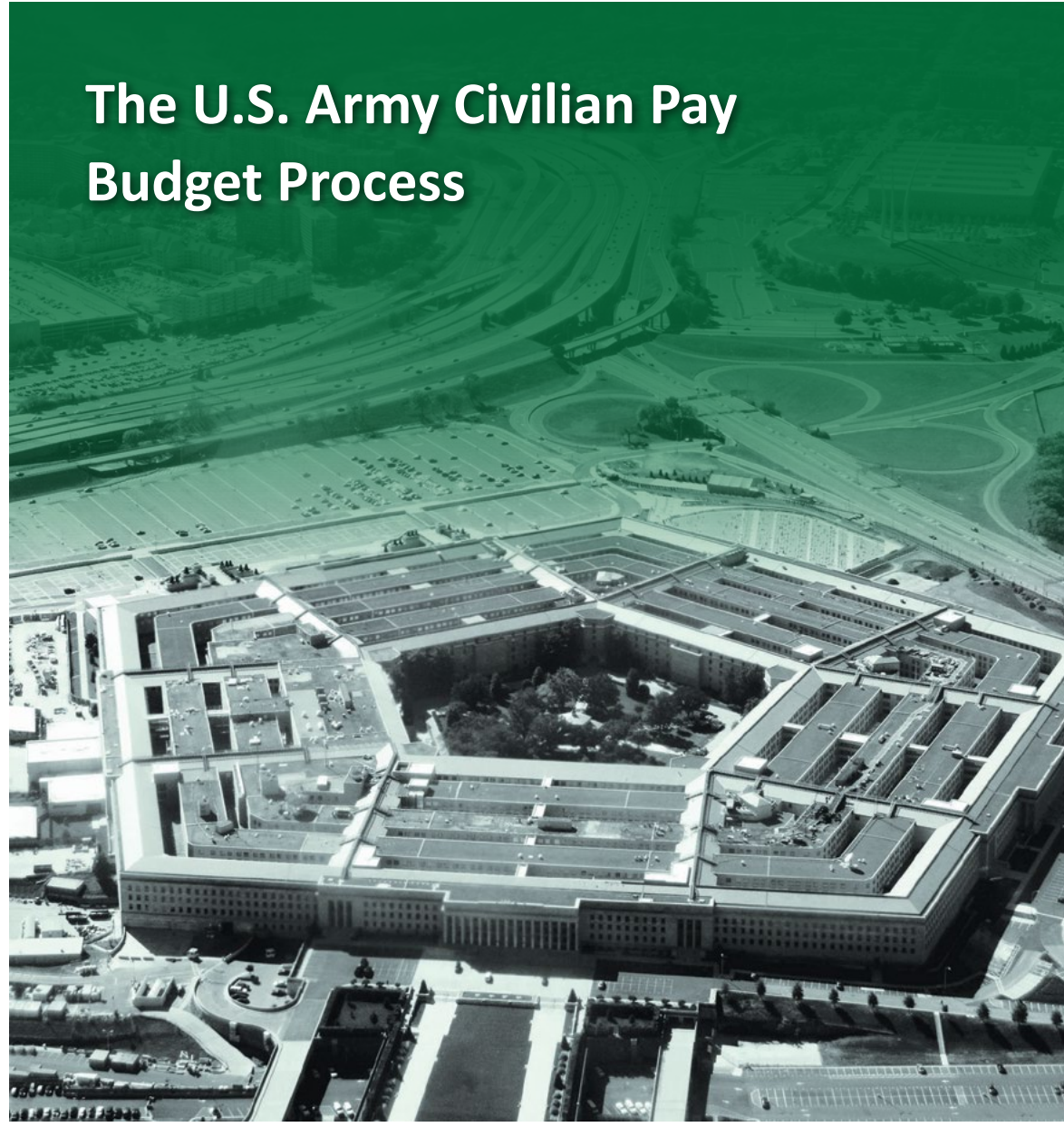


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INSPECTOR GENERAL

U.S. Department of Defense

MARCH 8, 2018



The U.S. Army Civilian Pay Budget Process

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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Results in Brief

The U.S. Army Civilian Pay Budget Process

March 8, 2018

Objective

We determined whether the Army's civilian pay (CIVPAY) budget process was effective. Specifically, we evaluated whether the Army adequately supported and justified the civilian full-time equivalents (FTEs) and pay requirements contained in the Army's FY 2017 Budget Estimate Submission (BES). Budget estimates relating to personnel requirements are determined in terms of FTE employment. FTEs are the total number of regular straight-time hours worked, or to be worked, divided by the total number of hours that agencies can pay employees in a fiscal year, which are called compensable hours.

Background

This is the second in a series of audits in response to the explanatory statement accompanying Public Law 114-113, "Consolidated Appropriations Act, 2016," December 18, 2015. The statement directs the DoD Office of Inspector General to report on the Military Services' civilian compensation program and civilian FTE levels. Specifically, the Senate Appropriation Committee, Subcommittee on Defense and House Appropriations Committee, Subcommittee on Defense expressed concern that the Military Services' consistently overestimate the number of civilians that will be employed during a fiscal year, while underestimating the civilian personnel funding requirements.

The Army receives the majority of its CIVPAY funding through the Operation and Maintenance (O&M) appropriation.

Background (cont'd)

The O&M appropriation includes funds for CIVPAY and non-pay expenses, such as travel, fuel, minor construction, training and education, base operations support, and maintenance of weapons systems and aircraft.

From FYs 2014 through 2017, the Army reduced its civilian FTEs and non-pay O&M expenses to comply with Presidential orders; the FYs 2013, 2014, and 2016 National Defense Authorization Acts; and Office of Management and Budget (OMB), DoD, and Army policy memorandums. However, from FYs 2015 through 2017, the Army's budgeted civilian FTEs decreased, while the CIVPAY costs increased, which caused the cost per FTE to increase substantially.

Findings

We determined that the Army had repeatable and documented procedures to calculate its FY 2017 CIVPAY budget. However, Headquarters, Department of the Army (HQDA) budget officials did not fully justify the FY 2017 CIVPAY request in the Army's BES. This occurred because HQDA budget officials deviated from OMB and DoD policy when calculating the CIVPAY requirements. Specifically, HQDA budget officials applied adjustments to the basic compensation calculation that were normally not permitted by OMB policy and did not include overtime in the budget request.

As a result, the HQDA budget officials over estimated the FY 2017 O&M CIVPAY budget request by \$356.8 million. In addition, including overtime paid in the execution data submitted to Congress, but not including it in the Army's budget, caused the Army to appear to over execute its CIVPAY budget in FYs 2015 and 2016, while under executing its FTEs.

Additionally, HQDA budget officials over estimated the civilian FTEs in the FY 2017 BES. This occurred because the HQDA budget and Army Command officials misused CIVPAY budget policy to pay for underfunded non-pay operating expenses. Specifically, HQDA budget officials knew that Army Command officials intentionally did not hire up to the Army's authorizations, and thereby created excess CIVPAY funding



Results in Brief

The U.S. Army Civilian Pay Budget Process

Findings (cont'd)

that the Commands used to pay for non-pay expenses, which the President, OMB, DoD, and the Secretary of the Army had directed the Army to cut.

(FOUO) As a result, the Army under executed FTEs and over executed non-pay expenses from FYs 2014 through 2016, and according to HQDA budget officials, the Army expects to [REDACTED]

[REDACTED] Recognizing the FTE under execution, Congress reduced the Army's FYs 2014 through 2016 budgets by applying funding cuts totaling [REDACTED]

Recommendations

We recommend that the Under Secretary of Defense (Comptroller), evaluate whether it is appropriate to budget for within-grade increases, and direct the Army to implement procedures to appropriately calculate basic compensation, in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget."

Additionally, we recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA[FM&C]) and the Deputy Chief of Staff, G-8:

- include overtime pay in the Army's BES in accordance with OMB Circular No. A-11 and Army Regulation 570-4, "Manpower and Equipment Control: Manpower Management," February 8, 2006;
- hold the Army Commands accountable for not hiring to their authorization levels by reducing the authorizations and FTEs for the Army Commands that consistently under execute their FTEs; and
- re-evaluate the Army's O&M CIVPAY and non-pay funding requirements to more accurately request funding for the Army's CIVPAY and non-pay O&M expenses.

We recommend that the Assistant Secretary of the Army (Manpower and Reserve Affairs) issue guidance

requiring the Army Commands to either hire personnel based on approved authorization levels, or provide written justification why they cannot hire up to their approved authorization levels.

We also recommend that the Secretary of the Army review the actions discussed in this report and consider administrative action, if appropriate, for the budget officials involved in the decision to submit inaccurate budget information to Congress regarding the Army's expected CIVPAY and non-pay O&M expenses.

Management Comments and Our Response

(FOUO) The Acting ASA(FM&C), responding for the HQDA Secretariat and Staff Elements involved in the development of CIVPAY costs, disagreed with our findings and recommendations. In the original comments from the Army, provided in September and October 2017, the Acting ASA(FM&C) projected that the Army executed \$9.5 billion, or [REDACTED] percent of its FY 2017 CIVPAY budget requested in its BES, which he stated was outstanding performance that contradicted the audit findings and conclusions. However, in January 2018, the Acting ASA(FM&C) provided updated data, which reported that the Army had only executed \$9.3 billion ([REDACTED] percent) of its FY 2017 BES CIVPAY requirement. Therefore, the Army under executed its FY 2017 CIVPAY budget requested in its BES by [REDACTED] million [REDACTED] percent) and the CIVPAY requested in the FY 2017 President's Budget by \$481.5 million (4.9 percent), which is the most the Army under executed in the last 3 years.¹

¹ (FOUO) According to the Army G-1, Chief Manpower Allocation, when converting the BES into the President's Budget, OSD added [REDACTED] FTEs to the Army's budget request, which increased the Army's request by [REDACTED] million. The [REDACTED] FTEs included [REDACTED] Emergency Medical Service and [REDACTED] intelligence program FTEs and conversion of [REDACTED] FTEs from contractors to Government employees.



Results in Brief

The U.S. Army Civilian Pay Budget Process

Comments (cont'd)

We recognize that there were circumstances outside of the Army's control that could have contributed to the Army's under execution in FY 2017, such as the President instituting a 90-day hiring freeze for civilian employees and the Federal Government operating under continuing resolutions until Congress passed the FY 2017 budget on May 5, 2017. However, we disagree that the Army did not overstate the FY 2017 O&M CIVPAY budget request. The Army under executed its CIVPAY budget, mainly due to the Army's non-compliance with OMB Circular No. A-11 and OSD policy when developing its FY 2017 budget request. Specifically, HQDA budget officials applied adjustments to the basic compensation calculation that were normally not permitted by OMB policy and did not include overtime in the budget request. Had the Army complied with OMB and OSD policy, the Army would have executed its FY 2017 CIVPAY budget within [REDACTED] percent of its BES request.

In addition, the Acting ASA(FM&C) stated that the Army realigned the unexecuted CIVPAY to pay for its most pressing requirements, as the Army continues to have billions of dollars in unfunded requirements. Specifically, Army Command officials stated that they relied on the differences between the Army's CIVPAY and execution to fund underfunded non-pay expenses. For example, an official at one Command stated that if the Command's CIVPAY funding were further cut, then the Command would not be able to fund its critical non-pay expenses. As a result, we determined that the Army overstated its FY 2017 CIVPAY budget request through non-compliance with OMB and OSD policy, under executed its budget by \$481.5 million, and used the excess funds to pay for underfunded non-pay expenses.

The Acting ASA(FM&C) also disagreed with the recommendation to coordinate with the Office of the Under Secretary of Defense (Comptroller) to evaluate

whether it is appropriate to budget for within-grade increases, and to implement procedures to appropriately calculate basic compensation, in accordance with OMB Circular No. A-11. The Acting ASA(FM&C) stated that the Army has a complex process that already appropriately considers the many factors that contribute to estimating CIVPAY, in accordance with OMB Circular No. A-11.

We believe that the comments from the Acting ASA(FM&C) did not address the specifics of the recommendation. Therefore, we redirected recommendation A.1 to the Under Secretary of Defense (Comptroller), who is responsible for reviewing the Army's BES for compliance with OMB Circular No. A-11. We agree that the Army had a well-established, documented CIVPAY budget process. However, as stated on the Army's Civilian Pay Rates website and in the Army's documented procedures for calculating the FY 2017 CIVPAY rates, the HQDA budget officials included an adjustment in their CIVPAY calculation to budget for within-grade increases, which OMB Circular No. A-11 stated was normally not permitted. The adjustment for within-grade increases inflated the Army's FY 2017 CIVPAY budget request by \$498.6 million. Therefore, we disagree that the Army appropriately calculated the FY 2017 CIVPAY budget request, in accordance with OMB Circular No. A-11.

In addition, the Acting ASA(FM&C) disagreed with the recommendation to include overtime in the Army's BES, in accordance with OMB Circular No. A-11 and Army Regulation 570-4. The Acting ASA(FM&C) also stated that budgeting for variable costs, such as overtime, is not mandatory. The Acting ASA(FM&C) further stated that the process for including overtime will likely result in inaccurate and incomplete estimates as many overtime expenses are temporary.



Results in Brief

The U.S. Army Civilian Pay Budget Process

Comments (cont'd)

We agree that the OMB Circular No. A-11 does not require agencies to budget for overtime, but the Circular permits Agencies to budget for overtime, if the amount can be justified. The Army paid an average of \$141.8 million in overtime from FYs 2014 through 2016, which the Army could have used to estimate overtime for future year budgets. To illustrate, in the FY 2016 President's Budget, the Army requested \$106,260 per FTE, which did not include any overtime. However, the Army's FY 2016 execution data reported to Congress indicated that the Army actually spent \$110,836 per FTE because it paid \$144.9 million in overtime. Therefore, the Army's decision not to budget for overtime affected the presentation of the cost per FTE when the Army reported its CIVPAY execution to Congress. Had the Army budgeted for overtime, the Army's budget would have been more representative of the true cost of its civilian work force and the Army could avoid having to fund the \$144.9 million spent on overtime with O&M funds that were originally budgeted for other priorities. Until the Army includes overtime in its budget requests, the Army will continue to have a disconnect between its budget request and execution data presented to Congress. Therefore, we determined that the recommendation is unresolved and remains open.

The Acting ASA(FM&C), responding for the Assistant Secretary of the Army (Manpower and Reserve Affairs), disagreed with the recommendation to issue guidance to require the Army Commands to hire personnel based on their approved authorization levels. The Acting ASA(FM&C) stated that the Assistant Secretary of the Army (Manpower and Reserve Affairs) issued guidance for the FY 2014 budget that stressed the importance of maintaining high fill rates. The Acting ASA(FM&C) also stated that although the Army acknowledges and stresses the importance of hiring to authorization levels, given the ever-changing mission requirements and efforts to avoid a potential layoff, the Army will

not penalize Commands. As indicated by the Acting ASA(FM&C), the Army has not directed its Commands to hire up to their approved authorization levels since FY 2014. Therefore, the Army should consider issuing current guidance requiring its Commands to hire up to their authorization levels. Consequently, we determined that the recommendation is unresolved and remains open.

The Acting ASA(FM&C) disagreed with the recommendation to hold Commands accountable for not hiring up to their approved authorization levels, but stated that the HQDA budget officials adjusted the Army's FY 2018 requested FTEs and CIVPAY levels based on FY 2016 execution. The Acting ASA(FM&C) stated that the process will be permanently incorporated into future budget reviews. We concluded that the comments met the intent of the recommendation because the Acting ASA(FM&C) stated that the Army developed procedures to reduce FTEs based on prior year execution. Therefore, we determined that the recommendation is resolved but remains open. We will close the recommendation when we verify that the HQDA budget officials reduced the Army Commands' FY 2018 FTE and CIVPAY levels based on execution in FY 2016, and the FTE adjustment process has been incorporated permanently in the HQDA staff reviews.

The Acting ASA(FM&C) disagreed with the recommendation to re-evaluate the Army's CIVPAY and non-pay funding requirements. However, the Acting ASA(FM&C) did not comment on the specifics of the recommendation; therefore, we determined that the recommendation is unresolved and remains open.

The Acting ASA(FM&C), responding for the Secretary of the Army, disagreed with the recommendation to consider administrative action for the officials involved in the decision to submit inaccurate budget information to Congress. The Acting ASA(FM&C) stated that the



Results in Brief

The U.S. Army Civilian Pay Budget Process

report does not include evidence that any Army officials were involved in a decision to submit inaccurate Presidents Budget information to pay for non-pay operation expenses. The Acting ASA(FM&C) also stated that Army officials did not knowingly submit inaccurate budget information for any requirement. While we acknowledge that there was not a single decision to submit inaccurate budget information, our intent was for the Army to review the budget development process, because staff involved were aware of the inaccuracies in the information presented to Congress. There is sufficient information in our report for the Secretary of the Army to undertake our recommended review of the actions discussed and consider administrative action, if appropriate, for budget officials involved. Consequently, we determined that the recommendation is unresolved and remains open.

The Under Secretary of Defense (Comptroller) did not respond to the recommendation to update the DoD 7000.14-R, "DoD Financial Management Regulation," with policies and procedures for budgeting for within-grade increases. Therefore, the recommendation is unresolved and remains open.

Finally, we request that the Secretary of the Army, Under Secretary of Defense (Comptroller), ASA(FM&C), Assistant Secretary of the Army (Manpower and Reserve Affairs), and Deputy Chief of Staff, G-8 provide comments on the final report.

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

Recommendations Table

| Management | Recommendations Unresolved | Recommendations Resolved | Recommendations Closed |
|--|----------------------------|--------------------------|------------------------|
| Secretary of the Army | B.3 | | |
| Under Secretary of Defense (Comptroller) | A.1, A.2 | | |
| Assistant Secretary of the Army (Financial Management and Comptroller) | A.3, B.2.b | B.2.a | |
| Assistant Secretary of the Army (Manpower and Reserve Affairs) | B.1 | | |
| Deputy Chief of Staff, G-8 | A.3, B.2.b | B.2.a | |

Please provide Management Comments by April 9, 2018.

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**

March 8, 2018

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DoD
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: The U.S. Army Civilian Pay Budget Process (Report No. DODIG-2018-055)

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

We considered management comments on the draft of this report when preparing the final report. DoD Instruction 7650.03 requires that all recommendations be resolved promptly. The Under Secretary of Defense (Comptroller) did not respond to the recommendation in the draft report; however, we considered comments from the Acting Assistant Secretary of the Army (Financial Management and Comptroller) when preparing the final report. As a result of those management comments, we redirected Recommendation A.1 to the Under Secretary of Defense (Comptroller). Comments from the Acting Assistant Secretary of the Army (Financial Management and Comptroller) partially addressed the recommendations. We request additional comments on Recommendations A.3, B.1, B.2.b, and B.3. In addition, we request that the Under Secretary of Defense (Comptroller) comment on Recommendations A.1 and A.2 by April 9, 2018.

Please send a PDF file containing your comments to audasm@dodig.mil. Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to Mr. Patrick Nix at (703) 604-9332, (DSN 664-9332).

A handwritten signature in black ink, reading "Troy M. Meyer", is positioned above the printed name.

Troy M. Meyer
Principal Assistant Inspector General
for Audit

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Introduction

Objective

We determined whether the Army's civilian pay (CIVPAY) budget process was effective. Specifically, we evaluated whether the Army adequately supported and justified the civilian full-time equivalents (FTEs) and pay requirements contained in the Army's Fiscal Year 2017 Budget Estimate Submission (BES). This is the second in a series of audits in response to congressional direction that accompanied Public Law 114-113, "Consolidated Appropriations Act, 2016," December 18, 2015. The first report focused on the process and source data that the Air Force used to determine its CIVPAY requirements in the Operation and Maintenance (O&M) appropriation for its FY 2016 BES.² See the Appendix for a discussion of the scope, methodology, and prior audit coverage relating to this audit.

Background

Congressional Reporting Requirement

The Senate Appropriation Committee, Subcommittee on Defense and House Appropriations Committee, Subcommittee on Defense were concerned that the Military Services consistently overestimate the number of civilians that will be employed during a fiscal year, while underestimating the civilian personnel funding requirements, resulting in FTE under execution and over execution of the CIVPAY budget. Therefore, the explanatory statement accompanying Public Law 114-113 directs the DoD Office of Inspector General (DoD OIG) to review the causes of the fluctuation in average salary and the correlation between the types of pay rates and program growth.³ The explanatory statement directs the DoD OIG to issue a report with recommendations for DoD to formulate a CIVPAY budget that accurately captures the true cost of the civilian workforce. It also requires the DoD OIG to provide a report to the congressional defense committees with recommendations that would improve the management of Military Services' civilian compensation program and civilian FTE levels.

² Report No. DODIG-2017-039, "Requirements for the Air Force Civilian Pay Budget Still Need Improvement," January 5, 2017.

³ Public Law 114-113, Section 4, "Division C-Department of Defense Appropriations Act, 2016," December 18, 2015, incorporates the explanatory statement added to the House of Representatives section of the Congressional Record on December 17, 2015, by the Chairman of the Committee on Appropriations of the House. This statement contains the direction to the DoD OIG.

Guidance on Calculating Civilian Personnel Requirements

The Office of Management and Budget (OMB) Circular No. A-11, "Preparation, Submission, and Execution of the Budget," June 2015, provided guidance on preparing and executing the FY 2017 budget. Specifically, it provided guidance on estimating employment levels and calculating CIVPAY requirements, and it required agencies to estimate budgets for civilian personnel requirements in terms of FTE employment. The OMB Circular No. A-11 defined FTEs as the total number of regular straight-time hours worked, or to be worked, divided by the total number of compensable hours.⁴ The OMB Circular was updated in July 2016 to provide guidance for the FY 2018 budget. We evaluated the Army's procedures for developing the FY 2017 BES using the June 2015 version of the OMB Circular.

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," (DoD FMR), provides guidance on formulating the O&M budget estimates and justifying the CIVPAY budget to Congress. The DoD FMR provides instructions for presenting the summary of civilian personnel costs, which includes the OP-8, "Civilian Personnel Costs," and OP-9, "Analysis of Changes in Full-Time Equivalent (FTE) Costs," budget exhibits. The OP-8 summarizes the fiscal year civilian FTE totals and the total costs for basic compensation and benefits. The OP-9 documents changes in average salary and average FTE costs from fiscal year to fiscal year. The OP-9 also includes information for the cost of FTEs and end strength.⁵

The Office of the Secretary of Defense (OSD) issues annual BES guidance to supplement the DoD FMR, which provides instructions to the Army to submit and support the BES data. Army Regulation (AR) 570-4 provides guidance for approving authorizations⁶ (end strength) and calculating FTEs.⁷

Army CIVPAY Budget Estimate Submission Process

The Planning, Programming, Budgeting, and Execution (PPBE) process establishes, justifies, and acquires the funding for military and civilian resources needed to carry out and execute the Army's assigned missions. The Program Objective Memorandum (POM) is the main output of the programming phase and covers five Army program years. During the budgeting phase of the PPBE process, the Army converts the first year of the POM into the BES. The BES process begins in

⁴ Compensable hours are the total number of hours that agencies can pay employees in a fiscal year.

⁵ End strength is the total number of civilians employed by the Army on September 30 each year.

⁶ Authorizations are the total number of personnel the Army is approved to hire.

⁷ AR 570-4, "Manpower and Equipment Control: Manpower Management," February 8, 2006.

July and ends when the Army submits the BES to the Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) in December. From December through February, the Army, OUSD(C), and OMB update and incorporate the Army's BES into the President's Budget, which they normally submit to Congress in February.

The Army funds the majority of its CIVPAY program with the O&M appropriation. The O&M appropriation includes funds for CIVPAY and non-pay expenses, such as travel, fuel, minor construction, training and education, base operations support, and maintenance of weapons systems and aircraft. We focused on the Army U.S. direct-hire civilians associated with the O&M appropriation.

Organizations Involved in the Army's Budget Development

The OUSD(C) is the principal advisor to the Secretary of Defense for budget formulation and execution. The OUSD(C):

- reviews the Army's BES for compliance with the OMB Circular No. A-11;
- submits the overall DoD budget to OMB; and
- justifies DoD's budget before Congress.

The Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA[FM&C]) is a Headquarters, Department of the Army (HQDA) organization with overall responsibility for the PPBE process. The ASA(FM&C):

- oversees the formulation, submission, and actions to defend the Army budget to Congress and issues Army-wide PPBE policies; and
- manages the proper and effective use of appropriated funds to accomplish the Army's assigned missions.

The Office of the Deputy Assistant Secretary of the Army (Budget) (DASA[BU]) is an HQDA organization under ASA(FM&C) and is responsible for leading the budgeting and execution of the Army's budget. The DASA(BU):

- formulates, presents, and defends the Army's budget through the congressional appropriation process;
- oversees budget execution and analysis, reprogramming actions, and appropriation fund control and distribution; and
- implements OSD and OMB budgetary guidance, converts the POM into the BES, and provides oversight and management of Army CIVPAY.

The Office of the Deputy Assistant Secretary of the Army-Cost and Economics is an HQDA organization under ASA(FM&C) and is the principal advisor to ASA(FM&C) on all Army costs for financial management activities, including establishing cost and economic analysis policies, methods, and procedures. The Deputy Assistant Secretary of the Army-Cost and Economics develops and maintains the rates used to determine the cost of the Army's CIVPAY.

The Assistant Secretary of the Army (Manpower and Reserve Affairs):

- manages the Army's manpower and is responsible for all manpower policies in the Army;
- provides guidance and direction concerning manpower management to all Army Activities;
- provides oversight of manpower plans, policies, and procedures;
- establishes and approves civilian manpower controls within resource levels based on workload; and
- develops policies and criteria for the use of civilian manpower.

The Office of the Deputy Chief of Staff (DCS), G-1, is an HQDA organization that develops, manages, and executes all personnel plans, programs, and policies for the Army. The DCS, G-1:

- manages Army personnel accounts of the O&M appropriation; and
- reviews and calculates the Army civilian authorizations and FTEs needed for the POM and the BES.

The Office of the DCS, G-8, is an HQDA organization that oversees the Army's programing phase to facilitate the POM development. The DCS, G-8:

- reviews the civilian costs and decides whether the Commands and the Army as a whole can afford the civilian FTEs; and
- participates in OSD-led defense reviews of the POM but is not involved in the BES process.

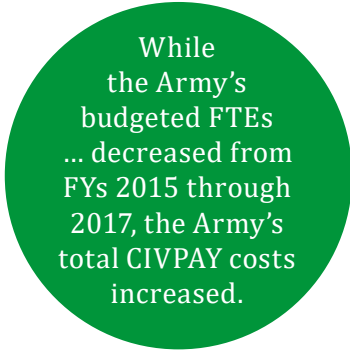
HQDA officials staff the Army Program Evaluation Groups (PEGs). The Army has six PEGs and each PEG handles one or more of the Army's functions. The six Army PEG functions are:

- manning,
- training,
- organizing,
- equipping,
- sustaining, and
- installations.

The PEGs participate in the PPBE process and make decisions to support the cost of the Army FTEs in the POM. The PEGs determine the amount of funding to distribute to the Commands to meet mission needs.

Army Was Directed to Reduce Civilian Workforce

(FOUO) The FY 2013 National Defense Authorization Act (NDAA) requires the DoD to achieve savings from the civilian workforce funding.⁸ In addition, the NDAA for FYs 2014 and 2016 required workforce reductions at the headquarters of the Commands.⁹ The DoD implemented the FY 2014 NDAA by issuing policy that requires the Military Services to reduce their civilian headquarters personnel costs by 20 percent from FYs 2014 through 2019. On August 24, 2015, the DoD increased the reduction of headquarters costs to 25 percent, which is required by FY 2020 to comply with the FY 2016 NDAA. The FY 2014 NDAA required the Army to start reducing civilian FTEs in FY 2015. However, while the Army's budgeted FTEs for U.S. direct-hire civilians decreased from FYs 2015 through 2017, the Army's total CIVPAY costs increased. Specifically, the Army requested [REDACTED] FTEs in FY 2015 and [REDACTED] FTEs in FY 2017 (8.82-percent decrease). Yet, the Army's CIVPAY budget request increased from [REDACTED] billion in FY 2015 to [REDACTED] billion in FY 2017 (2.91-percent increase). In addition, as Table 1 shows, the reduction in budgeted FTEs and budget increases caused the Army's cost per FTE to increase substantially from FYs 2015 through 2017.



While the Army's budgeted FTEs ... decreased from FYs 2015 through 2017, the Army's total CIVPAY costs increased.

⁸ Public Law 112-239, "National Defense Authorization Act for Fiscal Year 2013," January 2, 2013.

⁹ Public Law 113-66, "National Defense Authorization Act for Fiscal Year 2014," December 26, 2013, and Public Law 114-92, "National Defense Authorization Act for Fiscal Year 2016," November 25, 2015.

~~(FOUO)~~ Table 1. Army O&M CIVPAY Totals Increased From FYs 2015 Through 2017 Despite FTEs Decreasing

| (FOUO) Fiscal Year | Civilian FTEs Requested | Percent Change | Civilian Personnel Compensation (in Thousands) | Percent Change | Cost Per FTE | Percent Change |
|----------------------------------|-------------------------|----------------|--|----------------|--------------|-----------------------------------|
| 2015 | ██████ | N/A | ██████ | N/A | ██████ | N/A |
| 2016 | ██████ | (3.76) | ██████ | (0.29) | ██████ | 3.61 |
| 2017 | ██████ | (5.26) | ██████ | 3.21 | ██████ | 8.94 |
| Total Difference* | ██████ | (8.82) | ██████ | 2.91 | ██████ | 12.86 (FOUO) |

Note: The figures in parenthesis represent negative amounts.

* The total difference is represented as the change from FYs 2015 through 2017.

Source: FYs 2015 through 2017 Army BES data.

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 an internal control weakness associated with the HQDA budget officials' process to calculate the Army's CIVPAY requirements. The ASA(FM&C) did not fully justify the FY 2017 CIVPAY request in the Army's BES. HQDA budget officials deviated from OMB and OSD policy when calculating CIVPAY requirements. Specifically, HQDA budget officials applied adjustments to the basic compensation calculation that were normally not permitted by OMB policy and did not include overtime in the Army's budget request. We also identified an internal control weakness associated with the HQDA budget officials' calculation of the FTEs used to develop the BES. HQDA budget officials over estimated the civilian FTEs in the FY 2017 BES. HQDA and Army Command budget officials misused CIVPAY budget policy to pay for underfunded non-pay operating expenses. Specifically, Army Command officials intentionally did not hire up to the Army's authorizations and, thereby, created excess CIVPAY funding that the Commands used to pay for non-pay expenses, which the President, OMB, DoD, and the Secretary of the Army had directed the Army to cut. We will provide a copy of the report to the senior officials responsible for internal controls in the Department of the Army.

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

Finding A

Army Officials Did Not Fully Justify Increase in its CIVPAY Budget

While the Army had repeatable and documented procedures to calculate its FY 2017 CIVPAY budget, the ASA(FM&C) did not fully justify the Army's FY 2017 CIVPAY request in the Army's BES. This occurred because HQDA budget officials deviated from OMB and OSD policy when calculating the CIVPAY budget request.¹¹ Specifically, HQDA budget officials applied adjustments to the basic compensation calculation that were normally not permitted by OMB policy and did not include overtime in the budget request. As a result, the HQDA budget officials overstated the FY 2017 O&M CIVPAY budget request by \$356.8 million. In addition, including overtime paid in the execution data submitted to Congress, but not including it in the Army's budget, caused the Army to appear to over execute its CIVPAY budget in FYs 2015 and 2016, while under executing its FTEs.

FY 2017 CIVPAY Budget Request Not Fully Justified

While the Army had repeatable and documented procedures to calculate the Army's FY 2017 CIVPAY budget, the HQDA budget officials did not fully justify the increased CIVPAY costs. Specifically, HQDA budget officials developed repeatable procedures to calculate the Army's FY 2017 CIVPAY funding requirements. In addition, the HQDA budget officials documented and uploaded their procedures and budget documentation to their website for transparency with the Army Commands. The HQDA budget officials encouraged the Army Command officials to recalculate their CIVPAY rates to verify that HQDA calculated accurate rates. However, HQDA budget officials did not fully justify the increase in the Army's CIVPAY budget to Congress. OMB Circular No. A-11 stated that changes in FTEs should result in comparable changes in funding levels. OMB Circular No. A-11 further required the Army to explicitly justify increases in average compensation for the budget year and to have supporting detail for calculating CIVPAY costs.

(FOUO) Although the Army decreased its requested FTEs from [REDACTED] FTEs in FY 2016 to [REDACTED] FTEs in FY 2017, the Army's FY 2017 CIVPAY budget request increased [REDACTED] million from FY 2016. HQDA budget officials attributed the budget request increase to changes in the Army's civilian workforce, increases in

¹¹ OMB Circular No. A-11; OUSD(C) memorandum, "Fiscal Year (FY) 2017 President's Budget Submission," December 17, 2015.

(FOUO) employee health and retirement benefits, and increases for pay raise adjustments. Specifically, in the FY 2017 President's Budget, the Army justified the increase in civilian compensation by stating:

Increases civilian pay to the most current mandatory cost adjustments and the projected continuation of trends in workforce composition observed over the last several years. These trends are the direct consequence of the downsizing. Reductions and divestitures have fallen primarily on entry-level and less skilled technical and clerical populations on the civilian workforce, while preserving the capability and flexibility provided by more senior, professional, and technological workers. The workforce remaining has a higher average salary and tends to be concentrated in higher cost-of-living areas such as the National Capital Region. These concentrations have competitive labor markets that also drive compensation costs.

However, the HQDA budget officials' explanation did not fully justify the increase in the total CIVPAY budget request. We found that Army officials applied additional adjustments that were normally not permitted by OMB Circular No. A-11 and were not included in their justification to Congress, which increased their CIVPAY budget request. Therefore, the HQDA budget officials did not fully justify the FY 2017 O&M CIVPAY budget request.

Army officials applied additional adjustments that ... were not included in their justification to Congress.

Within-Grade Increase Adjustments Inflated Basic Compensation

HQDA budget officials did not fully justify the increased cost of the Army's civilian workforce because HQDA budget officials did not disclose that they had deviated from OMB Circular No. A-11 policy when calculating the CIVPAY budget request. Specifically, HQDA budget officials inflated the Army's CIVPAY basic compensation by including adjustments in their basic compensation calculation that were

HQDA budget officials also applied an additional 1.65 percent "supplemental adjustment" ... to budget for within-grade increases.

normally not permitted by OMB Circular No. A-11. The HQDA budget officials used the FY 2014 basic compensation actual expenditures to calculate the basic compensation cost per FTE for FY 2017. Specifically, HQDA budget officials applied adjustments for locality pay changes and the OMB-directed FY 2015, 2016, and 2017 pay raise adjustments to escalate the Army's FY 2014 cost per FTE to FY 2017 levels.¹² The HQDA budget officials also applied an additional 1.65 percent "supplemental adjustment" to the FY 2015, 2016, and 2017 calculated

¹² The locality pay adjustment accounted for changes in the locality regions.

amounts to budget for within-grade increases (WGIs).¹³ Finally, HQDA budget officials multiplied the calculated rates by the projected FTEs for the corresponding years to determine the final FY 2017 basic compensation. Table 2 shows the Army's basic compensation cost per FTE calculation for FY 2017.

(FOUO) Table 2. FY 2017 Basic Compensation Calculation

| (FOUO) Fiscal Year | Description | Value |
|-----------------------|---------------------------------------|-----------------|
| 2014 | Actual FTEs Executed | 88,889 |
| | Actual Basic Compensation Expenditure | \$6,637,021,000 |
| | 2014 Actual Cost Per FTE | \$74,666 |
| 2015 | FTEs Requested | [REDACTED] |
| | Basic Compensation | [REDACTED] |
| | Pay Raise Adjustment | 1.00% |
| | Locality Adjustment | [REDACTED] |
| | WGI | 1.65% |
| | Total Cost | [REDACTED] |
| | 2015 Cost Per FTE | [REDACTED] |
| 2016 | FTEs Requested | [REDACTED] |
| | Basic Compensation | [REDACTED] |
| | Pay Raise Adjustment | 1.30% |
| | Locality Adjustment | [REDACTED] |
| | WGI | 1.65% |
| | Total Cost | [REDACTED] |
| | 2016 Cost Per FTE | [REDACTED] |
| 2017 | FTEs Requested | [REDACTED] |
| | Basic Compensation | [REDACTED] |
| | Pay Raise Adjustment | 1.30% |
| | Locality Adjustment | [REDACTED] |
| | WGI | 1.65% |
| | Total Cost | [REDACTED] |
| | 2017 Cost Per FTE | [REDACTED] |

(FOUO)

* (FOUO) We calculated the FY 2017 total cost and cost per FTE, and our calculations are within 0.48 percent of the Army's calculated CIVPAY in the FY 2017 BES. The Army's FY 2017 BES reported [REDACTED] basic compensation, which cost [REDACTED] per FTE.

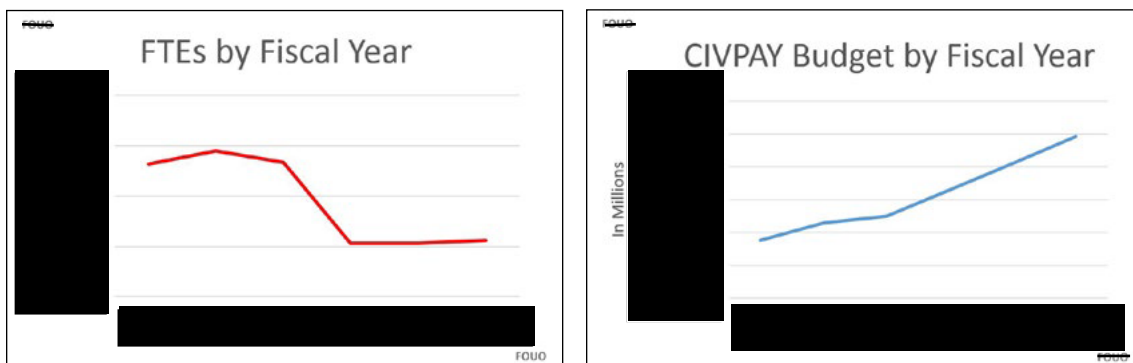
Source: We used FY 2014 actual expenditures and the FYs 2015 through 2017 Army BESs.

¹³ Within-grade increases are periodic growths in basic pay based on the time-in-grade and acceptable performance.

According to OMB Circular No. A-11, budgeting for WGIs were normally not allowed because savings from employee turnover, and greater levels of productivity and efficiency should offset WGIs.¹⁴ The DoD FMR and Army policy do not specifically prohibit the Army from including resources for WGIs in the Army's CIVPAY basic compensation. However, an OUSD(C) official stated that the Services typically did not budget for WGIs. Additionally, HQDA budget officials stated that under normal circumstances, greater productivity and employee turnover would offset the increased basic compensation from WGIs.

(FOUO) HQDA budget officials stated that they decided to include adjustments for WGIs in the FY 2017 BES to compensate for workforce instability from FYs 2010 through 2014. The HQDA budget officials stated that the Army reduced civilian personnel from FYs 2010 through 2014; however, the majority of the reductions occurred at the lower grade levels, which caused workforce instability. The HQDA budget officials stated that they continued to budget for WGIs through FY 2019 based on an assumption that the instability would continue.¹⁵ Therefore, as shown in Figure 1, the Army's FTEs continued to decrease from FYs 2014 through [REDACTED] but the total CIVPAY cost continued to increase.

(FOUO) Figure 1. The Army's FTE and CIVPAY Trend



Source: Army POM data.

(FOUO) The Army used the inflated basic compensation to calculate other CIVPAY line items, further inflating its budget. Specifically, HQDA budget officials calculated holiday pay, other pay, and benefits [REDACTED].¹⁶ Therefore, the inflated basic compensation led to increased values for holiday pay, other pay, and benefits. As Table 3 shows, by deciding to budget for WGI, HQDA budget officials overstated the Army's total FY 2017 CIVPAY budget request by \$498.6 million.

¹⁴ The July 2016 OMB Circular No. A-11 updated the policy on WGIs. The updated OMB Circular no longer states that resources for WGI are normally not allowed. Instead, it directs agencies to offset the net cost of WGIs (if any) with savings due to greater productivity and efficiencies.

¹⁵ The FY 2013, 2014, and 2016 NDAA directed civilian workforce reductions. The DoD implemented the civilian cuts from FYs 2015 through 2020.

¹⁶ Other pay includes items, such as cash awards or mass transit metro subsidies.

(FOUO) Table 3. Calculation of the Army's Overstated FY 2017 CIVPAY Budget Request

| (FOUO) | Basic Compensation | Holiday Pay | Other | Benefits | Total CIVPAY |
|-------------------------------|--------------------|-------------------|-------------------|-------------------|------------------|
| | in Thousands | | | | |
| Formula | BC* | + (BC [REDACTED]) | + (BC [REDACTED]) | + (BC [REDACTED]) | = Total CIVPAY |
| FY 2017 BES | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| CIVPAY Calculated Without WGs | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Difference | \$359,140 | \$538 | \$6,912 | \$132,005 | \$498,595 (FOUO) |

*Basic Compensation

Source: FY 2017 Army BES data. To calculate CIVPAY without WGs, we used FY 2014 actual expenditures and the Army's BES for FYs 2015 through 2017.

The Under Secretary of Defense (Comptroller) should evaluate whether it is appropriate for the Army to budget for WGI and direct the Army to implement procedures to appropriately calculate basic compensation, in accordance with OMB Circular No. A-11. In addition, the Under Secretary of Defense (Comptroller) should update the DoD FMR with policies and procedures for budgeting for WGs, to include justification and approval procedures.

Army Did Not Budget for Overtime Pay

(FOUO) HQDA budget officials did not accurately or completely present the Army's CIVPAY budget to the OSD and Congress because the officials did not increase the Army's CIVPAY request to account for anticipated overtime pay. The OSD issued guidance on December 17, 2015, that requires the Army to [REDACTED].¹⁷ In addition, OMB Circular No. A-11 permitted agencies to budget for overtime pay, if the amount can be justified. Further, AR 570-4 states that HQDA budgets for overtime pay based on actual use of overtime recently reported. However, HQDA budget officials did not include overtime pay in the Army's budget request.

According to an HQDA budget official, the HQDA decided not to budget for overtime pay to discourage the Army Commands from approving overtime. The budget official stated that because the HQDA did not budget for overtime, the Army Commands must justify the overtime used and must pay for it with their existing budgets. However, the Army reported in the CIVPAY execution data provided to Congress that it consistently paid employees overtime.¹⁸ Specifically, as Table 4 shows, from FYs 2014 through 2016, the Army paid its U.S. direct-hire civilians an average of \$141.8 million in overtime pay each year.

¹⁷ OUSD(C) memorandum, "Fiscal Year (FY) 2017 President's Budget Submission."

¹⁸ Execution data is the Army's actual expenses reported to Congress after the end of the fiscal year.

Table 4. Overtime Paid from FYs 2014 Through 2016

| FY 2014 | FY 2015 | FY 2016 | Average Overtime Paid |
|--------------|-----------|-----------|-----------------------|
| in Thousands | | | |
| \$145,635 | \$134,728 | \$144,898 | \$141,754 |

Source: We used data from the FYs 2014 through 2016 actual expenditures reported to Congress.

By including the overtime paid in the execution data submitted to Congress, but not in the Army's budget, the Army appeared to over execute its CIVPAY budget in FYs 2015 and 2016.¹⁹ Specifically, the execution data provided to Congress showed that the Army under executed its budgeted FTEs and total CIVPAY in FYs 2015 and 2016. The execution data also showed that the Army's actual cost per FTE was higher than the budgeted cost per FTE.²⁰ To illustrate this, Table 5 shows that the Army's FY 2016 budget included \$9.5 billion total CIVPAY for 89,011 FTEs, which cost \$106,260 per FTE. Yet, in FY 2016, the Army actually spent \$9.4 billion on CIVPAY for 84,871 FTEs, which cost \$110,836 per FTE. Table 5 also shows that the Army's actual cost per FTE increased primarily because the Army paid \$144.9 million in overtime pay, which increased the total CIVPAY cost and resulted in a higher cost per FTE.²¹

The Army paid \$144.9 million in overtime pay, which increased the total CIVPAY cost and resulted in a higher cost per FTE.

Table 5. FY 2016 CIVPAY Budget Compared to Actual Expenditures

| | Basic Compensation | Overtime | Holiday Pay | Other | Benefits | Total CIVPAY | FTEs | Cost per FTE | | | | | | | |
|----------------------------|--------------------|----------|-------------|-------|-------------|--------------|-----------|--------------|-------------|---|--------------|---|---------|---|--------------|
| | in Thousands | | | | | | | | | | | | | | |
| Formula | BC | + | OT | + | Holiday Pay | + | Other | + | Benefits | = | Total CIVPAY | ÷ | FTEs | = | Cost Per FTE |
| FY 2016 President's Budget | \$6,874,404 | | 0 | | \$12,366 | | \$143,292 | | \$2,428,257 | | \$9,458,319 | | 89,011 | | \$106,260 |
| Actual Expenditures | 6,626,448 | | \$144,898 | | 11,426 | | 155,514 | | 2,468,446 | | 9,406,732 | | 84,871 | | 110,836 |
| Difference | \$(247,956)* | | \$144,898 | | \$(940) | | \$12,222 | | \$40,189 | | \$(51,587) | | (4,140) | | \$4,576 |

Note: The figures in parenthesis represent negative amounts.

* The Army under executed basic compensation in FY 2016 because the Army under executed its FTEs.

Source: FY 2016 President's Budget and FY 2016 actual expenditures.

¹⁹ We compared the Army's execution data submitted to Congress, to the Army's budget request in the President's Budget, instead of the BES. The President's Budget is the most up-to-date version of the Army's budget request, making it more comparable to the execution data than the Army's BES.

²⁰ The Army's cost per FTE is the total CIVPAY cost divided by the total number of FTEs. The total CIVPAY cost includes basic compensation, overtime, holiday pay, other pay, and benefits.

²¹ Several factors contributed to the cost per FTE increase, but the largest contributor was overtime. For example, the Army under executed the basic compensation due to under executing the budgeted FTEs, and the Army spent more on civilian benefits than budgeted.

The Army's decision not to budget for overtime affected the presentation of the cost per FTE when the Army reported its CIVPAY execution to Congress. Specifically, not budgeting for overtime caused the Army to appear to over execute its CIVPAY budget while under executing its FTEs. Had the Army included overtime in its budget, the cost per FTE presentation would have been more consistent with the Army's actual CIVPAY expenditures. The ASA(FM&C), and the DCS, G-8, should include overtime pay in the Army's budget to accurately and completely present the Army's funding needs to OSD and Congress, in accordance with OMB Circular No. A-11 and AR 570-4.

Conclusion

OMB Circular No. A-11 provided policies and procedures to help the Army develop an accurate and complete budget request. However, the HQDA budget officials deviated from OMB Circular No. A-11 by not explicitly justifying the Army's FY 2017 basic compensation calculation. HQDA budget officials stated that the Army was experiencing workforce instability when they developed the FY 2017 BES. The instability resulted from personnel reductions from FYs 2010 through 2014, and the HQDA budget officials assumed that the instability would continue based on the FY 2013 NDAA. The FY 2013 NDAA required further personnel cuts, which the DoD implemented from FYs 2014 through 2020. To address the instability, the HQDA budget officials deviated from OMB Circular No. A-11 guidance and DoD practice, which caused fluctuations in the Army's average salary, and did not accurately report the true cost of the Army's civilian workforce to Congress.

Specifically, the HQDA budget officials inflated the CIVPAY budget by \$498.6 million to account for WGI's, which were normally not allowed according to OMB Circular No. A-11, because the increases should have been offset by savings from employee turnover and greater levels of productivity and efficiency. In addition, the Army spent an average of \$141.8 million per year on overtime, which the Army did not include in its budget request even though the Circular permits agencies to budget for overtime. As Table 6 shows, by deviating from OMB and OSD policy, HQDA budget officials overstated the Army's CIVPAY budget by \$356.8 million.



The HQDA budget officials inflated the CIVPAY budget by \$498.6 million to account for WGI's.

Table 6. Amount the Army Overstated its FY 2017 CIVPAY

| | Amount Army CIVPAY Overstated |
|--|-------------------------------|
| CIVPAY Inflated by WGI Adjustment | \$498,594,973 |
| Average Overtime Not Included in the BES | (141,753,667) |
| CIVPAY Overstatement | \$356,841,306 |

Note: The figure in parenthesis represents a negative amount.

Source: We used data from the Army's BES for FYs 2014 through 2017 and actual expenditures reported to Congress.

While budget requests are estimates of the resources the Army needs to complete its mission, in fiscally constrained times, it is imperative that the Army develops accurate, complete, and fully justified budget requests. During times of workforce instability, budget officials should closely follow budget policies, and fully justify and document the changes in their budget requests because accurate visibility and budgeting is critical to making fiscally sound decisions regarding the size and compensation of the civilian personnel workforce.

Management Comments on the Finding and Our Response

The Acting ASA(FM&C), responding for the HQDA Secretariat and Staff elements involved in the development of CIVPAY costs, provided comments on the finding and report. We addressed the significant issues identified in this section and revised the report, where appropriate.

Army Comments on the Effectiveness of its CIVPAY Budget Process

The draft version of this report stated that the Army did not have an effective CIVPAY budget process. The Acting ASA(FM&C) disagreed. The Acting ASA(FM&C) stated that the report dismissed a well-established, documented process. The Acting ASA(FM&C) further stated that there will always be inherent errors in any complex estimate or series of calculations, but the Army strives for its CIVPAY budget process to be well documented, repeatable, and accurate. The Acting ASA(FM&C) contends that the DoD OIG audit team's successful recalculation of the Army's CIVPAY budget within a 0.48 percent variance validates the Army's process.

Our Response

We revised the report to state the Army has repeatable and documented procedures to calculate its CIVPAY budget. Specifically, the Army formally documented its procedures to calculate the CIVPAY rates each year and published

its budget documents on the ASA(FM&C) website. The Army also encouraged officials at the Army Commands to recalculate their CIVPAY rates to verify that HQDA calculated accurate rates. As we noted in the report, using the published documentation and guidance from the HQDA budget officials, we were able to recalculate the Army's FY 2017 CIVPAY budget figures. However, our review of the Army's budget documentation and calculations identified that the Army made a "supplemental adjustment" that increased its CIVPAY request to account for WGIs, which OMB Circular No. A-11 stated was normally not permitted for the FY 2017 budget. In addition, the Army did not disclose the WGI adjustment to Congress when it justified the CIVPAY cost increases.

Army Comments on Overstating the Army's CIVPAY Budget

(FOUO) In the original comments from the Army, provided in September and October 2017, the Acting ASA(FM&C) stated that the Army did not overstate the FY 2017 O&M CIVPAY budget request by \$356.8 million. Specifically, the Acting ASA(FM&C) stated that in FY 2017, the Army projected that it had executed \$9.5 billion, or █████ percent of the CIVPAY requested in the FY 2017 BES, which resulted in an under execution of only █████ percent. The Acting ASA(FM&C) stated that the Army's execution rate was outstanding performance, well within internal controls parameters, and contradicts the audit report conclusions.

On January 25, 2018, the Acting ASA(FM&C) provided additional information on the Army's actual FY 2017 CIVPAY expenditures. The information showed that the Army executed \$9.3 billion in CIVPAY, \$180.7 million less than previously projected. The Acting ASA(FM&C) stated that the Army realigned the unexecuted CIVPAY to fund for its most pressing unfunded requirements.

Our Response

(FOUO) The Army under executed its FY 2017 CIVPAY budget requested in its BES by \$████ million (████ percent), and the CIVPAY requested in the FY 2017 President's Budget by \$481.5 million (4.9 percent).²² Under executing the Army's CIVPAY budget by \$481.5 million is the most the Army under executed in the last 3 years. Specifically, in FY 2015, the Army under executed its President's Budget request by \$187.5 million, and in FY 2016, the Army under executed its President's Budget request by \$51.6 million.

We recognize that there were circumstances outside of the Army's control that could have contributed to the Army's under execution in FY 2017, such as the President instituting a 90-day hiring freeze for civilian employees beginning on

²² (FOUO) According to the Army G-1, Chief Manpower Allocation, when converting the BES into the President's Budget, OSD added █████ FTEs to the Army's budget request, which increased the Army's request by █████ million. The █████ FTEs included █████ Emergency Medical Service and █████ intelligence program FTEs and conversion of █████ FTEs from contractors to Government employees.

January 23, 2017. Additionally, until Congress passed the FY 2017 budget on May 5, 2017, the Federal Government was operating under continuing resolutions. However, we disagree that the Army did not overstate the FY 2017 O&M CIVPAY budget because the Army under executed its CIVPAY budget by \$481.5 million.

The Army under executed its CIVPAY budget, mainly due to the Army's non-compliance with OMB Circular No. A-11 and OSD policy when developing its FY 2017 budget request. As depicted in Table 7, had the Army complied with OMB Circular No. A-11 and OSD policy, the Army would have executed its FY 2017 CIVPAY budget within [REDACTED] percent of its BES request. Instead:

- the Army increased its CIVPAY budget to account for WGIs, which was normally not permitted by OMB Circular No. A-11 and the Army did not disclose the WGI adjustment when justifying its budget to Congress; and
- (FOUO) the Army did not include overtime in its budget request even though OUSD(C) directed the Military Services to [REDACTED]
[REDACTED] The Army is the only Service that did not include overtime in its budget request.

(FOUO) Table 7. FY 2017 CIVPAY Execution Compared to CIVPAY Overstatement

| (FOUO) | (in Thousands) |
|--|---|
| FY 2017 CIVPAY Requested in BES | [REDACTED] |
| WGI Adjustment | (498,595) |
| Average Overtime Paid From FY 2014 Through FY 2016 | <u>141,754</u> |
| DoD OIG Adjusted CIVPAY for BES | [REDACTED] |
| Army FY 2017 CIVPAY Execution | 9,299,835 |
| Difference | [REDACTED] [REDACTED] percent) (FOUO) |

Source: FY 2017 Army BES, FY 2017 actual expenditures, and DoD OIG calculations.

The Acting ASA(FM&C) stated that the Army realigned the unexecuted CIVPAY to pay for its most pressing unfunded requirements, which the auditors identified in Finding B of this report. Specifically, the Army Command officials stated that they relied on the differences between the Army's CIVPAY budget and execution to fund non-pay expenses, which the President, OMB, DoD, and the Secretary of the Army directed the Army to cut. The Army Command officials stated that non-pay funding cuts resulted in inadequate funding for mission critical non-pay expenses, such as underfunded contracts, information technology equipment, fuel, travel,

and training. The Army PEG and HQDA budget officials acknowledged that they were aware that the Army Commands used the excess CIVPAY funding to pay for non-pay expenses.

In summary, the Army overstated its FY 2017 CIVPAY budget request because HQDA budget officials applied adjustments to the basic compensation calculation that were normally not permitted by OMB policy. In addition, the Army did not include overtime in its budget request. As a result of the overestimation, the Army under executed its President's Budget request by \$481.5 million, which it used to pay for underfunded non-pay expenses.

Army Comments on the Within-Grade Increase Adjustment

The Acting ASA(FM&C) stated that we inaccurately described the "supplemental price growth factor" that the Army included in the FY 2017 BES as a "WGI adjustment." The Acting ASA(FM&C) contends that the Army did not incorporate a planning factor specifically for within-grade increases. Instead, the Acting ASA(FM&C) stated that the Army incorporated the "supplemental price growth factor" to compensate for an observed increase in per capita costs that it incurred in recent years as a result of workforce reductions, and more specifically, a disproportionate decline in lower grade employees. Specifically, the Acting ASA(FM&C) explained that between FYs 2010 and 2014, the Army white-collar workforce was reduced by over 24,000 civilians, with 84 percent of those reductions occurring in the lower half of the grade distribution. The Acting ASA(FM&C) stated that CIVPAY reductions from FYs 2010 through 2014 led the Army to underprice its remaining workforce based on historic average costs. Therefore, the Acting ASA(FM&C) stated that the Army included the "supplemental price growth factor" in its CIVPAY calculation as a temporary measure to account for this trend. Specifically, the Acting ASA(FM&C) stated the supplemental price growth factor was included in the CIVPAY calculation for FYs 2015 to 2017, but not for FYs 2018 and 2019.

Our Response

The Acting ASA(FM&C) did not provide evidence to support that the supplemental growth factor was not to compensate for the impact of anticipated within-grade increases. In March 2017, the Army G-1, Chief, Manpower Allocation, provided a detailed description of how HQDA calculated the 1.65-percent supplemental adjustment. The Chief stated that HQDA analyzed the Office of Personnel Management (OPM) General Schedule locality pay tables and Army personnel data for FYs 2011 through 2014. The Chief stated that the analysis determined that the Army frequently experienced WGIs of 3.3 percent and anticipated that approximately 60 percent of its workforce would receive a WGI. Therefore, during

the development of the CIVPAY rates for the FY 2017 BES, the Chief stated that the Army applied a conservative 50-percent ratio to the 3.3 percent WGIs to calculate the 1.65 percent supplemental adjustment that the Army applied to its CIVPAY rates.

3.3% Average WGI x 50% of Workforce = 1.65% Supplemental Adjustment

In addition, guidance we obtained from the Army's Civilian Pay Rates website also supports that the adjustment was made to compensate for the impact of anticipated within-grade increases. Specifically, the guidance states, "An annual supplemental adjustment [was] added ... to reflect expected expenses of Within Grade Increases for FY 2016-FY 2018." In addition, the Army's documented procedures for calculating the FY 2017 BES CIVPAY rates, "Appendix A: How to Guidelines for Civilian Pay Rate Review," February 19, 2015, states, "In 2015 and out a supplemental adjustment will be added ... that will adjust for Within Grade Increases. This adjustment will be listed in the Pay Adjust table and in 2015 will be 1.65%."

Furthermore, the Acting ASA(FM&C) stated that the Army did not include the supplemental adjustment when calculating the FY 2018 or FY 2019 CIVPAY rates. However, information that we obtained during the audit indicated that the Army updated its Appendix A guidance for FY 2018 and FY 2019, which states that a supplemental adjustment of 0.60 percent will be included in the CIVPAY rates to account for WGIs even though the OMB Circular No. A-11 was also updated for the FY 2018 Budget. The updated OMB Circular No. A-11 removed the statement that budgeting for WGIs was "normally not allowed." The updated OMB Circular No. A-11 states that when estimating personnel compensation for budget requests, Agencies should offset the net cost, if any, of WGIs with savings due to greater productivity and efficiencies. Therefore, the Army should not have included the 0.60 percent supplemental adjustment in its FY 2018 or FY 2019 CIVPAY rates to account for WGIs.

After receiving the Army's comments to a draft of this report, we asked the Army for documentation that showed that the "supplemental price growth factor" was to compensate for an observed increase in per-capita costs that the Army incurred as a result of workforce reductions. However, the documentation that the HDQA officials provided did not support that the supplemental adjustment was not for WGIs. In the documentation provided, the HQDA budget officials stated that the supplemental adjustment accounted for factors, including WGI.

Army Comments on Budgeting for Overtime Pay

The Acting ASA(FM&C) stated that our emphasis on the Army's exclusion of overtime from its calculation of CIVPAY estimates was difficult to reconcile either with practice or existing guidance. The Acting ASA(FM&C) stated that programming and budgeting for overtime in the Army's CIVPAY estimates were eliminated during the development of the POM/BES 2005. The Acting ASA(FM&C) further stated that Army's civilian overtime costs were only captured in its actual execution data in over a decade of justification materials submitted to OSD and the Congress without issue. The Acting ASA(FM&C) also stated that overtime was explicitly excluded from Army Regulation 570-4 (AR 570-4) and OMB Circular No. A-11's FTE definition.

Our Response

We disagree that including overtime in the calculation of the Army's civilian pay estimates was inconsistent with practice or existing guidance. The Army is the only Military Service that does not include overtime in its budget request. OMB Circular No. A-11 permits agencies to budget for overtime pay, if the amount can be justified. We contend that including overtime in the Army's budget would more accurately capture the true cost of its civilian workforce. As the Acting ASA(FM&C) noted, the Army historically included overtime in the actual execution data but not in the estimated future civilian pay funding requirements shown in its budget justification material. Therefore, including overtime in the Army's budget would resolve the disconnect between the Army's budget and the actual expenditures reported to Congress, and allow the Army to more accurately convey its CIVPAY funding requirements to OSD and Congress.

In addition, we disagree that including overtime funding in the Army's budget request would contradict the OMB Circular No. A-11 or AR 570-4 definition of an FTE. FTEs are a measure of hours worked, not a measure of funding. An FTE is a measure of the total regular straight-time hours worked (not including overtime or holiday hours worked) by employees, divided by the number of compensable hours applicable to each fiscal year. Conversely, our report focuses on including funding for overtime pay in the Army's budget request, which is a separate line item from FTEs in the Army's OP-8 budget exhibit. Therefore, including overtime funding in the Army's budget would not contradict the definition of an FTE.

Army Comments on the Army's Budget Justification to Congress

The Acting ASA(FM&C) stated that justifying the increase in CIVPAY is complicated because the Army's CIVPAY cost estimating model is complex and includes many variables. Specifically, the Acting ASA(FM&C) stated that the cost-estimating model includes variable cost factors for each civilian pay group, appropriation, sub-activity group, and Command. The Acting ASA(FM&C) stated that the estimating model divided each cost factor into eight required CIVPAY elements: basic compensation, basic benefits, other compensation, cash awards, holiday pay, overtime costs, payments to former employees, and severance payments. The Acting ASA(FM&C) also stated that the variable costs change between budget submissions based on policy changes, economic planning factors, and actual workforce data. The Acting ASA(FM&C) stated that a complete description of all changes would be voluminous and overburden the justification documents. Therefore, the Acting ASA(FM&C) stated that the Army summarizes the changes to its CIVPAY costs by the required eight CIVPAY cost elements without further detail in order to maintain clarity in the justification materials at a meaningful degree of detail.

The Acting ASA(FM&C) further stated the expectation that a 12.4-percent reduction in total white-collar civilians would result in an equivalent reduction in civilian pay is inaccurate. The Acting ASA(FM&C) stated that one reason the Army's CIVPAY costs increased was due to a disproportionate decline in lower-grade employees as the Army reduced its civilian workforce. To illustrate the decline, the Acting ASA(FM&C) provided an example of two employees who made a total of \$200,000 per year. If a 50-percent reduction in employees occurred, it would be common to assume that CIVPAY costs would reduce by \$100,000. However, the Acting ASA(FM&C) explained that if one employee earned \$150,000 per year and the other only \$50,000 per year, eliminating one position would equal either a 25-percent or 75-percent reduction in CIVPAY costs. The Acting ASA(FM&C) explained that our expectation that a reduction in civilians would result in an equivalent reduction in CIVPAY was inaccurate, based on the provided example.

Our Response

OMB Circular No. A-11 states that changes in FTEs should result in comparable changes in funding levels, not an equally proportionate change in funding. Therefore, as the Army reduced FTEs, the Army's CIVPAY costs should have also decreased. Instead, the Army's overall CIVPAY costs increased as the Army reduced FTEs. However, the Army's explanation for the increased costs of its civilian workforce in the FY 2017 President's Budget submission does not fully explain why the Army's CIVPAY costs increased while its FTEs decreased.

Specifically, in the FY 2017 President's Budget, the Army justified the increase in civilian compensation by stating:

Increases civilian pay to the most current mandatory cost adjustments and the projected continuation of trends in workforce composition observed over the last several years. These trends are the direct consequence of the downsizing. Reductions and divestitures have fallen primarily on entry-level and less skilled technical and clerical populations on the civilian workforce The workforce remaining has a higher average salary.

The example of two employees who earned a total of \$200,000, as the Acting ASA(FM&C) described, does not support an increase in the Army's overall CIVPAY requirement. If the Army reduced the workforce by one employee who earned \$50,000, the average salary would only reduce by 25 percent, instead of 50 percent of the salary. However, a reduction in average salary by 25 percent, as the Acting ASA(FM&C) described, would still result in a reduction of personnel costs as the Army reduced the number of civilian employees and not an increase in personnel costs. Therefore, the Army's explanation does not support an increase in civilian personnel costs. Instead, the Army's civilian personnel costs increased because the Army made a "supplemental adjustment" that increased its CIVPAY request to account for WGIs, which OMB Circular No. A-11 stated was normally not permitted for the FY 2017 budget. In addition, the Army did not disclose the WGI adjustment to Congress when they justified their CIVPAY cost increases.

Recommendations, Management Comments, and Our Response

Redirected Recommendation

The Acting ASA(FM&C) disagreed with the Recommendation for ASA(FM&C) to coordinate with the OUSD(C), to evaluate whether it was appropriate to budget for WGI. The Acting ASA(FM&C) stated that the Army has a complex process for estimating CIVPAY across multiple Commands, and that the Army's process considers many factors to estimate CIVPAY in times of personnel stability, as well as in times of hiring freezes, organizational changes, future FTE reductions, and the uncertainty of funding disruptions arising from continuing resolutions. The Acting ASA(FM&C) further stated that the Army's process already appropriately considers all of the factors that go into calculating an accurate budget requirement for CIVPAY, in accordance with the spirit and guidance contained in OMB Circular No. A-11.

The comments from the Acting ASA(FM&C) did not address the specifics of the recommendation. Specifically, the Acting ASA(FM&C) did not address whether ASA(FM&C) coordinated, or will coordinate, with the OUSD(C) to evaluate whether it was appropriate to budget for WGs. We disagree that the Army appropriately calculated the FY 2017 CIVPAY budget request, in accordance with OMB Circular No. A-11. As stated on the Army's Civilian Pay Rates website and the Army's documented procedures for calculating the FY 2017 CIVPAY rates, the HQDA budget officials included an adjustment in their CIVPAY calculation to budget for WGs, which OMB Circular No. A-11 stated was normally not permitted. The adjustment for WGs inflated the Army's FY 2017 CIVPAY budget by \$498.6 million. Therefore, we redirected the recommendation to the Under Secretary of Defense (Comptroller) who is responsible for reviewing the Army's BES for compliance with OMB Circular No. A-11.

Recommendation A.1

We recommend that the Under Secretary of Defense (Comptroller) evaluate whether it is appropriate for the Army to budget for within-grade increases. Based on the decision whether it is appropriate to budget for within-grade increases, we recommend the Under Secretary of Defense (Comptroller) direct the Army to implement procedures to appropriately calculate basic compensation in accordance with Office of Management and Budget Circular No. A-11, "Preparation, Submission, and Execution of the Budget."

Management Comments Required

Because we redirected this recommendation from the ASA(FM&C) to the Under Secretary of Defense (Comptroller), based on a draft of this report, the recommendation is unresolved and will remain open. We request that the Under Secretary of Defense (Comptroller) provide a response to this recommendation.

Recommendation A.2

We recommend that the Under Secretary of Defense (Comptroller) update DoD Regulation 7000.14-R, "DoD Financial Management Regulation" with policies and procedures for budgeting for within-grade increases, to include justification and approval procedures for the use of within-grade increases in the Services' budget requests.

Management Comments Required

The Under Secretary of Defense (Comptroller) did not provide official comments on the recommendation in the report. Therefore, the recommendation is unresolved and will remain open. We request that the Under Secretary of Defense (Comptroller) provide a response to this recommendation.

Recommendation A.3

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) and the Deputy Chief of Staff, G-8, include overtime pay in the Army's Budget Estimate Submission, starting with the FY 2019 Budget Estimate Submission, to accurately and completely present the Army's funding needs to the Office of the Secretary of Defense and Congress, in accordance with Office of Management and Budget Circular No. A-11, "Preparation, Submission, and Execution of the Budget," and Army Regulation 570-4, "Manpower and Equipment Control Manpower Management," February 8, 2006.

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

The Acting ASA(FM&C), responding for the ASA(FM&C) and the DCS, G-8, disagreed with the recommendation. The Acting ASA(FM&C) stated that budgeting for variable factors is not mandatory. While the Acting ASA(FM&C) acknowledged that the Army paid overtime at a consistent rate across the Army for the last several years, the Acting ASA(FM&C) stated that applying an overtime rate to all Army civilians would overprice some activities and underprice others. The Acting ASA(FM&C) also stated that overtime expenses are inconsistent among activities because overtime is a management tool to handle surge periods. The Acting ASA(FM&C) further stated that if the Army was directed to budget for overtime, the process would have to address overtime CIVPAY requirements, in a separate process that would require the Army staff to evaluate each request independently of baseline CIVPAY costs. The process would be different from their process to estimate compensation and benefit costs, which bases the estimates on execution levels. This process would likely result in inaccurate or incomplete estimates as many overtime expenses are of a temporal or exigent nature.

Our Response

Comments from the Acting ASA(FM&C) did not address the specifics of the recommendation; therefore, the recommendation is unresolved and remains open. Although OMB Circular No. A-11 does not require the Army to budget for overtime, it permits agencies to budget for overtime pay, if the amount can be justified. The Army is the only Service that does not include overtime in its budget request; the Air Force, Navy, and Marine Corps all budget for overtime. Therefore, we continue to maintain that including overtime in the Army's budget would more accurately capture the true cost of the Army's civilian workforce. Including overtime in the Army's budget would also resolve the disconnect between the Army's budget and the actual expenditures reported to Congress, and allow the Army to more accurately convey its CIVPAY funding requirements to OSD and Congress.

The Acting ASA(FM&C) acknowledged that the Army historically paid overtime at a consistent rate across the Army for the last several years, but stated that developing a process to apply overtime to all Army civilians would likely result in inaccurate or incomplete estimates. However, the Army consistently reports overtime paid in their actual execution data provided to Congress on an Army wide basis. As we reported, the Army paid an average of \$141.8 million from FYs 2014 through 2016, which it could have used to estimate overtime at the Army level for future year budgets. To illustrate this point, in the FY 2016 President's Budget, the Army requested \$106,260 per FTE, which did not include overtime. However, the Army's FY 2016 execution data reported to Congress indicated that the Army actually spent \$110,836 per FTE because it paid \$144.9 million in overtime. Therefore, the Army's decision not to budget for overtime affected the presentation of the cost per FTE when the Army reported its CIVPAY execution to Congress. Had the Army budgeted for overtime, the Army's budget would have been more representative of the true cost of its civilian workforce and the Army could avoid having to fund the \$144.9 million spent on overtime with O&M funds that was originally budgeted for other priorities. Until the Army includes overtime in its budget requests, the Army will continue to have a disconnect between its budget request and execution data presented to Congress.

The comments from the Acting ASA(FM&C) only addressed developing overtime estimating procedures that the Army would apply to all Army civilians. Therefore, we request that the ASA(FM&C) provide comments on the final report that address the inclusion of overtime in the Army's budget estimates on an Army wide basis, which will improve the accuracy of its funding needs presented to Congress.

Finding B

Army Officials Over Estimated FTEs to Pay for Non-Pay Expenses

(FOUO) HQDA budget officials over estimated the civilian FTE requirements in the FY 2017 BES that the Army intended to execute. This occurred because the HQDA budget and Army Command officials misused CIVPAY budget policy to pay for underfunded non-pay operating expenses. Specifically, HQDA budget officials knew Army Command officials intentionally did not hire up to the Army's authorizations, and thereby created excess CIVPAY funding that the Commands used to pay for non-pay expenses, which the President, OMB, DoD, and the Secretary of the Army directed the Army to cut. As a result, the Army under executed FTEs and over executed non-pay expenses from FYs 2014 through 2016, and according to HQDA budget officials, the Army expects to [REDACTED]

[REDACTED] Recognizing the FTE under execution, Congress reduced the Army's recent budgets by applying funding cuts totaling [REDACTED]

HQDA Budget Officials Over Estimated Budgeted FTEs for FY 2017

HQDA budget officials over estimated the budgeted civilian FTE requirements in the FY 2017 BES. OMB Circular No. A-11 required agencies to estimate personnel resources based on hours worked. FTEs are the total number of hours worked, or to be worked, divided by the total compensable hours.²³ OMB Circular No. A-11 stated that agencies should not overstate FTE levels. Specifically, budgeted FTEs should be consistent with prior year actual FTEs and should be very close to the actual FTE usage reported to Congress at the end of the fiscal year.

Budgeted FTEs ... should be very close to the actual FTE usage reported to Congress at the end of the fiscal year.

(FOUO) The Army developed authorizations based on hours to be worked. The Army calculated FTEs as about [REDACTED] to account for attrition and the time it takes to hire new personnel. Therefore, the Army's budgeted FTEs were based on hours to be worked in accordance with OMB Circular No. A-11.

²³ Compensable hours are the total number of hours that agencies can pay employees for a fiscal year.

(FOUO) A HQDA budget official stated that HQDA cut requested FTEs based on prior year under execution. Specifically, HQDA budget officials stated that the FY 2016 requested FTEs were similar to the FY 2014 FTE execution. In addition, the HQDA budget officials stated that they reduced the requested FTEs for FY 2017 based on FY 2015 under execution. HQDA budget officials stated that they cut an additional [REDACTED] FTEs from the FY 2017 requested FTEs, which resulted in the FY 2017 requested FTEs more resembling the FY 2016 actual executed FTEs. See Table 8 for a comparison of the prior year actual FTEs to the current year budgeted FTE amounts.

(FOUO) Table 8. Comparison of Prior Year Actual FTEs to Budgeted FTEs

| (FOUO) Prior Year Actual FTEs Compared to Budgeted FTEs | FTEs |
|---|-------------------|
| FY 2014 Actuals | 88,889 |
| FY 2016 Budgeted | [REDACTED] |
| FY 2015 Actuals | 86,036 |
| FY 2017 Adjusted Budget | [REDACTED] |
| FY 2016 Actuals | 84,871 |
| FY 2017 Final Budgeted FTEs | [REDACTED] (FOUO) |

Source: FYs 2014 through 2016 actual expenditures reported to Congress and FYs 2016 and 2017 BES data.

(FOUO) However, HQDA budget officials acknowledged that the Army under executed FTEs in FYs 2014 through 2016 and stated they expected the Army to [REDACTED] Therefore, HQDA budget officials knew the Army was requesting more FTEs than the Army expected to execute. Consequently, HQDA budget officials over estimated the civilian FTE requirements in the FY 2017 BES.

Army Misused CIVPAY Budget Policy to Fund Non-Pay Expenses

HQDA budget and Army Command officials misused CIVPAY budget policy to pay for non-pay operating expenses that were underfunded. The DoD FMR permits agencies to use appropriated funds for purposes other than intended, as long as the funds are used within the same appropriation and are below a \$15 million threshold set by Congress.²⁴ However, the President, OMB, DoD, and the Secretary of the Army directed cuts to non-pay O&M operating expenses.

²⁴ DoD FMR, volume 3, chapter 6, refers to the use of funds for purposes other than intended as a below threshold reprogramming.

Policy to Fund CIVPAY and to Cut Non-Pay Expenses

The OMB, DoD, and Army policies require agencies to fully fund CIVPAY. Specifically, OMB Circular No. A-11, the DoD FMR, and AR 570-4 require agencies to fully fund current year FTE estimates. HQDA budget officials stated that CIVPAY must be funded to ensure the Commands can pay their employed civilians.

The President, OMB, the Secretary of Defense, the DoD Chief Information Officer, and the Secretary of the Army directed the following reductions in non-pay O&M expenses.

- In 2010, the Secretary of Defense issued a policy memorandum that directed cuts to non-pay O&M expenses, such as excess overhead, information technology infrastructure, and service support contracts.²⁵
- In 2011, the President issued two Executive Orders that directed cuts to non-pay O&M expenses, including travel, information technology devices, and printing.²⁶
- In 2012, OMB issued a policy memorandum that directed reductions in travel and conferences.²⁷
- In 2012, the DoD Chief Information Officer issued two policy memorandums that directed reductions in information technology devices and software.²⁸
- In 2013, the Secretary of the Army issued a policy memorandum to reduce printers, copiers, printing supplies, and associated maintenance costs.²⁹

(FOUO) In response to the Executive Orders and the policy memorandums, the OUSD(C) directed the DoD to [REDACTED]

Therefore, the Army reduced its non-pay O&M budgets from FYs 2014 through 2017. Table 9 shows the reductions in the Army's O&M non-pay budget requests from the FY 2014 to the FY 2017 budget requests.

²⁵ Secretary of Defense memorandum, "Department of Defense (DoD) Efficiency Initiatives," August 16, 2010.

²⁶ Exec. Order No. 13589 (2011), "Promoting Efficient Spending," November 9, 2011. Exec. Order No. 13576 (2011), "Delivering an Efficient, Effective, and Accountable Government," June 13, 2011.

²⁷ OMB memorandum, "Promoting Efficient Spending to Support Agency Operations," May 11, 2012.

²⁸ DoD Chief Information Officer memorandum, "Optimizing Efficiencies for Employee Information Technology Devices and Software," May 11, 2012. DoD Chief Information Officer memorandum, "Optimizing Use of Employee Information Technology (IT) Devices and Other Information Technologies to Achieve Efficiencies," February 17, 2012.

²⁹ Secretary of the Army memorandum, "Army Directive 2013-26 (Army-wide Management of Printing and Copying Devices)," December 2, 2013.

Table 9. *Percent Reduction of the Army's O&M Non-Pay Budget Requests for FY 2014 Compared to FY 2017*

| Non-Pay Expenses | FY 2014 | FY 2017 | Percent Reduction |
|------------------------|--------------|------------|-------------------|
| | in Thousands | | |
| Travel | \$961,162 | \$846,786 | (11.90) |
| Supplies and Materials | 3,758,410 | 2,909,649 | (22.58) |
| Other Purchases* | 17,439,815 | 16,583,294 | (4.91) |

Note: The figures in parenthesis represent negative amounts.

* Other purchases include utilities, printing, equipment, maintenance, contracts, and facility maintenance.

Source: FYs 2014 and 2017 President's Budget OP-32 budget exhibits.

HQDA Budget Officials Did Not Accurately Request CIVPAY and Non-Pay Funding

Budget officials... told us that their Commands intentionally did not hire up to their authorization levels.

(FOUO) Although OSD directed the Army to [REDACTED] HQDA budget officials did not accurately request CIVPAY and non-pay funding, because they allowed Army Command officials to use CIVPAY to pay for underfunded, non-pay operating expenses.³⁰ Specifically, Army Command officials did not hire up to their authorization levels, and as a result, created excess CIVPAY that the officials used to pay for underfunded, non-pay expenses. Budget officials at the

U.S. Army Materiel Command, the U.S. Army Installation Command, and the U.S. Army Training and Doctrine Command (TRADOC) told us that their Commands intentionally did not hire up to their authorization levels. For example, the TRADOC Deputy Budget Director stated that the Command intentionally did not hire up to its authorizations in order to achieve reduced FY 2019 personnel levels early. The Deputy Director stated that the goal was to promote stability in the workforce by reducing the fluctuation in personnel levels.

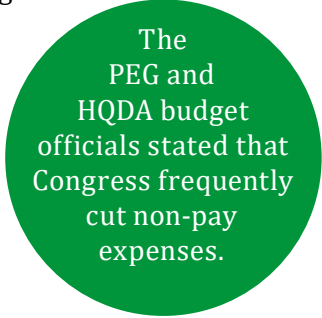
However, the Army Command officials relied on the CIVPAY to fund non-pay expenses. For example, the TRADOC Deputy Budget Director stated that if the Command's CIVPAY was further cut, the Command would not be able to afford its underfunded, non-pay expenses. The officials stated that non-pay funding cuts directed by the President, OMB, and DoD have resulted in inadequate funding for mission critical non-pay expenses, such as fuel, training, travel, office supplies,

Army Command officials relied on the CIVPAY to fund non-pay expenses.

³⁰ OUSD(C) memorandum, "FY 2016 President's Budget Submission."

information technology equipment, and underfunded contracts. To address this, the Army Commands have not been hiring up to their authorization levels and have been using the excess CIVPAY to fund the non-pay expenses.

The Army PEG and HQDA budget officials acknowledged that they were aware that the Army Commands were intentionally not hiring up to their authorization levels and that the Army Commands used the excess CIVPAY funding to pay for non-pay expenses. However, the PEG officials stated that they would not reduce the CIVPAY budget and increase the non-pay expenses in the Army's budget because they did not want Congress to see non-pay cost growth. The PEG and HQDA budget officials stated that Congress frequently cut non-pay expenses and acknowledged that the President and DoD directed non-pay cuts. The officials stated that CIVPAY must be funded, making it less likely that the budget would be cut during budget reviews. Therefore, the Army's decision to not accurately present its funding needs is a misuse of CIVPAY budget policy to create additional funding to pay for the non-pay expenses that the President and DoD directed the Army to cut.



The PEG and HQDA budget officials stated that Congress frequently cut non-pay expenses.

We recommend that the Assistant Secretary of the Army (Manpower and Reserve Affairs) issue guidance requiring the Army Commands to either hire personnel based on the Commands' approved authorization levels, or provide written justification for not hiring up to the approved authorization levels. Also, the ASA(FM&C) and the DCS, G-8, should hold Commands accountable if they intentionally do not hire to their authorization levels. Specifically, if the Commands do not hire to their approved authorization levels, the ASA(FM&C) and the DCS, G-8, should reduce the Army Commands' authorization and FTE levels to reflect the actual workload. In addition, to improve the accuracy of the Army's budget, the ASA(FM&C), and the DCS, G-8, should re-evaluate the Army's CIVPAY and non-pay expenses included in the Army's O&M appropriation and adjust the Army's FY 2019 BES to accurately request funding. Finally, the Secretary of the Army should review the actions discussed in this report and consider administrative action, if appropriate, for the budget officials involved in the decision to submit inaccurate budget information to Congress regarding the Army's expected CIVPAY and non-pay O&M expenses.

The Army Under Executed FTEs and Over Executed Non-Pay Expenses

Since the Army used excess CIVPAY to fund non-pay expenses, the Army consistently under executed FTEs and over executed its non-pay expenses. Specifically, the Army under executed FTEs from FYs 2014 through 2016. As shown in Table 10, the Army requested 89,011 FTEs in FY 2016 but only executed 84,871 FTEs, an under execution of 4,140 FTEs (4.65 percent). See Table 10 for a summary of the Army's under execution of FTEs from FYs 2014 through 2016.

Table 10. Annual Under Execution of Budgeted U.S. Direct-Hire Civilian FTEs for FYs 2014 Through 2016

| CIVPAY Budget Category | FY 2014 | FY 2015 | FY 2016 |
|---|---------|---------|---------|
| Budgeted FTEs | 92,655 | 92,482 | 89,011 |
| Executed (Actual) FTEs | 88,889 | 86,036 | 84,871 |
| Under Executed FTEs | (3,766) | (6,446) | (4,140) |
| Percent of Under Executed FTEs out of Budgeted FTEs | (4.06) | (6.97) | (4.65) |

Note: The figures in parenthesis represent negative amounts.

Source: We used data from FYs 2014 through 2016 President's Budget and the FY 2016 actual expenditures reported to Congress.

In addition, the Army over executed its non-pay funding in FYs 2015 and 2016. For example, the Army requested \$20.3 billion in FY 2015 for travel, supplies and materials, and other purchases, which include utilities, information technology equipment, and contracts. When Congress approved the Army's budget, it increased the non-pay funding to \$32.8 billion, but the Army spent \$34.8 billion. See Table 11 for a summary of the Army's non-pay budget request, the amount Congress approved, and the Army's non-pay execution for FYs 2014 through 2016.

Table 11. Non-Pay Budgeted, Congress Approved, and Actual Expenses for FYs 2014 Through 2016

| Fiscal Year | Budgeted* | Congress Approved | Actuals | Over Execution |
|-------------|--------------|-------------------|--------------|----------------|
| | in Thousands | | | |
| 2014 | \$22,159,387 | \$42,891,618 | \$39,686,648 | \$(3,204,970) |
| 2015 | 20,306,609 | 32,770,655 | 34,760,529 | 1,989,874 |
| 2016 | 21,640,449 | 31,631,453 | 32,304,561 | 673,108 |

Note: The figure in parenthesis represents a negative number.

* The budgeted and actual values represent non-pay expenses from the O&M appropriation, including total travel, defense working capital fund supplies and materials, and other purchases. The values do not represent all non-pay expenses.

Source: We used data from the FYs 2014 through 2018 President's Budget OP-32 budget exhibits.

(FOUO) The HQDA budget officials stated that the Army anticipates continuing to [REDACTED]. In May 2015, the DCS, G-8 directed the PEG officials to [REDACTED]. However, HQDA budget officials stated that the PEGs [REDACTED] which did not correct the under execution. Specifically, an HQDA budget official stated that the Army has an organizational reluctance to reduce CIVPAY budgeted amounts. Since the PEGs did not reduce FTEs during the FY 2017 POM development, the HQDA budget officials stated that they [REDACTED]. Additionally, in February 2016, the DCS, G-8, again directed the PEGs to [REDACTED].

FTE Under Execution Led to Congressional Budget Cuts

(FOUO) Recognizing the Army under executed FTEs from FYs 2014 through 2016, Congress reduced the Army's recent budgets by applying funding cuts. Specifically, Congress applied budget cuts to the Army's budget from FYs 2014 through 2016 totaling [REDACTED]. HQDA budget officials stated that they anticipate additional budget cuts for FY 2017 under execution. See Table 12 for a summary of the congressional budget cuts applied to the Army's budget for FTE under execution.

(FOUO) Table 12. Funding Cut by Congress in FYs 2014 Through 2016

| (FOUO) | FY 2014 | FY 2015 | FY 2016 | Total |
|--------------|--------------|------------|-----------|----------------------|
| | in Thousands | | | |
| Funding Cuts | [REDACTED] | [REDACTED] | \$253,600 | [REDACTED] (FOUO) |

Source: Army Program Guidance, and Public Law 114-113, "Consolidated Appropriations Act, 2016," December 18, 2015.

Conclusion

Accurate visibility and budgeting is critical to making fiscally sound decisions regarding the size and compensation of the civilian personnel workforce, especially in fiscally constrained times. Since 2010, Congress directed reductions in CIVPAY, and the President, OMB, the Secretary of Defense, and the Secretary of the Army have directed budget cuts to non-pay O&M expenses. As a result, Army budget officials reduced the Army's FTEs and non-pay budgets from FYs 2014 through 2017. However, the directed CIVPAY and non-pay reductions caused budget and execution challenges for the Army Commands.

HQDA budget officials stated that Congress frequently cuts non-pay O&M expenses. Although HQDA budget officials made adjustments to reduce the number of FTEs requested in FY 2017, they still over estimated FTE requirements in the FY 2017 BES because Army Command officials intentionally did not hire to their approved authorization levels, which lead to the Army under executing FTEs. Army Command officials stated they relied on the excess CIVPAY to pay for underfunded, critical non-pay expenses, which lead to the Army over executing its non-pay budget. Congress identified the FTE under execution and applied further budget cuts to the Army's FYs 2014 through 2016 budgets.

The HQDA budget officials did not accurately request CIVPAY and non-pay funding because they knew that Army Command officials intentionally did not hire to their approved authorizations levels and used the excess CIVPAY funding to pay for underfunded non-pay operating expenses. Relying on CIVPAY funding to pay for non-pay operating expenses, in this circumstance, is a misuse of OMB and DoD policies, and a misrepresentation of the true cost of the Army's civilian workforce. To make fiscally sound decisions, the Army should more accurately budget its CIVPAY and non-pay O&M operating expenses in future budgets.

Management Comments on the Finding and Our Response

The Acting ASA(FM&C), responding for the HQDA Secretariat and Staff elements involved in the development of CIVPAY costs provided comments on the finding and report. We addressed the significant issues identified in this section and revised the report, where appropriate.

Army Comments on FTE Estimation and Execution

The Acting ASA(FM&C) stated the Army disagreed with the finding and stated that the Army did not intentionally overestimate FTEs to pay for non-pay expenses. The Acting ASA(FM&C) stated that the finding was out of context and discarded several key factors. The Acting ASA(FM&C) stated that the report depicts multiple years of program and execution data, but contends that much of the information presented was not available to HQDA or Command officials developing the FY 2017 BES.

To illustrate this, the Acting ASA(FM&C) stated that Table 9 in our report created the perception that HQDA staff knew how many FTEs the Army under executed in FYs 2014, 2015, and 2016 when developing the FY 2017 BES, which was not the case. The Acting ASA(FM&C) also stated that the only information available to the staff was execution data for FY 2014 (the last completed year). The Acting ASA(FM&C) further stated that the staff had to assess the FY 2017 request without specific knowledge of FY 2015 (in progress) or FY 2016 (future year) fill levels.

Therefore, the Acting ASA(FM&C) stated that the HQDA staff judgments were based on the actual executed FTEs from FY 2014. The Acting ASA(FM&C) stated that the Army deemed their FY 2017 estimates reasonable based on the information available at the time.

Our Response

Although we agree that the HQDA budget officials did not have execution data for FY 2016 when calculating the FTEs for the FY 2017 BES, the Army G-1, Chief, Manpower Allocation explained that the HQDA budget officials used FY 2014 and FY 2015 execution data to calculate the FY 2017 FTEs.

(FOUO) Specifically, the Chief, Manpower Allocation stated that the calculated FTEs for FY 2017 changed annually based on many factors. For example, on May 8, 2015, the DCS, G-8, issued the Command Program Guidance Memorandum for FY 2017, which emphasized the Army's concerns about [REDACTED]

[REDACTED] Therefore, the Command Program Guidance Memorandum directed the PEGs to [REDACTED]

[REDACTED] However, the Chief, Manpower Allocation explained that the PEGs did not adjust the FY 2017 FTEs [REDACTED] The PEG Administrators with whom we spoke stated that they knew the Commands were intentionally not hiring up to their authorization levels and relying on the excess funding to pay for under funded non-pay expenses. The PEG administrators also stated that they would not reduce the Commands' CIVPAY and increase non-pay funding because they feared their funding would be cut. The PEG Administrators stated that although CIVPAY must be funded, Congress frequently cut non-pay budget growth.

(FOUO) Since the PEGs did not make any FTE adjustments, the Chief, Manpower Allocation stated that the Army G-1 reduced [REDACTED] from the FY 2017 BES, based on the known Command hiring behavior and FTE under execution as of July 2015. Specifically, the Army G-1 adjustment reduced the FY 2017 budgeted FTEs from [REDACTED] to [REDACTED] This resulted in the FTEs in the FY 2017 BES being more consistent with the FY 2016 FTE execution, as the Acting ASA(FM&C) stated. However, without addressing the Commands' use of CIVPAY to pay for non-pay expenses, the HQDA budget officials enabled the Army Commands to intentionally not hire up to their authorization levels and use the excess funds to pay for under funded non-pay expenses that the Army was directed to cut.

Army Comments on the Army's Hiring to Authorizations

The Acting ASA(FM&C) stated that the report statement, "HQDA budget officials knew the Army Command officials intentionally did not hire up to the Army's authorizations," was incorrect and needed to be informed by two key facts. First, the Acting ASA(FM&C) stated that the statement applied to historic execution levels, not to execution as projected for FY 2017. Second, the Acting ASA(FM&C) stated that the Commands did not hire up to their authorizations because of judicious human capital planning, which anticipated additional civilian reductions scheduled in subsequent fiscal years.

The Acting ASA(FM&C) stated that the Secretary of the Army implemented a hiring freeze between December 2012 and December 2013, and congressionally mandated furloughs and continuing resolutions reduced funding levels, creating uncertainty among the Commands. The Acting ASA(FM&C) also stated that the Commands incorporated additional civilian personnel reductions into their human capital planning, such as the civilian reductions directed by Section 955 of the FY 2013 NDAA, and civilian reductions at headquarter offices, directed by DoD policy memorandums. In addition, the Acting ASA(FM&C) further stated that the hiring or separation of a civilian employee usually results in a multi-year financial obligation, unlike supplies, training, travel, contracts, and other purchases that can be grouped within the span of a single fiscal year. Therefore, the Acting ASA(FM&C) stated that commanders and senior officials made hiring decisions based on their personnel requirements in subsequent years instead of the current year authorization levels. The Acting ASA(FM&C) stated that the Army Commands managed their human capital in this manner to avoid costly and damaging Reductions-In-Force and to expedite their organization's transition to the new end-state of lower personnel levels in FY 2018 and FY 2019.

Our Response

We disagree that our statement in the report is inaccurate. We acknowledge that Army Regulation 570-4, "Manpower and Equipment Control: Manpower Management," February 8, 2006, permits the Army Commands to fill positions based on the commander's mission priorities, using sound employment planning. We also understand that not hiring up to FY 2017 authorization levels can be an appropriate tool to prevent personnel layoffs, in some circumstances, when the Commands must achieve lower personnel levels in subsequent years. However, that was not the case in this situation.

(FOUO) The HQDA budget officials were aware when developing the FY 2017 POM and BES that the Army Commands were [REDACTED]

[REDACTED] Specifically, the Army

(FOUO) G-8 issued the Command Program Guidance Memorandum on May 8, 2015, which detailed that there was [REDACTED]. The memorandum directed the Commands and the PEGs to [REDACTED] before the Army's FY 2017 BES was submitted to OSD in September 2015.

(FOUO) However, the Army G-1, Chief, Manpower Allocation, explained that the PEGs did not make the [REDACTED] in FY 2017. The Chief, Manpower Allocation stated that in July 2015, it was apparent the Commands were not filling vacancies to anticipate programmed reductions. The PEG Administrators we spoke to corroborated that they knew this, and high-ranking budget officials at the three Commands we visited stated that their Commands needed the additional funding created from not hiring up to authorizations to pay for under funded non-pay expenses.³¹

We asked the PEG Administrators and the HQDA budget officials why the Army did not reduce CIVPAY and increase non-pay to reflect the Army's true budget requirements. The PEG Administrators and the HQDA budget officials, including the Director, Management and Control, DASA(BU), stated that they would not increase the non-pay budget because every time the Army increased the non-pay budget, Congress cuts the increased amount. Therefore, we remain convinced by the available evidence that the Army misused CIVPAY policy to pay for non-pay operating expenses that it was directed to cut.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend that the Assistant Secretary of the Army (Manpower and Reserve Affairs) issue guidance requiring the Army Commands to hire personnel based on their approved authorization levels. If the Army Commands cannot hire up to their approved authorization levels for strategic reasons, require them to provide written justification for not hiring up to their approved authorization levels.

Assistant Secretary of the Army (Manpower and Reserve Affairs) Comments

The Acting ASA(FM&C), responding for the Assistant Secretary of the Army (Manpower and Reserve Affairs), disagreed with the recommendation. The Acting ASA(FM&C) stated that the Assistant Secretary of the Army (Manpower and Reserve Affairs) already issued budget and manning guidance in FY 2014 relative to that year's budget, which stressed the importance of

³¹ We interviewed the budget chiefs at two Commands and the deputy budget director at the third Command.

maintaining high fill rates to support the military. In addition, the Acting ASA(FM&C) acknowledged the importance of hiring to authorization levels, but given changing mission requirements and efforts to avoid potential personnel layoffs, the Acting ASA(FM&C) stated that the Army would not penalize the Army Commands.

Our Response

Comments from the Acting ASA(FM&C) did not address the specifics of the recommendation; therefore, the recommendation is unresolved and remains open. The Acting ASA(FM&C) stated that the Assistant Secretary of the Army (Manpower and Reserve Affairs) issued budget guidance for FY 2014.³² However, the guidance only applied to the FY 2014 budget year, not to budget years FYs 2015 through 2017. Furthermore, the guidance does not specifically instruct Commands to hire up to their authorizations or direct the Commands to maintain a high fill rate. Therefore, we disagree that the guidance cited addresses the specifics of the recommendation.

(FOUO) The PEGs and HQDA budget officials knew that the Army Commands were not hiring up to their authorization levels and were using the excess funding to pay for non-pay expenses. In fact, TRADOC officials provided a document indicating that the TRADOC G-8 directed them to [REDACTED]

[REDACTED]³³
TRADOC officials stated that if they were directed to hire up to their FY 2017 authorization levels, they would have. However, that did not happen.

OMB Circular No. A-11 states that agencies should not overstate FTE levels. The Acting ASA(FM&C) comments and the policy provided indicate that the Army has not directed the Army Commands to hire up to their approved authorization levels since 2014. Without providing specific direction to the Army Commands, HQDA is enabling the Commands to continue under executing FTEs, in order to pay for under funded non-pay expenses. Therefore, the Assistant Secretary of the Army (Manpower and Reserve Affairs) should issue current guidance requiring the Army Commands to hire up to their approved authorization levels, or provide written justification for not hiring up to their approved authorization levels. Requiring written justification for not hiring would not punish the Commands. Instead, it would help inform HQDA budget decisions, when the Commands encounter strategic changes following budget development. Until guidance is issued, we expect the Army will continue to under execute FTEs, while over executing non-pay expenses.

³² The Assistant Secretary of the Army (Manpower and Reserve Affairs) memorandum "Fiscal Year (FY) 2014 Department of the Army Workforce Guidance," December 13, 2013.

³³ (FOUO) TRADOC's FY 2018 authorizations were [REDACTED]

This recommendation will be resolved when the Assistant Secretary of the Army (Manpower and Reserve Affairs) addresses the issuance of current guidance to direct the Army Commands to hire up to their approved authorization levels, which will help the Army reduce FTE under execution.

Recommendation B.2

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) and the Deputy Chief of Staff, G-8:

- a. Hold the Army Commands accountable for not hiring to their authorizations by reducing the authorizations and full-time equivalents for the Army Commands that intentionally under execute their full-time equivalents, to accurately reflect the Army's anticipated workload, in accordance with Office of Management and Budget Circular No. A-11, "Preparation, Submission, and Execution of the Budget."**

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

The Acting ASA(FM&C), responding for the ASA(FM&C) and DCS, G-8, disagreed with the recommendation. The Acting ASA(FM&C) stated that when developing the FY 2018 BES, the HQDA budget officials adjusted Command requested FTE and CIVPAY levels based on FY 2016 execution levels. The Acting ASA(FM&C) also stated that this process will be incorporated permanently in the HQDA staff reviews of the POM submission.

Our Response

Although the Acting ASA(FM&C) disagreed with the recommendation, the comments provided satisfy the intent of the recommendation; therefore, we consider this recommendation resolved but will remain open. The Acting ASA(FM&C) stated that the Army implemented procedures to adjust FTEs based on prior year execution. Specifically, the Acting ASA(FM&C) stated that the Army adjusted the FY 2018 FTEs in its budget request based on FY 2016 execution. Therefore, the Army reduced its FY 2018 requested FTEs based on under executing 4,140 FTEs in FY 2016. The Acting ASA(FM&C) stated that the Army permanently incorporated the process into its reviews. We agree with the Army's decision to adjust FTEs for FY 2018 based on past execution. However, because the Army made this adjustment process a permanent part of its budgeting reviews it could result in future reductions in FTEs. These potential future reductions would be amplified if the Army continues to intentionally under execute FTEs to pay for non-pay items in future years.

We will close this recommendation once we verify that the HQDA budget officials reduced the Army Commands' FY 2018 FTE and CIVPAY levels based on under execution in FY 2016, and the FTE adjustment process has been incorporated permanently in the HQDA staff reviews of POM submissions.

- b. Re-evaluate the Army's operation and maintenance civilian pay and non-pay funding requirements. This could include assessing civilian workload compared to recent year execution. Then, adjust the Future Years' Defense Program, starting with the FY 2019 Budget Estimate Submissions, to more accurately request funding for the Army's civilian pay and non-pay expenses.**

Management Comments Required

The Acting ASA(FM&C), responding for the ASA(FM&C) and DCS, G-8, disagreed with the recommendation. However, the Acting ASA(FM&C) did not comment on the specifics of this recommendation. Therefore, the recommendation is unresolved and will remain open. Although the Acting ASA(FM&C) stated that the Army implemented procedures to adjust FTEs based on prior year execution beginning with the development of the FY 2018 BES, that does not address the funding issues identified with non-pay expenses. The Army Command officials stated that their Commands intentionally under executed FTEs to create funding for unfunded non-pay expenses, such as contracts, information technology equipment, fuel, travel, and training. We appreciate that the Army has adjusted its FY 2018 FTEs based on past performance. However, until the Army increases its non-pay budget request to reflect its actual requirements, the Army will likely continue to under execute its CIVAPY budget to help offset its non-pay costs. This recommendation will be resolved when the ASA(FM&C) and DCS, G-8, provide comments that address an evaluation of the Army's O&M civilian pay and non-pay funding requirements.

Recommendation B.3

We recommend that the Secretary of the Army review the actions discussed in this report and consider administrative action, if appropriate, for the budget officials involved in the decision to submit inaccurate budget information to Congress regarding the Army's expected civilian pay and non-pay operation and maintenance expenses.

Secretary of the Army Comments

The Acting ASA(FM&C), responding for the Secretary of the Army, disagreed with the recommendation. The Acting ASA(FM&C) stated that our report does not include evidence that any Army officials were involved in a decision to submit inaccurate President's Budget information to pay for non-pay operating expenses.

The Acting ASA(FM&C) also stated that Army officials did not knowingly submit inaccurate budget information for any requirement. The Acting ASA(FM&C) stated that the Army repeatedly requested the names and roles of the individuals involved, but claims the DoD OIG ignored it. Specifically, the Acting ASA(FM&C) stated that the HQDA budget officials requested the names of the officials we spoke to at the PEGs and the three Army Commands that we reviewed. The Acting ASA(FM&C) further stated that without the names of the individuals, the Army cannot determine whether we misunderstood what we were told, or if the information was provided by a disgruntled or unqualified employee, or from someone that did not have reliable information.

Our Response

The Acting ASA(FM&C) did not address the specifics of the recommendation; therefore, the recommendation is unresolved and remains open. We acknowledge that there may not be a single decision to submit inaccurate budget information; however, our intent was for the Army to review the budget development process, as many people involved were aware of the inaccuracies in the information presented to Congress. We updated our report to add the titles of the budget officials we interviewed. Therefore, we believe there is sufficient information in our report for the Secretary of the Army to undertake our recommended review of the actions discussed and consider administrative action, if appropriate, for the budget officials involved. Specifically, we interviewed the top-level budget chiefs and a Deputy Director at the three Army Commands, the Army G-1, the PEGs, and the DASA(BU). The DASA(BU) and Army G-1 officials attended the meeting we conducted with the PEG officials. However, the budget officials at the three Army Commands that we reviewed were not responsible for developing, submitting, or defending the Army's Budget to the DoD and Congress, or for overseeing budget execution and analysis, reprogramming actions, or appropriation fund control and distribution, which are ASA(FM&C) and DASA(BU) responsibilities.

(FOUO) As previously stated, the PEG Administrators and the HQDA budget officials, we spoke to, including the DASA(BU); DCS, G-8; and DCS, G-1, all stated that they knew the Army Commands were not hiring up to their authorizations before the submission of the FY 2017 BES. Specifically, the DCS, G-8, issued the Command Program Guidance Memorandum for FY 2017, which emphasized the Army's concerns about [REDACTED] and directed the PEGs to [REDACTED]. Officials from the DCS, G-1, and DASA(BU), including the Director, Management and Control, indicated that the PEGs did not [REDACTED] to correct FTE under execution, and that HQDA budget officials knew the Army Commands did not hire up to their authorization levels. Therefore, the Army G-1, Chief, Manpower Allocation, stated that the

(~~FOUO~~) G-1 further reduced FTEs. However, the PEG Administrators and the Director, Management and Control, stated that they would not correct the root cause of the issue, by increasing the Army's non-pay budget request. Without accurately communicating the Army's actual O&M funding requirements, the HQDA budget officials enabled the Army Commands to under execute FTEs and create excess CIVPAY funding to pay for under-funded non-pay expenses.

This recommendation will be resolved when the Secretary of the Army provides comments that address whether the Secretary reviewed the actions discussed in this report and considered whether administrative action would be appropriate for any budget officials involved in the intentional submission of inaccurate budget information to Congress regarding the Army's expected CIVPAY and non-pay operation and maintenance expenses.

Appendix

Scope and Methodology

We conducted this performance audit from September 2016 through December 2017 in accordance with generally accepted government auditing standards. The 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.

We focused our audit on the CIVPAY budget for the Army's Active duty O&M appropriation because the Army's Active duty O&M appropriation included significantly more civilians than other appropriations.³⁴ Specifically, we focused on the U.S. direct-hire civilians, which included the highest percentage of O&M civilian FTEs. To assist our review, we selected a nonstatistical sample of Army Commands to review. The nonstatistical sample included 58 percent of the Army's O&M U.S. direct-hire civilian FTEs.

We interviewed OSD, HQDA, and Army Command officials to identify the Army's CIVPAY budget process. Specifically, we met with officials from:

- OUSD(C);
- DASA(BU);
- The Deputy Assistant Secretary of the Army-Cost and Economics;
- DCS, G-1;
- DCS, G-3/5/7;
- DCS, G-8;
- PEGs;
- U.S. Army Materiel Command;
- U.S. Army Installation Management Command; and
- U.S. Army TRADOC.

During our interviews, we discussed and obtained documentation to determine how the Army calculated the CIVPAY rates, basic compensation, and the overall CIVPAY budget that the Army presented in the BES OP-8. Specifically, to determine how the Army calculated its CIVPAY rates, including basic compensation, we obtained the Army's CIVPAY rate formulas, guidance for calculating the FY 2017

³⁴ The Active duty O&M appropriation includes funds for the full-time Active duty Army. The Active duty O&M appropriation does not include funds for the Army National Guard or the Army Reserves.

rates, OMB-directed inflation rates, and the HQDA budget officials' analysis for the locality pay changes. We analyzed the documents and used them to recalculate the Army's FY 2017 total CIVPAY, basic compensation, and other budget line items. We recalculated the FY 2017 overall CIVPAY budget within less than 0.48 percent of the Army's BES. Therefore, our results were acceptable for the purposes of our audit.

We also evaluated how the Army calculated its civilian authorizations and FTEs, and discussed CIVPAY execution with the HQDA and Army Command officials. Specifically, we obtained, reviewed, and analyzed supporting documentation to determine that the HQDA budget officials inflated the budgeted FTE requirements in the FY 2017 BES. We interviewed multiple HQDA and Army Command officials to corroborate testimony that the Army Commands reviewed did not hire to their authorizations to create excess funding. We also obtained and reviewed Presidential Executive Orders, and OMB, DoD, and Army policy memorandums that directed cuts to non-pay O&M expenses. Finally, we obtained documentation explaining the congressional budget cuts applied to the Army's O&M CIVPAY.

In addition, we obtained, reviewed, and analyzed:

- Public Law 114-113, "Consolidation Appropriations Act, 2016," December 18, 2015;
- Public Law 112-239, The National Defense Authorization Act for Fiscal Year 2013, section 955, "Savings to be achieved in Civilian Personnel Workforce and Service Contractor Workforce of the Department of Defense," January 2, 2013;
- Public Law 113-66, The National Defense Authorization Act for Fiscal Year 2014, section 955, "Streamlining of Department of Defense Management Headquarters," December 26, 2013;
- Public Law 114-92, The National Defense Authorization Act for Fiscal Year 2016, section 346, "Reduction in Amounts Available for Department of Defense Headquarters, Administrative, and Support Activities," November 25, 2015;
- OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," June 2015;
- OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," July 2016;
- DoD FMR 7000.14-R, "DoD Financial Management Regulation;"
- Department of the Army Command Program Guidance;
- Army Regulation 570-4, "Manpower and Equipment Control: Manpower Management," February 8, 2006;

- President's Budget for FYs 2014 through 2017;
- Army BES for FYs 2014 through 2017; and
- Locality Pay Information for FYs 2015 and 2016.

Use of Computer-Processed Data

We relied on computer-processed data from the HQDA budget officials. We obtained the HQDA budget officials' analysis for the locality pay changes in FY 2015 and FY 2016. We used the locality pay analysis to recalculate the Army basic compensation cost for FY 2017. To validate the locality pay analysis, we compared a non-statistical sample of the locality rates in the analysis to Office of Personnel Management published locality rates. Based on our review, we concluded that the data were sufficiently reliable for the purposes of this report.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the DoD Office of Inspector General (DoD OIG) issued three reports discussing the CIVPAY budgeting process of the Military Services. Unrestricted GAO reports can be accessed at <http://www.gao.gov> by selecting Reports & Testimonies. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

GAO

Report No. GAO-15-10, "DOD Needs to Reassess Personnel Requirements for the Office of Secretary of Defense, Joint Staff, and Military Service Secretariats," January 21, 2015

The GAO found that the DoD headquarters organizations it reviewed did not systematically determine or periodically reassess their personnel requirements. As a result, the DoD will not be well positioned to proactively identify efficiencies and limit personnel growth within the organizations.

Report No. GAO-16-172, "Complete Information Needed to Assess DOD's Progress for Reductions and Associated Savings," December 23, 2015

The GAO found that the DoD made civilian personnel reductions, but have not achieved the savings associated with the reductions. As a result, the DoD and Congress lack the information needed to determine the savings associated with reducing FTEs.

DoD OIG

Report No. DODIG-2017-039, "Requirements for the Air Force Civilian Pay Budget Still Need Improvement," January 5, 2017

This audit was the first in the series in response to Public Law 114-113, "Consolidated Appropriations Act, 2016," December 18, 2015. The DoD OIG found that the Air Force did not adequately support and justify the CIVPAY requirements used to develop its FY 2016 BES. Air Force budget officials incorrectly calculated FTEs to estimate the cost of its CIVPAY requirements. Therefore, the Air Force's FY 2016 CIVPAY budget request was not sufficient to pay its civilian personnel, resulting in the Air Force requesting additional funding to correct its CIVPAY shortfall.

Management Comments

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

Final Report
Reference



REPLY TO
ATTENTION OF

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

SAFM

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR
GENERAL

SUBJECT: Formal Response to Department of Defense Office of Inspector General
(DODIG) Report, "The U.S. Army Civilian Pay Budget Process" (Project No. D2016-
D000AG-0220.000)

1. The attached document provides the Department of the Army's formal response to the Draft DODIG Report, "The U.S. Army Civilian Pay Budget Process" (Project No. D2016-D000AG-0220.000), dated August 22, 2017.
2. The Army strongly disagrees with the findings and recommendations in this report and nonconcur.
3. We do not believe the conclusions are supported by empirical data. The IG's report concludes that the Army did not have an effective civilian pay budget process, and that the Army inflated its FY 2017 civilian pay budget by \$356.8 million with the explicit intent to spend those excess civilian pay funds on non-pay expenses. Neither of those assertions are true. Actual FY 2017 civilian pay execution resulted in an under-execution of only [REDACTED] percent against the FY 2017 BES requirement. Stated differently, in FY 2017 the Army executed [REDACTED] of its FY 2017 BES civilian pay requirement; a creditable performance, and well within internal control parameters. The report also does not include any evidence that any Army officials were involved in a "decision to submit inaccurate [President's] budget information" in order "to pay for non-pay operating expenses". Army officials did not knowingly submit inaccurate budget information for any requirement. The Army repeatedly requested the names of the individuals the IG referenced, but our requests were ignored. Without that information, the Army can not ascertain whether the IG misunderstood what they were told; if that information was provided by a disgruntled or unqualified employee; or if that information had some validity.
4. Though the Army disagrees with the findings and recommendations in this Audit Report, we were encouraged when the veracity and meticulous detail taken to develop the Army's civilian pay budget process was validated by the DODIG audit team when they successfully recalculated the civilian pay estimates within an acceptable 0.48% variance as stated on page 25 in the Appendix under Scope and Methodology in the DODIG Report. The Army acknowledges there will always be inherent error in any complex estimate or series of calculations based on those estimates; however, the

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

Final Report
Reference

Revised page 7

SUBJECT: Formal Response to Department of Defense Office of Inspector General (DODIG) Report, "The U.S. Army Civilian Pay Budget Process" (Project No. D2016-D000AG-0220.000)

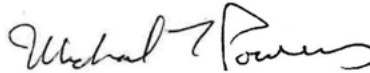
Army strives for its civilian pay budget process to be well documented, repeatable, and accurate to the best extent possible. Rather than reveal fundamental flaws in the Army's civilian pay cost estimates process, the report misinterprets known point-in-time issues and dismisses a well-established and documented process integral to the PPBE process. Analysis cited by the IG in this audit report included data that was unavailable during the development of the FY 2017 BES.

5. The FY 2017 BES is an internal Department of Defense (DOD) PPBE instrument and an interim step to inform the President's Budget request presented to the Congress and the American public. As such, findings and recommendations in "The U.S. Army Civilian Pay Budget Process" (Project No. D2016-D000AG-0220.000) culminating from the FY 2017 BES should remain For Official Use Only (FOUO).

6. In this response, the term 'Army' is used as an umbrella term to capture those Headquarters, Department of the Army (HQDA) Secretariat or Staff elements directly involved in the development of civilian pay costs to support the Department of the Army's institutional responsibilities and roles in the Planning, Programming, Budgeting, and Execution (PPBE) process.

7. The Points of Contact for this memorandum are [REDACTED]

Encl



Michael T. Powers
Acting, Assistant Secretary of the Army
(Financial Management and Comptroller)

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

The U.S. Army Civilian Pay Budget Process Project No. D2016-D000AG-0220.000

Finding A

Army Officials Did Not Effectively Budget for CIVPAY

The Army did not have an effective CIVPAY budget process. The ASA(FM&C) did not adequately support and justify the FY 2017 CIVPAY request in the Army's BES. This occurred because HQDA budget officials deviated from OMB and OSD policy when calculating the CIVPAY budget request. Specifically, HQDA budget officials applied adjustments to the basic compensation calculation that were normally not permitted by OMB policy and did not include overtime in the budget request. As a result, the HQDA budget officials overstated the FY 2017 O&M CIVPAY budget request by \$356.8 million. In addition, including overtime paid in the execution data submitted to Congress, but not including it in the Army's budget, caused the Army to appear to over execute its CIVPAY budget in FYs 2015 and 2016, while under executing its FTEs.

Finding A Formal Response

The Army effectively budgeted for CIVPAY, and it did not overstate the FY 2017 O&M CIVPAY budget request by \$356.8 million as stated in the OIG report. Actual execution of the Army's FY 2017 CIVPAY budget request was [REDACTED] percent of its FY 2017 BES civilian pay requirement. That is outstanding performance, and is well within internal control parameters.

The DODIG's primary rationale for the conclusion that the Army's CIVPAY budget process was not effective appears to be twofold: insufficient justification was provided in our budget materials to explain the increase in costs (both total and per capita) and the Army included a supplemental price growth factor for CIVPAY growth between FY 2014 (the most recently completed fiscal year at the time of the FY 2017 BES submission) and FY 2017.

Regarding an incomplete justification of the CIVPAY requirement, the complexity of the Army's CIVPAY cost estimating model includes many variables such as cost factors split by civilian pay scale group, appropriation, sub-activity group for O&M accounts, and command, with each factor further divided into the eight required elements of CIVPAY:

1. Basic compensation
2. Basic benefits
3. Other compensation
4. Cash awards
5. Holiday time costs
6. Overtime costs
7. Payments to former employees
8. Severance payments

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

The U.S. Army Civilian Pay Budget Process Project No. D2016-D000AG-0220.000

Given the multitude of sub-elements of costs (many of which change between budget submissions to reflect changing policies), economic planning factors, and actual work force data, a complete description of all changes would be voluminous in nature and overburden the justification documents; the Army elects to aggregate these changing costs elements under the required eight elements without further detail in order to maintain clarity in justification materials at a meaningful degree of detail.

The second described deficiency was the Army's inclusion of a supplemental price growth factor during the FY 2017 BES development which the DODIG inaccurately describes as: "Within-Grade Increase Adjustments Inflated Basic Compensation". The Army did not incorporate a planning factor specifically for Within-Grade-Increases. The supplemental price growth factor was a reflection of an observed increase in per capita costs that occurred in recent years as the result of civilian work force reductions and, more specifically, a disproportionate decline in lower-graded employees in the white collar work force. Unlike military pay justification books which include grade-level detail, the civilian FTE is displayed without grade-level which lends itself to the impression that reductions are normative in nature and reductions in FTE will lead to similarly sized reductions in costs.

In a probative example, the Army would offer that two employees costing a total of \$200,000 per year would be assumed to have an average cost of \$100,000 apiece, and a 50% reduction in their number would net a \$100,000 reduction in civilian pay. However, should one employee earn \$150,000 per year and the other only \$50,000 per year, a 50% FTE reduction would net either a 25% or 75% reduction in civilian pay. This simple example is indicative of the larger trend of civilian reductions that occurred in the fiscal years 2010-2014 when, in most cases, organizations driven to meet FTE reduction targets directed those reductions to the lower graded employees within their existing structure.

From the recent height of civilian employment (FY 2010) through the most recent complete fiscal year prior to the formulation of the FY 2017 BES, the Army full-time white collar work force declined by 12.4% in total, and total salary declined 6.5% during a period when only a 1.0% general cost-of-living-allowance (COLA) in FY2014 would impact salary levels. This disproportionate decline in personnel and costs is reflected in Table 1.

Table 1 (Source: DCPDS for months end September of each year FYs 2010-2014)

| FY | Full-Time White Collar | Change from Prior Year | Change from FY2010 | Total Salaries (\$M) | Change from Prior Year | Change from FY2010 | Average Salary (Tot Sal / FTWC) | Change from Prior Year | Change from FY2010 |
|--------|------------------------|------------------------|--------------------|----------------------|------------------------|--------------------|---------------------------------|------------------------|--------------------|
| FY2010 | 201,224 | | | 14,536 | | | 72,236 | | |
| FY2011 | 198,315 | -1.4% | -1.4% | 14,467 | -0.5% | -0.5% | 72,951 | 1.0% | 1.0% |
| FY2012 | 193,834 | -2.3% | -3.7% | 14,402 | -0.5% | -0.9% | 74,299 | 1.8% | 2.9% |
| FY2013 | 182,902 | -5.6% | -9.1% | 13,825 | -4.0% | -4.9% | 75,589 | 1.7% | 4.6% |
| FY2014 | 176,333 | -3.6% | -12.4% | 13,589 | -1.7% | -6.5% | 77,065 | 2.0% | 6.7% |

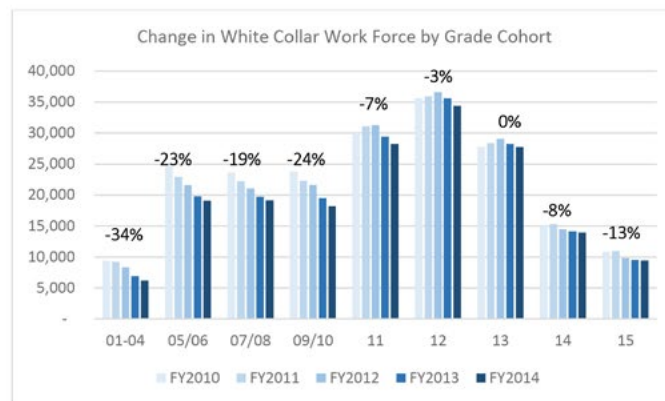
The expectation that a 12.4% reduction in total white collar civilians would result in an equivalent reduction in civilian pay is inaccurate. Analysis of the white collar work force

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

The U.S. Army Civilian Pay Budget Process Project No. D2016-D000AG-0220.000

determined that civilian losses were occurring at the lowest grades of the work force resulting in a disproportionate reduction in civilian pay requirement. Over the period September 30, 2010 through September 30, 2014, the white collar work force reduced over 24,000 civilians, with 84% of those reductions occurring in the lower-half of the grade distribution as described in Chart 1.

Chart 1



Calculated civilian pay reductions based on expected personnel losses at historic average costs had led the Army to underprice its remaining work force, which, in conjunction with organizational uncertainty regarding funding and future civilian work force reductions, led to under-execution of FTE budget levels as the difference between expected and actual costs grew over these years. After observing this trend and with the knowledge of additional work force reductions programmed for FYs 2015-2019, the HQDA staff, on the strength of this analysis, incorporated the price growth planning factor in the FY 2017 BES build in anticipation of a continuation of this trend for FYs 2015-2017 but not for FY 2018-2019, with the intent to prevent further under-execution of civilian FTE based on under-stated price estimates. This supplemental price growth factor was always considered by the Army as a temporary measure to recede as informed by the execution observed in the civilian population.

It is this action that the DODIG report calls into question as inconsistent with OMB A-11, and further suggests that "During times of workforce instability, budget officials should closely follow budget policies, and fully justify and document the changes in their budget requests because accurate visibility and budgeting is critical to making fiscally sound decisions regarding the size and compensation of the civilian personnel workforce." While the DODIG found no specific language in the OMB Circular A-11 allowing or disallowing for this adjustment, the circular is not an exhaustive document providing

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

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technical details for every aspect of estimating civilian pay. It does not, for example, require nor prohibit the use of separate price factors based on appropriation, sub-activity group, nor organization; all of which are in use by the Army and add fidelity and accuracy to the CIVPAY cost estimates informing the Army's budget justification materials.

The DODIG's emphasis on the Army's exclusion of overtime from its calculation of civilian pay estimates is also difficult to reconcile either with practice or existing guidance. Programming and budgeting for overtime in the Army's CIVPAY estimates was eliminated during the development of the POM/BES 2005. The Army's civilian overtime costs were only captured in the Actuals column in over a decade of justification materials submitted to OSD and the Congress without issue. Overtime is explicitly excluded from the definition of Full Time Equivalent in both documents cited by DODIG: Army Regulation 570-4, entitled Manpower Management, dated February 8, 2006 and OMB Circular A-11, entitled Preparation, Submission, and Execution of the Budget, dated June 2015. The Army's position on programming and budgeting for overtime is further outlined in its response to Recommendation A.3.

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

**Final Report
Reference**

**The U.S. Army Civilian Pay Budget Process
Project No. D2016-D000AG-0220.000**

Recommendation A.1

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller), in coordination with the Office of the Under Secretary of Defense (Comptroller), evaluate whether it is appropriate to budget for within-grade increases. Based on the decision whether it is appropriate to budget for within-grade increases, we recommend the Assistant Secretary of the Army (Financial Management and Comptroller) implement procedures to appropriately calculate basic compensation in accordance with Office of Management and Budget Circular No. A-11, "Preparation, Submission, and Execution of the Budget."

Recommendation A.1 Formal Response

The Army non-concurs with Recommendation A.1. The Army has a complex process, honed by time and experience that considers many factors, to estimate civilian pay requirements across multiple Commands – in times of personnel stability; as well as in times of hiring freezes, organizational change, future FTE reductions, and the uncertainty of funding disruptions arising from continuing resolutions. In spite of these challenges, actual FY 2017 civilian pay execution resulted in an under-execution of only [REDACTED] percent against the FY 2017 BES. Said differently, in FY 2017 the Army executed [REDACTED] percent of its FY 2017 BES civilian pay requirement on civilian pay. That is an 'A' performance. The Army believes that its process already appropriately considers all of the many factors that go into calculating an accurate budget requirement for civilian pay in accordance with the spirit and guidance contained in OMB Circular A-11.

**Redirected
Recommendation A.1**

Recommendation A.2

We recommend that the Under Secretary of Defense (Comptroller) update DoD Regulation 7000.14-R, "DoD Financial Management Regulation" with policies and procedures for budgeting for within-grade increases, to include justification and approval procedures for the use of within-grade increases in the Services' budget requests.

Recommendation A.2 Formal Response

The Army non-concurs with Recommendation A.2 for the same reasons we non-concurred with Recommendation A.1.

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

The U.S. Army Civilian Pay Budget Process Project No. D2016-D000AG-0220.000

Recommendation A.3

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) and the Deputy Chief of Staff, G-8, include overtime pay in the Army's Budget Estimate Submission, starting with the FY 2019 Budget Estimate Submission, to accurately and completely present the Army's funding needs to the Office of the Secretary of Defense and Congress, in accordance with Office of Management and Budget Circular No. A-11, "Preparation, Submission, and Execution of the Budget," and Army Regulation 570-4, "Manpower and Equipment Control Manpower Management," February 8, 2006.

Recommendation A.3 Formal Response

The Army non-concurs with Recommendation A.3. Budgeting for variable factors, including overtime, is not mandatory. As evidenced by the [REDACTED] percent execution of the FY 2017 BES civilian pay requirement, the Army believes that it already accurately and completely presents the Army's funding needs to OSD, OMB, and Congress.

While the DODIG observed trend of consistent outlays is accurate at the DA-wide level, pricing and funds distribution require a more specific approach. Applying a general overtime rate to all DA civilian pay would tend to overprice some activities and underprice others. Additionally, overtime is a command's management tool to handle surge periods and is not consistently used by the same activities year-to-year. Should the Army be directed to budget for overtime, the process would have to address overtime civilian pay requirements not based on execution levels as are compensation and benefit costs, but rather in a separate process that would require the Army staff to evaluate each request independently of baseline civilian pay costs. This process would likely result in inaccurate or incomplete estimates as many overtime expenses are of a temporal or exigent nature (i.e., hurricane relief efforts, increase in THREATCON due to specific intelligence, Presidential Inauguration, etc). The use of overtime is also significantly impacted by civilian losses as a result of mandated civilian personnel reductions.

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

The U.S. Army Civilian Pay Budget Process Project No. D2016-D000AG-0220.000

Finding B

Army Officials Over Estimated FTEs to Pay for Non-Pay Expenses

HQDA budget officials over estimated the Civilian FTEs in the FY 2017 BES. This occurred because the HQDA budget and Army Command officials misused CIVPAY budget policy to pay for underfunded non-pay operating expenses. Specifically, HQDA budget officials knew that Army Command officials intentionally did not hire up to the Army's authorizations, and thereby created excess CIVPAY funding that the commands used to pay for non-pay expenses, which the President, OMB, DoD, and the Secretary of the Army directed the Army to cut. As a result, the Army under executed FTEs and over-executed non-pay expenses from FYs 2014 through 2016, and according to HQDA budget officials, the Army expects to continue under executing FTEs in future years. Recognizing the FTE under execution, Congress reduced the Army's recent budgets by reducing budgeted FTEs and applying funding cuts totaling \$1.1. billion.

Finding B Formal Response

The Army did not intentionally overestimate FTEs to pay for non-pay expenses. As well, Congress did not reduce budgeted Army FTEs when they reduced funding. The Army disagrees with DODIG Finding B because it is without context and discards several key factors referenced in their report. The statement "HQDA budget officials knew that Army Command officials intentionally did not hire up to the Army's authorizations," is incorrect, and should be further informed by two key facts:

- 1) The statement applies to historic execution levels, not to execution as projected for FY 2017 in the FY 2017 BES. Similarly, statements attributed by DODIG auditors that "they relied on the excess CIVPAY to fund non-pay expenses" are also relative to prior year execution and not CIVPAY and FTE requests for FY 2017 BES which were in both cases lower than any previous fiscal years'.
- 2) The primary cause for lack of fill was judicious Human Capital planning which anticipated additional civilian reductions scheduled in subsequent fiscal years. A circumstance which was further aggravated by a Secretary of the Army directive to restrict hiring (December 2012 – December 2013), Congressionally mandated furloughs, and continuing resolutions in lieu of timely appropriations which reduced overall funding levels and created uncertainty among the commands regarding payroll obligations prior to the passage of an appropriation.

The DODIG report depicts multiple years of program and execution data, but in some cases much of the information presented was not available to HQDA or command officials developing the FY 2017 BES. Take the information presented in Table 8,

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

**Final Report
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Annual Under Execution of Budgeted U.S. Direct-Hire Civilian FTEs for FYs 2014 Through 2016 of the DODIG report:

| CIVPAY Budget Category | FY2014 | FY2015 | FY2016 |
|--|---------|---------|---------|
| Budgeted FTEs | 92,655 | 92,482 | 89,011 |
| Executed (Actual) FTEs | 88,889 | 86,036 | 84,871 |
| Under Executed FTEs | (3,766) | (6,446) | (4,140) |
| Percent of Under Executed FTEs out of Budgeted FTEs. | -4.06% | -6.97% | -4.65% |

This table creates the perception the HQDA staff and the Army's Command Staffs were in possession of this information during the formulation of the FY 2017 BES. In fact, the only information available to these staffs as they developed the FY 2017 BES during the execution of FY 2015 CIVPAY and FTE was the last complete fiscal year's data – FY 2014. These staffs had to assess the FY 2017 request without specific knowledge of FY 2015 (in progress) or FY 2016 (future year) fill levels. With no specific knowledge of FY 2015 end-strength as of 30 September, nor FY 2016 execution, the staffs' judgment was based on FY 2014 FTE execution which exceeded the FY 2017 requested amount by [REDACTED] FTE. The FY 2017 request was deemed reasonable at the time and received the support of command and HQDA staffs.

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In addition, in Table 8 the chart shows a correction between fiscal years as the difference between Army's force structure and execution narrows. The delta of under-executed FTEs between FY2015 (6,446) and FY2016 (4,140) is 2,306, which is an improvement of 35.8% in the variance between FY2015 to FY2016 program/budget and execution.

An additional nuance of civilian personnel management obliquely referenced by the DODIG report is the management of Human Capital. Unlike supplies, training, travel, contracts and other purchases, which can be compartmentalized within the span of a single fiscal year, the hiring (or separation) of a civilian employee usually results in a multi-year financial obligation. As such, commanders and senior officials informed their hiring decisions not on the current year authorization levels, but on those in subsequent years, usually the next budget year, but in specific cases many years past that. In the case of directed HQ reductions, and reductions predicated by NDAA 2013, Section 955, commands would manage around authorizations for FY 2018 and even FY 2019 rather than their current authorizations. This was done in order to avoid costly and damaging Reductions-In-Force and expedite their organization's transition to a new end-state.

This behavior can be seen in Table 8 of the DODIG Report as well, with FY 2014 execution levels more closely resembling FY 2016 budget levels, and again when FY 2016 execution (84,871) appears more similar to FY 2017 BES levels [REDACTED] than the amount in the FY 2016 President's Budget request (89,011).

The DODIG report fails to account for these decisions in a meaningful way and treats civilian personnel/CIVPAY execution behavior as a simple within-year tradeoff between expense classes with command officials placing greater value on non-pay than pay.

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

**The U.S. Army Civilian Pay Budget Process
Project No. D2016-D000AG-0220.000**

Recommendation B.1

We recommend that the Assistant Secretary of the Army (Manpower and Reserve Affairs) issue guidance requiring the Army Commands to hire personnel based on their approved authorization levels. If the Army Commands cannot hire up to their approved authorization levels for strategic reasons, require them to provide written justification for not hiring up to their approved authorization levels.

Recommendation B.1 Formal Response

The Army non-concurs with Recommendation B.1. The ASA(M&RA) has previously issued such guidance and stressed the importance of maintaining high fill rates for purposes of readiness and support to the military. The last such document having been signed in 2014 relative to that year's budget and manning guidance. Although the Army acknowledges and stresses the importance of fully hiring to authorization levels, given ever changing mission requirements and efforts to avoid potential Reduction in Force (RIF) situation, the Army will not penalize commands.

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

The U.S. Army Civilian Pay Budget Process Project No. D2016-D000AG-0220.000

Recommendation B.2

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller) and the Deputy Chief of Staff, G-8:

- a. Hold the Army Commands accountable for not hiring to their authorizations by reducing the authorizations and full-time equivalents for the Army Commands that intentionally under execute their full-time equivalents, to accurately reflect the Army's anticipated workload, in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget".
- b. Re-evaluate the Army's operations and maintenance civilian pay and non-pay funding requirements. This could include assessing civilian workload compared to recent year execution. Then, adjust the Future Years' Defense Program, starting with the FY 2019 Budget Estimate Submissions, to more accurately request funding for the Army's civilian pay and non-pay expenses.

Recommendation B.2 Formal Response

The Army non-concurs with Recommendation B.2 for many of the reasons already stated. During the FY 2018 BES build, the HQDA staff did adjust command requested FTE and CIVPAY levels based on prior year (FY 2016) execution levels. This process will be incorporated permanently in the HQDA staff reviews of the POM submission.

Any outcome of this recommendation would inform future budget builds since the FY 2019 Budget Estimate Submission has been submitted to OSD.

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

**The U.S. Army Civilian Pay Budget Process
Project No. D2016-D000AG-0220.000**

Recommendation B.3

We recommend that the Secretary of the Army review the actions discussed in this report and consider administrative action, if appropriate, for the budget officials involved in the decision to submit inaccurate budget information to Congress regarding the Army's expected civilian pay and non-pay operation and maintenance expenses.

Recommendation B.3 Formal Response

The Army non-concurs with Recommendation B.3. The DODIG made more than 25 references in their report to unnamed HQDA, Command, and Budget officials, claiming that those officials asserted that the Army deliberately manipulated the civilian pay process to overstate civilian pay requirements and used the funds generated by those overstated requirements to pay for non-pay expenses. Despite repeated requests to provide the names and roles of the individuals involved, so that the Army could ascertain the veracity of those comments – did they come from knowledgeable officials, or disgruntled employees, or someone else that did or did not have reliable information to direct further inquiry – the IG ignored our requests. Without such information, due process is not possible, and the Secretary cannot even consider whether administrative action is appropriate.

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

REPLY TO
ATTENTION OF

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

OCT 06 2017

SAFM

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Interim Response to Department of Defense Office of Inspector General (DODIG) email dated October 3, 2017 regarding Army's formal response to DODIG Report, "The U.S. Army Civilian Pay Budget Process" (Project No. D2016-D000AG-0220.000)

1. The Army will provide its complete and comprehensive response to your email dated October 3, 2017, on October 20, 2017. This memorandum is an interim response.
2. I confirm that I responded on behalf of the Acting Secretary of the Army regarding Recommendation B.3 in my response on September 28, 2017. My cover memorandum and attachment are the consolidated response for the Department of the Army elements requested to respond. The response was worked in close coordination with the Acting Secretary and other members of the Army Staff and Secretariat.
3. Two of the items you requested in your email are enclosed: an excerpt from GAO Financial Audit Manual (FAM) Volume 1 dated July 2008, and the 2014 ASA (M&RA) memorandum. Section 450 of GAO FAM (and other sections) is but one of the audit community's authoritative references on internal control and other testing, and the evaluation of results of testing. My comment in our response on September 28, 2017, regarding the Army's actual 2017 civilian pay execution of [REDACTED] percent of the BES requirement, relates to this 'score' exceeding common internal control test acceptance thresholds of 95 percent. Given the complexities of the civilian pay requirements-setting process addressed in our previous response, this is a win.
4. The points of contact for this memorandum are [REDACTED]

Encls

Michael T. Powers
Acting, Assistant Secretary of the Army
(Financial Management and Comptroller)

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

REPLY TO
ATTENTION OF

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

SAFM

OCT 20 2017

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Response to Department of Defense Office of Inspector General (DODIG) email dated October 3, 2017 regarding Army's formal response to DODIG Report, "The U.S. Army Civilian Pay Budget Process" (Project No. D2016-D000AG-0220.000)

1. In accordance with my interim response dated October 6, 2017, this is Army's complete and comprehensive response to your email dated October 3, 2017. I would like to reiterate that the Army still strongly disagrees with the findings and recommendations in the report, and nonconcur.
2. I confirm that I responded on behalf of the Acting Secretary of the Army regarding Recommendation B.3 in my response on September 28, 2017. My cover memorandum and attachment are the consolidated response for the Department of the Army elements requested to respond. The response was worked in close coordination with the Acting Secretary and other members of the Army Staff and Secretariat.
3. My comment regarding, "findings and recommendations . . . culminating from the FY 2017 BES should remain For Official Use Only (FOUO)", arose from our review of guidance in Enclosure 3, RELEASE OF PPBE DOCUMENTS of the DoD Directive 7045.14, which provides in paragraph 1a: "All PPBE documents are, at a minimum, for official use only . . . Therefore, to the extent permitted by law, PPBE documents and associated data shall not be disclosed outside the DoD and other Government agencies directly involved in the defense planning and resource allocation process." DoD Directive 7045.14 further provides the disclosure authority for PPBE materials, including budget estimates and materials submitted in support of budget estimate submissions (which could include associated data), is the OUSD(C)/CFO. I have been informed the OUSD(C)/CFO will be involved in the staffing process of this report and defer to the OUSD(C)/CFO's determination whether the data, findings, and recommendations in the report derived from the FY 2017 BES are releasable. I also defer to DoD regarding any OMB release requirements as provided in OMB Circular A-11, Section 22 - Communications with the Congress and the public and clearance requirements.
4. Regarding the list of four requested items:
 - a. Internal Control Parameters. Section 450 of the GAO Financial Audit Manual (FAM) (and other sections) is but one of the audit community's authoritative

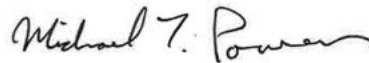
Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (cont'd)

SUBJECT: Response to Department of Defense Office of Inspector General (DODIG) email dated October 3, 2017 regarding Army's formal response to DODIG Report, "The U.S. Army Civilian Pay Budget Process" (Project No. D2016-D000AG-0220.000)

references on internal control and other testing and the evaluation of results of testing. My comment in our response on September 28, 2017 regarding the Army's actual 2017 civilian pay execution of [REDACTED] percent of the BES requirement relates to this 'score' exceeding common internal control test acceptance thresholds of 95 percent. Given the complexities of the civilian pay requirements-setting process addressed in our previous response, we consider this a win. A copy of Section 450 of GAO FAM, Volume 1 dated July 2008 was provided with our interim response.

- b. FY 2017 Execution Data. The projected End of Year Actuals for FY 2017 for U.S. Direct Hire civilian pay resourced by the Operation and Maintenance, Army (OMA) appropriation is \$9,480,579 (dollars in thousands) against a civilian pay request of \$ [REDACTED] (dollars in thousands) in the FY 2017 BES. This is the [REDACTED] percent execution rate described in our formal response. U.S. Direct Hire FTE actuals are projected to be 83,404. This is [REDACTED] percent of the FY 2017 BES estimate of [REDACTED]. These results contradict the conclusions in the audit report.
- c. Lack of documented requests. [REDACTED] and [REDACTED] requested more details on the personnel-made statements indicating that the Army inflated FTEs to preserve TOA that could be used for other purposes. At a minimum, these requests were made during meetings with DODIG staff on June 21, 2017, and July 28, 2017. The only answer provided was that the personnel were from the Program Evaluation Groups and commands.
- d. ASA(M&RA) guidance. Signed memorandum entitled, "Fiscal Year (FY) 2014 Department of the Army Workforce Guidance" was provided with our interim response. ASA(M&RA) did not publish similar guidance for Fiscal Years 2015-2017. The intent of the FY 2014 memorandum's guidance was for Army's commands and organizations to implement in FY 2014 so they would be better postured for workforce reductions and reshaping efforts slated to begin in FY 2015.

5. The Points of Contact for this memorandum are [REDACTED]
[REDACTED]
[REDACTED].



Encls

Michael T. Powers
Acting, Assistant Secretary of the Army
(Financial Management and Comptroller)

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

REPLY TO
ATTENTION OF

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

NOV 09 2017

SAFM

MEMORANDUM FOR Mr. Glenn A. Fine, Acting Inspector General, Department of Defense Office of Inspector General

SUBJECT: Response to Department of Defense Office of Inspector General (DODIG) follow up email dated November 6, 2017 regarding DODIG Report, "The U.S. Army Civilian Pay Budget Process" (Project No. D2016-D000AG-0220.000)

1. Regarding [REDACTED]'s first question, yes, our follow up answers dated 6 and 20 October 2017 are part of our official response and should be included in their entirety in DODIG's final published report.
2. Regarding [REDACTED]'s second question, the enclosed slides outline how the FY14 civilian pay execution and other cost factors were used to inform the civilian pay cost estimates for POM17-21. These slides were developed in May 2015 during the POM17-21 build. The slides show the supplemental price growth factor - described as Price Changes, i.e., Raise/Time in Service, Hiring Behavior, and Job Changes. The primary point the slides explain is how civilian pay costs exceeded civilian pay cost estimates for FYs 2011-2014 due to observed behaviors such as reducing lower grades and transitioning from NSPS. In an effort to prevent continued underestimation, the Civilian Pay Working Group developed a supplemental price growth factor to better estimate increased civilian pay costs for POM17-21.
3. The supplemental price growth factor may have been referred to as Within-Grade-Increases for an expedient description or as a verbal shorthand, regardless of the name used, this was the Army's attempt to estimate increased costs in an organization's population. The application of this cost factor as part of the rates improved the accuracy in our estimate for the FY17 BES and PB submissions. We believe the supplemental price growth factor was a successful addition to our cost factors as further evidenced by our FY17 OMA U.S. Direct Hire FTE projection of [REDACTED] of our BES 2017 request. Among the factors contributing to the supplemental price growth calculation were Time-in-Service and ladder promotion requirements in accordance with OPM regulations; these costs had been observed to be significant contributors to the higher-than-expected growth in average civilian basic compensation from the FY11-FY14 period and were expected to have a similar impact on the FY15-FY17 period as the drawdown in civilian employment continued. The cost factors captured in the Army's supplemental price growth factor are composed of multiple sources, many

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

SUBJECT: Response to Department of Defense Office of Inspector General (DODIG) follow up email dated November 6, 2017 regarding DODIG Report, "The U.S. Army Civilian Pay Budget Process" (Project No. D2016-D000AG-0220.000)

mandated by OPM guidelines and others a consequence of Army decisions to achieve civilian reductions by focusing on reducing low-cost, low-risk work while preserving high-cost, high-risk work force elements.

4. Regarding [REDACTED]'s reference to Appendix A, the Civilian Pay Working Group reduced the supplemental price growth factor down to a single reason for the target audience using Appendix A or the Rates website. For the analysis needs of the local command manpower manager, it is sufficient to define the Supplemental Adjustment as adjusting for Within-Grade-Increases. The Civilian Pay Working Group acknowledges this definition may lack sufficient precision and will provide more comprehensive descriptions of the Supplemental Adjustment in future versions on the Rates website or Appendix A.

5. The Points of Contact for this memorandum are [REDACTED]
[REDACTED]



Encl

Michael T. Powers
Acting, Assistant Secretary of the Army
(Financial Management and Comptroller)

Acronyms and Abbreviations

| | |
|----------------------|--|
| ASA(FM&C) | Assistant Secretary of the Army (Financial Management and Comptroller) |
| BES | Budget Estimate Submission |
| CIVPAY | Civilian Pay |
| DASA(BU) | Deputy Assistant Secretary of the Army (Budget) |
| DCS | Deputy Chief of Staff |
| FMR | Financial Management Regulation |
| FTE | Full-Time Equivalent |
| HQDA | Headquarters, Department of the Army |
| NDAA | National Defense Authorization Act |
| OMB | Office of Management and Budget |
| O&M | Operation and Maintenance |
| OSD | Office of the Secretary of Defense |
| OUSD(C) | Office of the Under Secretary of Defense (Comptroller) |
| PEG | Program Evaluation Groups |
| POM | Program Objective Memorandum |
| PPBE | Planning, Programing, Budgeting, and Execution |
| TRADOC | Training and Doctrine Command |
| WGI | Within-Grade Increase |



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U.S. DEPARTMENT OF DEFENSE

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