

# REPORT SUMMARY

## Evaluation of DIA's Compliance with the Payment Integrity Information Act for Fiscal Year 2021, Project 2022-1003

**What We Did.** We evaluated the Defense Intelligence Agency's (DIA's) compliance with the Payment Integrity Information Act (PIIA) for fiscal year (FY) 2021.

**What We Found.** DIA complied with PIIA requirements for FY 2021, but did not revise its payment integrity Standard Operating Procedures (SOPs) to incorporate the latest changes to PIIA and Office of Management and Budget (OMB) policies. Updated SOPs may help DIA mitigate risks of future non-compliance with PIIA requirements.

**What We Recommend.** We recommended the Office of the Chief Financial Officer (CFO) revise all SOPs related to payment integrity. At a minimum, CFO should incorporate the latest PIIA, OMB, and all other applicable policies, and outline any updates to CFO's process for managing DIA's payment integrity program, including all relevant sections of each SOP. Our finding and recommendation will provide valuable insight to Agency decision makers to use as they address risk gaps relating to our FY 2021 DIA Top Management Challenge—Leadership Controls and Oversight.



OFFICE OF THE  
**INSPECTOR GENERAL**  
DEFENSE INTELLIGENCE AGENCY

Evaluation Report 2022-1003  
**Evaluation of DIA's Compliance with  
the Payment Integrity Information  
Act for Fiscal Year 2021**

**Defense Intelligence Agency  
Office of the Inspector General  
Final Evaluation Report: 2022-1003  
Evaluation of DIA's Compliance with the Payment Integrity Information Act  
for Fiscal Year 2021  
April 21, 2022**

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DEFENSE INTELLIGENCE AGENCY  
**official memo**

□-22-2005/OIG

**DATE:** April 21, 2022

**TO:** Office of the Chief Financial Officer (Mr. Rush)

**FROM:** Office of the Inspector General

**SUBJECT:** Evaluation of DIA's Compliance with the Payment Integrity Information Act for Fiscal Year 2021, Project No. 2022-1003

**REF:** a. DIA Directive 5100.200, "Inspector General of the Defense Intelligence Agency," January 7, 2014.

1. This final report provides the results of our Evaluation of DIA's Compliance with the Payment Integrity Information Act for Fiscal Year 2021. We discussed the evaluation results with you at the exit conference on March 14, 2022.
2. We will post this report on our JWICS and NIPRnet websites, and following DIA pre-publication approval, we intend to publish the report to the public-facing DIA OIG website and the consolidated reporting website for Federal Inspectors General, Oversight.gov. We will also share a copy with the applicable Congressional Committees.
3. We will follow-up with action offices as appropriate to ensure the planned corrective action is taken and it meets the intent of the recommendation.

[REDACTED]

*Kristi M. Waschull*

Kristi M. Waschull  
Inspector General

Enclosure: a/s

cc:

[REDACTED]

**FINAL REPORT**



**Evaluation of DIA's Compliance with the Payment Integrity Information Act for Fiscal Year 2021  
(Project 2022-1003)**

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**What We Did**

We evaluated DIA's program to mitigate improper payments. Our evaluation determined whether, for fiscal year (FY) 2021, DIA complied with the Office of Management and Budget (OMB) Memorandum M-21-19, Appendix C to OMB Circular No. A-123, "Requirements for Payment Integrity Improvement Act," March 5, 2021.

**What We Found**

We determined DIA complied with the Payment Integrity Information Act (PIIA) requirements for FY 2021, but did not update its standard operating procedures (SOPs) to address changes to PIIA and associated OMB policies.

Additionally, we found that DIA made efforts to prevent and reduce improper and unknown payments. For instance, the Office of the Chief Financial Officer (CFO) has Process Cycle Memoranda (PCM) which outline the disbursement and reconciliation processes, and internal controls, to identify and reasonably prevent improper payments. As part of the Managers' Internal Control Program (MICP), DIA also regularly assessed its payment programs and conducted annual control testing.

Even though DIA complied with PIIA for FY 2021, CFO did not update payment integrity SOPs to incorporate the latest PIIA and OMB policies. Updated SOPs may help DIA mitigate risks of future non-compliance with PIIA requirements.

**What We Recommend**

We recommend CFO revise all SOPs related to payment integrity. At a minimum, CFO should incorporate the latest PIIA, OMB, and all other applicable policies, and outline any updates to CFO's process for managing DIA's payment integrity program, including all relevant sections of each SOP.

**Management Comments**

Management concurred with our recommendation and provided a responsive plan of action that will finish in May 2022. We summarized and responded to management's comment in the report (Management's comments are in Appendix B). We will coordinate with action officers on the corrective action. See Appendix C for more guidance on our recommendation follow-up process.

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## **Background Information**

OMB M-21-19, Appendix C to OMB Circular No. A-123, “Requirements for Payment Integrity Improvement,” provides the policy on how agencies should implement their improper payment programs. This includes how to determine whether a program is susceptible to improper and unknown payments, identification of corrective actions and reduction targets, and how agencies are to report improper payment information to the President and Congress. Additionally, OMB Circular No. A-136, “Financial Reporting Requirements,” specifies the information that agencies with programs susceptible to significant improper payments should include in their Agency Financial Reports (AFR).

The OMB requirements for payment integrity improvement are based on legislation. The Payment Integrity Information Act of 2019 revoked previous statutes and now requires Agencies to assess unknown payments in addition to improper payments. Additionally, it requires Agencies to annually identify programs susceptible to significant improper and unknown payments, estimate improper payments, and report on actions to reduce improper payments.

An improper payment is any payment that should not have been made or that was made in an incorrect amount. An unknown payment is a payment that could be either proper or improper, but the Agency is unable to discern whether the payment was proper or improper as a result of insufficient or lack of documentation. Significant improper payments are defined as annual improper and unknown payments (i.e., the sum of monetary loss improper payments, non-monetary loss improper payments, and unknown payments) in the program exceeding:

- Both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the FY reported, or
- \$100 million (regardless of the improper payment percentage of total program outlays).

CFO is responsible for maintaining and monitoring eight payment programs as follows:

- Civilian pay,
- Commercial Contract Vendor Pay,
- Commercial Non-Contract Pay,
- Employee Miscellaneous Compensation Pay,
- Employee Miscellaneous Reimbursement Pay,
- Government Purchase Card Pay,
- Grant Pay, and
- Travel Pay.



In August 2020, DIA received relief from OMB for two payment programs: Commercial Contract Vendor Pay and Civilian Pay. This means that for a 3-year period starting in FY 2020, DIA is relieved from reporting annual improper payments information for those two payment programs. For DIA's remaining payment programs, they were required to do the following for FY 2021:

- Publish payment integrity information with the annual financial statement,
- Post the annual financial statement and accompanying materials on the Agency website,
- Conduct improper payment risk assessments for each program with annual outlays of greater than \$10 million at least once in the last three years,<sup>1</sup>
- Adequately conclude whether the program is likely to make improper payments and unknown payments above or below the statutory threshold. If DIA has identified programs susceptible to significant improper payments, it must:
  - Publish improper and unknown payment estimates for programs susceptible to significant improper payments in the accompanying materials to the annual financial statement,
  - Publish corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement,
  - Publish improper and unknown payment reduction targets for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement,
  - Demonstrate improvements to payment integrity or reach a tolerable improper and unknown payment rate,
  - Develop a plan to meet the improper and unknown payment reduction target, and
  - Report an improper and unknown payment estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the financial statement.

We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency, "Quality Standards for Inspection and Evaluation." See Appendix A for a more detailed description of the evaluation scope and methodology.

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<sup>1</sup> Agencies are permitted to conduct risk assessments less frequently. For instance, programs that are deemed not susceptible to significant improper payments are only required to conduct risk assessments once every 3 years, unless there is a significant change in legislation, a significant increase in its funding level, or both. For details, see Appendix C to OMB Circular A-123, II. Phases of Assessments, 2. a) Conducting an off-cycle improper payment risk assessment, pdf pg. 16/79.

**Finding: DIA Complied with PIIA Requirements for FY 2021 but should Update Its Standard Operating Procedures**

DIA complied with PIIA requirements for FY 2021, but did not revise its payment integrity SOPs to incorporate the latest changes to PIIA and OMB policies. Updated SOPs may help DIA mitigate risks of future non-compliance with PIIA requirements. That said, the following table outlines how DIA’s payment programs were compliant with PIIA requirements for FY 2021.

No.	PIIA Compliance Requirements	Results
1a	Published payment integrity information with the annual financial statement.	Compliant
1b	Posted the annual financial statement and accompanying materials on the Agency website.	Compliant
2a	Conducted improper payment risk assessments for each program with annual outlays of greater than 10 million dollars at least once in the last three years.	Compliant
2b	Adequately concluded whether the program is likely to make improper payments and unknown payments above or below the statutory threshold.	Compliant
3	Published improper payment and unknown payment estimates for programs susceptible to significant improper payments in the accompanying materials to the annual financial statement.	N/A <sup>2</sup>
4	Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	N/A <sup>2</sup>
5a	Published improper payment and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	N/A <sup>2</sup>
5b	Has demonstrated improvements to payment integrity or reached a tolerable improper payment and unknown payment rate.	N/A <sup>2</sup>
5c	Has developed a plan to meet the improper payment and unknown payment reduction target.	N/A <sup>2</sup>
6	Reported an improper payment and unknown payment estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the financial statement.	N/A <sup>2</sup>

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<sup>2</sup> Based on testing conducted as part of the risk assessment procedures, DIA determined none of its payment programs are susceptible to significant improper payments. Additionally, DIA obtained reporting relief for its Commercial and Civilian pay programs from OMB. As such, PIIA requirements 3 – 6 were not applicable (N/A).

Additionally, DIA made efforts to prevent and reduce improper and unknown payments. For instance, CFO has PCM which outline disbursement processes, reconciliation processes, and internal controls to identify and reasonably prevent improper payments. As part of the MICP, DIA regularly assessed its payment programs and conducted annual control testing.

CFO also evaluated its payment programs that disbursed \$1 million or more annually to determine whether payment recovery audits were cost effective. Recovery audits analyze a payment program's accounting and financial records, supporting documentation, and other pertinent information to identify overpayments.<sup>3</sup> During FY 2021, CFO assessed DIA's payment programs and determined recovery audits were not cost effective to the Agency.

While DIA met PIIA requirements for FY 2021 and made efforts to prevent and reduce improper and unknown payments, it did not update its SOPs to incorporate changes to PIIA and OMB policies, which were revised in FY 2020 and 2021, respectively. DIA's payment integrity SOPs currently reference payment integrity policies, which were repealed. Additionally, based on interviews conducted during the evaluation, DIA is using a risk assessment method, which is not documented within the SOPs. Accordingly, we made the following recommendation.

## **Recommendation**

**We recommend that CFO, within 180 days of the final report:**

1. Revise all standard operating procedures related to payment integrity. At a minimum, the Office of the Chief Financial Officer should incorporate the latest Payment Integrity Information Act, Office of Management and Budget, and all other applicable policies, and outline any updates to Chief Financial Officer's process for managing DIA's payment integrity program, including all relevant sections of each standard operating procedure.

## **Management Comment on the Recommendation and Our Response**

CFO concurred with the recommendation and included responsive plan of action and milestones based upon the comments in Appendix B. We will validate the corrective actions taken during our follow-up process.

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<sup>3</sup> Appendix C to OMB Circular A-123, VIII. Appendix 1A: Definitions for Purposes of this Guidance, pdf pg. 72/79.

**Other Matter of Interest: DIA's Risk Assessment Considered and Incorporated Unknown Payment Attributes but did not Document the Conclusion**

During the evaluation, we identified that DIA's risk assessment did not document a conclusion for unknown payments, even though CFO tested for these types of payments. Management should consider this matter since it is relevant for future year PIIA risk assessment procedures, documentation, and compliance status.

In particular, we reviewed 26 of 125 samples CFO tested for the Commercial Non-Vendor Pay program as part of the Agency's risk assessment testing required by OMB policy. We confirmed attributes were tested and concluded improper and unknown payments were assessed. Additionally, we confirmed samples tested were supported and did not result in unknown payments. However, CFO did not document the conclusion related to unknown payments within the risk assessment summary document.

Number 2b of Appendix C to OMB Circular A-123 requires agencies to adequately conclude whether the program is likely to make improper and unknown payments above or below the statutory threshold. As such, CFO should clearly document the unknown payment conclusion within the risk assessment summary.

## **Appendix A. Evaluation Scope and Methodology**

We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency, “Quality Standards for Inspection and Evaluation.” The objective of our evaluation was to determine whether, for fiscal year (FY) 2021, DIA complied with the Office of Management and Budget (OMB) Memorandum M-21-19, Appendix C to Circular No. A-123, “Requirements for Payment Integrity Improvement,” March 5, 2021.

We conducted this evaluation from November 2021 to May 2022. To accomplish our objective, we:

- Interviewed personnel within the Office of the Chief Financial Officer (CFO) to gain an understanding of the Payment Integrity Information Act (PIIA) compliance and the reporting process being followed.
- Reviewed data and documentation used to support the Payment Integrity section reported in the Agency Financial Report (AFR).
- Reviewed DIA’s FY 2021 AFR to determine whether DIA followed reporting requirements set forth in OMB Circular No. A-136.
- Sampled a program for which DIA conducted a risk assessment and determined whether the assessment was completed in accordance with Appendix C to OMB Circular A-123. As part of this procedure, we selected the risk assessment for one DIA program and reviewed all supporting details to determine whether the risk assessment and conclusion was reasonable.
- Reviewed 26 Commercial Non-Vendor Pay program samples to determine whether CFO’s conclusions were in line with PIIA and OMB policies.
- Evaluated DIA’s efforts in detecting and reducing improper payments.

### **Related Oversight**

Report No. 2020-1006, “Evaluation of DIA’s Implementation of Coronavirus Aid, Relief, and Economic Security Act, Section 3610,” issued March 24, 2021.

**Appendix B. CFO Management's Response to the Draft Report**

DEFENSE INTELLIGENCE AGENCY

**official memo**

U-22-0055 CFO

**DATE:** April 7, 2022

**TO:** Office of the Inspector General

**FROM:** Office of the Chief Financial Officer

**SUBJECT:** Office of the Chief Financial Officer Response to Draft Evaluation Report 2022-1003, Evaluation of DIA's Compliance with the Payment Integrity Information Act for Fiscal Year 2021

**REF:** Draft Evaluation Report 2022-1003, Evaluation of DIA's Compliance with the Payments Integrity Information Act for Fiscal Year 2021

1. After review of the draft Evaluation Report 2022-1003, "Evaluation of DIA's Compliance with the Payment Integrity Information Act for FY 2021" the office of the Chief Financial Officer (CFO) concurs with the finding and recommendation. CFO will review pertinent laws and regulations, to include the Payment Integrity Information Act (PIIA) and Office of Management and Budget guidance, and incorporate requirements into the PIIA standard operating procedures. CFO started to identify the requirements to revise the SOP. CFO will complete updating the SOP by May 2022.

2. 

**Fisher**  
**Jodie A**  
**d624468**  
Jodie A. Fisher  
Deputy Chief Financial Officer

Digitally signed by  
Fisher, Jodie A  
d624468  
Date: 2022.04.07  
12:10:35 -04'00'

## **Appendix C. Guidance for Providing Management Comments to the Draft Report and Addressing Recommendations During Follow-Up**

This appendix is designed to help management better understand its responsibilities and actions required to respond to draft reports, as well as how to implement and close recommendations during the follow-up process. Management's role in this process is to respond to findings, conclusions, and each recommendation directed to them.

Management also owns any corrective action required for implementing and meeting the intent of the recommendations. The Office of the Inspector General's (OIG) role in this process is to close recommendations when management's actions meet the intent of the recommendations, or if DIA's Chief of Staff communicates to OIG that the Agency no longer agrees to complete a recommendation.

### **Providing Management Comments to Draft Reports**

Management on the "To" line of a draft report must prepare a memorandum, signed by the director, office, or center head (or their deputy), usually within 30 days of draft report issuance. The memorandum shall identify concurrence or non-concurrence with each recommendation that management is responsible for, including an explanation of its position with support if they disagree with our recommendation. At management's discretion, responses may also present management's position on the report findings and conclusions. If management disagrees with a finding or conclusion, they must provide support for their position. To ensure transparency, OIG will include management's full comments (including both concurrence and non-concurrence) in the final report.

### **Concurrence or Partial Concurrence with the Report and Recommendations**

Concurrence means that management agrees with the recommendation's intent. However, management may partially concur if it agrees with the recommendation's intent, but proposes an alternate approach to address a finding. In either situation, the response should include:

- Corrective action plans for each recommendation;
- Proposed completion timeframes for each recommendation; and
- Contact information for the action officer responsible for implementation.

The format for corrective action plans is within management's discretion. However, each corrective action plan should define how management will meet the recommendation's intent, and include the point of contact and milestones for completion. If management's response does not include a completion timeframe for a recommendation, the final report will use 180 days as the completion timeframe.

### **Nonconcurrency with the Report and Recommendations**

If management does not concur with a recommendation's intent or notes in its comments that it disagrees with a finding, the response should include an explanation and support for why it does not concur. OIG will evaluate the response. If OIG agrees, it will update the report and/or recommendation to align with management's position. Alternatively, OIG may request additional comments if management:

- Concurrence or non-concurrence on the recommendation is not explicitly stated;
- Corrective action plan for the recommendation is missing or is insufficient; or
- Justification for non-concurrence is insufficient.

### **Managing the Follow-Up Process**

After issuing the final report, OIG will follow-up to validate that management is addressing the recommendations that it agreed to in their comments. The follow-up process starts when management receives a copy of OIG's final report, which will be followed with a formal task. Generally, OIG will not revise timelines for completion of corrective actions; however, management may establish and revise its own internal timelines and is ultimately responsible for implementing recommendations. This includes:

- Designing and implementing the corrective actions; and
- Communicating to OIG when management believes corrective actions have addressed the recommendations.

After issuing the final report, the OIG follow-up team conducts follow-up on an as-needed basis, at least monthly, to discuss status and receive evidence that management has fully addressed recommendations. Follow-up communication can take different forms, including meetings, emails, or other methods established by management. To meet professional standards, the OIG follow-up team cannot direct management on how to address a recommendation; however, OIG can help clarify the recommendations' intent.

To request closure of a recommendation, management must provide documentation that shows the recommendation's intent has been met. There is no set format for the request, but it should include:

- Evidence that management performed the corrective action;
- Explanation for why management believes the recommendation's intent has been met; and
- Documentation of Directorate/Office/Center leadership awareness of actions taken to request closure, which could be demonstrated by copying them on an email requesting closure, having them sign a formal memorandum requesting closure, or other methods at management's discretion.



The OIG follow-up team reviews management's support within 30 days of receipt and makes a determination. Based on their determination, OIG does the following:

- If action met the recommendation's intent, the OIG follow-up team will obtain concurrence from OIG leadership and close the recommendation.
- If action has not sufficiently met the recommendation's intent, the OIG follow-up team will notify and clarify, as needed, any components of the recommendation that were not met.

If management no longer agrees with a recommendation, the DIA Chief of Staff, who is the Agency's primary follow-up official, must submit or endorse a memo specifically stating the change to non-concurrence and an explanation of why. After receiving the memo, OIG will close the recommendation. However, if OIG significantly disagrees with management's decision to close the recommendation, it is required to communicate the circumstances to Congress in the next Semiannual Report, which the DIA Director distributes.

Once all recommendations for a specific project are closed, OIG will issue a project closure memorandum to Directorate/Office/Center leadership responsible for the recommendations, copying the Director, Deputy Director, Chief of Staff, the Office of General Counsel, and the Office of Information Management and Compliance.

**Appendix D. Acronyms**

AFR	Agency Financial Report
CARES	Coronavirus Aid, Relief, and Economic Security
CFO	Chief Financial Officer
DARTS	DIA Administrative Requirements Tasking System
DIA	Defense Intelligence Agency
DOD	Department of Defense
FY	Fiscal Year
MICP	Managers' Internal Control Program
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PCM	Process Cycle Memoranda
PIIA	Payment Integrity Information Act
SOP	Standard Operating Procedure



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