPERA testing of the complete population can occur on a timely and recurring basis.

As described in the Army's separate response to the DoD Inspector General report, the Army is currently working with DFAS ESS to incorporate certain overseas commercial payments into the DFAS Commercial Pay sampling plans for FY 2019 and FY 2020.

Depending on the results of the evaluation and review, OUSD(C) will submit to the Office of Management and Budget either: (i) the modified DFAS Commercial Pay sampling plan incorporating the Army overseas payments; or, (ii) both the original FY 2019 DFAS Commercial Pay sampling plan and the new/revised Army sampling plan(s). This evaluation and review is expected to be completed by June 30, 2019.

RECOMMENDATION 3:

We recommend that the Director, Defense Finance and Accounting Service Enterprise Solutions and Standards develop a memorandum of understanding for each payment system, documenting the payment data requirements from each system that includes: (a) detail description of payments to exclude from the population; (b) definitions of the type of commercial payments to include in the population; and (c) documentation of how each system identifies the payment related data elements.

DFAS RESPONSE TO RECOMMENDATION 3: Concur. The estimated completion date is June 30, 2019.

Army Financial Services, U.S. Army Financial Management Command



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

FMFS

30 NOV 2018

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE,
ATTN: FINANCIAL MANAGEMENT AND REPORTING

SUBJECT: Reporting of Improper Payments for the DFAS Commercial Pay Program
(Project No. D2018-D000FL-0131.000)

1. We have reviewed subject draft report and our response to your recommendation is enclosed.
2. It should be noted that the four Army commercial pay activities cited in the report represent one forty second of one percent of the total universe reported by the Office of the Secretary of Defense under the "DFAS commercial pay" category. Two of the activities are in contingency operations; one is established solely for exercise support in the Pacific theater, and one is primarily processing payments funded by the host nation through foreign military sales.
3. Recommend that Department of Defense coordinate with Office of Management and Budget (OMB) to exempt payments made in a contingency operation from reporting under the Improper Payment Elimination and Recovery Act, similar to the exception to the Prompt Payment Act in the Code of Federal Regulations. Further recommend that OMB guidance be updated to include determination of materiality relative to an agency's total universe of payments for requiring reporting for smaller payment processing activities.
4. The Army point of contact is [REDACTED]

MILLER, WESLEY
Y.C. [REDACTED]

Encl

Wesley C. Miller
Deputy Assistant Secretary of the Army
(Financial Operations)

cc:
Under Secretary of Defense (Comptroller)

Army Financial Services, U.S. Army Financial Management Command (cont'd)

DEPARTMENT OF DEFENSE INSPECTOR GENERAL DRAFT REPORT,
DATED OCTOBER 30, 2018,
PROJECT NO. D2018-D000FL-0131.000

REPORTING OF IMPROPER PAYMENTS FOR THE DFAS COMMERCIAL PAY
PROGRAM

ARMY RESPONSE

Recommendation 2: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Defense Finance and Accounting Service, Enterprise Solutions and Standards Director, in coordination with the Army Financial Management Services Director, evaluate the Department of the Army's Improper Payments Elimination and Recovery Act compliance procedures and sampling plan to determine whether it would be more cost effective to incorporate improper payments testing at overseas locations into the Defense Finance and Accounting Service Commercial Pay sampling plan, and submit to the Office of Management and Budget either:

- the modified Defense Finance and Accounting Service Commercial Pay sampling plan that incorporates the Army overseas payments, or
- both the original FY 2019 Defense Finance and Accounting Service Commercial Pay sampling plan and the new Army sampling plan.

Army Response: Concur. The Defense Finance and Accounting Service has incorporated the commercial payments made by Army offices in Kuwait and Saudi Arabia into its FY 2019 sampling and review plan. This represents 96 percent of the universe of the commercial payments by the four activities identified in the audit for not reporting under Improper Payments Elimination and Recovery Act requirements. The Army will work to expand this solution to the activities in Kosovo and Hawaii for FY 2020 Defense Finance and Accounting Service sampling plans subject to further work on ensuring the Defense Finance and Accounting Service has central access to both the payment system and supporting documents as were available for Kuwait and Saudi Arabia. ECD: July 2019.

Acronyms and Abbreviations

AFR	Agency Financial Report
DFAS	Defense Finance and Accounting Service
ESS	Enterprise Solutions and Standards
FMR	Financial Management Regulation
GPC	Government Purchase Card
GSA	General Services Administration
IPERA	Improper Payments Elimination and Recovery Act
MOCAS	Mechanization of Contract Administration Services
OMB	Office of Management and Budget
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
USAFMCOM	U.S. Army Financial Management Command
USMC	U.S. Marine Corps



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