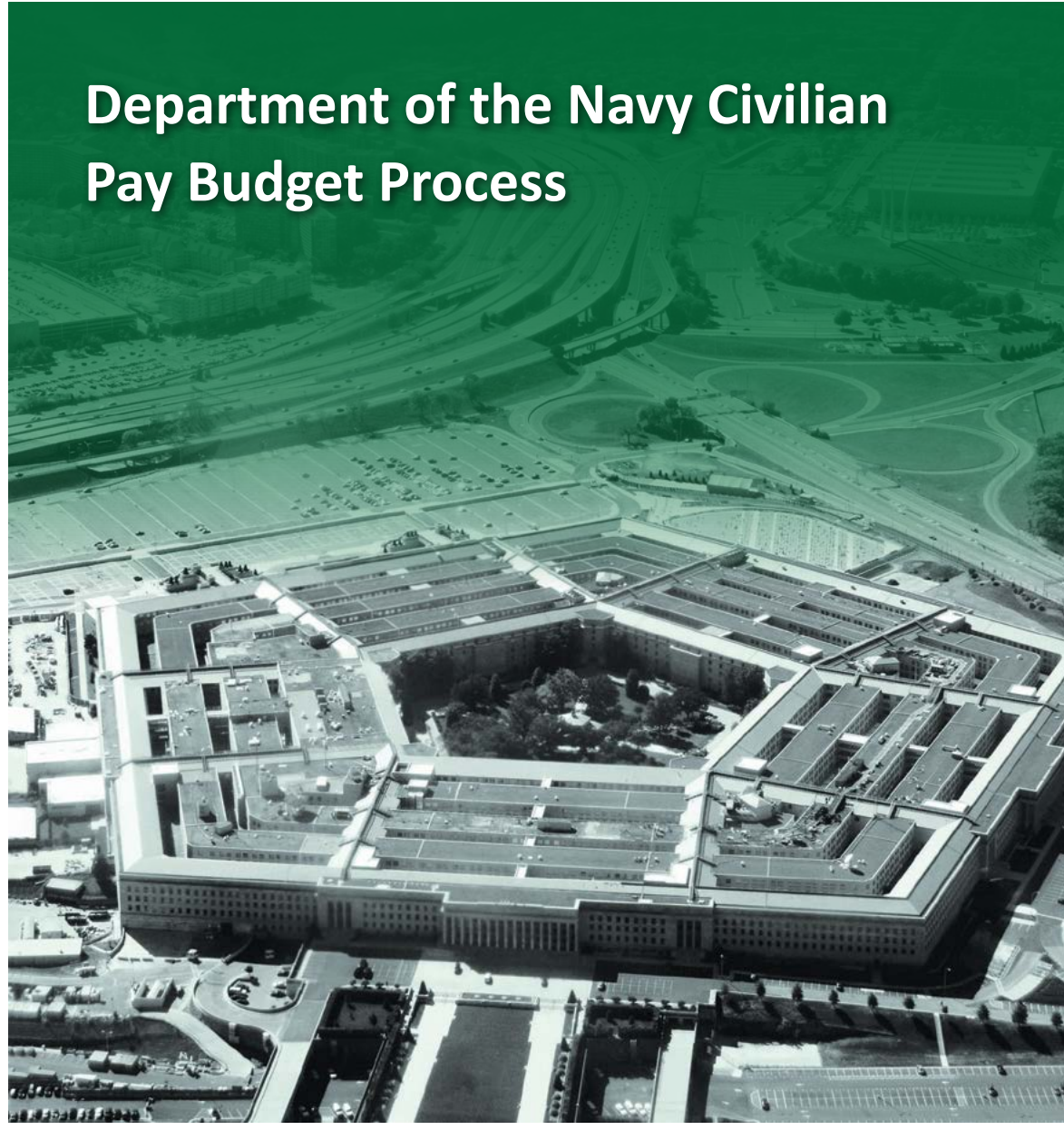


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INSPECTOR GENERAL

U.S. Department of Defense

JUNE 20, 2018



Department of the Navy Civilian Pay Budget Process

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE

The document contains information that may be exempt from mandatory disclosure under the Freedom of Information Act.

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Results in Brief

Department of the Navy Civilian Pay Budget Process

June 20, 2018

Objective

We determined whether Department of the Navy (DON) budget officials adequately supported and justified the civilian full-time equivalents (FTEs) and pay requirements in the Navy and Marine Corps FY 2017 Budget Estimate Submissions. 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 third 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 Committee on Appropriations, Subcommittee on Defense and House Committee on Appropriations, 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.

(FOUO) The DON has a decentralized budget process that involves 19 Budget Submitting Offices (BSOs), one of which is the Marine Corps. The DON requested [REDACTED] for civilian pay in its FY 2017 Budget Estimate Submission for its

Background (cont'd)

(FOUO) Operation and Maintenance appropriations. We focused our audit on direct-funded FTEs in the Operation and Maintenance, Navy (OMN) and Operation and Maintenance, Marine Corps (OMMC) appropriations, which was [REDACTED] and covered the majority of the Operation and Maintenance civilian pay.¹

Findings

Although Navy budget officials could justify and explain the process used to develop the FY 2017 civilian pay budget, officials could not fully support how they developed the civilian pay requirements in the FY 2017 OMN Budget Estimate Submission. Navy BSOs used FTEs from the FY 2016 President's Budget as the starting point to develop their FY 2017 civilian pay budgets. Navy BSOs prepared initial budget estimates based on historical execution data, and they made adjustments to reflect expected future outcomes, such as approved program changes and anticipated pay raises. BSOs submitted issue papers in the Program Budget Information System to document these adjustments to their budgets.² Budget officials from the Office of the Deputy Assistant Secretary of the Navy for Budget (FMB) reviewed the BSO budget submissions and made additional pricing and FTE adjustments using issue papers. However, budget officials did not maintain sufficient documentation to support how they developed the FY 2017 civilian pay budget. Specifically, BSO and FMB budget officials did not ensure that issue papers included information about the source data, calculations, and assumptions used for the budget adjustments.

(FOUO) When compared to FY 2017 execution, the Navy's [REDACTED] budget request represented the funding needed to pay its civilian personnel. However, maintaining more detailed documentation of budget calculations and assumptions would provide for retention of institutional knowledge and benefit budget officials building future budgets. Understanding the rationale and assumptions

¹ Direct-funded refers to funding that is received from an original appropriation or account.

² The Program Budget Information System is the Navy's official budgeting system.



Results in Brief

Department of the Navy Civilian Pay Budget Process

Findings (cont'd)

(FOUO) used in developing the budget each fiscal year would allow officials to compare budget realities with events that transpired during execution and allow decision makers to better understand budget changes across fiscal years.

The Marine Corps could not justify or support how it determined the civilian pay requirements in its FY 2017 OMMC Budget Estimate Submission. Specifically, Marine Corps budget officials could not fully explain the rationale for their civilian pay budget adjustments and did not maintain documentation to support these adjustments.

(FOUO) In addition, the Marine Corps budget officials did not determine civilian pay funding levels using FTEs calculated from projected hours to be worked, as required by Office of Management and Budget Circular No. A-11.³ This occurred because Marine Corps budget officials calculated FTEs by dividing total dollars by a historic average cost per FTE. As a result, the Marine Corps under-budgeted its FTEs by █ percent even though the █ requested represented what was spent to pay civilian personnel for FY 2017. By not accurately budgeting FTEs that aligned with projected hours to be worked, the Marine Corps inaccurately represented its budgeted average cost of an FTE. The average cost per FTE is a ratio that provides context for comparing civilian pay across fiscal years.

Recommendations

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) establish and implement controls for the civilian pay budget process to ensure that budget officials document the calculations and assumptions used to support each

³ Office of Management and Budget Circular No. A-11, "Preparation, Submission, and Execution of the Budget," June 2015, provided guidance on estimating employment levels and calculating civilian pay requirements, and it required agencies to estimate budgets for civilian personnel requirements in terms of FTE employment.

Program Budget Information System adjustment made to civilian pay requirements. We also recommend that the Deputy Commandant of the Marine Corps, Programs and Resources, determine budgeted civilian pay funding levels using FTEs calculated based on projected hours to be worked, as required by Office of Management and Budget Circular No. A-11.

Management Comments and Our Response

The Director, Civilian Personnel and Business Operations Division, responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), agreed with the recommendation to establish and implement controls for the civilian pay budget process. The Director stated that the Department of the Navy has reviewed its FY 2020 President's Budget guidance to clearly articulate the need for substantiating data and source information. Additionally, the Department of the Navy is reviewing its civilian pay budget adjustments to ensure a transparent and fully verifiable budget from creation to completion.

The comments addressed the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the Department of the Navy's FY 2020 President's Budget guidance includes requirements for budget officials to fully document the calculations and assumptions used to support their budget adjustments.

The Deputy Commandant of the Marine Corps, Programs and Resources, did not respond to the recommendation to determine budgeted civilian pay funding levels using FTEs calculated based on projected hours to be worked; therefore, the recommendation is unresolved. We request that the Deputy Commandant provide comments on the final report.

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

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Assistant Secretary of the Navy (Financial Management and Comptroller)	None	A.1	None
Deputy Commandant of the Marine Corps, Programs and Resources	B.1	None	None

Please provide Management Comments by July 20, 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**

June 20, 2018

MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DEPUTY COMMANDANT OF THE MARINE CORPS,
PROGRAMS AND RESOURCES
NAVAL INSPECTOR GENERAL

SUBJECT: Department of the Navy Civilian Pay Budget Process (Report No. DODIG-2018-129)

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

The Deputy Commandant of the Marine Corps, Programs and Resources, did not respond to the recommendation in the draft report; however, we considered comments from the Director, Civilian Personnel and Business Operations Division, responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), when preparing the final report.

DoD Instruction 7650.03 requires that recommendations be resolved promptly. Comments from the Director, Civilian Personnel and Business Operations Division, conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments on Recommendation A.1. We request that the Deputy Commandant of the Marine Corps, Programs and Resources, comment on Recommendation B.1 by July 20, 2018.

Please send a PDF file containing your comments to audacs@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 cooperation and assistance received during the audit. Please direct questions to Mr. Patrick Nix at (703) 604-9332 (DSN 664-9332).

A handwritten signature in cursive script, reading "Theresa S. Hull".

Theresa S. Hull
Assistant Inspector General
Acquisition, Contracting, and Sustainment

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Acronyms and Abbreviations

Introduction

Objective

We determined whether Department of the Navy (DON) budget officials adequately supported and justified the civilian full-time equivalents (FTEs) and pay requirements in the DON FY 2017 Budget Estimate Submission (BES) for the Navy and Marine Corps.

This is the third in a series of audits in response to congressional direction that accompanied Public Law 114-113, “Consolidated Appropriations Act, 2016,” December 18, 2015.⁴ The first report focused on the process and source data that the Air Force used to determine its civilian pay requirements in the Operation and Maintenance (O&M) appropriation for its FY 2016 BES. The second report focused on the process that the Army used to determine its civilian pay requirements in the O&M appropriation for its FY 2017 BES. See the Appendix for a discussion of the scope, methodology, and prior audit coverage relating to this audit.

Background

Congressional Interest in Civilian Pay Budgeting

The Senate Committee on Appropriations, Subcommittee on Defense and House Committee on Appropriations, 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 civilian pay 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. The explanatory statement directs the DoD OIG to issue a report with recommendations for the DoD to formulate its civilian pay 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.

⁴ Public Law 114-113, Section 4, “Division C-Department of Defense Appropriations Act, 2016,” incorporates an explanatory statement, which contains the direction to the DoD Office of Inspector General.

Guidance on Calculating Civilian Personnel Requirements

Office of Management and Budget (OMB) Circular No. A-11, "Preparation, Submission, and Execution of the Budget," June 2015, provided guidance on estimating employment levels and calculating civilian pay requirements, and it required agencies to estimate budgets for civilian personnel requirements in terms of FTE employment.⁵ The OMB circular defined FTEs as the total number of regular straight-time hours worked, or to be worked, divided by the total number of compensable hours applicable to a fiscal year.⁶ In summary, an FTE is a unit of measure that quantifies the workload of an employee for a year.

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," provides guidance on formulating the O&M budget estimates and justifying the civilian pay budget to Congress. To supplement the DoD Financial Management Regulation, the Office of the Secretary of Defense (OSD) issued FY 2017 BES guidance, which provided instructions to the DON for submitting and supporting its BES data.

The DON Budget Guidance Manual, April 26, 2016, is an authoritative source of information for budget formulation and budget presentation. It provides detailed guidance to Budget Submitting Offices (BSOs) for the preparation and submission of budget estimates. In addition, the DON develops annual Budget Guidance Memorandums to supplement the DON Budget Guidance Manual.⁷ Budget Guidance Memorandum BG 15-1I states that the baseline for civilian personnel FTEs in the FY 2017 budget submission is the FY 2016 President's Budget.⁸ Any increases requested from those levels must be identified and justified by issue paper in the Program Budget Information System (PBIS), which is the Navy's official budgeting system. Budget officials at BSOs and the Office of the Deputy Assistant Secretary of the Navy for Budget (FMB) propose funding, quantity, and civilian resource budgetary updates to reflect the status of programs, and they prepare PBIS issue papers to document proposed changes to budget estimates. Issue papers can cover changes related to inter-appropriation transfers, functional transfers between BSOs, and emergent unfunded requirements.

⁵ OMB Circular No. A-11 was updated in July 2016 to provide guidance for the FY 2018 budget. We evaluated the DON's procedures for developing the FY 2017 BES using the June 2015 version of the OMB circular.

⁶ Compensable hours are the total number of hours that agencies can pay employees in a fiscal year.

⁷ The DON issued 17 Budget Guidance Memorandums for FY 2017.

⁸ Budget Guidance Memorandum BG 15-1I, "Guidance for the Preparation and Submission of the FY 2017 Program/Budget Estimates for the Department of the Navy (DON) Program/Budget Review," June 9, 2015.

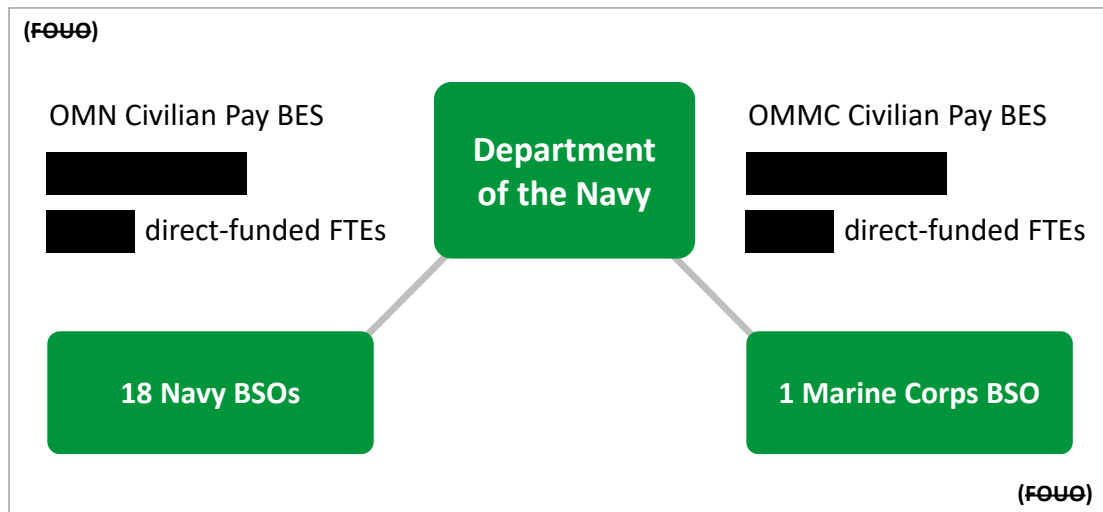
DON Civilian Pay Budget Process

The Assistant Secretary of the Navy (Financial Management and Comptroller) manages the DON’s financial activities, including the budget. FMB is responsible for formulating, justifying, and executing the DON budget, which includes both the Navy and Marine Corps. The Business and Civilian Resources Division is responsible for recommending and revising estimates for civilian personnel for inclusion in the budget and justification of these estimates to OSD and to Congress.

The DON has a decentralized budget process that involves 19 BSOs, one of which is the Marine Corps. The DON’s policy states that offices responsible for executing budgets should participate in developing budget estimates. Therefore, the BSOs submit budget estimates to FMB and are involved throughout the budget process. FMB issues budget guidance that is applicable to all of the BSOs, including the Marine Corps.

(FOUO) The DON requested [REDACTED] for civilian pay in its FY 2017 BES for its O&M appropriations.⁹ We focused our audit on direct-funded FTEs in the Operation and Maintenance, Navy (OMN) and Operation and Maintenance, Marine Corps (OMMC) appropriations, which accounted for [REDACTED], or [REDACTED] percent, of the O&M civilian pay.¹⁰ Figure 1 provides details about the civilian pay requirements in the FY 2017 BES for the OMN and OMMC appropriations.

(FOUO) Figure 1. DON Organization and Civilian Pay Budget Information



Source: Office of the Deputy Assistant Secretary of the Navy for Budget.

⁹ The DON has four O&M appropriations: (1) Operation and Maintenance, Navy; (2) Operation and Maintenance, Marine Corps; (3) Operation and Maintenance, Navy Reserve; and (4) Operation and Maintenance, Marine Corps Reserve.

¹⁰ Direct-funded refers to funding that is received from an original appropriation or account.

The DON's civilian pay budget process is part of the DoD's broader Planning, Programming, Budgeting, and Execution process, which is the DoD's annual process to determine funding requirements and allocate resources to satisfy those requirements.

The DON budget process consists of four phases.

1. The BSOs submit budget estimates to FMB.
2. The DON submits budget estimates to OSD and OMB for the President's Budget.
3. The President submits budget estimates to Congress.
4. Congress enacts appropriations.

Our audit focused on the BSOs' submissions of budget estimates to FMB and the DON's submission of the budget estimates to the OSD and OMB. The budget estimates submitted at each phase of the DON's budget process consist of estimated funding levels needed to fund projected FTEs. We reviewed the civilian pay budget process at three Navy BSOs—Commander, Navy Installations Command; Fleet Forces Command; and Pacific Fleet. We also reviewed the Marine Corps' civilian pay budget process.

Review of Internal Controls

(~~FOUO~~) 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.¹¹ We identified internal control weaknesses in the documentation supporting Navy and Marine Corps civilian pay budget adjustments. In addition, the Marine Corps budget officials deviated from OMB policy and did not determine their civilian pay funding levels from projected hours to be worked. Instead, Marine Corps officials calculated FTEs by dividing total dollars by a historic average cost per FTE, which resulted in under-budgeting FTEs by ■ percent. We will provide a copy of the report to the senior official responsible for internal controls in the DON.

¹¹ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding A

Navy Justified its Civilian Pay Budget Process, But Better Support is Needed

(FOUO) Although Navy budget officials could justify and explain the process used to develop the FY 2017 civilian pay budget, officials could not fully support how they developed the civilian pay requirements in the FY 2017 OMN BES. Navy BSOs used FTEs from the FY 2016 President's Budget as the starting point to develop their FY 2017 civilian pay budgets. Navy BSOs prepared initial budget estimates based on historical execution data, and they made adjustments to reflect expected future outcomes, such as approved program changes and anticipated pay raises. BSOs submitted issue papers in PBIS to document these adjustments to their budgets. FMB budget officials reviewed the BSO budget submissions and made additional pricing and FTE adjustments using PBIS issue papers. However, budget officials did not maintain sufficient documentation to support how they developed the FY 2017 civilian pay budget. Specifically, BSO and FMB budget officials did not ensure that PBIS issue papers included information about the source data, calculations, and assumptions used for the budget adjustments. When compared to FY 2017 execution, the Navy's [REDACTED] budget request represented the funding needed to pay its civilian personnel. However, maintaining more detailed documentation of budget calculations and assumptions would provide for retention of institutional knowledge and benefit budget officials building future budgets. Understanding the rationale and assumptions used in developing the budget each fiscal year would allow officials to compare budget realities with events that transpired during execution and allow decision makers to better understand budget changes across fiscal years.

Decentralized Civilian Pay Budget Process

(FOUO) The Navy used a decentralized budget process to build its FY 2017 civilian pay budget estimate and obtained budget inputs from the BSOs and their lower-level commands. Each BSO submitted its budget estimates through PBIS. FMB budget officials reviewed the BSO submissions using the Civilian Personnel Pricing Tool (CPT) and made other adjustments to build the civilian pay budget.¹² The Navy's FY 2017 BES requested [REDACTED] for civilian pay and [REDACTED] direct-funded FTEs. Table 1 shows the cost categories for the Navy's FY 2017 BES.

¹² The CPT is a tool that FMB budget officials used to evaluate civilian personnel pricing estimates.

(FOUO) Table 1. Cost Categories for Direct-Funded FTEs

(FOUO) Cost Category	Budget ¹	Percent
Basic Compensation	██████████	████
Benefits	██████████	████
Awards	██████████	████
Overtime	██████████	████
Holiday Pay	██████████	████
Lump-sum Leave	██████████	████
Other Labor ²	██████████	████
Total	██████████	100.0 (FOUO)

(FOUO) Basic compensation and benefits were █████ percent of civilian pay budget dollars.

(FOUO) The other civilian pay costs were █████ percent of civilian pay budget dollars.

¹ Dollars are in thousands.

² Other labor includes other compensation, payments to former employees (including foreign nationals), voluntary separation pay, early retirement, payments associated with the Federal Employees Compensation Act, unemployment, and permanent change of station.

Source: FY 2017 OMN BES data.

BSO Input to Civilian Pay Budget Estimates

Navy BSOs used FTEs from the FY 2016 President's Budget as the starting point to develop the FY 2017 civilian pay budget. BSOs used execution data to calculate average basic compensation amounts and benefits rates, which were used throughout the budget process. Budget officials also made adjustments for approved program changes, anticipated pay raises, and other expected future events. While BSO budget officials could justify and explain the process and methodologies they used and provide some supporting documentation, they were unable to provide full support for how they developed their FY 2017 civilian pay budgets.

DON Budget Guidance Memorandum BG 15-1I states that budget analysts should use pricing information that reflects past execution of funds when developing their budget submissions. Navy budget officials used historical execution data from FY 2014 and part of FY 2015, which was the most current execution data available, for the FY 2017 budget process. The Navy collected its execution data from the Work Year Personnel Cost (WYPC) system. WYPC is a Navy system that tracks civilian labor costs and hours worked by collecting data from the Defense Civilian Pay System. Using WYPC data, Navy budget officials can track civilian hours worked and calculate FTEs worked.¹³

¹³ FTEs are calculated by dividing the hours worked by the number of compensable hours in a fiscal year. OMB provides the number of compensable hours applicable for a given fiscal year.

Basic Compensation and Benefits

BSO budget officials explained that they used historical execution data from WYPC to calculate average basic compensation amounts and benefit rates. Average basic compensation is the total basic compensation paid divided by FTEs. The benefits rate is calculated by dividing the total amount of benefits paid by the total amount of basic compensation paid. These calculations are used as the basis for estimating civilian pay requirements and help the Navy determine the current price of the budget baseline, as well as any budget adjustments. Once budget officials calculated an average basic compensation amount, they multiplied that by the budgeted FTEs to determine a total estimated amount of basic compensation. The BSO budget officials then applied the average benefits rate as a percentage of the basic compensation to determine the budgeted benefits costs. BSO budget officials calculated the average basic compensation and benefits rates by pay schedule and various levels, including line item, command, or unit level.

BSO budget officials provided justification and some support for their calculations of basic compensation and benefits throughout the budget process. For example, officials at Fleet Forces Command and Pacific Fleet demonstrated how they used their budgeting system to calculate average compensation and benefits rates pertaining to the FY 2019 budget.¹⁴ However, budget officials stated that they could not provide the calculations related to the FY 2017 budget because the system does not maintain historical calculations. Officials explained that the system is updated with new information once a budget cycle is complete. Although budget officials at Pacific Fleet manually recreated some of the calculations from the FY 2017 civilian pay budget process using WYPC data, they could not fully support how they calculated basic compensation and benefits for the FY 2017 budget.

Other Civilian Pay Costs

BSO budget officials also estimated other costs associated with civilian pay compensation, such as overtime, awards, and holiday pay. BSOs independently budgeted for these other civilian pay costs. BSO budget analysts considered past execution data and expected future events to develop their estimates.

- For overtime budget estimates, BSOs considered mission requirements and planned future workloads to estimate overtime costs. For example, Pacific Fleet's lower activities used a pricing model from the Office of the Chief of Naval Operations' capability plan to estimate overtime for anticipated workload.

¹⁴ Budget officials at Fleet Forces Command and Pacific Fleet used the Civilian Budget Module, which is part of the Command Financial Management System.

- For awards budget estimates, DON policy states that budget estimates for awards should be no greater than 1 percent of basic compensation. According to BSO budget officials, they generally used execution data to calculate a rate and applied that rate to budget for awards as long as the award rates were 1 percent of basic compensation or less.

Civilian Personnel Pricing Tool

FMB budget officials used the CPT as a budget control that assessed the basic compensation, benefits, and FTEs of each BSO's budget submission to ensure the budget line item averages corresponded to historical execution data. For the FY 2017 budget, the CPT used WYPC execution data from FY 2014 and the first 6 months of FY 2015. The CPT incorporated pay raise rates to inflate the execution data to the current budget year, and compared each BSO's budget submission information to projected amounts. The CPT recommended changes to a BSO's civilian pay budget, to adjust either the dollars or FTEs, in order to bring the average cost per FTE in line with historical execution costs. BSO and FMB officials discussed the recommendations and came to agreement on whether or not an adjustment was necessary.

(~~FOUO~~) For example, Fleet Forces Command did not implement the CPT recommendations for its FY 2017 budget submission. Specifically, the CPT recommended a decrease of [REDACTED] for the ship maintenance budget line item to bring the average cost per FTE in line with historical execution costs. Fleet Forces Command budget officials provided a justification to FMB officials stating that they did not make this adjustment because they had more accurate information that did not support the decrease. The budget system used by Fleet Forces Command provided information at the program element and sub-command levels, while the CPT considered adjustments at a higher line item level. FMB budget officials accepted Fleet Forces Command's justification for not making the CPT's recommended adjustment.

(~~FOUO~~) In another example, the Commander, Navy Installations Command (CNIC) made adjustments based on CPT recommendations to bring the average cost per FTE in line with historical execution costs. The PBIS issue paper associated with the adjustment did not provide details regarding the calculations and assumptions used for the adjustment. However, CNIC officials provided the audit team with explanation and supporting documentation that outlined the adjustment, including CNIC's CPT submission. Although the CPT recommended a reduction of [REDACTED] FTEs, CNIC officials adjusted the budget with a reduction of [REDACTED] FTEs. A CNIC budget official explained to the audit team that her office worked with program directors

(FOUO) to compare requirements with execution data and determine an appropriate decrease in budgetary resources. The official provided the audit team with supporting documentation to show a breakout by program area of the [REDACTED] FTEs identified for reduction. The CNIC official stated that her office coordinated with FMB regarding the adjustment, which FMB accepted.

The CPT reviews the budget at the line item level, which is the way the budget is presented to Congress. BSOs develop and manage their budget at an operational unit level. Having these two different perspectives provided more precision in the Navy's budgeting.

Other Budget Adjustments

FMB officials also made budget changes to capture expected future outcomes for the FY 2017 budget and developed PBIS issue papers to document these adjustments.

- (FOUO) Officials made budget adjustments to reflect a pay raise change. When BSOs developed their FY 2017 civilian pay budgets, they followed OMB Circular No. A 11, which stated that agencies should use 1.3 percent as their estimate of the pay raise for January 2017, but should anticipate revising pay raise amounts after the President made a pay raise decision. OSD subsequently issued guidance that the civilian pay raise assumption for FY 2017 should be 1.6 percent. FMB officials calculated the impact of this adjustment at the appropriation, BSO, line item, and program levels. The total OMN adjustment for direct-funded FTEs was [REDACTED] with no FTE impact.
- (FOUO) Officials adjusted the budget for locality pay changes. The Office of Personnel Management issued a ruling in October 2015 that created 13 new locality pay areas and added a number of counties to current locality pay areas. FMB budget officials, in coordination with BSO budget officials, identified personnel affected by this ruling and determined the associated pricing impact. The adjustment increased OMN dollars by [REDACTED] with no FTE impact.

The PBIS documentation for these issue papers did not show any calculations or methodology used for the pay raise and locality adjustments; however, FMB officials provided the audit team with explanations of the methodology they used for the adjustments and documentation to justify and support the calculations performed. Furthermore, the adjustment amounts from the supporting documentation matched the adjustments recorded in PBIS for both issue papers.

Additional Support Needed for Budget Adjustments

BSO and FMB budget officials used PBIS issue papers to document adjustments to the civilian pay budget for FY 2017. The PBIS issue papers showed the net budgetary impact of the adjustments, but they did not contain sufficient details to understand the basis for the adjustments. Specifically, PBIS issue papers generally did not include an explanation of the source data, assumptions, and calculations used for the budget adjustments. Budget officials responsible for the adjustments often needed to provide the audit team with further explanation to supplement the PBIS issue paper narratives or provide supporting documentation from their personal archives.

Of the 41 issue papers reviewed, 1 was adequately supported by PBIS documentation, 20 were supported by supplemental information that BSO or FMB officials provided to the audit team, and the remaining 20 issue paper adjustments were not adequately supported. Budget officials provided some basic explanation about these adjustments, but could not provide documentation related to the pricing data, assumptions, or calculations used for the adjustments.

Of the 41 issue papers reviewed, 15 related to the transfer of civilian personnel between BSOs. Of the 15 issue papers, we found that 10 were supported by supplemental information in the form of NC-4 exhibits.¹⁵ The DON Budget Guidance Manual states that BSOs should use NC-4 exhibits to document personnel transfers. The NC-4 exhibits showed the FTEs and the related civilian personnel costs that were associated with the transfers, and the comptrollers from both the gaining and losing BSOs signed the exhibits. We determined that one functional transfer was not supported because the dollar amounts on the NC-4 exhibit did not match what was recorded in PBIS. Budget officials could not provide NC-4 exhibits or other supporting documentation for the remaining four issue papers.

In another example, FMB budget officials documented an adjustment to refine FTE profiles. The Executive Summary section of the PBIS issue paper documentation states, "This issue is used to make necessary FTE changes in FY16-17 in preparation of the FY17 President's Budget submission." The PBIS issue paper did not provide any information regarding the rationale or calculations used for the adjustment. FMB budget officials explained that after they had the results of FY 2015 execution data, they made this adjustment in coordination with the BSOs to ensure that the FYs 2015 through 2017 civilian personnel profile was defensible to Congress. Officials stated that there was no standard methodology for the adjustments; FMB analysts used their experience with a respective

¹⁵ "Department of the Navy, Functional Transfer – NC-4 Exhibit," is a form the Navy used to document the transfer of personnel between BSOs.

command to identify any unjustifiable year-to-year changes, then made adjustments at the line item level to make a smooth trend line. However, FMB budget officials could not provide any supporting documentation to show the specific rationale and calculations that led to the FTE profile adjustments.

BSO and FMB budget officials could improve their budget processes by maintaining more detailed support for pricing and FTE adjustments. DON Budget Guidance Memorandum BG 15-1I stated that budget changes must be identified and fully justified by issue paper in PBIS; however, it did not specify the extent that the changes and the associated justifications need to be documented. Specifically, the memorandum did not require budget officials to include information about the source data, calculations, and assumptions used for the adjustments in PBIS issue papers.



Documentation of calculations and assumptions underlying budget development would provide for retention of institutional knowledge and would benefit budget officials building future budgets. Understanding the rationale and assumptions used in developing the budget each fiscal year would allow officials to compare budget realities with events that transpired during execution and allow decision makers to better understand budget changes across fiscal years. Having source data, assumptions, and calculations documented and available would also allow DON officials to better defend budget requests. OMB Circular No. A-11 requires that any increases in average compensation for the budget year must be explicitly justified. Better documentation related to budget development would support this requirement. The Navy should establish and implement controls for the civilian pay budget process to ensure that budget officials document the calculations, source data, and assumptions used to support each PBIS adjustment made to civilian pay requirements.

Navy Budget Represented Funding Needed

(FOUO) The Navy’s FY 2017 budget request of [REDACTED] represented the funding needed to pay its civilian personnel. The Navy’s FY 2017 civilian pay budget estimate was [REDACTED] percent less than its actual FY 2017 expenditures of \$9.1 billion, a [REDACTED] difference. The Navy also budgeted for [REDACTED] FTEs, which was [REDACTED] percent higher than the actual 82,446 FTEs the Navy executed in FY 2017. As Tables 2 and 3 show, historically the Navy’s budgeted civilian pay costs and FTEs have been in line with actual expenditures and hours worked.

(FOUO) Table 2. Navy Historical Civilian Pay Trend Data

(FOUO)				
Total Civilian Pay Cost				
Fiscal Year	Budget*	Actual*	Amount Over or Under Actuals*	Percent Over or Under Actuals
2014	██████████	\$8,109,891	██████████	██████████
2015	██████████	8,457,292	██████████	██████████
2016	██████████	8,911,283	██████████	██████████
2017	██████████	9,078,018	██████████	██████████ (FOUO)

* Dollars are in thousands.

Source: OMN BES and actual expenditure data.

(FOUO) Table 3. Navy Historical FTE Trend Data

(FOUO)				
Full-time Equivalents				
Fiscal Year	Budget	Actual	Amount Over Actuals	Percent Over Actuals
2014	██████████	77,520	██████████	██████████
2015	██████████	79,694	██████████	██████████
2016	██████████	83,002	██████████	██████████
2017	██████████	82,446	██████████	██████████ (FOUO)

Source: OMN BES and actual expenditure data.

(FOUO) The Navy's budgeted average cost of an FTE for FY 2017 was ██████████, which was ██████████ percent) less than the actual average cost of \$110,109.¹⁶ The higher actual average cost per FTE is largely attributable to the Navy's under-budgeting for other civilian pay costs not attributed to basic compensation and benefits, which are not associated with FTEs. Table 4 shows the cost categories with differences between the FY 2017 budgeted and actual amounts that affected the average cost of an FTE.

¹⁶ We calculated the average cost of an FTE by dividing total civilian pay dollars by FTEs.

(FOUO) Table 4. Cost Category Differences Between Budgeted and Actual Amounts

(FOUO) Cost Category	Budget ¹	Actual ¹	Amount Over or Under Actuals ¹	Percent Over or Under Actuals
Basic Compensation and Benefits	██████████	\$8,294,774	██████████	██████████
Other Civilian Pay Costs	██████████	783,244	██████████	██████████
<i>Awards</i>	██████████	91,381	██████████	██████████
<i>Overtime</i>	██████████	372,543	██████████	██████████
<i>Holiday Pay</i>	██████████	6,768	██████████	██████████
<i>Lump-sum Leave</i>	██████████	35,492	██████████	██████████
<i>Other Labor</i> ²	██████████	277,060	██████████	██████████
Total	██████████	\$9,078,018	██████████	██████████ (FOUO)

¹ Dollars are in thousands.

² Other labor includes other compensation, payments to former employees (including foreign nationals), voluntary separation pay, early retirement, payments associated with the Federal Employees Compensation Act, unemployment, and permanent change of station.

Source: FY 2017 OMN BES and actual expenditure data.

(FOUO) Basic compensation and benefits accounted for ██████ percent of the Navy’s FY 2017 civilian pay budget estimate and the other civilian pay costs accounted for ██████ percent. The Navy budgeted within ██████ percent of actual expenditures for the basic compensation and benefits; however, the Navy under-budgeted its other civilian pay costs by ████████████████████, or ██████ percent. These costs accounted for ██████ percent of the ████████████████████ difference between budgeted and actual civilian pay dollars.

(FOUO) To illustrate how under-budgeting for other civilian pay costs impacted the budgeted average cost of an FTE, we calculated what the Navy’s budgeted average FTE cost would have been if the budgeted amounts for overtime and awards had been the same as the execution amounts for FY 2017. We identified that the Navy under-budgeted its overtime and awards costs by ████████████████████ and ████████████████████, respectively. Had the Navy budgeted an additional ████████████████████, the total civilian pay dollars would have increased while the FTEs remained the same. Therefore, the budgeted average cost of an FTE would have increased by ██████, resulting in only a ██████ percent difference between the budgeted and actual average cost of an FTE.

(~~FOUO~~) An FMB budget official explained that budgeting for other civilian pay costs not associated with basic compensation and benefits is challenging because the situation in the year of execution is often different from when officials developed the budget. For example, in FY 2017, the Federal Government experienced a hiring freeze. The FMB official stated that the Navy's workload remained the same or increased even though activities could not hire additional personnel, which resulted in the need to pay overtime. Regarding awards, the FMB official explained that the DON awards budget was limited to 1 percent of basic compensation for FY 2017. However, OMB subsequently issued guidance for the amount of awards that could be paid, which was 1.5 percent for FY 2017. The Navy's budgeted awards amount of [REDACTED] was [REDACTED] percent of basic compensation, and the Navy actually spent \$91.4 million, or 1.5 percent of basic compensation.

To budget for other civilian pay costs, Navy officials considered historical execution data as well as anticipated future outcomes. BSOs provided input on these costs also seeking data from their lower level commands to justify funding requirements. However, even with using such data, estimating the cost of overtime, holiday, awards, and lump-sum leave remains a challenge because the historic data and anticipated future events might not reflect the budget year's operating environment.

Conclusion

(~~FOUO~~) The Navy could justify and explain the process used to develop the civilian pay requirements in its FY 2017 OMN BES. In addition, when compared to FY 2017 execution, the Navy's [REDACTED] budget request represented the funding needed to pay its civilian personnel. However, BSO and FMB budget officials should improve their process by maintaining more detailed support for budget adjustments, including information about the source data, calculations, and assumptions used. Maintaining more detailed documentation of budget calculations and assumptions would provide for retention of institutional knowledge and allow decision makers to better understand budget changes across fiscal years.

Recommendation, Management Comments, and Our Response

Recommendation A.1

We recommend that the Assistant Secretary of the Navy (Financial Management and Comptroller) establish and implement controls for the civilian pay budget process to ensure that budget officials document the calculations and assumptions used to support each Program Budget Information System adjustment made to civilian pay requirements.

Assistant Secretary of the Navy (Financial Management and Comptroller), Civilian Personnel and Business Operations Division Comments

The Director, Civilian Personnel and Business Operations Division, responding for the Assistant Secretary of the Navy (Financial Management and Comptroller), agreed with the recommendation, stating that the Department of the Navy has reviewed its FY 2020 President's Budget guidance to clearly articulate the need for substantiating data and source information. Additionally, the Department of the Navy is reviewing its civilian pay budget adjustments to ensure a transparent and fully verifiable budget from creation to completion. The Director stated that through these actions, the Department of the Navy will reflect the DoD OIG recommendation with the submission of the FY 2020 President's Budget.

Our Response

Comments from the Director, Civilian Personnel and Business Operations Division, addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that the Department of the Navy's FY 2020 President's Budget guidance includes requirements for budget officials to fully document the calculations and assumptions used to support their budget adjustments.

Finding B

Marine Corps Civilian Pay Budget Requirements Not Justified or Supported

(FOUO) The Marine Corps could not justify or support how it determined the civilian pay requirements in its FY 2017 OMMC BES. Specifically, Marine Corps budget officials could not fully explain the rationale for their civilian pay budget adjustments and did not maintain documentation to support these adjustments. In addition, the Marine Corps budget officials did not determine civilian pay funding levels using FTEs calculated from projected hours to be worked, as required by OMB. This occurred because Marine Corps budget officials calculated FTEs by dividing total dollars by a historical average cost per FTE. As a result, the Marine Corps under-budgeted its FTEs by █ percent even though the █ requested represented what was spent to pay civilian personnel for FY 2017.

Officials Could Not Provide Support for Budget Calculations

(FOUO) The Marine Corps could not fully support the civilian pay funding and FTE estimates in its FY 2017 OMMC BES, which requested █ for civilian pay and █ direct-funded FTEs. Table 5 shows the cost categories for the Marine Corps' FY 2017 BES.

(FOUO) Table 5. Cost Categories for Direct-Funded FTEs

(FOUO) Cost Category	Budget ¹	Percent
Basic Compensation	█	█
Benefits	█	█
Awards	█	█
Overtime	█	█
Holiday Pay	█	█
Lump-sum Leave	█	█
Other Labor ²	█	█
Total	█	100.0 (FOUO)

(FOUO) Basic compensation and benefits were █ percent of civilian pay budget dollars.

(FOUO) The other civilian pay costs were █ percent of civilian pay budget dollars.

¹ Dollars are in thousands.

² Other labor includes other compensation, payments to former employees (including foreign nationals), voluntary separation pay, early retirement, payments associated with the Federal Employees Compensation Act, unemployment, and permanent change of station.

Source: FY 2017 OMMC BES data.

The Marine Corps used FTEs and dollars reported in the FY 2016 President’s Budget as the starting point to develop the FY 2017 civilian pay budget. The Marine Corps and FMB budget officials made adjustments for approved program changes, anticipated pay raises, and other expected future events in the FY 2017 civilian pay budget. Marine Corps budget officials provided a general explanation of their budget process to the audit team but officials could not justify or provide support to show how they calculated average basic compensation amounts and benefit rates.

Officials could not justify or provide support to show how they calculated average basic compensation amounts and benefit rates.

(FOUO) In addition, Marine Corps budget officials stated that they used execution data for determining budgeted amounts for the other civilian pay costs, such as overtime, holiday pay, and awards; however, budget officials were unable to provide support or discuss how execution data was used for these calculations. For example, budget officials stated that they used execution data to estimate holiday pay in FY 2017. The Marine Corps historically executed an average of \$2.4 million for holiday pay in FYs 2014 through 2016; however, the Marine Corps’ budget request included only [REDACTED] for holiday pay in FY 2017 and [REDACTED] in FYs 2014 through 2016. Officials could not explain how they calculated the [REDACTED] or why it was significantly lower than historical execution.

(FOUO) Marine Corps budget officials used PBIS issue papers to document adjustments to the civilian pay budget; however, the officials were unable to explain or provide support regarding the calculation of the civilian pay dollars and FTEs associated with these adjustments. We reviewed 11 PBIS issue papers related to Marine Corps program changes, transfers, and pricing adjustments, and found that none of the PBIS issue papers contained adequate support for the budget adjustments to civilian pay requirements. Specifically, the issues papers did not contain the basis for the budget adjustments. Marine Corps and FMB budget officials were able to provide supplemental explanation and supporting documentation to show calculations for the adjustments for 3 of the 11 issue papers. For example, one issue paper provided [REDACTED] additional FTEs and [REDACTED] for various civilian positions at the Marine Corps Information Operations Center and Marine Corps Training and Education Command. Although the PBIS issue paper did not show any calculations or methodology used to price the FTEs, Marine Corps budget officials provided supporting documentation during our audit that included a pricing breakout of the FTEs by pay grade and location. Budget officials could not provide support for the calculations and methodology used to develop the remaining eight issue papers.

One of those issue papers was related to the Marine Corps' use of the CPT. The CPT recommended FTE and dollar adjustments to the Marine Corps' budget submission so that the line item averages were in line with historical execution data. Marine Corps budget officials stated that they generally address the CPT recommendations by adjusting the FTEs so they do not have to adjust or reduce their requested civilian pay funding levels. However, Marine Corps budget officials could not explain how they specifically addressed the CPT recommendations for the FY 2017 budget.

Budget Guidance Memorandum 15-1I identified a specific PBIS issue paper number that BSOs should use to make their CPT adjustments; however, the Marine Corps budget officials used a different PBIS issue paper for their CPT adjustments. In addition, the Marine Corps budget officials stated that they consolidated several additional adjustments that were not related to the CPT recommendations into the same issue paper. However, officials could not provide any information or supporting documentation about these adjustments. Because the issue paper only identified net changes to the budget, it was not possible to differentiate the CPT adjustments from the other adjustments. The issue paper documentation in PBIS did not provide sufficient details about the adjustments, so it was not clear how the Marine Corps made the adjustments related to the CPT recommendations.

To correct the shortcomings related to the PBIS issue paper documentation, we made a recommendation in Finding A to the Assistant Secretary of the Navy (Financial Management and Comptroller) to establish and implement controls for the civilian pay budget process to ensure that budget officials document the calculations and assumptions used to support adjustments made to civilian pay requirements. Because such controls would also apply to the Marine Corps, we are not making a separate recommendation to the Marine Corps.

Budgeted FTEs Not Based on Projected Work Hours

Marine Corps budget officials did not determine civilian pay funding levels from FTEs, as required by OMB. OMB Circular No. A-11 requires agencies to prepare budget estimates relating to personnel requirements in terms of FTE employment by dividing the estimated total number of regular hours to be worked by the number of compensable hours in the fiscal year. Instead of building the civilian pay budget using FTEs based on projected hours to be worked, Marine Corps budget officials calculated FTEs by dividing total dollars by a historical average cost per FTE. In addition, Marine Corps budget officials stated that they considered FTEs

the same as end strength for budget purposes.¹⁷ Marine Corps budget officials assumed that one person would be on board for an entire year, even though the officials acknowledged this was not expected to be the reality during execution because of factors such as attrition and hiring delays.

For FY 2017 issue papers related to program changes, Marine Corps budget officials generally budgeted one FTE for one end strength. In addition, the Marine Corps' President's Budget exhibits for FYs 2015 through 2017 reported close comparisons between FTEs and end strength. However, as shown in Table 6, the Marine Corps' execution showed different results.

Table 6. Comparison of Budgeted and Actual FTEs and End Strength

FY	Budget Comparison			Actual Execution Comparison		
	Budgeted FTEs	Budgeted End Strength	Difference	Actual FTEs	Actual End Strength	Difference
2015	17,127	17,138	11	16,809	16,408	401
2016	16,464	16,465	1	15,471	15,633	162
2017	16,168	16,170	2	17,817	18,632	815

Source: President's Budget.

Marine Corps budget officials stated that they struggled to effectively budget for FTEs. Budget officials explained that the focus when developing the budget was for the civilian pay dollars to capture accurate civilian pay funding because the Marine Corps gives its Commands a payroll budget and the authority to execute to the dollars, not the FTEs. Budget officials also stated that Commands do not provide direct input to the civilian pay budget. Without considering planned FTE use, the Marine Corps civilian pay budget does not comply with OMB guidance, which states that budget estimates should be based on hours to be worked. Marine Corps budget officials should comply with OMB Circular No. A-11 and build their civilian pay budget using FTEs calculated based on projected hours to be worked.

Marine Corps Budget Did Not Reflect FTEs Needed

(FOUO) Although the Marine Corps' [REDACTED] budget request represented what was spent to pay civilian personnel, the FY 2017 budgeted FTEs did not accurately reflect actual execution. The Marine Corps FY 2017 civilian pay budget estimate reflected a [REDACTED] difference between budgeted and actual expenditures, which is a [REDACTED] percent difference. Table 7 shows that for FYs 2014 to 2017, the Marine Corps has consistently executed its civilian pay budget dollars.

¹⁷ End strength is the total number of personnel on board at the end of a fiscal year or other point in time.

(FOUO) Table 7. Marine Corps Historical Civilian Pay Trend Data

(FOUO)				
Total Civilian Pay Cost				
Fiscal Year	Budget*	Actual*	Amount Over or Under Actuals*	Percent Over or Under Actuals
2014	████████	\$1,705,893	████████	██
2015	████████	1,679,598	████████	██
2016	████████	1,676,130	████████	██
2017	████████	1,696,736	████████	██ (FOUO)

* Dollars are in thousands.

Source: OMMC BES and actual expenditure data.

While the Marine Corps closely budgeted its basic compensation, benefits, and other civilian pay cost categories, the Marine Corps was not so precise in its FTE estimate. Table 8 shows the historical variation between budgeted and actual FTEs. From FYs 2014 to 2017, the Marine Corps' budget estimates showed a gradual decrease in FTEs, while actual FTEs did not show such a trend.

(FOUO) Table 8. Marine Corps Historical FTE Trend Data

(FOUO)				
Full-time Equivalents				
Fiscal Year	Budget	Actual	Amount Over Actuals	Percent Over Actuals
2014	████████	17,290	██	██
2015	████████	16,809	██	██
2016	████████	15,471	████████	██
2017	████████	17,817	████████	██ (FOUO)

Source: OMMC BES and actual expenditure data.

(FOUO) The Marine Corps under-budgeted its FY 2017 FTEs by ██████, or ██████ percent. Under-budgeting FTEs greatly affected the average cost of an FTE. Specifically, the Marine Corps' budgeted average cost of an FTE was ██████, which was ██████ percent) higher than the actual average cost of \$95,231. By not accurately budgeting FTEs that aligned with projected hours to be worked, the Marine Corps inaccurately represented its budgeted average cost of an FTE. The average cost of an FTE is a ratio that provides context for comparing civilian pay across fiscal years.

Conclusion

(FOUO) The Marine Corps could not support how it determined the civilian pay requirements in its FY 2017 OMMC BES and did not maintain documentation to support civilian pay budget adjustments. Furthermore, Marine Corps budget officials could not justify or fully explain the rationale for these adjustments or how they calculated average basic compensation amounts and benefits rates. In addition, Marine Corps budget officials did not determine civilian pay funding levels using FTEs calculated from projected hours to be worked, as required by OMB Circular No. A-11. Instead, Marine Corps budget officials calculated FTEs by dividing total dollars by a historic average cost per FTE. This resulted in the Marine Corps under budgeting FTEs by ■ percent even though the Marine Corps' ■ budget request represented what was spent on civilian pay. In the future, the Marine Corps needs to determine FTEs in accordance with OMB Circular No. A-11 and use the resulting FTE figure and fully supported average basic compensation amounts and benefit rates to derive the civilian pay requirements shown in its budget submissions.

Recommendation, Management Comments, and Our Response

Recommendation B.1

We recommend that the Deputy Commandant of the Marine Corps, Programs and Resources, determine budgeted civilian pay funding levels using full-time equivalents calculated based on projected hours to be worked, as required by Office of Management and Budget Circular No. A-11.

Management Comments Required

The Deputy Commandant of the Marine Corps, Programs and Resources, did not respond to the recommendation in the report. Therefore, the recommendation is unresolved. We request that the Deputy Commandant provide comments on the final report.

Appendix

Scope and Methodology

We conducted this performance audit from March 2017 through May 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

(FOUO) We focused our audit on the direct-funded portion of the DON's civilian pay budget, which includes both the Navy and Marine Corps. The OMN budget submission was [REDACTED] billion for [REDACTED] direct-funded FTEs, and the OMMC budget submission was [REDACTED] for [REDACTED] direct-funded FTEs. We focused on the direct-funded portion of the civilian pay budget because it accounted for the majority of the DON's civilian pay requirements in the OMN and OMMC appropriations. Within the OMN appropriation, we reviewed the budget process for the top three Navy BSOs—Commander, Navy Installations Command; Fleet Forces Command; and Pacific Fleet. Of the Navy's [REDACTED] direct-funded OMN civilian personnel budget, these three BSOs accounted for [REDACTED] percent) and [REDACTED] direct-funded FTEs [REDACTED] percent). We also reviewed the Marine Corps BSO budget process. In total, we reviewed the budget process at four BSOs, which accounted for [REDACTED] percent of the direct-funded FTEs and [REDACTED] percent of the direct-funded dollars in the FY 2017 BES for the OMN and OMMC appropriations.

We reviewed OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," June 2015, which provided guidance for preparing the FY 2017 budget. We also reviewed DON policies, including the DON Budget Guidance Manual, April 26, 2016, and Budget Guidance Memorandum BG 15-1I, "Guidance for the Preparation and Submission of the FY 2017 Program/Budget Estimates for the Department of the Navy (DON) Program/Budget Review," June 9, 2015.

We interviewed budget officials from the:

- Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Budget, Civilian Personnel and Information Technology Branch;
- Fleet Forces Command, Comptroller Department;
- Pacific Fleet, Ship Maintenance and Fleet Support Branch;

- Commander, Navy Installations Command N81 Budget Formulation and Execution Branch; and
- Headquarters Marine Corps, Programs and Resources, Budget Formulation Branch.

Specifically, we discussed how the FMB, Navy, and Marine Corps budget officials calculated the total civilian basic compensation, benefits, other civilian pay cost categories, and civilian FTEs in the FY 2017 BES. We determined whether budget officials could justify and explain the process and calculations they used and whether they maintained support for how they developed their budget estimates. We also reviewed the CPT and the data and formulas it used to recommend adjustments to the civilian pay budget. We reviewed the FY 2017 CPT submissions for the Commander, Navy Installations Command; Fleet Forces Command; Pacific Fleet; and the Marine Corps.

We obtained a PBIS query to identify issue papers related to the FY 2017 civilian pay budget. We reviewed a nonstatistical sample of 41 Navy and 11 Marine Corps issue papers and supporting documentation, and discussed these issue papers with BSO and FMB officials. Specifically, we reviewed issue papers related to the Program Objective Memorandum that increased civilian pay requirements. We reviewed issue papers associated with pricing and budgetary changes and we reviewed FMB adjustments for pay raise and locality pay changes. We did not review issue papers associated with Secretary of Defense decisions and issue papers that had no overall impact to a BSO's FY 2017 civilian pay budget.

We analyzed FY 2017 BES data for the direct-funded portion of the OMN and OMMC appropriations. We compared civilian pay costs and FTEs reported in the FY 2017 BES with actual FY 2017 execution data and presented the differences in our report. To identify historical trends, we also compared and presented the differences between budgeted and actual civilian pay costs and FTEs for FYs 2014 through 2016. We reviewed the Marine Corps' President's Budget exhibits for FYs 2015 through 2017 to compare budgeted and actual FTEs and end strength.

Use of Computer-Processed Data

We did not rely on computer-processed data for the findings and conclusions of this report.

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the DoD OIG issued four reports discussing the DoD's civilian pay budget process. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

GAO

Report No. GAO-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 has 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.

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 do 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 these organizations. Moreover, until the DoD determines personnel requirements, Congress will not have critical information needed to reexamine statutory limits for personnel levels.

DoD OIG

DODIG-2018-055, "The U.S. Army Civilian Pay Budget Process," March 8, 2018

This audit was the second in the series in response to Public Law 114-113, "Consolidated Appropriations Act, 2016," December 18, 2015. The DoD OIG found that the Army did not fully justify the FY 2017 civilian pay request in its BES. Army 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. Therefore, the Army over estimated its FY 2017 O&M civilian pay budget request. Additionally, Army budget officials over estimated civilian FTEs in the FY 2017 BES. Army officials misused civilian pay budget policy to pay for underfunded non-pay operating expenses.

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 civilian pay requirements used to develop its FY 2016 BES. Air Force budget officials incorrectly calculated FTEs to estimate the cost of their civilian pay requirements. Therefore, the Air Force's FY 2016 civilian pay budget request was not sufficient to pay its civilian personnel, resulting in the Air Force requesting additional funding to correct its civilian pay shortfall.

Management Comments

Assistant Secretary of the Navy (Financial Management and Comptroller)



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(FINANCIAL MANAGEMENT AND COMPTROLLER)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

JUN 04 2018

MEMORANDUM FOR DISTRIBUTION

SUBJECT: RESPONSE TO DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR
GENERAL RECOMMENDATION A.1 ON THE DEPARTMENT OF THE
NAVY CIVILIAN PAY BUDGET PROCESS

Reference: DoDIG Project D2017-D000AG-0092.000, Department of the Navy Civilian
Pay Budget Process, May 2018

1. Purpose. This memorandum is to respond to recommendation A.1 included in the Department of Defense Inspector General (DoDIG) report on the Department of the Navy (DON) Civilian Pay Budget Process.

2. Background. The FY 2016 Consolidated Appropriations Act (Public Law 114-113, Dec 2015) directed the DoDIG to report on the Military Services' civilian compensation program and civilian Full-Time Equivalents levels. The DON report follows on similar studies of the Army and Air Force that are now concluded. DoDIG reviewed the budget process for an entire cycle, from the DON internal review through the FY 2019 submission of the President's Budget. They interacted with the Office of Budget (FMB), three Navy Budget Submitting Offices, and the Marine Corps.

At the conclusion of their review, DoDIG issued the draft report and requested the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) OASN (FM&C) to respond to Recommendation A.1 and the Deputy Commandant of the Marine Corps, Programs and Resources, to respond to Recommendation B.1.

3. Action. OASN (FM&C) (FMB), responding on the behalf of the OASN (FM&C), concurs with the Navy recommendation (A.1). FMB creates and manages budget guidance. As such, the DON has already reviewed our FY 2020 President's Budget guidance to clearly articulate the need for substantiating data and source information, as recommended in this DODIG report. Additionally, the DON is reviewing civilian pay budget adjustments made internally and ensuring the same transparency to support a fully verifiable budget from creation to completion. Through these actions the DON will reflect the DODIG recommendation with the submission of the FY 2020 President's Budget.

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

Subj: RESPONSE TO DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR
GENERAL RECOMMENDATION A.1 ON THE DEPARTMENT OF THE
NAVY CIVILIAN PAY BUDGET PROCESS

5. Point of contact. Questions and concerns should be directed to [REDACTED].



Paul S. Landauer
Director
Civilian Personnel and Business Operations
Division (FMB-4)

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Acronyms and Abbreviations

BES	Budget Estimate Submission
BSO	Budget Submitting Office
CNIC	Commander, Navy Installations Command
CPT	Civilian Personnel Pricing Tool
DON	Department of the Navy
FMB	Office of the Deputy Assistant Secretary of the Navy for Budget
FTE	Full-Time Equivalent
O&M	Operation and Maintenance
OMB	Office of Management and Budget
OMMC	Operation and Maintenance, Marine Corps
OMN	Operation and Maintenance, Navy
OSD	Office of the Secretary of Defense
PBIS	Program Budget Information System
WYPC	Work Year Personnel Cost

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