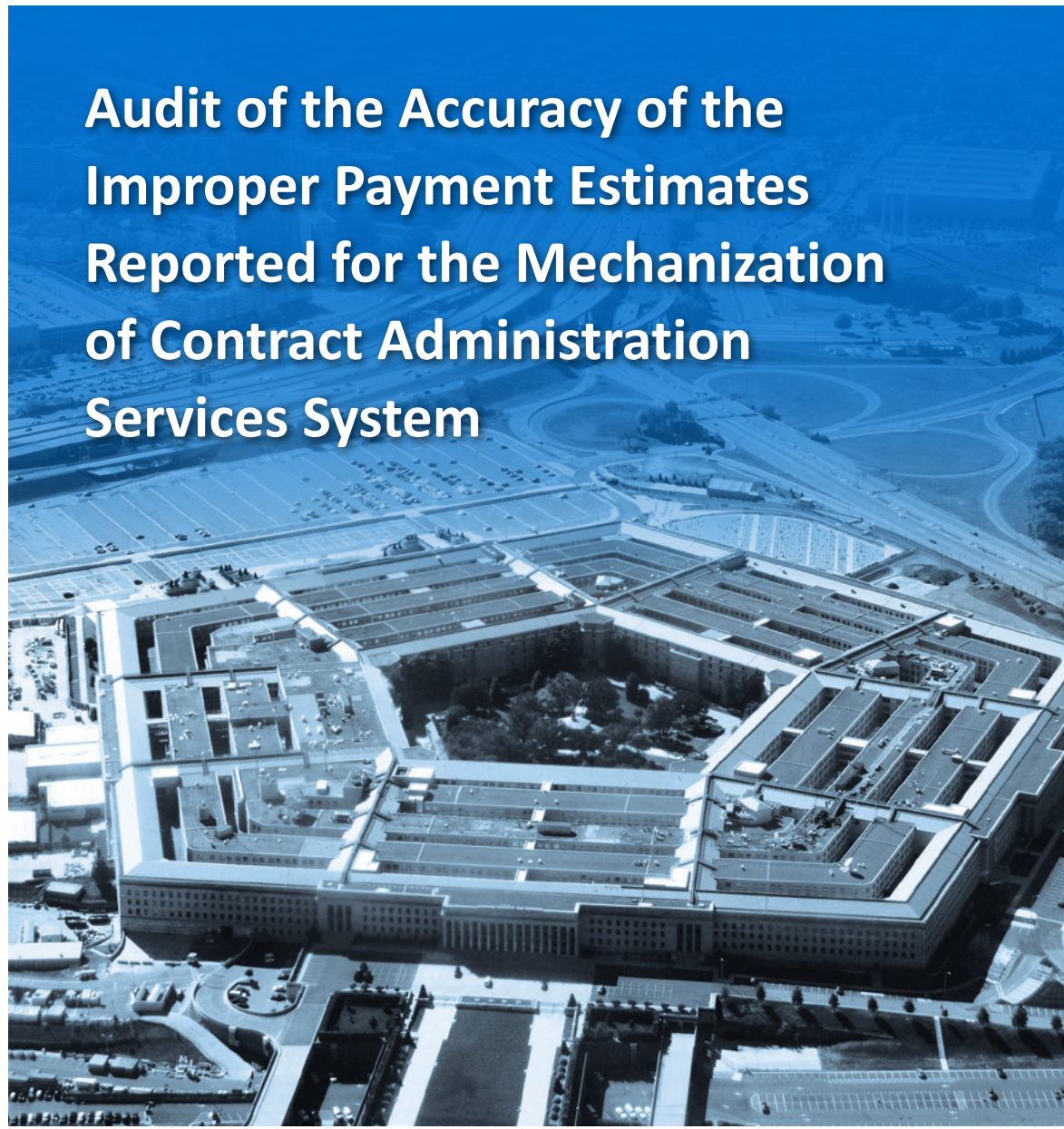




INSPECTOR GENERAL

U.S. Department of Defense

NOVEMBER 12, 2020



Audit of the Accuracy of the Improper Payment Estimates Reported for the Mechanization of Contract Administration Services System





Results in Brief

Audit of the Accuracy of the Improper Payment Estimates Reported for the Mechanization of Contract Administration Services System

November 12, 2020

Objective

The objective of this audit was to determine whether the Defense Finance and Accounting Service (DFAS) accurately identified and reported improper payments from payments processed through the Mechanization of Contract Administration Services system (MOCAS).

Background

The Payment Integrity Information Act of 2019 requires Federal agencies to review their programs and identify those that may be susceptible to significant improper payments, to estimate and report the dollar amount of improper payments in those programs, and to report on actions planned to reduce improper payments in those programs within the DoD Agency Financial Report (AFR).

The Commercial Pay program is one of the DoD's eight programs reported in the DoD AFR. MOCAS is 1 of the 15 Commercial Pay systems that make up the improper payment estimate for the Commercial Pay program. In FY 2019, MOCAS reported \$181 billion or 57 percent of the outlays for the Commercial Pay program, in which DFAS personnel estimated MOCAS to have zero improper payments. To calculate the improper payment estimate for MOCAS, DFAS personnel statistically sampled MOCAS transactions for quarterly review and calculated the MOCAS improper payment estimate based on the MOCAS post-pay review results. DFAS then applied this estimate to the estimated calculation for the entire Commercial Pay program.

Background (cont'd)

The Payment Integrity Information Act of 2019 and the Office of Management and Budget define an improper payment as any payment that should not have been made or was made in an incorrect amount (overpayment or underpayment) to an eligible recipient. Improper payments also include payments made to ineligible recipients or for ineligible goods or services, or payments for goods or services not received.

Finding

DFAS personnel did not accurately identify and report improper payments from MOCAS for the first two quarters of the FY 2020 improper payment reporting period. Specifically, DFAS personnel did not identify 302 improper payments, totaling \$136 million, for reporting in the AFR, including \$25.8 million that MOCAS Post-Pay Review personnel incorrectly deemed proper during their post-pay review. This occurred because DFAS personnel did not develop a reliable sampling universe by using the paid invoice amount instead of the actual disbursement amount, thereby increasing the risk that the MOCAS Post-Pay Review would not discover an improper payment. Additionally, DFAS did not document or conduct adequate reviews of the MOCAS transactions reviewed for improper payments. Specifically, the MOCAS Post-Pay Review team did not:

- review certified payment voucher amounts;
- review for duplicate payments;
- verify the accuracy of recoupment amounts; or
- maintain documentation supporting decisions on the propriety of transactions reviewed.

Furthermore, DFAS-Columbus personnel identified 464 payments, totaling \$56.5 million, as underpayments to vendors, but did not report them as improper payments. According to DFAS personnel, they did not classify the underpayments on contracts as improper payments because DFAS withheld the payments due to contract deficiencies regarding the lines of accounting.



Results in Brief

Audit of the Accuracy of the Improper Payment Estimates Reported for the Mechanization of Contract Administration Services System

Finding (cont'd)

As a result of DFAS personnel's inaccurate reporting of MOCAS improper payment estimates, the DoD cannot rely on the improper payment estimate produced from MOCAS payments for the first two quarters of the FY 2020 reporting period. Because MOCAS processed 57 percent of the total reported outlays for the Commercial Pay program, the lack of internal controls surrounding the identification and reporting of the improper payments for MOCAS payments creates an unreliable improper payment estimate for the Commercial Pay program. DFAS limited the ability of DoD leadership and Congress to accurately determine whether the DoD has the necessary resources in place to adequately identify root causes of improper payments and develop corrective actions necessary to reduce its improper payments.

Recommendations

We recommend that the DFAS Deputy Director of Enterprise Audit Support and Compliance perform a review for the statistically sampled MOCAS transactions reported in the DFAS Contract Debt System at year-end for improper payments.

We recommend that the DFAS-Columbus Director of Accounting Operations:

- document and implement post-pay review procedures to review for duplicate payments and recoupment amounts, and report recoupment errors identified;
- develop and implement supervisory reviews over the MOCAS Post-Pay Review personnel reviews, and those MOCAS Post-Pay Review personnel provide details to support their post-pay review determinations; and
- document the Short Pay process, ensure timely payments to vendors, and develop and implement reporting procedures for Short Pays caused by Government contract deficiencies as improper payments in the statistical sample.

We recommend that the DFAS Deputy Director of Enterprise Audit Support and Compliance, in coordination with the DFAS-Columbus Director of Accounting Operations, review at the certified voucher level, and include in the improper payment estimate the three improper payments not previously reported.

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, describe, in a footnote to Table 1 of the FY 2020 DoD AFR Payment Integrity Section, and every year thereafter, the Commercial Pay improper payments identified outside the statistical sample.

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the DFAS-Columbus Director of Accounting Operations and the contracting agencies, conduct a root cause analysis on Short Pay transactions to prevent future occurrences.

Management Comments and Our Response

The Deputy Chief Financial Officer, responding for Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; the Deputy Director of Enterprise Audit Support and Compliance for DFAS; and the Director of Accounting Operations for DFAS-Columbus, agreed with seven recommendations, partially agreed with two recommendations, and did not agree with one recommendation. However, the comments from the Deputy Chief Financial Officer addressed the intent of all 10 of the recommendations; therefore, 8 of the recommendations are resolved and open and 2 are closed. We will close the remaining eight recommendations once management provides documentation demonstrating that it has implemented the presented actions. Please see the Recommendations Table on the next page for the status of the recommendations.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD	None	4, 5	None
Deputy Director of Enterprise Audit Support and Compliance, Defense Finance and Accounting Service	None	3.a	1, 3.b
Director of Accounting Operations, Defense Finance and Accounting Service-Columbus	None	2.a, 2.b, 2.c, 2.d, 2.e, 3.a, 5	3.b

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**

November 12, 2020

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

SUBJECT: Audit of the Accuracy of the Improper Payment Estimates Reported
for the Mechanization of Contract Administration Services System
(Report No. DODIG-2021-024)

This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

The Deputy Chief Financial Officer, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; the Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service; and the Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus agreed to address all the recommendations presented in the report. Therefore, we consider 8 of the 10 recommendations resolved and open, and 2 recommendations closed. As described in the Recommendations, Management Comments, and Our Response section of this report, we will close the remaining recommendations when you provide us documentation showing that you have implemented all agreed-upon actions. Therefore, please provide us within 90 days your response concerning specific actions in process or completed on the recommendations. Send your response to either followup@dodig.mil if unclassified or rfunet@dodig.smil.mil if classified SECRET.

If you have any questions, please contact me at [REDACTED].

A handwritten signature in black ink that reads "Lorin T. Venable".

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

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Introduction

Objective

The objective of this audit was to determine whether the Defense Finance and Accounting Service (DFAS) accurately identified and reported improper payments from payments processed through the Mechanization of Contract Administration Services (MOCAS) system. To achieve this objective, we reviewed the calculation of the improper payments reported for MOCAS for the first two quarters of the FY 2020 improper payment reporting period.¹ See Appendix A for the audit scope and methodology and Appendix B for prior audit coverage related to the audit objective.

Background

The President's Management Agenda of 2018 outlines a vision for effective and modern Government capabilities, including a focus on effective stewardship of taxpayer funds through 11 Cross-Agency Priority goals. Cross-Agency Priority Goal 9, "Getting Payments Right," updated July 2020, aims to (1) build trust in Government by better understanding the nature of improper payments and their relationship to payment integrity, (2) demonstrate stewardship of taxpayer dollars by focusing on getting Government payments right the first time they are made, and (3) prevent monetary loss.

Public Law No. 116-117, "Payment Integrity Information Act of 2019," (PIIA), March 2, 2020, requires Federal agencies to review their programs and identify those that may be susceptible to significant improper payments, to estimate and report the dollar amount of improper payments in those programs, and to report on actions planned to reduce improper payments in those programs.² The law further defines an improper payment as any payment that should not have been made or was made in an incorrect amount, including overpayments or underpayments, under legally applicable requirements. Improper payments also include payments made to ineligible recipients or for ineligible goods or services. Additionally, for the purposes of producing an estimate, payments without the

¹ The reporting period for the Commercial Pay program, which includes the MOCAS estimate, is July 1 through June 30.

² On March 2, 2020, the President signed the "Payment Integrity Information Act of 2019" into law (Public Law No. 116-117), which repealed and replaced the three public laws related to identifying and reporting on improper payments in the DoD—Public Law No. 107-300, "Improper Payments Information Act of 2002," November 26, 2002; Public Law No. 111-204, "Improper Payments Elimination and Recovery Act of 2012," January 10, 2010; and Public Law No. 112-248, "Improper Payments Elimination and Recovery Improvement Act of 2012," January 10, 2013.

proper supporting documentation when reviewing the payment for accuracy are categorized as improper; therefore, an improper payment does not necessarily result in an actual monetary loss to the Government.³

Commercial Pay Program

In the FY 2019 Agency Financial Report (AFR), the DoD reported improper payments for the Commercial Pay program, which includes payments made by DFAS, the Army, and the Navy to purchase goods or services from vendors and contractors. The FY 2019 DoD AFR reported \$315 billion in total outlays for the Commercial Pay program with zero improper payments estimated for MOCAS and only \$19 million of improper payments estimated over the entirety of the Commercial Pay program.⁴ The Commercial Pay program consists of outlays processed through 15 entitlement and disbursing systems, including MOCAS.

MOCAS

MOCAS is an integrated system that maintains contract management and contract payment information. MOCAS supports post-award administration and is used by the Defense Contract Management Agency; DFAS; Procurement offices; Defense Contract Audit Agency; Defense Threat Reduction Agency; and Washington Headquarters Services; as well as funding stations in the Army, Marine Corps, Navy, and Air Force; and the rest of the DoD. In FY 2019, MOCAS processed \$181 billion, or 57 percent of the \$315 billion, in total reported outlays for the Commercial Pay program. Of the estimated \$19 million in improper payments reported for the Commercial Pay program, DFAS personnel estimated and reported zero improper payments for all payments related to MOCAS.

Improper Payment Estimate Roles and Responsibilities

The PIIA requires the head of the relevant executive agency to produce a statistically valid improper payment estimate or an estimate using an otherwise appropriate methodology approved by the Director of the Office of Management and Budget (OMB). OMB provides guidance for Federal agencies to implement improper payment reporting requirements. OMB Circular No. A-123, Appendix C, states that programs susceptible to significant improper payments should design and implement appropriate statistical sampling and estimation methods to produce statistically valid improper payment estimates.⁵

³ Public Law No. 116-117, "Payment Integrity Information Act of 2019," Section 3352, paragraph (c), subparagraph 2 and 31 U.S.C. § 3352, paragraph (c), subparagraph 2.

⁴ DoD Regulation 7000.14-R, "DoD Financial Management Regulation" (DoD FMR), Glossary defines outlays as the amount of checks issued or other payments made, including advances, net refunds, and reimbursements.

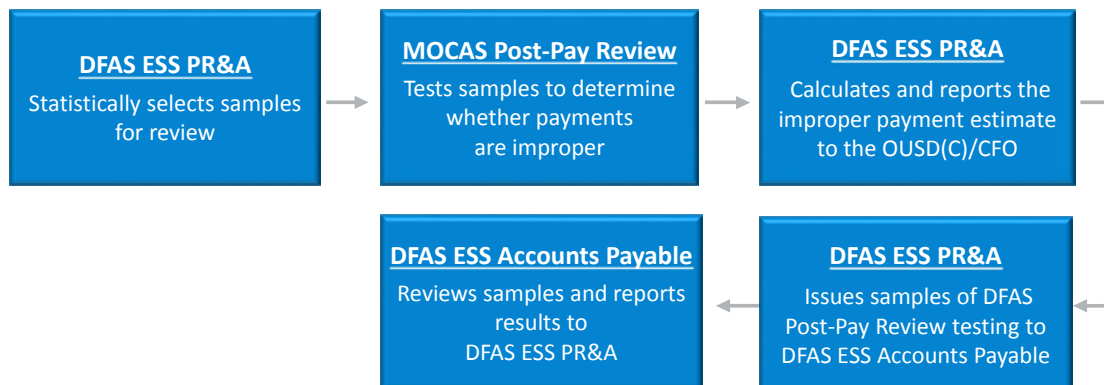
⁵ OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control," July 15, 2016, Appendix C, "Requirement for Payment Integrity Improvement," June 26, 2018.

DoD Regulation 7000.14-R, “DoD Financial Management Regulation” (DoD FMR), requires DoD Components to implement guidance from the PIIA and OMB Circular No. A-123, Appendix C. Although the DoD FMR already required DoD Components to follow the guidance of the OMB Circular No. A-123, Appendix C, in developing their estimates, the DoD FMR was updated in May 2020 to clarify that DoD programs determined to be susceptible to significant improper payments are required to produce a statistically valid estimate of the improper payments made, identify the root causes of improper payments, and implement appropriate corrective actions to prevent and reduce improper payments.⁶

DFAS Enterprise Solutions and Standards (ESS) Post-Pay Review and Analysis (PR&A) statistically samples MOCAS transactions for quarterly review, calculates the MOCAS improper payment estimate, and submits the improper payment results to the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSDC)/CFO for the Commercial Pay program. After DFAS ESS PR&A’s sample selection, the MOCAS Post-Pay Review team evaluates each sample to determine whether the transaction is legal, proper, and accurately entitled.⁷ Subsequently, DFAS ESS Accounts Payable personnel conduct a quality assurance review of 4 percent of the samples determined to be proper payments and 100 percent of samples determined to be improper payments, and report the results back to DFAS ESS PR&A.⁸

The following figure illustrates the process that DFAS personnel use for developing the MOCAS portion of the Commercial Pay program improper payment estimate.

Figure. DFAS Improper Payment Estimate Process for MOCAS



Source: DFAS.

⁶ DoD FMR, Volume 4, “Accounting Policy,” Chapter 14, “Payment Integrity,” May 2020.

⁷ The MOCAS Post-Pay Review team falls under the responsibility of the DFAS-Columbus Director of Accounting Operations.

⁸ Throughout the rest of the report, we will refer to DFAS personnel outside of the MOCAS Post-Pay Review team as DFAS personnel.

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.⁹ DFAS personnel did not accurately identify and report improper payments for the first two quarters of the FY 2020 reporting period. The MOCAS Post-Pay Review personnel did not implement sufficient internal controls to detect and report improper payments to DFAS personnel. Additionally, DFAS personnel did not implement sufficient internal controls to develop a reliable universe of transactions for sampling. We will provide a copy of the report to the senior official responsible for internal controls.

In the DoD's FY 2019 Statement of Assurance, the DoD concluded that although its internal controls continue to improve, the controls in place as of September 30, 2019, to support reliable financial reporting were not effective to provide reasonable assurance that the financial statements were fairly stated in all material respects. We are not making a recommendation to correct the weaknesses identified in the controls for the financial statement reporting because the DoD has efforts underway to address the internal control deficiencies.

⁹ DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

Finding

DFAS Did Not Accurately Report MOCAS Improper Payments

DFAS personnel did not accurately identify and report improper payments from MOCAS for the first two quarters of the FY 2020 improper payment reporting period. The MOCAS Post-Pay Review team did not identify improper payments for the reporting period; however, DFAS personnel identified 302 improper payments, totaling \$136 million of MOCAS transactions for the reporting period in the DFAS Contract Debt System (DCDS), including \$25.8 million incorrectly deemed proper by the MOCAS Post-Pay Review team. MOCAS Post-Pay Review personnel did not identify and report any improper payments because DFAS personnel did not develop a reliable universe of transactions for sampling by using the paid invoice amount instead of the actual disbursement amount, thereby increasing the risk that the Post-Pay Review team would not discover an improper payment. Additionally, MOCAS Post-Pay Review personnel did not use an adequate post-pay review process to identify improper payments within MOCAS because they did not:

- review disbursing officer approved payment voucher amounts;
- review for duplicate payments;
- verify the accuracy of recoupment amounts; or
- maintain documentation supporting decisions on the propriety of transactions reviewed.

Furthermore, DFAS-Columbus personnel identified 464 payments, totaling \$56.5 million, as underpayments, but did not report them as improper payments. According to DFAS personnel, they did not classify the underpayments on contracts as improper payments because DFAS withheld the payments due to contract deficiencies regarding the lines of accounting.

As a result of DFAS personnel's inaccurate reporting of MOCAS improper payments, the DoD cannot rely on the improper payment estimate produced from MOCAS payments for the first two quarters of the FY 2020 reporting period. Furthermore, because MOCAS processed 57 percent of the total reported outlays for the Commercial Pay program, the lack of internal controls surrounding the identification and reporting of the improper payments for MOCAS payments creates an unreliable improper payment estimate for the Commercial Pay program. By not identifying and reporting improper payments, DFAS limited the ability of DoD leadership and Congress to accurately determine whether the

DoD has the necessary resources in place to adequately identify root causes of improper payments and develop the corrective actions necessary to reduce its improper payments.

DFAS Personnel Did Not Report Improper Payments

DFAS personnel did not accurately identify and report improper payments from MOCAS for the first two quarters of the FY 2020 improper payment reporting period. The MOCAS Post-Pay Review team did not identify improper

The MOCAS Post-Pay Review team did not identify improper payments for the reporting period; however, DFAS personnel identified 302 improper payments, totaling \$136 million of MOCAS transactions for the reporting period.

payments for the reporting period; however, DFAS personnel identified 302 improper payments, totaling \$136 million of MOCAS transactions for the reporting period, including \$25.8 million that the MOCAS Post-Pay Review team incorrectly deemed proper.

According to the PIIA and OMB Circular No. A-123, Appendix C, agencies are required to produce a statistically valid estimate of the improper payments made under the program. To produce the estimate, DFAS personnel developed a statistical sample of transactions for the MOCAS Post-Pay Review team to use in reviewing transactions for improper payments.

MOCAS processed 369,065 paid invoices, totaling \$102.7 billion, for the first two quarters of the FY 2020 improper payment reporting period.¹⁰ MOCAS Post-Pay Review personnel conducted improper payment review for a sample of 447 paid invoices, totaling \$11.1 billion, from the 369,065 paid invoices and identified no improper payments. Table 1 shows the transactions personnel reported and reviewed for the first two quarters of the FY 2020 reporting period.

Table 1. MOCAS Transactions Reviewed First and Second Quarter FY 2020

Quarter	Transactions		Sample Review	
	Number of Paid Invoices	Dollar Value (in Billions)	Number of Samples	Dollar Value (in Billions)
First Quarter	189,034	\$49.0	315	\$4.7
Second Quarter	180,031	53.7	132	6.4
Total	369,065	\$102.7	447	\$11.1

Source: The DoD OIG and DFAS.

¹⁰ The paid invoice is the sampling unit defined by DFAS, using a unique identifier.

DFAS Personnel Reported Improper Payments in the Contract Debt System

Although the MOCAS Post-Pay Review team did not identify improper payments, DFAS personnel reported to their management 302 improper payments, totaling \$136 million during the first two quarters of the FY 2020 reporting period.

The reported amounts included improper payments totaling \$25.8 million that the MOCAS Post-Pay Review team incorrectly deemed proper. DFAS personnel reported these payments through DCDS. According to DFAS personnel, DCDS is

The reported amounts included improper payments totaling \$25.8 million that the MOCAS Post-Pay Review team incorrectly deemed proper.

a debt collection tool that DFAS also uses as a mechanism for tracking improper payments. DFAS personnel provide to DFAS management a monthly report on the improper payments reported in DCDS. Table 2 illustrates the improper payments DFAS personnel identified in DCDS during our period of review.

Table 2. Improper Payments Identified by DFAS for First and Second Quarter FY 2020

Month	Number of Improper Payments Identified	Value of Improper Payments (in Millions)
July	23	\$ 10.9
August	53	28.1
September	58	18.3
First Quarter Total	134	\$ 57.4
October	36	\$ 6.0
November	66	51.8
December	66	20.8
Second Quarter Total	168	\$ 78.6
Quarter Totals*	302	\$136

* Differences due to rounding.

Source: DFAS-Columbus.

According to the DFAS FY 2020 Commercial Pay standard operating procedure (SOP) for the post-pay review process, some post-pay review sites perform monthly reviews for quality assurance purposes. Because these reviews are outside of the improper payment review conducted by the MOCAS Post-Pay Review team, the OUSD(C)/CFO did not receive the results of these reviews for inclusion in the improper payment estimate. However, DFAS personnel still input these amounts into DCDS for correction. Therefore, MOCAS Post-Pay Review personnel did not report improper payments identified in DCDS for AFR reporting because

the MOCAS Post-Pay Review personnel did not identify any improper payments. Instead, DFAS concluded that the improper payments were outside of the post-pay review of sampled transactions.

DFAS Personnel Did Not Use Disbursement Amounts

MOCAS Post-Pay Review personnel did not identify and report any improper payments because DFAS personnel did not develop a reliable universe of transactions for sampling by using the paid invoice amount instead of the actual disbursement amount. The PIIA defines a payment as:

any transfer or commitment for future transfer of Federal funds such as cash, securities, loans, loan guarantees, and insurance subsidies to any non-Federal person or entity or a Federal employee, that is made by a Federal agency, a Federal contractor, a Federal grantee, or a governmental or other organization administering a Federal program or activity.

The DoD FMR further defines a disbursement and disbursement voucher as:

a payment to an individual or organization for goods furnished or services rendered. A disbursement voucher may be a combination of a payment and collection by voucher deduction and the net pay is disbursed to the payee. All disbursements must be supported by a formal disbursement voucher.¹¹

Because OMB Circular No. A-123, Appendix C, requires agencies to report improper payments, including payments made for ineligible goods or services, populations used to test for improper payments should reflect payments or disbursements. However, according to the DFAS Commercial Pay sampling plan,

DFAS used paid invoice amounts to develop a population, instead of disbursement amounts actually paid to MOCAS vendors.

DFAS used paid invoice amounts to develop a population, instead of disbursement amounts actually paid to MOCAS vendors. Therefore, the sampled invoice amounts used did not

represent the total disbursement amount actually paid to vendors. Additionally, to develop the population, DFAS personnel summarized the MOCAS population paid invoice amounts by a unique identifier to represent a “net disbursement amount,” which did not always reflect the actual disbursement amount. For example, on November 14, 2019, DFAS issued a check for \$346,743 for multiple items on a contract; however, the net disbursement amount for this transaction was \$57,791, which represented only one item on the contract. Therefore, the net disbursement amount represented only the amount paid for each item with a unique identifier, instead of the actual amount paid on the voucher.

¹¹ DoD FMR, Volume 5, “Disbursing Policy,” Chapter 9, “Disbursements,” December 2019.

In Report No. DODIG-2019-087, the audit team found that the Commercial Pay and the DoD Travel Pay programs did not always use the paid amount, and instead, used the invoice paid amount, which for the Commercial Pay program did not include vendor discounts. The audit team concluded that the DoD Commercial Pay and Travel Pay populations would continue to be unreliable until the DoD uses the actual amount paid. The audit team recommended that the OUSD(C)/CFO, in coordination with DFAS, develop a process that uses the amount paid for the Commercial Pay and the DoD Travel Pay programs. Management agreed to implement the recommendation.¹² In response to the recommendation, DFAS personnel stated that they obtained system data from Advana for FY 2020 improper payment testing.¹³ However, the corrective actions taken did not address MOCAS data and addressed data for 1 of the 15 entitlement systems used to develop the improper payment estimate for the Commercial Pay program. Therefore, until DFAS implements corrective actions to use the actual amounts paid as the sampling unit for the Commercial Pay program sampling methodology, this recommendation will remain open. Because the OUSD(C)/CFO and DFAS personnel are still working on implementing the prior audit recommendation, we are not making a new recommendation in this report.

Post-Pay Reviewers Did Not Document or Conduct Adequate Reviews

MOCAS Post-Pay Review personnel did not identify any improper payments because they did not use an adequate post-pay review process to identify improper payments. Specifically, MOCAS Post-Pay Review personnel did not:

- review disbursing officer approved payment voucher amounts;
- review for duplicate payments;
- verify accuracy of recoupment amounts; or
- maintain documentation supporting decisions on the propriety of transactions reviewed.

MOCAS Post-Pay Review personnel did not identify any improper payments because they did not use an adequate post-pay review process to identify improper payments.

¹² Report No. DODIG-2019-087, "Audit of the DoD's FY 2018 Compliance With the Improper Payments Elimination and Recovery Act Requirements," May 15, 2019.

¹³ Advana is an advanced analytical tool used for audit sampling and supporting transaction details.

Post-Pay Review Did Not Review Approved Payment Voucher Amounts

MOCAS Post-Pay Review personnel did not identify any improper payments because they did not conduct reviews of the payment amounts, and instead reviewed the invoice amounts for accuracy. Therefore, by reviewing only the invoice amount, the MOCAS Post-Pay Review team did not adequately assess the risk of improper payments.

MOCAS Post-Pay Review personnel did not identify any improper payments because they did not conduct reviews of the payment amounts, and instead reviewed the invoice amounts for accuracy.

The PIIA and OMB Circular No. A-123, Appendix C, define an improper payment as any payment that should not have been made or that was made in an incorrect amount, including an overpayment or underpayment, under statutory, contractual, administrative, or other legally applicable requirements. Additionally, an improper payment includes:

- any payment to an ineligible recipient;
- any payment for an ineligible good or service;
- any duplicate payment;
- any payment for a good or services not received (except where authorized by law); and
- any payment that does not account for credit for applicable discounts.

According to the DFAS SOP for Post-Pay Reviewers of Commercial Pay, the post-pay review teams should review and evaluate all documents and vouchers as available for each sample item to ensure that they are legal, proper, and accurately entitled. This process also includes verifying the certification of the voucher for payment, which includes reviewing to ensure an approved certifying officer signed and approved the payment voucher. In addition, according to the Commercial Pay sampling plan, the sampling unit used to develop a statistical sample of transactions for improper payment reviews is the paid invoice amount. Therefore, in conducting its reviews, the MOCAS Post-Pay Review team completed a three-way match (contract, invoice, and receiving report) to determine that the paid invoice amount, or a single line item on a voucher payment, was entitled properly, instead of determining the accuracy of the payment voucher.

During the walkthrough of the MOCAS Post-Pay Review, personnel stated that the team verified that the invoice was paid correctly by comparing the sub-voucher information against the contract, invoice, and receiving report information. The Post-Pay Review SOP requires Post-Pay Review personnel ensure that each

document contains the required signatures and whether an approved certifying officer certified the payment. However, the sub-voucher information reviewed by the MOCAS Post-Pay Review team was not the certified voucher; instead, it was a breakdown of each line item included on the voucher and did not contain the signature of the signing official. According to DFAS personnel, the voucher used was the correspondence provided to and received from the accounting department recording the transactions before DFAS makes the payment. Therefore, the MOCAS Post-Pay Review team did not follow the Post-Pay Review SOP in implementing its post-pay reviews. As a result, we recommend that the DFAS Deputy Director of Enterprise Audit Support and Compliance, in coordination with the DFAS-Columbus Director of Accounting Operations, develop and implement a post-pay review process that reviews for propriety to the certified voucher in accordance with the Post-Pay Review for Commercial Pay SOP.

Post-Pay Review Did Not Review for Duplicate Payments

Although the PIIA defines a duplicate payment as a type of improper payment, the MOCAS Post-Pay Review team did not review sampled items for duplicate payments. *The MOCAS Post-Pay Review team did not review for duplicate payments.* The Post-Pay Review SOP included assessment codes for duplicate payment reporting; however, it does not describe the process for reviewing for duplicates. DFAS personnel explained that the MOCAS Post-Pay Review team relied on the pre-validation (pre-payment) review by Business Activity Monitoring, which is a system designed to identify duplicate payments before the issuance of a payment.¹⁴ DFAS uses Business Activity Monitoring to identify, monitor, reduce, or eliminate transactional errors, misuse, and potential fraud resulting in financial discrepancies, losses, and workflow inefficiencies.

However, Business Activity Monitoring did not always stop or detect payment errors, including duplicate payments, before the issuance of the payment. DFAS reported in DCDS, during the reporting period, 21 duplicate payments, totaling \$2.1 million identified by the vendors. The Business Activity Monitoring did not stop 16 of the duplicate payments; DFAS personnel classified the other 5 as false positives during their review. While these 21 duplicate payments were outside of the MOCAS post-pay sample review, the MOCAS Post-Pay Review team should review for duplicate payments after the issuance of the payment as an independent check on the pre-validation process to ensure that the checks are working properly.

¹⁴ Business Activity Monitoring is a monitoring capability that identifies weaknesses that could adversely affect DFAS's ability to accomplish its mission.

On August 12, 2020, DFAS personnel stated that the MOCAS Post-Pay Review team members perform several steps in their research process that effectively look for duplicate payments. This includes reviewing documentation from the shared data warehouse, information in the MOCAS system itself, as well as any other tool that substantiates or provides support for a given payment. However, during the May 2020 walkthrough of the MOCAS Post-Pay Review process, DFAS personnel did not describe the process for reviewing for duplicate payments. Additionally, the Post-Pay Review SOP did not document, in detail, what a duplicate payment review entails. We recommend that the DFAS-Columbus Director of Accounting Operations document and implement the procedures to review for duplicate payments during the post-pay review process, outside the pre-validation review process.

Post-Pay Review Did Not Verify Accuracy of Recoupment Amounts

MOCAS Post-Pay Review personnel did not verify the accuracy of the recoupment amounts, such as progress payments. MOCAS Post-Pay Review personnel missed the identification and

MOCAS Post-Pay Review personnel missed the identification and reporting of improper payments totaling \$25.8 million.

reporting of improper payments totaling \$25.8 million. According to the MOCAS Post-Pay Review personnel, the Accounts Payable review team conducts reviews of the recoupment amounts to verify accuracy before the issuance of the payment. However, according to DCDS, vendors returned \$80.2 million in payments related to recoupment amounts, including the \$25.8 million in payments that MOCAS Post-Pay Review personnel incorrectly identified as proper payments.

MOCAS Post-Pay Review personnel stated that the team focuses its improper payment review on only the sampled invoice amount. We identified multiple instances where the voucher amount paid did not match the paid invoice amount, which did not necessarily create an improper payment, but did require further review to determine the propriety of the payment. For example, DFAS personnel selected a sample item with a paid invoice amount of \$79,429; however, because of a recoupment of \$55,600.30, the voucher payment amount reflected \$23,828.70.¹⁵ To determine the propriety of the payment (paid voucher amount), the MOCAS Post-Pay Review team should not only determine the propriety of the contract, invoice, and receiving report, but also the propriety of the recoupment amount.

During the May 2020 walkthrough of the MOCAS Post-Pay Review process, DFAS personnel explained that post-pay reviewers complete about 1,000 post-pay reviews for MOCAS each year and that the Post-Pay Review team works as efficiently

¹⁵ The Federal Acquisition Regulation refers to a recoupment as the amount of a deduction of liquidations from payments that would otherwise be due to the contractor for completed contract items.

as possible. DFAS personnel stated that because of all these reviews, the Post-Pay Review team did not always perform its review procedures according to the questionnaire included in the Post-Pay Review SOP. DFAS personnel further explained that the Post-Pay Reviewer checks a transaction's recoupment rate to determine whether the payment amount is correct by reviewing Section G of a contract, but if the amounts are different, the Post-Pay Reviewers do not have the expertise to determine whether the recoupment was correct and relied on the pre-validation process to determine the correct amount. Additionally, the Post-Pay Review SOP does not document the review procedures required to determine the accuracy of the recoupment rates.

DFAS personnel did not accurately identify improper payments associated with payments for recoupment amounts. In one instance, the MOCAS Post-Pay Review team reviewed a September 2019 paid invoice amount of \$36.2 million and determined it to be proper. However, on October 1, 2019, DFAS personnel accepted two checks, one for \$25 million and one for \$183,781, from a vendor returning the amount associated with the miscalculation of the recoupment amount. Therefore, although the MOCAS Post-Pay Review personnel determined the payment to be proper, Accounts Payable personnel ultimately identified the payment as improper due to the improper recoupment amounts. In a second instance, the MOCAS Post-Pay Review team determined that a paid invoice amount from August 2019 for \$711,303 was proper. However, on September 18, 2019, DFAS personnel accepted a check totaling \$646,254 from the vendor because DFAS made an overpayment due to the recoupment amount not taken. We recommend that the DFAS Deputy Director of Enterprise Audit Support and Compliance, in coordination with the DFAS-Columbus Director of Accounting Operations, report the three improper payments included in the statistical sample not previously reported, and recalculate the improper payment estimate for each quarter impacted. We also recommend that the DFAS Deputy Director of Enterprise Audit Support and Compliance perform a review for the statistically sampled transactions from MOCAS in DCDS (look-back analysis) at year-end for improper payments.¹⁶

On August 12, 2020, DFAS personnel stated that MOCAS Post-Pay Review did perform research for recoupment amounts, such as reviewing payment documentation to ensure MOCAS recoupments are appropriate. However, the DFAS Commercial Pay Post-Pay Review SOP did not document the process as described by DFAS personnel on August 12, 2020, and during the MOCAS Post-Pay Review walkthrough, DFAS personnel did not fully explain the process. Furthermore, DFAS personnel stated that the MOCAS Post-Pay Review team did not report

¹⁶ The DFAS Deputy Director for Enterprise Audit Support and Compliance is responsible for the Commercial Pay Post-Pay Review Program, which includes MOCAS, under the DFAS ESS PR&A office.

recoupment errors in relation to the quarterly reviews and that immediate corrective action would begin for the third quarter of the FY 2020 improper payment reporting period. Therefore, while DFAS had a process in place to determine whether a transaction required a recoupment, the DFAS Post-Pay Review team did not have controls in place to ensure that DFAS recouped on the correct amount, and reported the improper payment when the amounts were not correct. As a result, we recommend that the DFAS-Columbus Director of Accounting Operations document and implement procedures to review recoupment amounts for accuracy and report recoupment errors when identified during the post-pay review process.

The DFAS Post-Pay Review team did not have controls in place to ensure that DFAS recouped on the correct amount, and reported the improper payment when the amounts were not correct.

determine whether a transaction required a recoupment, the DFAS Post-Pay Review team did not have controls in place to ensure that DFAS recouped on the correct amount, and reported the improper payment when the amounts were not correct. As a

While reviewing the supporting documentation associated with MOCAS sampled transactions, we identified six underpayments, totaling \$47,657, and four overpayments, totaling \$14,146, made with different recoupment rates than identified in the contract. The customary recoupment rate is 80 percent, unless otherwise specified in the contract. Because the contract specified recoupment rates different from the 80 percent, the payments should have reflected amounts correlating to the contract rates, but did not and are therefore improper. DFAS personnel agreed that they used the wrong recoupment rate on the 10 invoices. They explained that DFAS personnel changed the recoupment rate at the contract level, instead of entering the correct percentage at the contract line item level, which led to them recouping at the wrong rate. DFAS personnel stated that they have changed the contract values in MOCAS to reflect the rates at the contract line item level and that DFAS has since started the process to refund the vendor for \$33,511. Because DFAS personnel have taken action to correct the recoupment rate for these 10 payments, we are not making a recommendation for corrective action.

Post-Pay Review Did Not Maintain Documentation

MOCAS Post-Pay Review personnel did not maintain documentation supporting their reviews and conclusions on 78 of 103 sampled MOCAS transactions.

MOCAS Post-Pay Review personnel did not maintain documentation supporting their reviews and conclusions.

The PIIA states, “For the purpose of producing an estimate under paragraph (1), when the executive agency cannot determine, due to lacking or insufficient documentation, whether a payment is

proper or not, the payment must be treated as an improper payment.”¹⁷ The DoD FMR states that original payment documentation and associated documents must be retained as Government records in a readily accessible format.¹⁸ The DoD FMR further states that vendor pay key supporting documents must be retained for 10 years after the final invoice.¹⁹

According to the DFAS Commercial Pay SOP, post-pay reviewers initiate a package for all payments selected from review. The SOP further explained that for “all” sample payments reviewed (both proper and improper), post-pay review teams store a copy of the payments’ post-pay review package, which is a questionnaire used to document the reviews of the payments. The post-pay review team is to store the questionnaire along with a copy of the invoice and voucher at that site’s Accounts Payable office (supporting documentation can be maintained within the system). Furthermore, for each random sample reviewed, the Post-Pay Review team is to provide a certified document signed by the Accounts Payable manager or their designee attesting that they completed the review of the random sample by said date. However, the questionnaire did not contain any indication that the Accounts Payable manager or designee reviewed the conclusions made on the questionnaire. Additionally, the questionnaire did not contain any indication that anyone, other than the MOCAS Post-Pay Reviewer, reviewed the final determination made by the reviewer. Therefore, we recommend that the DFAS-Columbus Director of Accounting Operations develop and implement procedures to provide a supervisory review over the improper payments reviews conducted by MOCAS Post-Pay Review personnel. In addition, the questionnaire used by MOCAS Post-Pay Review personnel did not include details on how they developed their conclusions, which could limit the ability for additional reviewers to validate the accuracy of the determination.

During the audit, we reviewed 103 of the 447 sampled transactions for propriety based on the supporting documentation the MOCAS Post-Pay Review team said they used to support their improper payment review and determinations.²⁰ The audit team reviewed the documentation applying the three-way match (contract, invoice, and receiving report) the MOCAS Post-Pay Review team

¹⁷ Public Law 116-117, “Payment Integrity Information Act of 2019,” Section 3352 (c) (2) “Lacking or Insufficient Documentation.”

¹⁸ DoD FMR, Volume 10, “Contract Payment Policy,” Chapter 8, “Commercial Payment Vouchers and Supporting Documentation,” April 2018.

¹⁹ DoD FMR, Volume 1, “General Financial Management Information, Systems, and Requirements,” Chapter 9, “Financial Records Retention,” February 2016.

²⁰ We reviewed 150 transactions for propriety. Of the 150 transactions reviewed, we randomly sampled 103 transactions from the statistical population tested by the MOCAS Post-Pay Review team, and randomly selected 47 transactions from outside the statistical sample population. In which, we determined the supporting documentation provided by the MOCAS Post-Pay Review team did not support 42 of the 47 transactions. However, while DFAS personnel should ensure that these payments are adequately supported, their inability to provide adequate supporting documentation for these transactions does not affect the improper payment estimate.

described, and the questionnaire DFAS developed for the review. We initially requested documentation used by the MOCAS Post-Pay Review team to perform their improper payment reviews on April 16, 2020; however, the documentation did not contain sufficient information to support the Post-Pay Review process. On May 29, 2020, the MOCAS Post-Pay Review team provided additional documentation; however, the documentation still did not support the paid invoice amounts or the process for reviewing 78 of the 103 transactions. On August 12, 2020, DFAS personnel provided a third round of documentation; however, the information still did not support the MOCAS Post-Pay Review process or determinations. For example, in one sample transaction, using the documentation the MOCAS Post-Pay Review team reviewed to determine the transaction was proper, the audit team could not verify the unit price on the contract, and could not reconcile the receiving report and the invoice amounts

As a result, the MOCAS Post-Pay Review personnel did not adequately support their MOCAS Post-Pay Review process or their proper payment determinations.

to the sample transaction amount. As a result, we concluded that the MOCAS Post-Pay Review personnel did not adequately support their MOCAS Post-Pay Review process or their proper payment determinations.

Therefore, we recommend that the DFAS-Columbus Director of Accounting Operations provide, on the questionnaire, details supporting the MOCAS Post-Pay Review determinations, including the contract modification numbers, invoice numbers, shipment numbers, voucher numbers, and calculations of the recoupment amounts.

DFAS Did Not Report Underpayments as Improper Payments

DFAS-Columbus personnel identified 464 payments, totaling \$56.5 million, as underpayments to vendors, but did not report them as improper payments. The PIIA and OMB Circular No. A-123, Appendix C, define an improper payment as any payment that should not have been made or that was made in an incorrect amount, which includes over and underpayments, under statutory, contractual, administrative, or other legally applicable requirement. OMB Circular No. A-123, Appendix C, further clarifies that incorrect amounts are overpayments or underpayments that are made to eligible recipients, including inappropriate denials of payment or service.²¹

DFAS personnel explained that the 464 underpayments are the result of a process, known as the “Short Pay” process. According to DFAS personnel, this process exists because of contract deficiency reports identifying a shortage of funds or

²¹ OMB Circular No. A-123, Appendix C, Part I – Definitions and Determinations, June 26, 2018.

canceled funds on the lines of accounting. DFAS personnel stated that although the invoiced amounts are legal, proper, and contractually correct, the funding on the contract may not support the amount invoiced. Due to the shortage of funds or canceled funds, DFAS Accounts Payable personnel disbursed partial amounts on the invoice and withheld the remaining balance until funding became available.

Of the 464 underpayments, DFAS personnel classified 262 of the underpayments, totaling \$46.1 million, as pay deductions for shortage of funds related to contract deficiencies. The remaining 202 underpayments, totaling \$10.4 million, applied to canceled funds. On March 1, 2019, DFAS personnel issued guidance requesting vendors to submit invoices billed against canceling appropriations by August 5, 2019. If DFAS did not receive the invoices in time, DFAS could not ensure that payment would be made before the funds were canceled. Therefore, the vendor could have caused the underpayment by not submitting an invoice in a timely manner.

According to DFAS personnel, they did not consider the underpayments as improper payments because the contracts associated with the underpayments had funding deficiencies that, if paid, would create a potential Anti-Deficiency Act violation.

DFAS personnel stated that although they withheld these payments from the vendors for contract deficiencies, they eventually paid the vendor, including interest. However, due to the difficulty in obtaining the funding to correct the deficiency, the payment could have taken months to pay. Therefore, due to

DFAS personnel stated that although they withheld these payments from the vendors for contract deficiencies, they eventually paid the vendor, including interest.

contract deficiencies, the DoD withheld payments from vendors, who were eligible recipients, to then pay the vendor the invoiced amount, plus interest, causing the DoD to pay more to the vendor than what should have been paid.

Furthermore, DFAS did not have adequate controls over the Short Pay process. DFAS personnel provided a SOP for the Short Pay process, but the document did not contain appropriate processes to identify when the Government was the cause of withholding the vendor payment or the process required for ensuring payment to the vendor in a timely manner. As a result, DFAS personnel did not have controls to ensure that the least amount of interest was paid out to the vendor because of the contract deficiencies. Therefore, the DFAS-Columbus Director of Accounting Operations should document the Short Pay process; implement controls to ensure that the payment to the vendor is timely; and develop and implement procedures for reporting improper payments in the statistical sample, as required, caused by Government contract deficiencies.

Increasing the internal controls over the Short Pay process, could prevent future occurrences of these underpayments.

Increasing the internal controls over the Short Pay process, such as conducting a more in-depth root cause analysis to identify trends in contracts, could prevent future occurrences of these

underpayments. Additionally, the results of the root cause analysis could assist the OUSD(C)/CFO and the contracting agencies in developing corrective actions and addressing these types of contract deficiencies before they occur. Therefore, we recommend that the OUSD(C)/CFO, in coordination with the DFAS-Columbus Director of Accounting Operations and the contracting agencies, conduct a root cause analysis on the Short Pay transactions to prevent future occurrences.

DFAS Produced an Unreliable Improper Payment Estimate for MOCAS

As a result of DFAS’s inaccurate reporting of MOCAS improper payments, the DoD cannot rely on the improper payment estimate produced from MOCAS payments for the first two quarters of the FY 2020 reporting period. In developing their estimate, DFAS personnel did not use amounts reflecting a payment, did not have adequate post-pay reviews to report \$25.8 million in improper payments, and did not have controls to ensure that the MOCAS Post-Pay Review team adequately reported improper payments associated with recoupment amounts. Because MOCAS processed 57 percent of the total reported outlays for the Commercial Pay program, the lack of internal controls surrounding the identification and reporting of the \$25.8 million in improper payments creates an unreliable improper payment estimate for the Commercial Pay program. Furthermore, MOCAS Post-Pay Review personnel reported zero improper payments for MOCAS for the first two quarters; however, DFAS personnel identified 302 improper payments, totaling \$136 million for the reporting period. Therefore, the information reported in the AFR may mislead DoD leadership and Congress regarding the effectiveness of the DoD’s Commercial Pay improper payment program.

The DoD has produced unreliable estimates in the DoD AFR for 8 consecutive years and will continue to produce unreliable estimates for Commercial Pay if DFAS does not improve its internal control system. An unreliable improper payment estimate limits the ability of the DoD leadership and Congress to accurately determine whether the DoD has the necessary resources and the appropriate measures in place to reduce its improper payments, and whether the corrective actions that the DoD implemented are, in fact, reducing improper payments.

The DoD has produced unreliable estimates in the DoD AFR for 8 consecutive years and will continue to produce unreliable estimates for Commercial Pay if DFAS does not improve its internal control system.

To ensure that DoD leadership and Congress have the appropriate information to make relevant decisions regarding the DoD's Commercial Pay program, the OUSD(C)/CFO should footnote in Table 1 of the DoD FY 2020 AFR Payment Integrity Section, and every year thereafter, the Commercial Pay improper payments identified on an annual basis outside of the statistical sample.

DFAS did not have the ability to coordinate a root cause analysis of the improper payments and implement appropriate corrective actions, as required by the PIIA, to strengthen its internal controls to reduce or prevent future improper payments. Cross-Agency Priority Goal 9 states that while improper payments may compromise citizen trust in Government, they are not always indicative of fraud, nor do they necessarily represent payments that should not have been made. Having the right information and the capacity to address root causes are critical components to complying with the PIIA requirements.

Before this audit, OUSD(C)/CFO personnel were not aware of any identified improper payments outside of the post-pay review for MOCAS, resulting in the DoD reporting unreliable improper payment estimates for the MOCAS in the annual AFR. OMB Circular No. A-123, Appendix C, states that agencies may not use self-reporting by recipients of actual improper payment in lieu of a statistical estimate, but agencies may include self-reported improper payments in addition to the agency's statistical estimate. DFAS personnel could improve their efforts to reduce MOCAS improper payments by considering the actual identified improper payments. In response to a recommendation in Report No. DODIG-2019-087, DFAS is developing and strengthening its Recapture Audit Operations to report within the AFR.²² This operation spans across every Component and would capture the amounts recaptured from overpayments. While the efforts of the Recapture Audit Operation are heading the DoD in the right direction in identifying improper payments, the Recapture Audit Operation is not yet fully implemented. Because OUSD(C)/CFO and DFAS personnel initiated corrective actions pertaining to the Recapture Audit Operation, we are not making a recommendation addressing the development of the Recapture Audit Operation in this report, and we will confirm the actions taken during the annual improper payments audit to follow up on the actions taken to address the previous recommendation.

²² Report No. DODIG-2019-087, "Audit of the DoD's FY 2018 Compliance With the Improper Payments Elimination and Recovery Act Requirements," May 15, 2019.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service perform a review for the statistically sampled transactions from the Mechanization of Contract Administration Services in the Defense Finance Accounting Service Contract Debt System (look-back analysis) at year-end for improper payments.

Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service, Comments

The Deputy Chief Financial Officer (DCFO), responding for the Deputy Director of Enterprise Audit Support and Compliance for DFAS, agreed with the recommendation, stating that DFAS will create a process to ensure that DCDS is reviewed at the end of the year to ensure that any prior tested samples subsequent to original sampled items are captured as improper payments if a corresponding debt was processed. DFAS completed this action in October 2020.

Our Response

Comments from the DCFO and the actions taken by DFAS addressed the specifics of the recommendation; therefore, this recommendation is closed. DFAS created and performed procedures to review DCDS and MOCAS to ensure that sampled transactions were captured and incorporated into the FY 2020 improper payment estimate for the Commercial Pay program.

Recommendation 2

We recommend that the Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus:

- a. Document and implement procedures to review for duplicate payments during the post-pay review process, outside of the pre-validation review process.

Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus, Comments

The DCFO, responding for the Director of Accounting Operations for DFAS-Columbus, agreed with the recommendation, stating that DFAS personnel will update the existing post-pay review procedures to ensure that the steps to review for duplicate payments are outlined appropriately. In addition, the DCFO stated

that the DFAS Accounts Payable Post-Pay Review team will coordinate with the Enterprise Solutions and Standards (ESS) Accounts Payable office to update the SOP. The DCFO stated the estimated completion date is December 2020.

Our Response

Comments from the DCFO 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 DFAS Accounts Payable Post-Pay Review team, in coordination with the DFAS ESS Accounts Payable personnel, updated the SOP and implemented reviews for duplicate payments.

- b. Document and implement procedures to review recoupment amounts for accuracy and report recoupment errors when identified during the post-pay review process.**

Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus, Comments

The DCFO, responding for the Director of Accounting Operations for DFAS-Columbus, agreed with the recommendation, stating that DFAS personnel will update the existing post-pay review procedures to ensure that the steps to review recoupment amounts are outlined appropriately. In addition, the DCFO stated that the DFAS Accounts Payable Post-Pay Review Team will take corrective action to properly annotate recoupment errors on the questionnaire and report them as improper payments in quarterly post-pay review findings. The DCFO stated the estimated completion date is December 2020.

Our Response

Comments from the DCFO 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 DFAS Accounts Payable Post-Pay Review Team has updated the SOP to reflect the reviews of recoupment amounts, implemented procedures to annotate recoupment errors on the questionnaire, and report the recoupment errors as improper payments.

- c. **Develop and implement procedures to provide a supervisory review over the improper payment reviews conducted by the Mechanization of Contract Administration Services Post-Pay Review personnel.**

Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus, Comments

The DCFO, responding for the Director of Accounting Operations for DFAS-Columbus, partially agreed with the recommendation, stating that the current procedures outline a two-step review process where the Accounts Payable management designee, supervisor, or analyst independent of post-pay review signs a memorandum for record, documenting the date the review of the sample item occurred. The DCFO stated that ESS Accounts Payable personnel then conduct a secondary review for accuracy of 4 percent of all post-pay reviews determined to be proper and 100 percent of all post-pay reviews determined to be improper payments. The DCFO stated DFAS will review the existing control to ensure that the review is occurring as outlined in the procedures. The DCFO stated the estimated completion date is December 2020.

Our Response

Although the DCFO partially agreed with the recommendation, the proposed actions meet the intent of the recommendation; therefore, the recommendation is resolved but will remain open. According to the DFAS FY 2020 Post-Pay Reviewers for Commercial Pay SOP, each random sample reviewed should contain a certified document signed by the Accounts Payable manager or their designee attesting that the review of the random sample was completed by said date. During our reviews of the DFAS sample items, the documentation did not contain any signatures other than the MOCAS Post-Pay Reviewer. The intent of this recommendation was for DFAS personnel to implement a supervisory review over the determinations made by the MOCAS post-pay reviewer, as described in the SOP. While we understand ESS Accounts Payable personnel conducted a secondary review over the 4 percent of all post-pay reviews determined to be proper, the remaining 96 percent of reviews did not contain any indication that anyone, other than the MOCAS Post-Pay Reviewer, reviewed the final determinations made. We will close this recommendation once we verify that DFAS has completed its review of the existing control to ensure that the review is occurring as outlined in the procedures as evidenced by supervisory reviews of the final determinations.

- d. **Provide, on the questionnaire, details supporting the Mechanization of Contract Administration Services Post-Pay Review determinations, including the contract modification numbers, invoice numbers, shipment numbers, voucher numbers, and calculations of the recoupment amounts.**

Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus, Comments

The DCFO, responding for the Director of Accounting Operations for DFAS-Columbus, agreed with the recommendation, stating that the DFAS Accounts Payable Post-Pay Review team will coordinate with the ESS Accounts Payable office to update the SOP to incorporate additional data elements such as shipment number, modifications, and recoupment rates utilized, when applicable, in the questionnaire. The DCFO stated the estimated completion date is December 2020.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once we verify that DFAS has updated the SOP and has incorporated the additional data elements into the Post-Pay Review questionnaire.

- e. **Document the Short Pay process, implement controls to ensure that the payment to the vendor is timely; and develop and implement procedures for reporting improper payments in the statistical sample, as required, caused by Government contract deficiencies.**

Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus, Comments

The DCFO, responding for the Director of Accounting Operations for DFAS-Columbus, partially agreed with the recommendation, stating that DFAS personnel will document the Short Pay process, improve existing controls, and implement an additional control to ensure the subsequent payment resulting from a valid Short Pay is timely. The DCFO stated the additional control will include the development of a tool for enhanced visibility of the workload, which will facilitate a more efficient approach to monitoring the refunds due, therefore increasing the timeliness of payments. The DCFO stated the estimated completion date is March 2021.

Our Response

Although the DCFO partially agreed with the recommendation, the proposed actions meet the intent of the recommendation; therefore, the recommendation is resolved but will remain open. In addition to the corrective actions discussed for this recommendation, the DCFO stated, in response to Recommendation 5, that the OUSD(C)/CFO, DFAS, and appropriate contract agencies will perform a root cause analysis on Short Pay transactions, which will identify any improper payments. We will close this recommendation once we verify that DFAS has documented the Short Pay process and developed internal controls surrounding the Short Pay process to improve the timeliness of payments.

Recommendation 3

We recommend that the Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service, in coordination with the Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus:

- a. Develop and implement a post-pay review process that reviews for propriety to the certified voucher in accordance with the Post-Pay Review for Commercial Pay standard operating procedures.**

Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service/Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus, Comments

The DCFO, responding for the Deputy Director of Enterprise Audit Support and Compliance for DFAS and the Director of Accounting Operations for DFAS-Columbus, agreed with the recommendation, stating that DFAS will include the voucher number as a key attribute for sampling, linking the entitlement to the payment voucher number. In addition, DFAS will ensure that a complete reconciliation is put in place for the Commercial Pay program population universe. The DCFO stated the estimated completion date is March 2021.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, this recommendation is resolved but will remain open. We will close the recommendation once we verify that DFAS incorporated the voucher number as one of the key attributes for sampling and DFAS provides documentation supporting that a complete reconciliation has been put in place for the Commercial Pay program population universe.

- b. **Report the three improper payments included in the statistical sample not previously reported and recalculate the improper payment estimate for each quarter impacted.**

Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service/Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus, Comments

The DCFO, responding for the Deputy Director of Enterprise Audit Support and Compliance for DFAS, and the Director of Accounting Operations for DFAS-Columbus, agreed with the recommendation, stating that DFAS will report payments included in the quarterly post-pay statistical sample that were not previously reported as improper. The DCFO also stated that DFAS personnel will correct the reporting templates recording the improper payments as identified and provide the updated information to the appropriate offices for assessing the impact on the quarterly improper payment estimate. The DFAS Enterprise Audit Support and Compliance completed this action in October 2020.

Our Response

Comments from the DCFO and the actions taken by DFAS addressed the recommendation; therefore, this recommendation is closed. DFAS corrected the improper payment template to include the improper payments not previously identified and recalculated the improper payment estimates for the impacted quarters; therefore, no additional action is required.

Recommendation 4

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, footnote in Table 1 of the FY 2020 DoD Agency Financial Report Payment Integrity Section, and every year thereafter, the Commercial Pay improper payments identified on an annual basis outside of the statistical sample.

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

The DCFO, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, did not agree with the recommendation, stating that in accordance with OMB Circular A-123, Appendix C, Part 1.D.4:

Agencies should not base their improper payment estimates solely on self-reporting of actual improper payments by the sub-agencies that made the payments or individuals or entities who received the payments; and self-reported improper payments may be reported, but only in addition to the agency's statistical estimates.

The DCFO stated that the OUSD(C)/CFO does not plan to footnote in Table 1 of the DoD Agency Financial Report Payment Integrity Section, and instead, the OUSD(C)/CFO will continue to work with DFAS to improve the overall accuracy of the improper payments estimate for the Commercial Pay program by implementing other recommendations made in this report. Furthermore, the DoD has taken significant actions to strengthen its Payment Recapture Audit Operations to report within the agency financial report. These operations span across every DoD Component and will capture the amounts recaptured from overpayments, including those overpayments identified outside of the Commercial Pay statistical sample.

Our Response

Although the DCFO did not agree with the recommendation, the proposed actions addressed the specifics of the recommendation; therefore, this recommendation is resolved but will remain open. In the FY 2019 AFR, the Commercial Pay program reported \$19 million in improper payments, with zero improper payments reported for all payments related to MOCAS. DFAS continued to report zero improper payments for the first two quarters of FY 2020. However, DFAS personnel reported to their management 302 improper payments, totaling \$136 million for these two quarters and would not have reported these improper payments in the AFR because the improper payments were not part of the statistical sampling DFAS used to develop the Commercial Pay program's improper payment estimate. The intent of our recommendation was to provide, in the AFR, a more realistic representation of the improper payments identified in MOCAS and the Commercial Pay program as a whole.

In response to the report, DFAS has taken action to address multiple internal control weaknesses identified in its post-pay review and improper payment reporting processes. For example, DFAS corrected the improper payment estimate to include \$25.8 million in improper payments incorrectly identified as proper and developed a look-back analysis ensuring that improper payments are adequately captured and reported. As a result of these actions, the DoD's improper payment estimate for the Commercial Pay program increased significantly from the FY 2019 estimate. Furthermore, the actions the Department has taken to strengthen the Payment Recapture Audit Operations should provide a better understanding of the improper payments the DoD has recovered from all overpayments within the DoD. Therefore, DoD's FY 2020 AFR should contain a more realistic representation of the improper payments associated with MOCAS transactions and the whole Commercial Pay program. As a result, we do not believe a footnote will be needed in Table 1 of the FY 2020 DoD AFR Payment Integrity Section. However, we will keep this recommendation open until we verify that OUSD(C)/CFO has provided a more realistic representation of the Commercial Pay program in the FY 2020 AFR.

Recommendation 5

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus, and the contracting agencies, conduct a root cause analysis on the Short Pay transactions to prevent future occurrences.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD/Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus, Comments

The DCFO, responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, and the Director of Accounting Operations for DFAS-Columbus, agreed with the recommendation, stating that the OUSD(C)/CFO, DFAS, and the appropriate contracting agencies will conduct a root cause analysis on Short Pay transactions to determine the actions that need to be taken to prevent future occurrences. The DCFO stated the estimated completion date is April 2021.

Our Response

Comments from the DCFO addressed the specifics of the recommendation; therefore, this recommendation is resolved but will remain open. We will close this recommendation once we verify that the root cause analysis has been performed for Short Pay transactions.

Appendix A

Scope and Methodology

We conducted this performance audit from March 2020 through September 2020 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.

To obtain information and source documents on accuracy of the improper payment estimate reported for MOCAS for the first two quarters of the FY 2020 improper payment reporting period, as well as to understand their roles for compiling and reporting in the FY 2020 DoD AFR, we interviewed personnel from the following agencies.

- OUSD(C)/CFO
- DFAS-Indianapolis
- DFAS-Columbus

During our interviews, we discussed the completeness of the MOCAS population, the MOCAS improper payment sampling and estimation process, and MOCAS transactions located in databases containing possible improper payments. We also discussed with DFAS personnel the review processes used to determine whether a transaction is an improper payment. We reviewed the creation of the MOCAS population and re-performed the review processes used for MOCAS transactions to determine whether DFAS personnel calculated an accurate and complete improper payment estimate for MOCAS for the first two quarters of the FY 2020 improper payment reporting period. We also examined the documentation that MOCAS Post-Pay Review personnel provided if it related to our audit objective.

We reviewed the following guidance on the PIIA reporting requirements for FY 2020.

- Public Law 116-117, “Payment Integrity Information Act of 2019,” March 2, 2020
- OMB Circular No. A-123, “Management’s Responsibility for Enterprise Risk Management and Internal Control,” July 15, 2016, Appendix C, “Requirements for Payment Integrity Improvement,” June 26, 2018
- DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” Volume 1, “General Financial Management Information, Systems, and Requirements,” Chapter 9, “Financial Records Retention,” February 2016

- DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” Volume 4, “Accounting Policy,” Chapter 14, “Payment Integrity,” May 2020
- DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” Volume 5, “Disbursing Policy,” Chapter 9, “Disbursements,” December 2019
- DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” Volume 10, “Contract Payment Policy,” Chapter 8, “Commercial Payment Vouchers and Supporting Documentation,” April 2018

We requested and received documentation used to support the MOCAS improper payment estimate, including:

- information and data relevant to MOCAS sampling, including sampling and estimation plans, population, and sample data for the first and second quarters of FY 2020 PIIA reporting;
- MOCAS transactions located in databases containing possible improper payments; and
- documentation used during reviews to determine whether a MOCAS transaction is an improper payment.

Use of Computer-Processed Data

We relied on computer-processed data that DFAS personnel used to develop their populations in support of their Post-Pay Review process used in identifying and reporting improper payments processed through MOCAS. We used the first and second quarter FY 2020 populations provided by DFAS personnel and determined that the completeness of the population was subject to review. After the population was determined to be complete, we used the data provided to randomly select a sample of transactions, and re-perform the Post-Pay Review process for MOCAS transactions. In this review, we obtained supporting documentation for each of the sampled transactions to determine whether MOCAS Post-Pay Review personnel identified and reported the MOCAS improper payments accurately.

The computer-processed data and supporting documentation we used were sufficient to support the audit findings and conclusions in this report. The audit objective was to determine whether DFAS accurately identified and reported improper payments, which included assessing the accuracy and completeness of the MOCAS sample populations. Therefore, our audit work included an analysis of the data and data processes used to produce the reported results.

Use of Technical Assistance

During the audit, we requested and received assistance from the DoD OIG Quantitative Methods Division. Quantitative Methods Division analysts reviewed DFAS personnel's Commercial Pay program sampling methodology to ensure that the first and second quarter of the FY 2020 MOCAS improper payment reporting periods contained accurate sample sizes.

Appendix B

Prior Coverage

During the last 5 years, the DoD OIG issued 10 reports discussing improper payment reporting requirements.

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

DoD OIG

Report No. DODIG-2020-083, “Audit of the Department of Defense’s Compliance in Fiscal Year 2019 With Improper Payments Elimination and Recovery Act Requirements,” May 1, 2020

The DoD OIG determined that the DoD complied with four of the six Improper Payments Elimination and Recovery Act (IPERA) requirements by publishing all required information in the Payment Integrity section of the AFR; conducting program-specific risk assessments, if required; publishing corrective action plans; and reporting an improper payment rate of less than 10 percent for each of the eight programs that included an improper payment estimate in the FY 2019 AFR. However, while the DoD continued to make improvements in its FY 2019 reporting of IPERA requirements, the DoD did not comply with the remaining two IPERA requirements. Specifically, the DoD published unreliable improper payment estimates for five programs and missed its annual improper payment reduction targets for three programs.

Report No. DODIG-2019-087, “Audit of the DoD’s FY 2018 Compliance With the Improper Payments Elimination and Recovery Act Requirements,” May 15, 2019

The DoD OIG determined that the DoD complied with three of the six requirements of the IPERA by publishing all required information in the Payment Integrity section of the AFR; conducting program-specific risk assessments; and reporting an improper payment rate of less than 10 percent for each of the eight programs that included an improper payment estimate in the FY 2018 AFR. However, the DoD did not fully comply with three of the six IPERA requirements.

Report No. DODIG-2019-039, “Reporting of Improper Payments for the Defense Finance and Accounting Service Commercial Pay Program,” December 21, 2018

The DoD OIG determined that the DoD produced an incomplete and inaccurate improper payment estimate for the DFAS Commercial Pay program for the first two quarters of the FY 2018 IPERA reporting period. The estimate calculation did not include the results of \$5.7 billion of transportation, Government Purchase Card, and Army overseas payments. In addition,

DFAS personnel did not have sufficient controls in place to validate the accuracy and completeness of the commercial payments population used for developing the DFAS portion of the estimate.

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

The DoD OIG determined that the DoD complied with two of the six IPERA requirements by conducting program-specific risk assessments and reporting an improper payment rate of less than 10 percent for each of the nine programs that included an improper payment estimate in the FY 2017 AFR. However, the DoD did not fully comply with four of the six IPERA requirements.

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

The DoD OIG determined that the OUSD(C)/CFO published the “Improper Payment and Payment Recapture Programs” section of the DoD FY 2016 AFR but did not comply with IPERA. In addition, the DoD complied with one of the six requirements of IPERA by reporting improper payment rates of less than 10 percent; however, the DoD did not comply with five of the six IPERA requirements.

Report No. DODIG-2017-019, “Improvements Needed in Managing Air Force Suspense Accounts,” November 10, 2016

DFAS-Columbus personnel did not have sufficient internal controls in place to record Air Force suspense account transactions on the proper Component financial statements. This occurred because DFAS-Columbus personnel did not analyze historical data to determine what portion of the balances should be posted to the Air Force General Fund Financial Statements and the portion that should be posted on other DFAS prepared financial statements. DFAS-Columbus also did not verify that Air Force suspense account transactions were researched and cleared within 60 business days as required by the Treasury Financial Manual. This occurred because DFAS-Columbus did not have adequate processes in place to identify, track, monitor, age, and timely resolve suspense transactions. In addition, DFAS-Columbus did not report suspense account balances to the appropriate financial statement line items. This occurred because DFAS-Columbus personnel posted unsupported accounting entries that erroneously reported the suspense account balances to improper line items. As a result, DFAS-Columbus personnel misstated the FY 2014 and FY 2015 Air Force General Fund Financial Statements by an absolute value of \$22.7 million and \$7.6 million respectively and included \$54.3 million in suspense account transactions older than 60 business days.

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

The DoD OIG determined that the OUSD(C)/CFO published the DoD FY 2015 AFR showing that the DoD met five of the six requirements of the IPERA; however, the improper payment estimates were not reliable. In addition, the DoD did not meet the requirement to achieve the reduction target for one of the eight programs with established targets and therefore, did not comply with the IPERA in FY 2015.

Report No. DODIG-2016-060, "DoD Actions Were Not Adequate to Reduce Improper Travel Payments," March 10, 2016

The DoD OIG determined that DoD Component actions were not adequate to reduce estimated improper payments in the DoD Travel Pay program. As a result, the DoD continued to be at high risk for making improper payments for travel.

Report No. DODIG-2015-121, "DoD Met Most Requirements of the Improper Payments Elimination and Recovery Act in FY 2014, but Improper Payment Estimates Were Unreliable," May 12, 2015

The DoD OIG determined that the OUSD(C)/CFO published the DoD FY 2014 AFR showing that the DoD met five of the six requirements of the IPERA; however, the improper payment estimates were not reliable. In addition, the DoD could not ensure that all required payments were reviewed, which resulted in unreliable estimates and rates. The DoD also did not meet the requirement to achieve the reduction target for the DoD Travel Pay program and as a result, the DoD did not comply with the IPERA in FY 2014.

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

The DoD OIG determined that the Defense Health Agency and DFAS developed methodologies that did not fully capture improper payment estimates and did not fully disclose recovered overpayments in the DoD FY 2013 AFR. The inadequate methodologies resulted in unreliable improper payment estimates and limited the DoD's ability to identify and report improper payments, determine underlying weaknesses that cause the improper payments, and initiate corrective actions to reduce the improper payments.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD and the Defense Finance and Accounting Service (cont'd)

DOD IG DRAFT REPORT – DATED SEPTEMBER 10, 2020

PROJECT NO. D2020-D000FL-0098.000

“AUDIT OF THE ACCURACY OF THE IMPROPER PAYMENT ESTIMATES REPORTED FOR THE MECHANIZATION OF CONTRACT ADMINISTRATION SERVICES SYSTEM”

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSDC) AND DEFENSE FINANCE AND ACCOUNTING SERVICE (DFAS)
RESPONSES TO RECOMMENDATIONS

RECOMMENDATION 1: We recommend that the Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service perform a review for the statistically sampled transactions from Mechanization of Contract Administration Services in the Defense Finance Accounting Service Contract Debt System (look-back analysis) at year-end for improper payments.

RESPONSE: Concur. DFAS will create a process to ensure that the DFAS Contract Debt System (DCDS) is reviewed at the end of the year to ensure any prior tested samples subsequent to original sampled items are captured as improper payments if a corresponding debt was processed.

Estimated Completion Date (ECD): October 2020

RECOMMENDATION 2a: We recommend that the Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus:

- a. Document and implement procedures to review for duplicate payments during the post-pay review process, outside of the pre-validation review process.

RESPONSE: Concur. DFAS will add clarity to existing post-pay review procedures to ensure the steps to review for duplicate payments are outlined appropriately.

DFAS identified and reported 21 duplicate payments that occurred in MOCAS during the same timeframe. None of the duplicates identified were in the quarterly samples performed by the MOCAS Post Pay Review team. Although DCDS captures the universe of improper payments, it historically has only designated them as under or overpayments. DFAS recently completed a system change to DCDS to further break out and identify a duplicate payment versus an overpayment to properly report duplicate payments moving forward.

Corrective Action: The DFAS Accounts Payable Post Pay Review team will coordinate with the Enterprise Solutions and Standards Accounts Payable (ESS AP) office to update the standard operating procedures (SOPs).

ECD: December 2020

Attachment

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD and the Defense Finance and Accounting Service (cont'd)

RECOMMENDATION 2b: We recommend that the Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus:

- b. Document and implement procedures to review recoupment amounts for accuracy and report recoupment errors when identified during the post-pay review process.

RESPONSE: Concur. DFAS will add clarity to existing post-pay review procedures to ensure the steps to review recoupment amounts are outlined appropriately. In addition, beginning with the fiscal year (FY) 2020 4th Quarter review, the DFAS Accounts Payable Post Pay Review Team will take corrective action to properly annotate recoupment errors on the questionnaire and report them as improper payments in our quarterly post-pay review findings to both the Enterprise Audit Support and Compliance Office and the ESS AP office.

Corrective Action: The DFAS Accounts Payable Post Pay Review Team will take corrective action to properly annotate recoupment errors on the questionnaire and report them as improper payments in our quarterly post-pay review findings to both the Enterprise Audit Support and Compliance Office and the ESS AP office. In addition, the DFAS Accounts Payable Post Pay Review team will coordinate with the ESS AP office to update the SOPs.

ECD: December 2020

RECOMMENDATION 2c: We recommend that the Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus:

- c. Develop and implement procedures to provide a supervisory review over the improper payment reviews conducted by Mechanization of Contract Administration Services Post-Pay Review personnel.

RESPONSE: Partially Concur. DFAS will review the existing control to ensure that the review is occurring as outlined in the procedures.

Current procedures outline a two-step Post Payment review process. The Accounts Payable Post Pay Review team conducts the initial review of a random sample of MOCAS payments for a given quarter and creates a checklist for each payment. The Accounts Payable management designee, supervisor or analyst independent of post pay review team who does the review, signs the standard certification review template (Memorandum for Record (MFR)), attesting that the review of the random sample was completed by said date. The MFRs and checklists are subsequently provided to ESS AP who then conducts a secondary review for accuracy. ESS AP reviews 4 percent of all post pay reviews determined to be correct and 100 percent of all post pay reviews determined to be improper payments. The results of these reviews are used to continuously evaluate Business Activity Monitoring logic, provide trend analysis to brief senior leadership, and ultimately documented and stored in iControl as part of our internal control testing.

Corrective Action: The DFAS Accounts Payable Post Pay Review team will coordinate with the ESS AP office to review the existing control and implement procedures to ensure controls are operating effectively.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD and the Defense Finance and Accounting Service (cont'd)

ECD: December 2020

RECOMMENDATION 2d: We recommend that the Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus:

- d. Provide, on the questionnaire, details supporting the Mechanization of Contract Administration Services Post-Pay Review determinations, including the contract modification numbers, invoice numbers, shipment numbers, voucher numbers, and calculations of the recoupment amounts.

RESPONSE: Concur. DFAS concurs with recommendation of adding fields to the questionnaire. The questionnaire already contains the contract, invoice, and voucher numbers; however, there is value added in having additional data elements identified up front on the questionnaire such as shipment number, modifications, and recoupment rates utilized when applicable. Clearly identifying these additional fields would provide further support in the determination of the validity of the payment in question along with validation that sufficient review of the payment occurred.

Corrective Action: The DFAS Accounts Payable Post Pay Review team will coordinate with the ESS AP office to update the SOP to incorporate additional data elements and recoupment validation questions on the checklist for future post pay reviews.

ECD: December 2020

RECOMMENDATION 2e: We recommend that the Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus:

- e. Document the Short Pay process, implement controls to ensure that the payment to the vendor is timely; and develop and implement procedures for reporting improper payments in the statistical sample, as required, caused by Government contract deficiencies.

RESPONSE: Partially Concur. DFAS will document the short pay process and implement controls to ensure that the subsequent payment resulting from a valid short payment is timely.

A short pay, which is made to a valid recipient for those line items where all required information has been provided and is in accordance with applicable laws and procedures, is a partial payment and should not be classified as an improper payment. According to Office of Management and Budget (OMB) Circular A-123, Appendix C, an improper payment is defined as:

Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount,

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD and the Defense Finance and Accounting Service (cont'd)

and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law).

Corrective Action: The DFAS-Columbus MOCAS Team will take corrective action to document a Short Pay process, improve existing controls, and implement an additional control. The newly implemented control will include the development of a tool for enhanced visibility of the workload, which will facilitate a more efficient approach to monitoring the refunds due, thus increasing the timeliness of payments.

ECD: March 2021

RECOMMENDATION 3a: We recommend that the Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service, in coordination with the Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus:

- a. Develop and implement a post-pay review process that reviews for propriety to the certified voucher in accordance with the Post-Pay Review for Commercial Pay standard operating procedures.

RESPONSE: Concur. DFAS will include the voucher number as a key attribute for sampling associated with Post-Pay Review for Commercial Pay.

Corrective Action: DFAS already has a robust and effective post-pay review process in place that reviews the propriety of the payment process against key supporting documentation; however, we will further strengthen it by adding the voucher number into the overall sample population. This will link the entitlement to the payment voucher number and allow the reviewers to verify that the payment is made in accordance with the certified invoice. Further, DFAS will ensure a complete reconciliation is put in place for the Commercial Pay program population universe.

ECD: March 2021

RECOMMENDATION 3b: We recommend that the Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service, in coordination with the Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus:

- b. Report the three improper payments included in the statistical sample not previously reported and recalculate the improper payment estimate for each quarter impacted.

RESPONSE: Concur. DFAS agrees with the recommendation to report payments included in the quarterly post pay statistical sample not previously reported as improper. For clarification purposes, while there were three improper payments reported in DCDS, these tie to two payments sampled during the FY 2019 4th Quarter Post Pay Review process.

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD and the Defense Finance and Accounting Service (cont'd)

Corrective Action: The DFAS Accounts Payable Post Pay Review team will correct their reporting templates to record the improper payments as identified and provide updated information to both the Enterprise Audit Support and Compliance Office and the ESS AP office in order to assess the impact on the quarterly improper payment estimate.

ECD: Accounts Payable: Completed, August 2020

ECD: Enterprise Audit Support and Compliance: October 2020

RECOMMENDATION 4: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, footnote in Table 1 of the FY 2020 DoD Agency Financial Report Payment Integrity Section, and every year thereafter, the Commercial Pay improper payments identified on an annual basis outside of the statistical sample.

RESPONSE: Non-concur. In accordance with OMB Circular A-123, Appendix C, Part 1.D.4:

Agencies should not base their improper payment estimates solely on self-reporting of actual improper payments by the sub-agencies that made the payments or individuals or entities who received the payments; and self-reported improper payments may be reported, but only in addition to the agency's statistical estimates.

As such, OUSD(C) does not plan to footnote in Table 1 of the DoD Agency Financial Report Payment Integrity Section, nor every year thereafter, the Commercial Pay improper payments identified on an annual basis outside of the statistical sample. Instead, OUSD(C) will continue to work with DFAS to improve the overall accuracy of the improper payments estimate for the Commercial Pay program by implementing other recommendations made in this report. The Department uses a statistically valid and rigorous sampling plan, along with a detailed SOP, to determine the improper payment estimate for the Commercial Pay program. Footnoting improper payments identified outside of the statistical sample will detract from the estimate generated using the sampling plan and SOP and confuse the users of the data. Furthermore, the Department has taken significant actions to strengthen its Payment Recapture Audit Operations to report within the agency financial report. These operations span across every DoD component and will capture the amounts recaptured from overpayments, including those overpayments identified outside of the Commercial Pay statistical sample.

RECOMMENDATION 5: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Director of Accounting Operations for the Defense Finance and Accounting Service-Columbus, and the contracting agencies, conduct a root cause analysis on the Short Pay transactions to prevent future occurrences.

RESPONSE: Concur. OUSD(C), DFAS, and the appropriate contracting agencies will conduct a root cause analysis on Short Pay transactions to determine the actions that need to be taken to prevent future occurrences.

ECD: April 2021

Acronyms and Abbreviations

AFR	Agency Financial Report
DCDS	DFAS Contract Debt System
DCFO	Deputy Chief Financial Officer
DFAS	Defense Finance and Accounting Service
ESS	Enterprise Solutions and Standards
FMR	Financial Management Regulation
IPERA	Improper Payments Elimination and Recovery Act
MOCAS	Mechanization of Contract Administration Services
OMB	Office of Management and Budget
OUSD(C)/CFO	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
PIIA	Payment Integrity Information Act
PR&A	Post-Pay Review and Analysis
SOP	Standard Operating Procedure

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