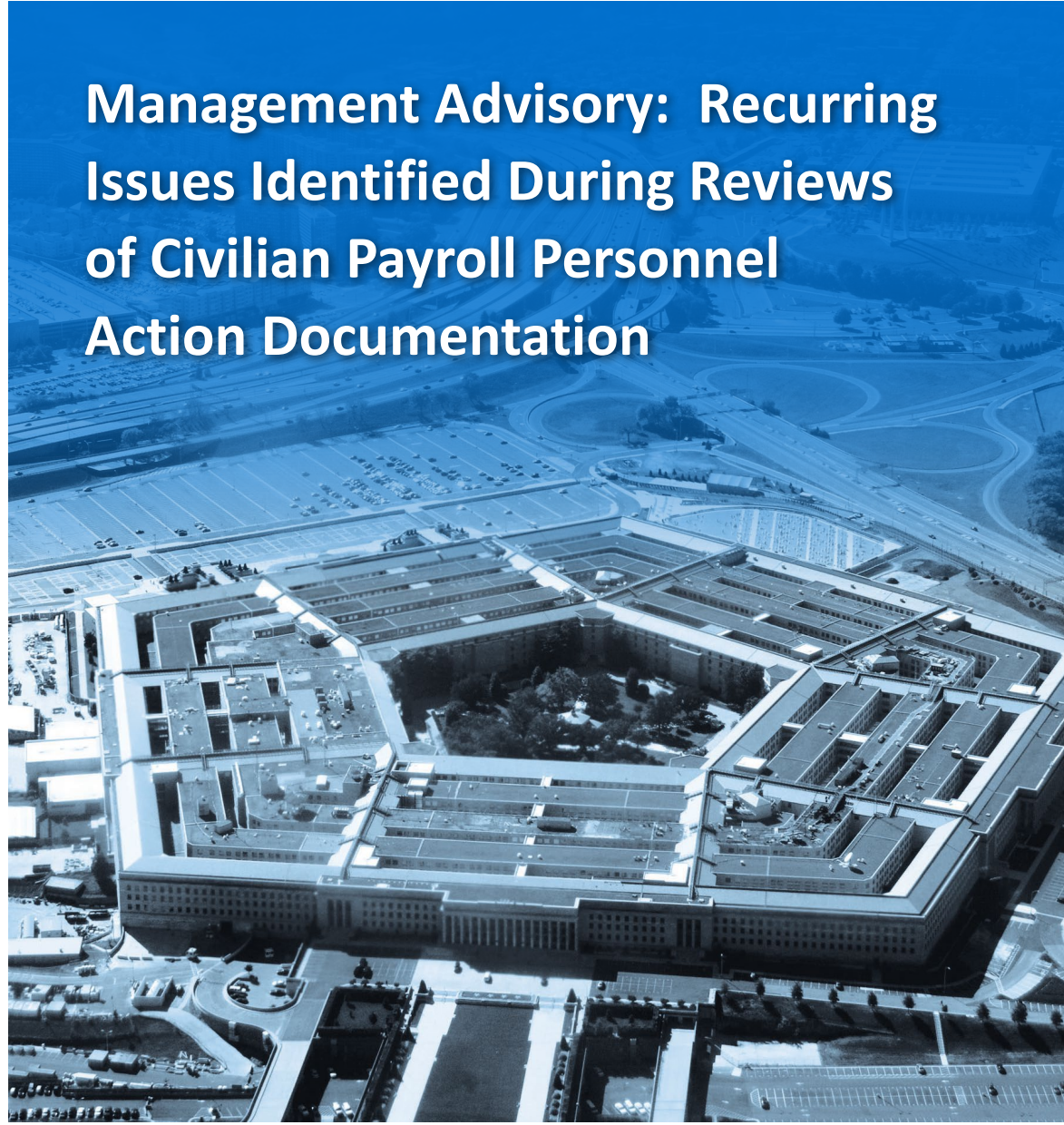




INSPECTOR GENERAL

U.S. Department of Defense

JULY 21, 2025



Management Advisory: Recurring Issues Identified During Reviews of Civilian Payroll Personnel Action Documentation

INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY





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

July 21, 2025

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR PERSONNEL AND READINESS

SUBJECT: Management Advisory: Recurring Issues Identified During Reviews of Civilian Payroll Personnel Action Documentation (Report No. DODIG-2025-127)

The purpose of this management advisory is to inform DoD leadership of recurring issues related to Civilian Payroll we identified during the financial statement audits of the DoD and during our assistance with Office of Personnel Management's Agreed Upon Procedures for reviewing civilian payroll withholding data and enrollment information. Specifically, we identified several instances where civilian payroll personnel information was inaccurate or missing from the official personnel file.

We previously provided copies of the draft management advisory to the Under Secretary of Defense for Personnel and Readiness and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

The Defense Civilian Personnel Advisory Service Director, responding on behalf of the Under Secretary of Defense for Personnel and Readiness, agreed to address the recommendations presented in the report; therefore, we consider the recommendations resolved and open. We will close the recommendations when you provide us documentation showing that all agreed-upon actions to implement the recommendations are completed. Therefore, please provide us within 90 days your response concerning specific actions in process or completed on the recommendations. Send your response to either [REDACTED] if unclassified or [REDACTED] if classified SECRET.

If you have any questions, please contact me at [REDACTED] or [REDACTED]. We appreciate the cooperation and assistance received during the conduct of our audit, which resulted in this advisory.

Lorin T. Venable

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

cc:

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

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense for Personnel and Readiness	None	1.a, 1.b	None

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

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

Introduction

Objective

The objective of this management advisory is to inform DoD leadership of recurring issues related to Civilian Payroll we identified during the annual financial statement audits of the DoD and during our performance of OPM's Agreed Upon Procedures (AUPs) for reviewing civilian payroll withholding data and enrollment information. Specifically, we identified several instances where civilian payroll personnel information was inaccurate or missing from the official personnel file (OPF).

We conducted the work on this management advisory with integrity, objectivity, and independence, as required by the Council of the Inspectors General for Integrity and Efficiency's Quality Standards for Federal Offices of Inspector General.¹

Background

Federal Financial Statements and Notices of Findings and Recommendations

The "Chief Financial Officers Act of 1990" requires the DoD to prepare audited financial statements.² Each year, DoD management prepares financial reports to describe and communicate the financial position and results of their operations. In FY 2024, the DoD OIG and four independent public accounting firms overseen by the DoD OIG performed financial statement audits of the DoD and 18 of its Components.

The DoD OIG has performed or overseen significant annual financial statement audits and attestations since FY 2018. Those annual audits resulted in thousands of Notices of Findings and Recommendations (NFRs). NFRs express to management the weaknesses in financial processes, impact of those weaknesses, and reason the weaknesses exist. NFRs also communicate recommendations for how to correct the weaknesses.

The DoD and its reporting Components track the NFRs. When the DoD Component has stated that it has corrected the condition identified in the NFR, the financial statement auditor will review the DoD Component's corrective action plan and perform additional audit procedures to validate the DoD Component's assertion. If the condition has been remediated, the financial statement auditor will close the NFR. While Civilian Pay is not a material weakness reported at the component or agency wide level, management is responsible for creating and implementing corrective action plans to address the NFRs issued during the financial statement audits.

¹ Council of the Inspectors General on Integrity and Efficiency, "Quality Standards for Federal Offices of Inspector General," August 2012.

² Public Law 101-576, "Chief Financial Officers Act of 1990," November 15, 1990, as amended.

Agreed-Upon Procedures

An AUP engagement is an attestation engagement in which an auditor performs specific procedures on subject matter and reports the findings without providing an opinion or conclusion. The subject matter may be financial or nonfinancial information. AUPs are not restricted to specific topics or procedures and that means the nature, timing, and extent of the procedures can vary.

Because the entity requesting the AUP best understands its needs, it is required to agree to the procedures. In addition, the entity must acknowledge that the procedures performed are appropriate for the intended purpose of the engagement prior to issuance of the AUP report.

AUP engagements may require outside entities to agree to the specific procedures and confirm that the AUPs will be useful to them. The entity requesting the AUP and the users assess the AUPs and findings reported by the auditor to draw their own conclusions.

The Office of Management and Budget requires the DoD OIG to perform certain AUPs on DoD payroll and personnel files.³ The Defense Finance and Accounting Service currently processes payroll for the Departments of Defense, Energy, Health and Human Services, and Veterans Affairs. Auditors from the Offices of Inspector General for the Departments of Energy and Health and Human Services reviewed the official personnel files (OPFs) for their respective agencies.

Because of the nature of the OPM AUPs, we did not provide an opinion or conclusion on the differences we identified when performing the OPM AUP review. This management advisory addressed results specific to the DoD.

Official Personnel File

The OPF is a file containing records that cover a civilian federal employee's employment history. The following three documents are contained in the employee's OPF and are reviewed during the OPM AUPs.

- Standard Form (SF) 50, "All Notifications of Personnel Actions," Revised July 1991 – Contains certain employment information, such as position and pay.
- SF 2809, "The Health Benefits Election Form," Revised November 2019 – Federal employees use this form to enroll or change enrollment in the Federal Employee Health Benefits Program.
- SF 2817, "The Life Insurance Election Form," Revised November 2011 – Federal employees use this form to enroll or to cancel life insurance coverage. New Federal employees in eligible positions are automatically covered by Basic insurance and do not need to use this form if they want only the Basic coverage. Annuitants do not use this form.

³ Office of Management and Budget Bulletin No. 24-02, "Audit Requirements for Federal Financial Statements," July 29, 2024.

Recurring Issues with Civilian Payroll Personnel Documentation

Missing or Inaccurate Personnel Documentation

We identified recurring issues related to missing documentation or inaccurate documentation in the OPFs through Civilian Pay NFRs issued during the DoD financial statement audits as well as during the annual Civilian Payroll OPM AUP review.

Civilian Pay NFRs

As a result of the FY 2024 DoD financial statement audits, 52 NFRs were issued that were related to Civilian Pay. Of those 52 NFRs, we identified 7 that included findings related to missing or inaccurate personnel documentation. Two of those seven NFRs identified findings that have been reoccurring since FY 2018. The seven NFRs identified conditions related to missing or inaccurate personnel documentation, and documentation that did not match the payroll system which resulted in potential errors to the financial statements.

Therefore, we determined that the conditions may exist at the DoD Agency-wide level. Independent public accounting firms previously made recommendations in those seven NFRs. Table 1 shows the seven NFRs and the fiscal year the conditions were originally identified.

Table 1. Notice of Findings and Recommendations with Documentation Issues

NFR Title	NFR Number	Reporting Entity	Condition	First Year Issued
Insufficient Documentation Retention Related to Civilian Payroll Transactions	GF-FIN-2024-018	Air Force General Fund	During the FY 2024 Civilian Pay substantive procedures, the Department of the Air Force was unable to provide SF-50s for certain employees. Sample size was unspecified.	2024
Insufficient Documentation Retention Related to Civilian Payroll Transactions	GF-FIN-2024-018*	Air Force Working Capital Fund	During the FY 2024 Civilian Pay substantive procedures, the Department of the Air Force was unable to provide SF-50s for certain employees. Sample size was unspecified.	2024
Civilian Payroll and Benefit Expense Tests of Details & Timesheet Certification Tests of Operating Effectiveness Results	GC-2024-04	Army General Fund	Missing documentation including SF-2817s and SF-2809s for payroll transactions recorded during 2024: <ul style="list-style-type: none">• 11 payroll transactions in Q1,• 7 payroll transactions in Q2, and• 6 payroll transactions during Q3. In addition, the Army expensed a FERS amount that did not agree to the employee's FERS elections per the SF-50 provided. Sample size was unspecified.	2018

Table 1. Notice of Findings and Recommendations with Documentation Issues (cont'd)

NFR Title	NFR Number	Reporting Entity	Condition	First Year Issued
Civilian Payroll and Benefit Expense Tests of Details & Timesheet Certification Tests of Operating Effectiveness Results	WC-2024-03	Army Working Capital Fund	Missing documentation including SF-2817s and SF-2809s for payroll transactions recorded during 2024: <ul style="list-style-type: none"> • 11 payroll transactions in Q1, • 7 payroll transactions in Q2, and • 8 payroll transactions during Q3. Sample size was unspecified.	2018
Civilian Payroll Leave Liability Accrual Test of Details Results	GC-2024-05	Army General Fund	Insufficient documentation to support the accrued annual leave hours balance for 31 of 219 sample items (payroll transactions recorded as of June 30, 2024).	2023
Civilian Payroll Leave Liability Accrual Test of Details Results	WC-2024-06	Army Working Capital Fund	Insufficient documentation to support the accrued annual leave hours balance for 12 of 187 sample items (payroll transactions recorded as of June 30, 2024).	2023
Lack of Support for Civilian Payroll Transactions	2022-0025-FIN-GF (2024)	Navy General Fund	Supporting documentation was inadequate or did not support 5 of the 114 sampled CIVPAY transactions processed through the Defense Civilian Payroll System from Q1 and Q2 of 2024.	2022

* This NFR was issued for the Air Force General Fund and Air Force Working Capital Fund under one NFR number. The NFR is listed as two separate entries in the NFR database.

Source: The DoD OIG.

OPM Agreed Upon Procedures

We performed procedures to assist OPM with reviewing Civilian Payroll Withholding Data annually. For FY 2020 through FY 2024, we randomly selected a nonstatistical sample of 900 (180 per fiscal year) employees' pay and withholdings and agency contributions in the Defense Civilian Payroll System and compared that information to the documentation in the employees' OPFs.⁴

We identified recurring differences related to missing personnel documentation or personnel documentation that did not match DCPS data for three of the six procedures we performed. Specifically, we determined that the SF-50s, SF-2809s, and SF-2817s were either missing from the OPF or did not match when compared to payroll, retirement plan, health benefits, and life insurance coverage data in DCPS.

Table 2 shows the differences that we identified related to missing personnel documentation or documentation that did not match DCPS data by type of document for each fiscal year.

⁴ OPM dictates the sampling methodology used in the AUPs.

This management advisory addresses only the results as they relate to the DoD and DoD Components. For the FY 2024 OPM AUPs and results, see Report No. DODIG-2024-143, “Independent Auditor’s Report on DoD OIG Assistance with OPM’s Agreed Upon Procedures for Reviewing FY 2024 Civilian Payroll Withholding Data and Enrollment Information,” September 30, 2024.

Table 2. Number and Type of Documents That Did Not Match or Were Missing from the OPF File by FYs 2020 Through 2024.

Form	Status of Document	Number of Differences by Fiscal Year					Total
		2020	2021	2022	2023	2024	
SF-50	Missing	4	0	1	0	0	5
	Did Not Match	0	1	0	7	3	11
SF 2809	Missing	2	1	2	2	1	8
	Did Not Match	2	3	1	1	3	10
SF 2817	Missing	4	13	9	5	5	36
	Did Not Match	0	0	1	6	3	10
Total		12	18	14	21	15	80

Note: Missing documentation means that the form was missing from the OPF, was incomplete, or was processed late by the agency and not reviewed to determine whether it matched DCPS.

Source: The DoD OIG.

Impact of Missing or Inaccurate Supporting Documentation

As the DoD continues to improve financial data controls and processes, it must consider the actions required to correct all NFRs, not just those that rise to the level of significant deficiencies or material weaknesses. The DoD’s failure to retain documentation increases the risk that pay impacting transactions are unsupported and may result in improper, incomplete, or unauthorized processing of payroll transactions. Additionally, Civilian employee payroll-related transactions may include errors that lead to misstatements in the DoD’s financial statements. Implementing the recommendations in this management advisory, as well as recommendations contained in the NFRs, may also correct recurring differences identified during the annual OPM AUPs.

Recommendations, Management Comments, and Our Response

During an exit brief for the draft report, officials from the Office of the Under Secretary of Defense (Comptroller) stated that the Under Secretary of Defense for Personnel and Readiness (USD[P&R]) through the Defense Civilian Personnel Advisory Service (DCPAS) has primary responsibility for implementing the recommendations in the draft report because the report’s finding primarily reference human resource data. DCPAS officials agreed that the recommendations should be directed to their office; therefore, we redirected the recommendations to DCPAS.

Recommendation 1

We recommend that the Director, Defense Civilian Personnel Advisory Service:

- a. Evaluate whether current document retention policies for civilian pay ensure proper documentation is readily available to support pay and benefits transactions and personnel record updates.**

Defense Civilian Personnel Advisory Service Comments

The Defense Civilian Personnel Advisory Service Director agreed with the recommendation, stating that DCPAS will coordinate with the Defense Finance and Accounting Service to review and issue updated enterprise-wide guidance in accordance with official personnel file retention standards under record management. The Director also agreed to remind Components and individuals processing payroll of their responsibility to ensure alignment between processed actions, DCPS and DCPDS data, and OPF documentation. DCPAS expects to complete these actions by fourth quarter, FY 2026.

Our Response

Comments from the Director addressed the recommendation; therefore the recommendation is resolved but will remain open. We will close the recommendation once we verify that the information provided and actions DCPAS takes fully addressed the recommendation.

- b. Develop and implement appropriate control activities to ensure accurate and complete recording of payroll and benefit transactions based on the maintained supporting documentation.**

Defense Civilian Personnel Advisory Service Comments

The Defense Civilian Personnel Advisory Service Director agreed with the recommendation, stating that DCPAS will coordinate with the Defense Finance and Accounting Service to:

- develop formal communication to instruct Components to assess and address internal documentation gaps and direct Components to use existing tools to identify mismatches between payroll deductions and enrollment documentation;
- form a joint DCPAS, Defense Finance and Accounting Service, and Components Benefits Officers group to clarify system handoffs between HR and payroll, address recurring documentation gaps, and propose sustainable mechanisms for record validation; and
- update the Managers' Internal Control Program and Enterprise Risk annual internal control checklist to include this issue and require Components to self-certify

audit readiness quarterly for key personnel forms as part of their internal compliance reviews.

DCPAS expects to complete these actions by fourth quarter, FY 2026.

Our Response

Comments from the Director met the intent of the recommendation; therefore the recommendation is resolved but will remain open. We will close the recommendation once we verify that the information provided and actions taken by DCPAS fully addressed the recommendation.

Management Comments

Defense Civilian Personnel Advisory Service



DEFENSE HUMAN RESOURCES ACTIVITY
4800 MARK CENTER DRIVE, SUITE 06J25-01
ALEXANDRIA, VA 22350-4000

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Management Advisory: Recurring Issues Identified During Reviews of Civilian Payroll Personnel Action Documentation Project No. D2024-D000FE-0098.001

REFERENCE: Management Advisory: Recurring Issues Identified During Reviews of Civilian Payroll Personnel Action Documentation Project No. D2024-D000FE-0098.001 draft report dated May 6, 2025

In response to the referenced Office of Inspector General's draft report. The Defense Civilian Personnel Advisory Service's consolidated recommendations are attached.

My point of contact for additional information is the Acting Accountability Program Manager, [REDACTED].

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Daniel J. Hester
Director, Defense Civilian Personnel Advisory
Service

Attachment:
As stated

Defense Civilian Personnel Advisory Service (cont'd)

Management Comments to Draft Report (MCD)

DCPAS Accountability Management Comments to Office of Inspector General Draft report “Management Advisory Recurring Issues Identified During Reviews of Civilian Payroll Personnel Action Documentation,” Project No. D2024-D000FE-0098.001, dated May 6, 2025

Recommendation 1a: Evaluate whether current document retention policies for civilian pay ensure proper documentation is readily available to support pay and benefits transactions and personnel record updates.

Management Comments: The issues raised in the OIG’s advisory fall within DCPAS’s area of responsibility. They relate to HR-led personnel action documentation and benefits transaction processing (e.g., SF-50, SF-2809, SF-2817), which Components are required to maintain in accordance with DoD and OPM regulations. While DCPAS does not directly retain or process payroll documentation, we serve as the enterprise policy authority for interpretation of federal laws and regulations pertaining to Benefits & Retirement processing, documentation standards, and retention policy. We provide component oversight to ensure HR compliance. We agree with the recommendations and will coordinate with DFAS and components to complete the items listed under Recommendation 1b to evaluate current processing and retention policies to ensure compliance.

Estimated Completion Date (ECD): FY 2026, Q4.

Recommendation 1b: Develop and implement appropriate control activities to ensure accurate and complete recording of payroll and benefit transactions based on the maintained supporting documentation.

Management Comments: DCPAS, Benefits, Wage and NAF Policy commit to the actions below in addressing both recommendations fully.

1. Enterprise Guidance

- Review and issue updated enterprise-wide guidance as appropriate, in accordance with the OPF retention standards under records management.
- Remind Components and Payroll of their responsibility to ensure alignment between processed actions, DCPS/DCPDS data, and OPF documentation, particularly for personnel actions and benefits elections.

2. Component Notification & Support

- Develop formal communication (e.g., DCPAS Message or Memorandum) instructing Components to assess and address internal documentation gaps.
- Direct Components to use existing tools, such as the Centralized Enrollment Reconciliation (CLER) system, to identify mismatches between payroll deductions and enrollment documentation.

Defense Civilian Personnel Advisory Service (cont'd)

3. Task Force or Working Group Coordination

- Form a joint DCPAS–DFAS–Component Benefits Officers group to:
 - Clarify system handoffs between HR and payroll,
 - Address recurring documentation gaps and
 - Propose sustainable mechanisms for record validation.

4. Oversight & Controls

- Update the Managers' Internal Control Program (MICP) and Enterprise Risk Management (ERM) annual internal control checklists to include this issue.
- Require Components to self-certify audit readiness every quarter for key forms (SF-2809, SF-2817) as part of their internal compliance reviews.

Estimated Completion Date (ECD): FY 2026, Q4

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U.S. DEPARTMENT OF DEFENSE

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