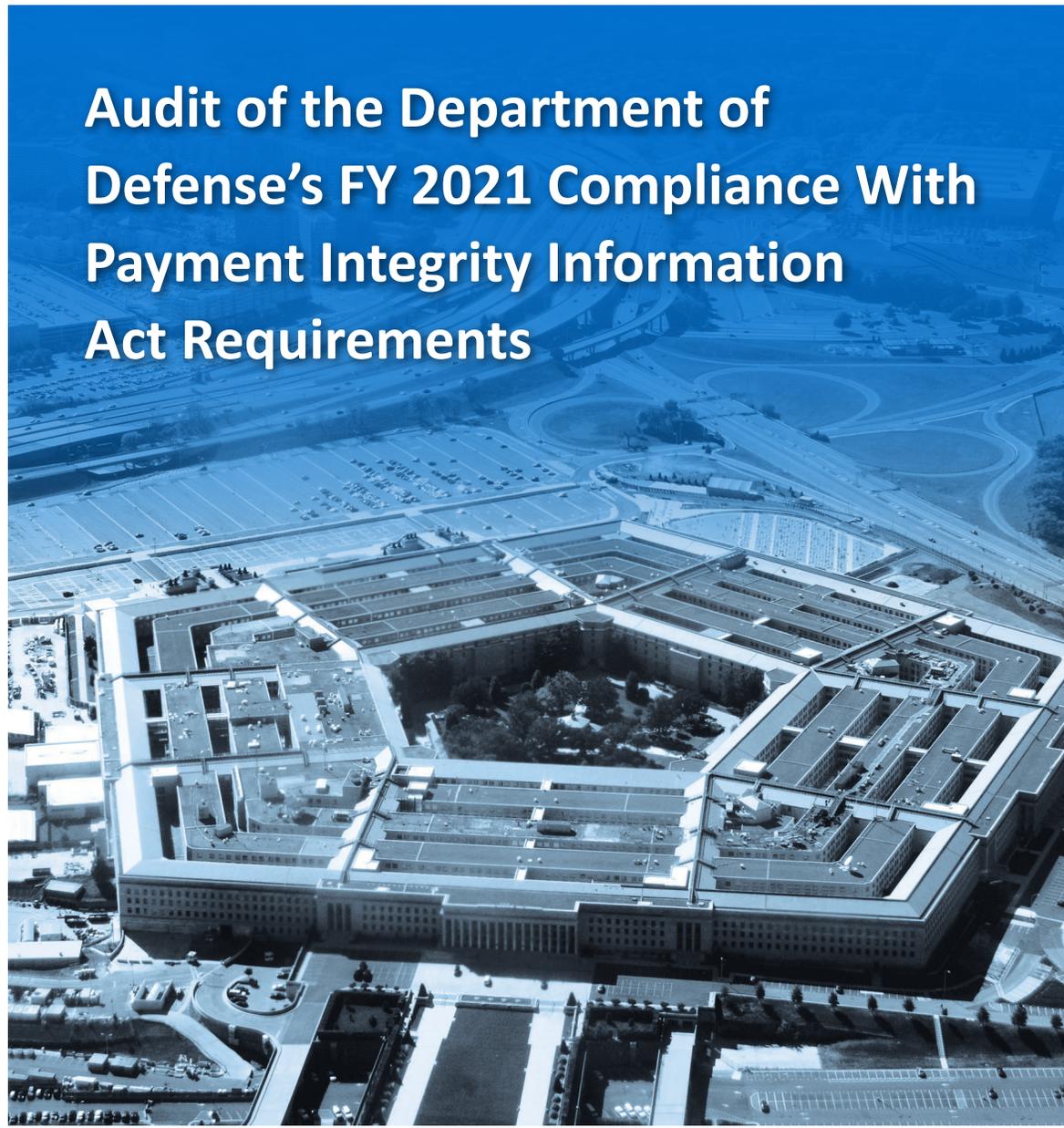




# INSPECTOR GENERAL

*U.S. Department of Defense*

JUNE 28, 2022



## **Audit of the Department of Defense's FY 2021 Compliance With Payment Integrity Information Act Requirements**

INTEGRITY ★ INDEPENDENCE ★ EXCELLENCE





# Results in Brief

## *Audit of the Department of Defense's FY 2021 Compliance With Payment Integrity Information Act Requirements*

June 28, 2022

### Objective

The objective of this audit was to determine whether, in FY 2021, the DoD complied with Public Law 116-117, "Payment Integrity Information Act of 2019," March 2, 2020 (PIIA).

### Background

The PIIA was enacted to improve efforts to identify and reduce Government-wide improper payments. It 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.

The PIIA defines an improper payment as any payment that should not have been made, was made in an incorrect amount, was made to an ineligible recipient, or was made for ineligible goods or services. The PIIA also considers payments as improper when they do not have the required supporting documentation. Additionally, Office of Management and Budget (OMB) Circular No. A-123, Appendix C, further categorizes a payment that the agency is unable to determine as proper or improper as a result of insufficient documentation, as an unknown payment.

In the DoD's FY 2021 Agency Financial Report (AFR), the DoD stated that the reduction of improper payments and compliance with the PIIA are top management priorities. For PIIA compliance consideration, the

### Background (cont'd)

DoD Components reported both improper and unknown payment estimates for 9 of the 11 DoD Programs: Military Pay – Army; Military Pay – Navy; Military Pay – Air Force; Military Pay – Marine Corps; Civilian Pay; Commercial Pay; Travel Pay; Military Retirement; and Military Health Benefits. For these nine programs, the DoD reported a total of \$2.5 billion in estimated improper and unknown payments, an \$8.9 billion decrease from the \$11.4 billion the DoD reported in the FY 2020 AFR. The remaining 2 of the 11 programs included U.S. Army Corps of Engineers Travel Pay and Commercial Pay. The U.S. Army Corps of Engineers completed risk assessments of its programs in FY 2020 and therefore, it is not required to report improper and unknown payment estimates until FY 2023.

### Finding

The DoD did not comply with PIIA requirements in its FY 2021 reporting of improper payments. It complied with five of the PIIA's six payment integrity requirements, but did not comply with one of the payment integrity requirements. Specifically, the DoD published unreliable improper and unknown payment estimates for all nine DoD programs required to report estimates.

The DoD published unreliable improper and unknown payment estimates for nine of its programs because:

- Defense Finance and Accounting Service personnel did not use an appropriate variable when calculating the sample sizes, did not have sufficient internal controls to ensure reliable estimates, and did not implement corrective actions in developing the population, as recommended by the DoD OIG, for the Commercial Pay program; and
- Defense Health Agency personnel did not use an adequate Sampling and Estimation Methodology Plan (S&EMP) and did not conduct adequate improper payment reviews.

As a result, the DoD produced unreliable estimates for the 11th consecutive year. Even though the DoD did not comply with the 9 previous years of improper payment reporting



# Results in Brief

## *Audit of the Department of Defense's FY 2021 Compliance With Payment Integrity Information Act Requirements*

### **Finding (cont'd)**

requirements, this year is the first official year the DoD did not comply with the PIIA.<sup>1</sup> With unreliable estimates in the DoD AFR, DoD leadership and Congress cannot accurately determine whether the DoD has the resources needed and the controls in place to reduce its improper payments.

### **Recommendations**

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO) develop and implement:

- internal control procedures to ensure that DoD Components produce reliable estimates, and
- a process for accurately reporting confirmed fraud in the accompanying materials to the AFR.

We recommend that the USD(C)/CFO, in coordination with the Deputy Director of Enterprise Accounting and Audit Support for the Defense Finance and Accounting Service:

- use a sufficient sample size to support the improper payment estimate;
- develop and implement internal controls to ensure exclusions occurring during the identification of the sampling universes are appropriate and fully documented; and
- develop and implement additional controls for the post-pay review process in the Travel Pay program to ensure accurate reviews.

Additionally, the DoD has yet to fully implement corrective actions to address prior DoD OIG recommendations concerning the development of improper payment estimates for the Commercial Pay and Military Health Benefit programs. Until the DoD implements the recommendations from this report

and previous DoD OIG reports, it is unlikely that the DoD will meet PIIA requirements and have reliable improper payment estimates.

### **Management Comments and Our Response**

The Deputy Chief Financial Officer (DCFO), responding for the USD(C)/CFO, agreed with three recommendations presented in the report. The DCFO also partially agreed with three other recommendations presented in the report, but described actions that, if taken, would address the underlying intent of the recommendations. Therefore, six of the recommendations are resolved, but will remain open. We will close the recommendations once we verify that management has implemented the actions they presented.

The DCFO disagreed with one recommendation, stating that implementing the DoD OIG's suggested methodology would cause a burden to the DoD. The DCFO proposed a course of action that includes using the current sampling and estimation methodology. We disagree with the DCFO's proposed course of action. As we explain in this report the current sampling and estimation methodology does not support a reliable estimate. If the DoD continues to use the methodology used in prior years, the DoD will continue to fail to produce reliable improper payment estimates, as it has done for 11 years. Therefore, the recommendation is unresolved. We ask that the USD(C)/CFO provide additional comments on the final report. The USD(C)/CFO should explain the specific actions the DoD will take to ensure the sample size supports reliable improper payment estimates. Please see the Recommendations Table on the next page for the status of recommendations.

<sup>1</sup> The OMB revised OMB Circular No. A-123, Appendix C, which established FY 2021 as year 1 of the PIIA compliance review.

## Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD		1.a, 1.b, 1.c, 1.d	
Under Secretary of Defense (Comptroller)/ Chief Financial Officer, DoD, in coordination with the Deputy Director of Enterprise Accounting and Audit Support for the Defense Finance and Accounting Service	2.a	2.b, 2.c	

Please provide Management Comments to unresolved recommendations by July 28, 2022.

**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** – DoD OIG verified that the agreed upon corrective actions were implemented.



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

June 28, 2022

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

SUBJECT: Audit of the Department of Defense's FY 2021 Compliance With Payment  
Integrity Information Act Requirements (Report No. DODIG-2022-108)

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 (DCFO), responding for the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD[C]/CFO), agreed to address or partially agreed but included actions that would address six recommendations presented in the report. Therefore, we consider the six recommendations resolved and open. As described in the Recommendations, Management Comments, and Our Response section of this report, we will close those recommendations when the USD(C)/CFO provides us documentation showing that the DoD has completed all agreed-upon actions to implement the recommendations. 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](mailto:followup@dodig.mil) if unclassified or [rfunet@dodig.smil.mil](mailto:rfunet@dodig.smil.mil) if classified SECRET.

This report contains one recommendation that we consider unresolved because the alternative corrective actions the DCFO proposed did not fully address the recommendation. Therefore, as discussed in the Recommendations, Management Comments, and Our Response section of this report, this recommendation will remain open. We will track this recommendation as open and unresolved until an agreement is reached on the actions the DoD will take to address the recommendation, and the USD(C)/CFO has submitted adequate documentation showing that all agreed-upon actions are completed. DoD Instruction 7650.03 requires that recommendations be resolved promptly. Therefore, please provide us within 30 days your response concerning specific actions in process or alternative corrective actions proposed on the recommendation. Send your response to either [audfmr@dodig.mil](mailto:audfmr@dodig.mil) if unclassified or [rfunet@dodig.smil.mil](mailto:rfunet@dodig.smil.mil) if classified SECRET.

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

A handwritten signature in cursive script that reads "Lorin T. Venable".

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



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# Introduction

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## Objective

The objective of this audit was to determine whether, in FY 2021, the DoD complied with Public Law No. 116-117, “Payment Integrity Information Act of 2019,” March 2, 2020 (PIIA). The PIIA requires agency Offices of Inspectors General, including the DoD Office of Inspector General (DoD OIG), to complete this audit each fiscal year. See Appendix A for the scope and methodology and Appendix B for prior coverage related to the audit objective.

## Background

The PIIA was enacted, in part, to improve efforts within the Government to identify and reduce Government-wide improper payments.<sup>2</sup> The PIIA 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. The DoD FY 2021 Agency Financial Report (AFR) states that the reduction of improper payments and compliance with the PIIA continue to be top financial management priorities.

The PIIA 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 a statutory, contractual, administrative, or other legally applicable requirement. Improper payments also include payments made to ineligible recipients or for ineligible goods or services, duplicate payments, payments for a good or service not received, and payments that do not account for credits for applicable discounts. Additionally, the PIIA categorizes payments without sufficient supporting documentation as improper.<sup>3</sup> Office of Management and Budget Circular No. A-123, Appendix C, further categorizes a payment that the agency is unable to determine as proper or improper as a result of insufficient documentation, as an unknown payment. Therefore, an improper payment does not necessarily result in an actual monetary loss to the Government.

## ***Office of Management and Budget Guidance***

The PIIA requires the Director of the Office of Management and Budget (OMB), in consultation with the Council of Inspectors General on Integrity and Efficiency, to develop and disseminate guidance for how Inspectors General should determine

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<sup>2</sup> On March 2, 2020, the President signed the Payment Integrity Information Act of 2019 into law (Public Law No. 116-117). The PIIA 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 111-204, “Improper Payments Elimination and Recovery Act of 2010,” July 22, 2010; and Public Law No. 112-248, “Improper Payments Elimination and Recovery Improvement Act of 2012,” January 10, 2013.

<sup>3</sup> Public Law No. 116-117, “Payment Integrity Information Act of 2019,” section 3352(c)(2), March 2, 2020.

agency compliance with the PIIA. Additionally, the PIIA requires the OMB to develop guidance for the executive agencies to implement PIIA requirements. Therefore, to comply with the PIIA, an agency must follow OMB guidance. On March 5, 2021, the OMB updated Appendix C to OMB Circular No. A-123, “Requirements for Payment Integrity Improvement.” In this update, OMB establishes that the OIG review, including the DoD OIG review, of the accompanying materials to the FY 2021 annual financial statement will be considered year 1 of a PIIA compliance review. Therefore, regardless of the number of consecutive years of non-compliance under prior improper payment reporting requirements, all programs started over at year 1 for the compliance review in FY 2021.<sup>4</sup> Additionally, executive agencies must refer to OMB Circular No. A-136, “Financial Reporting Requirements,” for guidance on reporting PIIA information in their AFRs.

OMB Circular No. A-123, Appendix C established a third payment type called “Unknown” payments.<sup>5</sup> Previous versions of OMB Circular No. A-123, Appendix C aligned the unknown payments under the improper payments category. This change allows agencies to report an unknown payment estimate and an improper payment estimate. Throughout this report, we will refer to PIIA requirements and OMB Circular No. A-123, Appendix C guidance as payment integrity requirements.

### ***Payment Integrity Requirements***

Payment integrity requirements stipulate that agencies produce statistically valid estimates of improper payments and report on agency actions to reduce and recover improper payments. To ensure agencies complete these actions, the PIIA requires each agency’s Inspector General to evaluate the agency’s compliance with the payment integrity requirements each fiscal year. To comply, the agency must meet all of the following payment integrity requirements.

1. Publish payment integrity information with the DoD AFR for the most recent fiscal year and post that statement and any accompanying materials required by OMB guidance to the agency website.
2. Conduct a program-specific risk assessment for each program, if required.
3. Publish improper payment and unknown payment estimates for required programs in the accompanying materials to the AFR.<sup>6</sup>

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<sup>4</sup> The enactment of PIIA repealed the previous improper payment reporting requirements of the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payments Elimination and Recovery Improvements Act of 2012.

<sup>5</sup> According to OMB Circular No. A-123, Appendix C, March 5, 2021, if a program cannot determine whether a payment is proper or improper, the payment is considered an unknown payment.

<sup>6</sup> The OMB does not require risk assessments from programs that report an estimate. Additionally, according to the OMB, if an agency reports a risk assessment for a program, based on the results of the risk assessment, an agency may not be required to report an estimate.

4. Publish programmatic Corrective Action Plans (CAPs) for each program determined to have significant improper payments, in the accompanying materials to the AFR.
5. Publish improper payment and unknown payment reduction targets in the accompanying materials to the AFR for programs assessed to be at risk, demonstrate program improvements to payment integrity or reach a tolerable improper payment and unknown payment rate, and develop a plan to meet the improper payment and unknown payment reduction targets.
6. Report an improper payment and unknown payment estimate of less than 10 percent for each program for which an estimate is published in the accompanying materials to the AFR.

### ***DoD Financial Management Regulation Requirements***

The DoD Financial Management Regulation (DoD FMR) requires DoD Components to implement guidance from the PIIA; OMB Circular No. A-123, Appendix C; and OMB Circular No. A-136. The DoD FMR also states that the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (OUSD[C]/CFO), Financial Management Policy and Reporting Directorate is the Executive Agent for the DoD Payment Integrity program. As the Executive Agent, Financial Management Policy and Reporting Directorate responsibilities include:

- providing oversight to DoD Components to ensure compliance with the authoritative guidance;
- reviewing DoD Components' statistical sampling plans and submitting them to the OMB, if required;
- preparing DoD payment integrity reports for the AFR and for submission to the OMB; and
- reviewing DoD Components' CAPs for completeness.<sup>7</sup>

### ***DoD Agency Financial Report***

The Deputy Secretary of Defense published the DoD FY 2021 AFR, including the Payment Integrity section, on November 15, 2021. The DoD reported in the FY 2021 AFR a total of \$2.5 billion in improper and unknown payments for nine programs, which was a reduction of \$8.9 billion (78.03 percent) from FY 2020. Of the \$2.5 billion, \$652 million was related to improper payments and \$1.8 billion was related to unknown payments. According to the AFR, unknown payments are payments with insufficient supporting documentation available to review and determine whether the payment was proper. For the Civilian Pay program, the AFR noted a 98.91 percent decrease in the improper and unknown

<sup>7</sup> DoD FMR, volume 4, chapter 14.

payment estimate amounts from FY 2020 to FY 2021, and that “in FY 2022 the Department will conduct additional payment type reviews to closer align with the PIIA and OMB Circular No. A-123, Appendix C requirements.” Furthermore, for the Commercial Pay program the AFR noted a 100 percent decrease in the improper and unknown payment estimate amounts reported from FY 2020 to FY 2021.<sup>8</sup> However, the AFR explained that, “the Department will perform an analysis of the sampling, estimation, and review methods used for the Commercial Pay program to ensure accuracy of reporting,” indicating that its Commercial Pay program’s sampling estimation and review methods did not ensure accuracy of reporting. Table 1 shows the FY 2021 payments (outlays), the total estimated improper and unknown payments, and the estimated improper and unknown payment rates reported by the DoD for 9 of the 11 programs.<sup>9</sup> The U.S. Army Corps of Engineers (USACE) Commercial Pay and Travel Pay programs are under a risk assessment. Therefore, these two programs were not required to report an estimate for FY 2021.

*Table 1. DoD FY 2021 AFR Improper Payment Reporting*

Program Name	FY 2021 Outlays (in Millions)	Total Estimated Improper and Unknown Payments Reported in FY 2021 (in Millions)	Estimated Improper and Unknown Payment Rate* (Percent)	Total Estimated Improper and Unknown Payments Reported in FY 2020 (in Millions)	Percent Increase/ (Decrease) of Total Estimates From FY 2020 to FY 2021
Civilian Pay	\$66,517.76	\$53.77	0.08	\$4,915.83	(98.91)
Commercial Pay	412,187.61	0.00	0.00	306.65	(100.00)
DoD Travel Pay	6,550.20	223.36	3.41	314.97	(29.09)
Military Health Benefits	19,756.13	167.98	0.85	338.88	(50.43)
Military Pay—Army	45,704.49	1,514.45	3.31	3,556.30	(57.42)
Military Pay—Navy	25,912.83	5.43	0.02	51.40	(89.44)
Military Pay—Air Force	29,311.73	364.24	1.24	1,568.81	(76.78)
Military Pay—Marine Corps	11,135.10	0.23	0.00	0.19	21.05
Military Retirement	50,014.50	176.73	0.35	352.49	(49.86)
<b>Total</b>	<b>\$667,090.35</b>	<b>\$2,506.19</b>	<b>0.38</b>	<b>\$11,406.32</b>	<b>(78.03)</b>

\* The improper payment and unknown payment rate is calculated by dividing the estimated improper payment and unknown payment total by outlays.

Source: DoD FY 2021 AFR.

<sup>8</sup> For both FY 2020 and FY 2021 AFR reporting periods, DFAS personnel reviewed commercial payments made from October 1, 2019, to June 30, 2020. However, although DFAS personnel identified \$307 million in improper payments in their FY 2020 review, they did not identify any in their FY 2021 review.

<sup>9</sup> The DoD FMR Glossary defines outlays as the amount of checks issued or other payments made, including advances, net refunds, and reimbursements collected.

The payment integrity requirements state that a program has significant improper payments when its estimated improper payments in the prior fiscal year exceeded the threshold of (1) \$10 million of all program outlays and 1.5 percent of the program's outlays; or (2) \$100 million. The DoD determined that five of its programs had significant improper payments in FY 2021: Military Health Benefits, Military Pay – Army, Military Pay – Air Force, Military Retirement, and DoD Travel Pay (Travel Pay). OMB guidance requires an agency to publish a description of its CAPs only for programs with significant improper payments.

### *Improper Payment Estimation Process*

The following DoD Components sample, review, and report improper payments for the nine DoD programs required to report estimated improper and unknown payment rates.

- **The Defense Finance and Accounting Service (DFAS)** reports on Civilian Pay, Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–Marine Corps, and Military Retirement.
- **DFAS, the Air Force, and the Army** report on DoD Travel.<sup>10</sup>
- **DFAS and the Army** report on Commercial Pay.<sup>11</sup>
- **The Defense Health Agency (DHA)** reports on Military Health Benefits.

For each of their programs, the DoD Components develop an estimate of the improper payments and unknown payments that occurred within a program's total payments in the reporting period. To develop this estimate, DoD Components are required to:

- develop a statistically valid sampling and estimation methodology plan (S&EMP);
- identify a complete and accurate sampling universe (set of data transactions) of payments that will be subject to review and select a statistical sample of those payments;
- conduct accurate reviews of the sample payments and determine whether an improper payment was made; and
- calculate the improper payment estimate based on the results of the reviews.

<sup>10</sup> The Army reports improper payment results for the DoD Travel Pay program for the following locations Outside the Continental U.S.: the 175th Financial Management Center–Korea, the Italy Finance Office, the Benelux Finance Office, and the 266th Financial Management Support Center.

<sup>11</sup> The Army reports the improper payment results for the Commercial Pay programs for the following Outside the Continental U.S. locations: the 175th Financial Management Center–Korea, the Italy Finance Office, and the Benelux Finance Office.

DoD Components are also required to submit the results of their improper payment reviews, as well as their planned corrective actions to reduce and prevent future improper payments, to the OUSD(C)/CFO for inclusion in the DoD AFR.

## 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.<sup>12</sup>

The DoD did not comply with one of the PIIA's six payment integrity requirements when it reported its FY 2021 improper payments. Although the DoD continues to improve its reporting of improper payments, it did not implement sufficient internal controls to detect and correct the errors that prevented the DoD from becoming fully compliant with the PIIA. We will provide a copy of the report to the senior official responsible for internal controls in the DoD.

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<sup>12</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013 (Incorporating Change 1, June 30, 2020).

## Finding

### The DoD Did Not Comply With PIIA Requirements

The DoD did not comply with the PIIA's payment integrity requirements in its FY 2021 reporting of improper payments. It complied with five of the six payment integrity requirements and did not comply with one of the payment integrity requirements. Specifically, the DoD published unreliable improper and unknown payment estimates for all nine DoD programs required to report estimates. The DoD published unreliable improper and unknown payment estimates for nine of its programs because:

- DFAS personnel did not use an appropriate variable when calculating the sample size;
- DFAS personnel did not have sufficient internal controls to ensure complete universes, or accurate reviews of payments necessary for developing reliable estimates;
- DFAS personnel did not implement corrective actions to address prior DoD OIG recommendations regarding the development of the population and reliability of the improper payment estimate for the Commercial Pay program;
- DHA personnel did not use an adequate S&EMP and did not conduct adequate improper payment reviews, including not reporting an estimate for \$3.8 billion in outlays in Administrative and Other Costs; and
- OUSD(C)/CFO did not have adequate oversight over the estimation process.

As a result, the DoD produced unreliable estimates for the 11th consecutive year and did not comply with the first year of PIIA improper payment reporting requirements.<sup>13</sup> Specifically, the DoD continued to report unreliable improper payment estimates and missed opportunities to promptly detect, prevent, and recover improper payments. The DoD reported an \$8.9 billion reduction of improper and unknown payment estimates from FY 2020 to FY 2021 and attributed this reduction to implementation of corrective actions for three programs: Civilian Pay, Military Pay – Army, and Military Pay – Air Force. However, we determined these programs did not have reliable estimates in FY 2020 or FY 2021, and, therefore, caution DoD leadership or Congress relying on this reported reduction. Additionally, the DoD cannot accurately determine whether it has the necessary resources and appropriate measures in place to reduce improper payments.

<sup>13</sup> In addition to not complying with the first year of PIIA requirements, the DoD did not comply with the 9 previous years of improper payment reporting requirements.

## The DoD Complied With Five of Six PIIA Payment Integrity Requirements

The DoD complied with five of the six payment integrity requirements in FY 2021. Specifically, the DoD:

1. published improper payments information with the annual financial statement and posted accompanying materials on the agency website;
2. conducted program-specific risk assessments for each program, if required;
3. published programmatic CAPs, if required;
4. published an improper payment and unknown payment reduction target, demonstrated improvements, and developed a plan to meet the reduction target, if required; and
5. reported an estimated improper and unknown payment rate of less than 10 percent.

*The DoD published unreliable improper and unknown payment estimates for nine of its programs.*

However, the DoD published unreliable improper and unknown payment estimates for nine of its programs. Under payment integrity requirements in the PIIA, an agency is considered

noncompliant if it has one or more programs that are found non-compliant with any one of the six PIIA requirements. Table 2 identifies, by program, the DoD's compliance or non-compliance with each of the payment integrity requirements.

Table 2. DoD Program Compliance by Payment Integrity Requirement

Program Name	AFR Published In Accordance With OMB Guidance <sup>1</sup>	Conducted Risk Assessment <sup>2</sup>	Published Adequate Estimate <sup>3</sup>	Published CAP <sup>4</sup>	Published Reduction Targets <sup>5</sup>	Reported Rate Under 10 Percent
Civilian Pay		✓	✗	N/A	N/A	✓
Commercial Pay		✓	✗	N/A	N/A	✓
DoD Travel Pay		✓	✗	✓	✓	✓
Military Health Benefits		✓	✗	✓	✓	✓
Military Pay—Army		✓	✗	✓	N/A	✓
Military Pay—Navy		✓	✗	N/A	N/A	✓
Military Pay—Air Force		✓	✗	✓	N/A	✓
Military Pay—Marine Corps		✓	✗	N/A	N/A	✓
Military Retirement		✓	✗	✓	N/A	✓
USACE Travel Pay		✓	N/A	N/A	N/A	N/A
USACE Commercial Pay		✓	N/A	N/A	N/A	N/A
<b>Overall Compliance</b>	✓	✓	✗	✓	✓	✓

**LEGEND**

N/A Not Applicable  
✗ Not Compliant  
✓ Compliant

<sup>1</sup> The OUSD(C)/CFO prepares the DoD AFR; therefore, an individual program is not considered noncompliant with this requirement unless the missing information is directly attributed to the program.

<sup>2</sup> OMB guidance requires risk assessments only for programs not reporting estimates. The USACE did not report an estimate for its Commercial Pay and Travel Pay programs, and is compliant with a risk assessment through FY 2022.

<sup>3</sup> See Table 3 for further explanation of how we determined compliance for publishing improper payment estimates.

<sup>4</sup> OMB guidance requires an agency to publish a description of its CAPs for programs with significant improper payments.

<sup>5</sup> OMB guidance requires an agency to publish a reduction target for baselined programs with significant improper payments.

Source: The DoD OIG.

## ***The DoD Published Required Information in the Agency Financial Report***

The DoD complied with the payment integrity requirements when publishing its FY 2021 AFR. In the AFR, the OUSD(C)/CFO reported each program's outlays, estimated proper and improper payment amounts, estimated improper payment rates, identified root causes for underpayments and overpayments, and published reduction targets for FY 2022. The AFR also described the planned corrective actions for each program, which included the planned and actual completion dates, and linked the actions to root causes for the improper payments.

The DoD must publish applicable payment integrity information in the AFR or its accompanying materials to comply with OMB Circular No. A-136.<sup>14</sup> The DoD must also provide the required information to the OMB through the Annual Data Call, which the OMB subsequently publishes on [paymentaccuracy.gov](https://paymentaccuracy.gov). Although OUSD(C)/CFO personnel provided the payment integrity information required in the Annual Data Call, they did not report any confirmed fraud even though the Defense Criminal Investigative Service (DCIS) recognized and reported \$1.1 billion in fraud for FY 2021.<sup>15</sup> OUSD(C)/CFO personnel stated that in previous years, the

*Although OUSD(C)/CFO personnel provided the payment integrity information required in the Annual Data Call, they did not report any confirmed fraud even though DCIS recognized and reported \$1.1 billion in fraud for FY 2021.*

DoD reported confirmed fraud amounts separated between civil, criminal, and administrative fraud amounts, and that the new template for OMB data call submission no longer allowed for that format and required the reporting of confirmed fraud by program.

OUSD(C)/CFO personnel also stated that for FY 2021 reporting, the Financial

Improvement and Audit Remediation group provided fraud amounts that represented the DoD's portion separate from other agencies' portions of confirmed fraud from joint investigations. Therefore, the DoD did not report any confirmed fraud amount for FY 2021 because OUSD(C)/CFO personnel did not have a process to obtain "DoD only" confirmed fraud amounts allocated by program.

OMB Circular No. A-123, Appendix C states that all financial frauds are intentional monetary loss improper payments and, due to their deceptive nature, financial frauds can be difficult to quantify because fraudulent payments will appear as proper payments until exposed. For these reasons, agencies must report on confirmed fraud amounts as accurately and in as timely a manner as possible

<sup>14</sup> OMB Circular No. A-136, Section II.4.5, "Payment Integrity Information Act Reporting."

<sup>15</sup> The DCIS recognizes a fraud amount only after the court has fully adjudicated a case. The DCIS reported the \$1.1 billion in fraud for FY 2021 to the Council of the Inspectors General on Integrity and Efficiency in response to a data call for the Annual Progress Report to the President. The \$1.1 billion only represents the amounts from DCIS cases, and does not include confirmed fraud amounts from the other Defense Criminal Investigative Organizations.

because the nature of these financial fraud schemes provides indications of the DoD programs and payment types where fraud is more likely to occur. Additionally, confirmed fraud schemes can provide indications of where the DoD needs to improve fraud detection and prevention measures in the payment processes.

By not accurately reporting confirmed fraud amounts in the accompanying materials to the AFR, OUSD(C)/CFO personnel have misrepresented the risk of fraud within the DoD's Payment Integrity program and missed opportunities to improve fraud detection and prevention controls. Therefore, to improve the DoD's reporting and consideration of the confirmed fraud identified within the DoD, we recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, (USD(C)/CFO) develop and implement a process to obtain accurate confirmed fraud amounts, report them in [paymentaccuracy.gov](https://paymentaccuracy.gov), and consider the fraud amounts when reviewing and approving the S&EMPs for each program. Subsequent to the issuance of the FY 2021 AFR, OUSD(C)/CFO personnel confirmed with the DCIS a total amount of confirmed fraud for FY 2021 of \$2.3 billion. In addition, OUSD(C)/CFO personnel confirmed that the OMB will adjust the Annual Data Call for the FY 2022 AFR to allow agencies to report the confirmed fraud amounts at the agency level. Therefore, we will close this recommendation once we confirm that OUSD(C)/CFO has fully implemented this recommendation in FY 2022.

### ***The DoD Reported Improper Payment Estimates in Lieu of Risk Assessments***

The DoD complied with the requirement to publish program-specific risk assessments. Payment integrity requirements mandate that the head of the agency periodically review all programs and activities and identify which programs may be susceptible to significant improper payments. Specifically, OMB Circular No. A-123, Appendix C requires agencies to perform a risk assessment at least once every 3 years for every program that is not already reporting an improper payment estimate. In the FY 2021 AFR, the DoD reported an estimate for all nine of its programs it identified as susceptible to improper payments. Those nine programs did not have to perform a risk assessment and report the results in FY 2021. In FY 2020, the DoD completed a risk assessment of the USACE Commercial Pay and USACE Travel Pay programs; therefore, these programs are only required to report risk assessments once every 3 years. These two programs did not report an estimate in FY 2021 and will not be required to report a risk assessment or estimate until FY 2023.

### ***The DoD Published Complete Corrective Action Plans***

The DoD published CAPs in the AFR for the required five programs—Military Health Benefits, Military Pay–Army, Military Pay–Air Force, Military Retirement, and Travel Pay. Payment integrity requirements mandate that programs reporting significant improper and unknown payments identify the cause of the improper and unknown payments, actions taken to reduce improper and unknown payments, planned or actual completion dates, and the results of actions taken.<sup>16</sup> During the audit, we identified that the DHA’s first production of its Military Health Benefits CAP did not directly address root causes and effectively reduce or prevent future improper and unknown payments. Upon request, DHA personnel provided an OUSD(C)/CFO-approved CAP that included all of the information required by the payment integrity requirements. Because DHA personnel corrected the issue during the audit, we are not making a recommendation.

### ***The DoD Published Reduction Targets and Demonstrated Improvements to Payment Integrity***

The DoD published target rates for reducing improper and unknown payments, and demonstrated improvements to payment integrity in FY 2021 for the Travel Pay and Military Health Benefit programs. The DoD did not publish reduction targets for the remaining programs because it did not meet the threshold for significant improper and unknown payments or because the DoD had not established baselines.

The payment integrity requirements state that an agency must publish an annual reduction target for each program assessed to be at risk, demonstrate improvements, and develop a plan to meet the reduction targets. Although the

*Although the DoD reported significant improper and unknown payments for the Military Pay–Army, Military Pay–Air Force, and Military Retirement programs, the DoD did not publish reduction targets because the DoD had not established baselines for these programs.*

DoD reported significant improper and unknown payments for the Military Pay–Army, Military Pay–Air Force, and Military Retirement programs, the DoD did not publish reduction targets because the DoD had not established baselines for these programs. OMB Circular No. A-123, Appendix C states, “OMB does not expect the program to publish a reduction target until a baseline has been established and reported.”<sup>17</sup>

<sup>16</sup> Public Law No. 116-117, “Payment Integrity Information Act of 2019,” Section 3352(d)(1), March 2, 2020. OMB Circular No. A-123, Appendix C, March 5, 2021.

<sup>17</sup> OMB Circular No. A-123, Appendix C, Section VI.A.5.a.

The Military Pay–Army, Military Pay–Air Force, and Military Retirement programs reported significant changes to their programs for FY 2021. For this reason, the DoD determined that these programs had not established a baseline. OMB Circular No. A-123, Appendix C defines the baseline as a starting point or the benchmark against which future progress can be assessed or compared. The Circular further states that a program will most likely be considered to have established a baseline when the program made no significant changes to the S&EMP in a 24-month reporting cycle. Since the OMB does not expect programs to publish reduction targets until they have established and reported a baseline, we determined that the Military Pay–Army, Military Pay–Air Force, and Military Retirement programs were not required to publish reduction targets.

OMB Circular No. A-123, Appendix C does not define the elements of “significant changes” to an S&EMP. Additionally, the DoD Components have not consistently interpreted and applied the baseline process in the FY 2020 and FY 2021 AFRs. For example, in FY 2020 OUSD(C)/CFO personnel modified the reporting of the Military Pay program by separating it into individual programs for each of the four Services. According to the FY 2020 AFR, the Military Pay program reported separate improper payment amounts and rates for each of these programs. OUSD(C)/CFO personnel considered this a significant change that would require each individual program to establish a new baseline before they could generate future estimates for determining reduction targets. Then, in FY 2021, DFAS personnel modified the review process for all Military Pay programs to align with the new OMB Circular No. A-123, Appendix C requirements, which OUSD(C)/CFO also considered a significant change. However, the process improvements DFAS personnel made to address the changes to the Circular did not directly affect the sampling and projection of the program. These two examples demonstrate the inconsistencies in OUSD(C)/CFO’s application of the baselining process.

Additionally, under OMB Circular No. A-123, Appendix C, a program needs only to demonstrate improvement to payment integrity if it has not reached its tolerable improper payment and unknown payment rate. However, the DoD FMR, volume 4, chapter 14 (updated May 2020), still requires the DoD OIG to evaluate DoD Components’ compliance to publish and meet annual reduction targets for each DoD program. Therefore, the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, (USD[C]/CFO) should update the DoD FMR, volume 4, chapter 14, to ensure the guidance is consistent with all current payment integrity requirements, and include a definition of baselining that standardizes the application for all DoD payment integrity programs.

## ***The DoD Reported Improper Payment Rates of Less Than 10 Percent***

The DoD reported improper and unknown payment rates of less than 10 percent for each program that reported an estimate. For compliance, payment integrity requirements mandate that the DoD report an improper payment plus unknown payment rate of less than 10 percent for each program for which an estimate was published. Therefore, the DoD met the payment integrity requirements.

Although the DoD reported improper payment plus unknown payment rates of less than 10 percent, we determined that the reported improper payment rates were unreliable for all programs.<sup>18</sup> We found uncertainties in the estimation process, which led to an increased risk that the improper and unknown payment rates, once accurately estimated, could be more or less than actually reported, which leads to the question of whether the program complies with this requirement. Additionally, we did not calculate the accurate improper and unknown payment rates for the programs to identify the difference between the DoD's reported rates and the correct rates. Until the DoD can report reliable estimates, DoD leadership cannot rely on this compliance measure.

## ***The DoD Published Unreliable Improper Payment Estimates***

The DoD did not comply with the payment integrity requirements to publish improper and unknown payment estimates as the DoD published unreliable

*The DoD published unreliable improper and unknown payment estimates in the FY 2021 AFR for all nine DoD programs required to report estimates.*

improper and unknown payment estimates in the FY 2021 AFR for all nine DoD programs required to report estimates. Specifically, DoD personnel did not have adequate sample sizes, complete universes, and accurate reviews

of payments, all of which are necessary elements for developing reliable estimates.

This occurred because:

- DFAS personnel did not use an appropriate variable when calculating the sample size;
- DFAS personnel did not have sufficient internal controls to ensure complete universes, or accurate reviews of payments necessary for developing reliable estimates;

<sup>18</sup> The improper and unknown payment rates are calculated using the improper and unknown payment estimates. Therefore, if the estimates are unreliable, then the rates are also unreliable.

- DFAS personnel did not implement corrective actions to address prior DoD OIG recommendations regarding the development of the population and reliability of the improper payment estimate for the Commercial Pay program;
- DHA personnel did not use an adequate S&EMP and did not conduct adequate improper payment reviews, including not reporting an estimate for \$3.8 billion in outlays in Administrative and Other Costs; and
- OUSD(C)/CFO did not have adequate oversight over the estimation process.

The DoD reported in the FY 2021 AFR a reduction of \$8.9 billion (78.03 percent) in total estimated improper and unknown payments from the prior year. The FY 2021 AFR noted a 98.91 percent decrease in estimated improper and unknown payments for the Civilian Pay program. Also, the FY 2021 AFR noted a 100 percent decrease in estimated improper and unknown payments for the Commercial Pay program, even though the AFR explained that, “the Department will perform an analysis of the sampling, estimation, and review methods used for the Commercial Pay program to ensure accuracy of reporting.”

The DoD stated in the FY 2021 AFR, as well as in prior year AFRs, that the reduction of improper payments and compliance with the PIIA continue to be top financial management priorities.

However, the DoD OIG has concluded for the past 11 years that DoD improper payment estimates were not reliable.<sup>19</sup> With unreliable estimates, DoD leadership and Congress cannot rely on the reported reduction of \$8.9 billion in improper and unknown payment estimates from FY 2020 to FY 2021.

*Only when DoD programs accurately report all required information, can DoD leadership and Congress determine whether program efforts have been successful or whether additional action is necessary.*

Only when DoD programs accurately report all required information, can DoD leadership and Congress determine whether program efforts have been successful or whether additional action is necessary.

The payment integrity requirements state that agency Inspectors General should evaluate and take into account the adequacy of the executive agencies’ methodology for estimating improper payments. The requirements further state that all programs susceptible to significant improper payments should design and

<sup>19</sup> Report No. DODIG-2012-065, “DoD Compliance With the Requirements of the Improper Payments Elimination and Recovery Act,” March 15, 2012, reported that the DoD complied with the Improper Payments Elimination and Recovery Act requirement to publish improper payment estimates in FY 2011. However, the information used to develop the estimates was disclosed to be unreliable, making the estimates unreliable. Therefore, the estimates reported by the DoD have been unreliable for 11 years.

implement appropriate statistical S&EMPs to produce statistically valid improper payment estimates.<sup>20</sup> The requirements also state that agencies should ensure that the programs’ improper payment estimates are accurate, and that the S&EMP is appropriate given program characteristics.

Due to the multiple levels of guidance for creating improper payment estimates, a program could partially meet OMB requirements by using a statistically valid S&EMP that is appropriate given the characteristics of the program, while reporting an inaccurate or unreliable improper payment estimate because of errors in the population. To ensure that the programs met OMB requirements in full, we reviewed the programs for:

- an OMB-approved plan that is appropriate given the program characteristics, including sample sizes;
- a complete and accurate (reliable) population to sample for improper payment testing; and
- adequate reviews of the samples to publish a reliable estimate.

Table 3 identifies the nine DoD programs that did not meet all requirements for publishing reliable improper payment estimates in the FY 2021 AFR.

*Table 3. Improper Payment Estimate Compliance by Requirement and Program*

Program	Statistically Valid Sampling and Estimation Plan	Complete and Accurate Population Subject to Review	Adequate and Accurate Reviews of Improper and Unknown Payments	Overall Improper and Unknown Payment Estimate Compliance
Civilian Pay	✗	✗	NR	✗
Commercial Pay	✗	✗	NR	✗
Travel Pay	✓	✓	✗	✗
Military Health Benefits	✗	✗	✗	✗
Military Pay—Army	✗	✗	NR	✗
Military Pay—Navy	✗	✗	NR	✗
Military Pay—Air Force	✗	✗	NR	✗
Military Pay—Marine Corps	✗	✗	NR	✗
Military Retirement	✗	✗	NR	✗

**LEGEND**

- NR Not Reviewed
- ✗ Not Compliant
- ✓ Compliant

Source: The DoD OIG.

<sup>20</sup> OMB Circular No. A-123, Appendix C, “Requirements for Payment Integrity Improvement,” March 5, 2021.

We did not review the adequacy and accuracy of the improper payment reviews for the Civilian Pay, Commercial Pay, Military Pay – Army, Military Pay – Navy, Military Pay – Air Force, Military Pay – Marine Corps, or the Military Retirement programs because we determined the populations were incomplete and inaccurate.

### ***The DoD's Sampling and Estimation Methodologies Did Not Result in Adequate Sample Sizes***

The DoD did not implement adequate sampling and estimation methodologies, which resulted in inadequate sample sizes for developing estimates.

- DFAS personnel produced too small of a sample size by not using an appropriate variable in the sampling estimation methodology for the Civilian Pay, Commercial Pay, Military Pay, and the Military Retirement programs.
- DHA personnel did not consider the characteristics of data and did not calculate sample size in accordance with the DHA sampling and estimation methodology plan, in order to meet a pre-determined sample size.

#### ***DFAS DID NOT USE AN ADEQUATE SAMPLING METHODOLOGY***

DFAS personnel did not use an appropriate variable in the sampling estimation methodology, which resulted in an inadequate sample size for developing an estimate. In the S&EMPs for the Civilian Pay, Commercial Pay, Military Pay, Military Retirement, and Travel Pay programs, DFAS personnel used the same formula to calculate the sample sizes for estimating the total amount of improper payments.<sup>21</sup>

To calculate the sample size, DFAS personnel should have used a formula that used the improper payment amount as a variable. However, according to their S&EMP, DFAS personnel used the “paid amount” as the variable to calculate the sample size instead of the improper payment amount. As a result, the DFAS calculation produced a sample size that was too small to accurately estimate the total improper payment amount.

The number of proper payments far exceeded the number of improper payments in the sampling universe, as illustrated by the FY 2021 AFR (99.6 percent compared to 0.4 percent). Therefore, the DoD has an extremely low probability of finding improper payments, as they rarely occur. For DoD personnel to calculate a reliable improper payment estimate, they should use a sample size large enough to capture

<sup>21</sup> Although the formula for the Travel Pay program did not use the appropriate variable to calculate the sample size, the Travel Pay program tested an adequate amount of payments (20,271), which was an acceptable sample size to develop a reliable estimate.

at least 10 improper payments in each section (also known as stratum).<sup>22</sup> A larger sample size offers more opportunities for improper payments to be sampled and identified.

To demonstrate the difference in the sample sizes, we conducted a simulation to illustrate the impact of using the paid amount as the variable, which resulted in a sample size of 49. However, when we used an estimate for the improper payment amount as the variable, we calculated a sample size of 18,665. Due to the large difference between the sample sizes, the simulation provided evidence against using the paid amount as the variable for the improper payment amount. While this appears to be a large sample size that would require a considerable investment by the DoD, the use of risk assessments and alternative sampling methodologies could decrease the sample size.

DFAS personnel calculations resulted in inadequate sample sizes because they used a variable that did not capture the characteristics of the improper payment amount.

*DFAS personnel calculations resulted in inadequate sample sizes because they used a variable that did not capture the characteristics of the improper payment amount.*

Specifically, when developing the S&EMP, DFAS personnel did not consider the rare occurrence of improper payments. DFAS personnel stated that they did not know the improper payment amount at the time of sampling, so they used the paid amount as the variable. If DFAS

personnel did not know the improper payment amount, they could have used an estimated amount representing the historical improper payment estimates reported for the DoD. However, because they used the paid amount as the variable, the calculation resulted in a sample size that was too small to support the improper payment estimate. The intent of the PIIA is to improve efforts to identify and reduce improper payments. Therefore, DFAS should develop estimates representative of improper payments made under each program. Potential solutions include:

- considering the rare occurrence of improper payments when developing sample plans; or
- conducting risk assessments to eliminate low risk payments and better identify high-risk payments.

<sup>22</sup> Frank E. Harrell Jr. "Regression Modeling Strategies, With Applications to Linear Models, Logistic and Ordinal Regression, and Survival Analysis" 1st Edition (New York: Springer, 2001). This reference recommends 10 or 20 observations for each predictor.

During followup discussions with OUSD(C)/CFO and DFAS personnel, personnel from each organization voiced concern that resources would not be available to test larger sample sizes. While identifying rare occurrences of improper payments may cause an increase in sample size, conducting risk assessments of the payments may decrease the sample size, as they would identify higher risk payments, where improper payments may occur more frequently. The Travel Pay program is an example of a potential opportunity for DFAS to focus more on the high-risk payments by removing low-risk payments from improper payment reviews. DFAS personnel currently include low-risk payments, such as advances and scheduled partial payments, in the same population as regular travel payments. The advances and partial payments do not require supporting documentation for payment. In conducting their review, DFAS personnel simply reviewed for confirmation of travel dates and approval, and as a result, rarely found these types of payments to be improper. According to DFAS personnel, removing these types of payments from the sampling universe would inflate the improper payment rate. However, by including these payments in the sampling universe, DFAS personnel are not only diluting the sample with known proper payments, they are also expending resources to review these payments when those resources could be reviewing high-risk payments in other programs. While this is an example in the Travel Pay program of an area where DFAS could improve its sampling methodologies, similar opportunities exist in the other programs. Therefore, we recommend that the USD(C)/CFO, in coordination with the Deputy Director for Enterprise Accounting and Audit Support for DFAS, use a sufficient sample size to support the improper payment estimate by calculating the sample size based on improper payment amounts instead of only using the paid amount. To reduce the required sample size, we recommend considering alternative improper payment estimation methodology, and conducting risk assessments of the payment types for each program.

*DFAS personnel currently include low-risk payments rarely found to be improper, expending resources to review these payments when those resources could be reviewing high-risk payments in other programs.*

***THE DHA DID NOT USE AN ADEQUATE SAMPLING METHODOLOGY***

DHA personnel produced unreliable improper and unknown payment estimates for FY 2021 because they did not use an adequate sampling estimation methodology. In January 2022, the DoD OIG issued a report on the reliability of the Military Health Benefits program's improper payment estimate produced by DHA

personnel.<sup>23</sup> In that report, the DoD OIG found that DHA personnel produced an unreliable estimate for the Military Health Benefits program. The DoD OIG found that the DHA could not provide a reliable improper payment estimate because it did not use payment transactions when applying its sampling estimation methodology to the data population. Also, the DHA did not consider the characteristics of its data population before applying its sampling estimation methodology. Furthermore, to reduce its number of samples to meet a pre-determined samples size, the DHA did not accurately implement its sampling and estimation methodology plan. As a result, the DHA did not produce a reliable improper payment estimate for the Military Health Benefits program for FY 2021.

In Report No. DODIG-2022-052, the DoD OIG made recommendations to the DHA to improve the reliability of its improper and unknown payment estimate. Since the DoD OIG published Report No. DODIG-2022-052, DHA management stated that they are re-evaluating their sampling methodology to increase the probability of identifying improper payments by researching risk-based analysis and using historical data. DHA management stated that they have also begun to decrease the number of stratification levels in DHA sampling to capture a more representative number of claims errors. Additionally, DHA management stated that they are analyzing historical data to determine appropriate precision levels to ensure a reasonable, statistically valid sample and maintaining a confidence level of 95 percent. We will review the implementation of these changes in a future audit. Therefore, we will close the recommendations once the DHA has fully implemented its corrective actions.

### ***DFAS Did Not Have Complete and Accurate Populations***

The DoD did not have complete and accurate populations for the Military Retirement, Commercial Pay, Civilian Pay, Military Pay–Army, Military Pay–Air Force, Military Pay–Navy, and Military Pay–Marine Corps programs. Specifically, DFAS personnel:

- did not include \$1.2 billion in Combat Related Special Compensation (CRSC) payments and could not identify whether an additional \$7.2 billion should have been included in the Military Retirement program universe;
- excluded \$132.3 million in centrally billed account (CBA) payments from the Commercial Pay program sampling universe and did not implement corrective actions to address prior year recommendations; and

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<sup>23</sup> Report No. DODIG-2022-052, “Audit of the Defense Health Agency’s Reporting of Improper Payment Estimates for the Military Health Benefits Program,” January 11, 2022.

- did not include all of the entitlements and deductions that are part of civilian personnel and Service member pay for the Civilian Pay and all Military Pay programs.

***DFAS EXCLUDED CRSC PAYMENTS FROM THE MILITARY RETIREMENT PROGRAM POPULATION***

DFAS personnel did not include \$1.2 billion in CRSC payments and could not identify whether an additional \$7.2 billion should have been included in the Military Retirement program universe. DFAS personnel reconciled the sample universe to the FY 2020 Statement of Budgetary Resources to determine the completeness of the sampling universe. The sampling universe contained \$50.0 billion in Military Retirement program payments. However, according to DFAS personnel, the disbursement outlays reported in the Statement of Budgetary Resources for FY 2020 totaled \$60.7 billion, which, when compared to the sampling universe, created a \$10.7 billion difference. DFAS personnel explained that of \$10.7 billion, \$2.3 billion related to allotments, \$1.2 billion related to CRSC payments, and the remaining \$7.2 billion was unidentified.<sup>24</sup>

According to DFAS personnel, they excluded the CRSC payments because the payments were not included on Retiree Account Statements so they were not part of the initial universe. DFAS personnel also stated that CRSC payments are supplemental payments so this type of payment did not fit their definition of retirement payments. However, because CRSC payments are made under the Military Retirement program, and only exist in the Military Retirement payment population, DFAS should have included CRSC payments in the Military Retirement payment population. DFAS personnel agreed that they did not include the payments in the universe, but did not see it as a concern because without

*DFAS personnel did not include \$1.2 billion in CRSC payments and could not identify whether an additional \$7.2 billion should have been included in the Military Retirement program universe.*

the payments included, the sampling universe still contained 85 percent of the Military Retirement program's universe. DFAS is in the process of establishing an 85 percent materiality threshold over each of its programs. However, OUSD(C)/CFO has not approved the 85 percent materiality

threshold as it relates to the DoD's Payment Integrity program. The Military Retirement payment population was incomplete for the FY 2021 reporting period because DFAS personnel excluded \$1.2 billion in CRSC payments and did not account for \$7.2 billion in payments. This occurred because DFAS personnel did not have adequate internal controls to ensure they maintained a complete universe

<sup>24</sup> According to DFAS personnel, they review allotments as part of their review process to verify the accuracy of the pay amount. Therefore, even though DFAS does not include allotments in the sampling universe, it still reviews them as part of the Military Retirement program.

for the Military Retirement program. The DoD OIG previously recommended that the USD(C)/CFO, in coordination with the DFAS Director, develop and implement sufficient control measures in the population review process to ensure that the DoD included all necessary payments for the Military Retirement program.<sup>25</sup> Because of this audit, the DoD OIG determined that the DoD did not implement this recommendation for the FY 2021 reporting period. Therefore, the recommendation will remain open and resolved until the DoD has implemented additional control measures and is including all necessary payments for the Military Retirement program.

On April 27, 2022, the audit team received additional information regarding the Statement of Budgetary Resource amounts reported in the FY 2020 Audited Financial Report for the Military Retirement Fund. The information that DFAS personnel provided included \$5.1 billion in Federal taxes, which DFAS would have eliminated from the sampling universe. However, the information DFAS personnel provided was not consistent with the information they provided in January 2022, during the audit and with the information reported in the Military Retirement Fund AFR. Therefore, the audit team could not conclude on the reliability of the information.

***DFAS EXCLUDED CBA PAYMENTS FROM THE COMMERCIAL PAY SAMPLE POPULATION***

DFAS personnel excluded \$132.3 million in payments for CBAs from the Commercial Pay program sample population without ensuring CBA payments were included in the universe for the Travel Pay program. According to the DoD FMR, volume 9, CBA

*DFAS personnel excluded \$132.3 million in payments for CBAs from the Commercial Pay program sample population without ensuring CBA payments were included in the universe for the Travel Pay program.*

payments represent payments made for travel charges applied to a Government charge card.<sup>26</sup> Therefore, CBA payments are subject to payment integrity requirements and DFAS should have included them in a sampling universe.

According to the DFAS Commercial Pay S&EMP, which DFAS senior leadership signed and approved, DFAS excluded the CBA payments from the Commercial Pay program's universe because the Travel Pay program's universe covers the CBA payments. However, DFAS personnel later confirmed that they did not review the CBA payments for propriety as part of the Travel Pay program and that the Defense Travel System, from which DFAS pulls its Travel Pay universe, did not include the

<sup>25</sup> 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, Recommendation 2.b.

<sup>26</sup> DoD FMR, volume 9, Definitions.

CBA portion of travel payments. Upon further discussion, DFAS personnel agreed that they did not include the CBA payments in either universe for sampling and that the CBA payments should have been included in the Commercial Pay program.

The exclusion of the CBA payments occurred because DFAS has not developed or implemented controls to ensure the appropriateness of the exclusions made during the development of the sampling universes. For example, DFAS senior leadership certified and approved the S&EMP that identified the CBA payment exclusions; however, they did not determine whether the CBA payments were included in the universe for the Travel Pay program. This lack of internal controls led to the erroneous exclusion of the CBA payments, which denied the DoD the opportunity to determine the adequacy of the controls over these types of payments for Government charge card transactions. Therefore, we recommend that the USD(C)/CFO, in coordination with the Deputy Director of Enterprise Accounting and Audit Support for DFAS, develop and implement controls to ensure that exclusions occurring during the development of the sampling universes, including the CBAs, are appropriate and fully documented.

Additionally, the Commercial Pay program used the invoice amount and not the actual amount paid for their sampling universe, did not complete a reconciliation of the sampling universe to the amount paid, and did not implement an annual review process to identify all types of payments made across DoD Components for the Commercial Pay program. This occurred because DFAS personnel did not implement corrective actions to address prior DoD OIG recommendations regarding the development of the population and reliability of the improper payment estimate for the Commercial Pay program.

The DoD OIG concluded that the DoD Commercial Pay program's improper payment and unknown payment estimates would continue to be unreliable until the DoD implemented recommendations from prior improper payment audit reports, including the following.

- In an FY 2019 report, the DoD OIG recommended that the USD(C)/CFO, in coordination with DFAS, conduct an annual review of the Commercial Pay program to identify all types of payments made across the DoD Components, and verify that sampling plans cover all defined commercial payment types.<sup>27</sup>

<sup>27</sup> Report No. DODIG-2019-039, "Reporting of Improper Payments for the Defense Finance and Accounting Service Commercial Pay program," December 21, 2018, Recommendation 1.c.

- In a subsequent FY 2019 report, the DoD OIG recommended that the USD(C)/CFO, in coordination with DFAS, develop a process that uses the amount paid from the Enterprise Business System for the Commercial Pay program.<sup>28</sup>
- In an FY 2021 report, the DoD OIG recommended that DFAS develop and implement a post-payment review process that reviews the certified voucher for propriety in accordance with the post-payment review for Commercial Pay standard operating procedures.<sup>29</sup>

Management agreed to implement each of these recommendations, but as of May 20, 2022, DFAS personnel are still taking corrective actions to address them. See Appendix C for the status of the recommendations. Therefore, we are not making any additional recommendations. These recommendations are open and we will close them once DFAS develops a process that uses the amount paid in calculating the improper payment estimate, has demonstrated that a complete reconciliation has been put in place, and has implemented an annual review process to identify all types of payments made across DoD Components for the Commercial Pay program.

***DFAS PERSONNEL USED INCOMPLETE POPULATIONS FOR CIVILIAN AND MILITARY PAY POPULATIONS***

DFAS personnel did not include all of the entitlements and deductions that are part of civilian personnel and Service member pay for the Civilian Pay and all Military Pay programs.<sup>30</sup> When DFAS personnel created the populations for sampling and

*DFAS personnel did not include all of the entitlements and deductions that are part of civilian personnel and Service member pay for the Civilian Pay and all Military Pay programs.*

review for the Military Pay and Civilian Pay programs, they defined payment as the total “modified” gross entitlements to a Service member on a specific Leave and Earnings Statement. Furthermore, DFAS personnel defined the population as “modified” because DFAS does not review all Military Pay or Civilian Pay

entitlements. Therefore, when they created the Military Pay and Civilian Pay program populations, DFAS personnel only included specific “reviewable” entitlements for Service members and excluded all other entitlements and deductions that are part of Service members’ and civilians’ pay. DFAS personnel

<sup>28</sup> 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, Recommendation 2.a.

<sup>29</sup> Report No. DODIG-2021-024, “Audit of the Accuracy of the Improper Payment Estimates Reported for the Mechanization of Contract Administration Services System,” November 12, 2020, Recommendation 3.a.

<sup>30</sup> The DoD reported payments for Military Pay in four categories within the AFR: Military Pay-Army, Military Pay-Navy, Military Pay-Marine Corps, and Military Pay-Air Force.

stated that they primarily focused on entitlements, which made up the largest dollar amounts for all Military Services in the Military Pay program. DFAS acknowledged that they did not include unique entitlements in FY 2021. For example, for the Military Pay–Marine Corps program, DFAS personnel excluded tuition assistance, family housing loss or damage, special payments, and many other entitlements and deductions. DFAS explained that for the Military Pay and Civilian Pay programs, they focused on the entitlements that made up the largest dollar amounts of the sample population.

When DFAS personnel modified the universe to only represent specific entitlements, they should have documented an appropriate explanation for each excluded entitlement. An appropriate explanation should be based on the characteristics of that entitlement and not based on the Component’s ability to support that entitlement. However, DFAS personnel could not provide explanations for all the exclusions for FY 2021 because they had not fully implemented controls to ensure that all entitlements representing a payment in the Civilian Pay and Military Pay programs were included in the universe for sampling. The DoD OIG previously recommended that the USD(C)/CFO, in coordination with the DFAS Director, develop and implement sufficient control measures in the population review process to ensure that the DoD included all necessary payments for the Civilian and Military Pay programs.<sup>31</sup> As a result of this audit, it is evident that the DoD did not implement this recommendation for the FY 2021 reporting period. DFAS personnel stated that in the FY 2022 sampling and estimation process they have included the removed entitlements in both Civilian Pay and Military Pay programs. Therefore, during the FY 2022 compliance audit the audit team will review for completeness of the sampling universe.

### ***The DoD Did Not Perform Accurate and Appropriate Post-Payment Reviews***

The DoD did not perform accurate and appropriate post-payment reviews for the Travel Pay program. Specifically, DFAS personnel did not follow their review procedures when reviewing Defense Travel System payments for the Travel Pay program. In addition, DHA personnel did not conduct adequate improper payment reviews of TRICARE West medical claims and did not determine and report on the propriety of \$3.8 billion in outlays in Administrative and Other Costs.

*The DoD did not perform accurate and appropriate post-payment reviews for the Travel Pay program.*

<sup>31</sup> 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, Recommendation 2.b.

***DFAS PERSONNEL DID NOT ACCURATELY REVIEW DEFENSE TRAVEL SYSTEM PAYMENTS***

The DoD OIG re-performed Defense Travel System payment reviews and found that DFAS inaccurately reviewed and reported 3 out of 20 samples. Specifically, for one sample, DFAS did not review the sample according to the Post-Pay Review & Analysis Travel Desktop Guide and, therefore, missed that the traveler had overlapping orders and was paid per diem twice on the same day. The Travel Desktop Guide instructs the reviewer to check other travel vouchers to verify that travel days do not overlap; however, the reviewer did not perform this step. In another example, DFAS personnel did not correctly calculate the overpayment amount for duplicate per diem on overlapping orders. Lastly, DFAS personnel marked a sample item for safe haven travel as an improper payment totaling \$5,229 for an overpayment for incorrect local transportation allowance and lodging tax.<sup>32</sup> However, DFAS personnel inaccurately reviewed the sample item, and the entire safe haven travel voucher should have been marked as an improper payment totaling \$15,555. DoD FMR volume 9, chapter 7 provides guidance on evacuations from foreign locations; however, the Travel Desktop Guide does not provide specific instructions for safe haven travel vouchers to the reviewer.

To identify improper payments, DFAS personnel performed a post-payment review on each of their samples, then quality assurance personnel reviewed all of the samples identified as improper and a portion of the samples identified as proper. DFAS stated that the quality assurance review provides reasonable assurance the reviews were performed according to guidance; however, in two of the inaccurately reviewed samples, both the quality assurance personnel and the first reviewer inaccurately reviewed the sample. Because the quality assurance review control did not identify that the improper payment amounts were inaccurate, the control was not operating as intended and resulted in an inaccurate Travel Pay estimate. Therefore, DFAS did not implement adequate internal controls to ensure that improper payment reviews correctly identified improper payments. The USD(C)/CFO, in coordination with the Deputy Director of Enterprise Accounting and Audit Support for DFAS, should develop and implement additional controls for the post-payment review process in the Travel Pay program, such as providing training for safe haven transactions and overlapping orders or additional supervisory controls to ensure accurate reviews.

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<sup>32</sup> Safe haven travel is authorized travel to a designated place as a result of evacuation for the traveler's safety.

***THE DHA DID NOT CONDUCT ADEQUATE POST-PAYMENT REVIEWS FOR THE MILITARY HEALTH BENEFITS PROGRAM***

DHA personnel did not conduct adequate improper payment reviews of the TRICARE West medical claims and did not determine and report on the propriety of \$3.8 billion in outlays in Administrative and Other Costs. The DHA did not base its improper payment reviews of TRICARE West medical claims on a payment definition that was in accordance with the PIIA. Additionally, due to limited resources and inadequate planning, the DHA did not complete improper payment reviews for any of the Administrative and Other Costs sub-populations. As a result, the DHA cannot effectively identify improper payments and will not produce a reliable improper payment estimate for the Military Health Benefits program for FY 2021. The DoD OIG previously made recommendations in DODIG Report No. DODIG-2022-052; therefore we will not make another recommendation. Since the DoD OIG published Report No. DODIG-2022-052, DHA management has made efforts to modify the language in their improper payment review contract, make system changes, and make process updates. DHA management stated that these efforts will further refine their reporting of improper payment estimates.

***OUSD(C)/CFO Did Not Have Adequate Oversight Over the Estimation Process***

The Federal Internal Control Standards define internal control as, “a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.”<sup>33</sup> According to the OMB, a reliable estimate is produced from accurate sampling populations, testing procedures, and estimation calculations. The OUSD(C)/CFO, as the executive agent for the DoD payment integrity program, maintains oversight responsibility for ensuring that DoD programs are compliant with all authoritative guidance for PIIA. This oversight responsibility includes ensuring that S&EMPs are appropriate and will support a statistically valid and reliable improper payment estimate, ensuring all payments are subject to review, and performing accurate reviews. However, the DoD has been unable to produce a reliable estimate for 11 consecutive years. OUSD(C)/CFO has made improvements in its oversight processes, including implementing a data call checklist; developing and signing a charter expanding the oversight responsibilities of the DoD Travel Pay program senior accountable official; and implementing tracking procedures to ensure it receives all required improper payment reporting information from the Components. However, we did not find any evidence that OUSD(C)/CFO personnel reviewed the S&EMPs to ensure that they were appropriate, that they contained explanations of any exclusions, or that the DoD Components conducted sufficient reviews. In the oversight role, it is critical that OUSD(C)/CFO review

<sup>33</sup> GAO-14-704G, “Standards for Internal Control in the Federal Government,” September 2014.

and communicate to the DoD Components the deficiencies in the S&EMP, sampling populations, and review processes. Therefore, we recommend that the USD(C)/CFO develop and implement internal control procedures to ensure that DoD Components produce a reliable estimate by validating the S&EMPs are accurate and complete.

## Conclusion

The DoD did not comply with one of the six payment integrity requirements in FY 2021 because the DoD published unreliable improper payment estimates. This is the 11th consecutive year that the DoD has not produced reliable estimates and the first year the DoD has not complied with the PIIA improper payment reporting requirements.<sup>34</sup> Specifically, the DoD continued to report unreliable

*This is the 11th consecutive year that the DoD has not produced reliable estimates and the first year the DoD has not complied with the PIIA improper payment reporting requirements.*

improper payment estimates and missed opportunities to promptly detect, prevent, and recover improper payments for \$1.2 billion of the transactions excluded from accuracy

reviews. Because the published DoD AFR contained inaccuracies, the DoD is at increased risk of not presenting a complete and accurate assessment of payment integrity. The DoD FY 2021 AFR states that the reduction of improper payments and compliance with the PIIA continue to be top financial management priorities. However, with unreliable estimates, DoD leadership and Congress cannot accurately determine whether the DoD has the necessary resources and the appropriate measures in place to reduce its improper payments. Furthermore, the DoD reported an \$8.9 billion reduction of improper and unknown payment estimates from FY 2020 to FY 2021 and attributed this reduction to implementation of corrective actions for three programs: Civilian Pay, Military Pay – Army, and Military Pay – Air Force. However, we determined these programs did not have reliable estimates in FY 2020 or FY 2021, and, therefore, caution DoD leadership or Congress on relying on this reported reduction. Additionally, the DoD has yet to fully implement corrective actions to address prior DoD OIG recommendations concerning the development of the improper payment estimates for the Commercial Pay and Military Health Benefit programs. Until the DoD implements the recommendations from this report and previous DoD OIG reports, it is unlikely the DoD will meet the requirements of the PIIA and have

<sup>34</sup> In addition to not complying with the first year of PIIA requirements, the DoD did not comply with the 9 previous years of improper payment reporting requirements.

reliable improper payment estimates. Only when DoD programs accurately report all required information, can DoD senior leaders determine whether program efforts have been successful or whether additional action is necessary.

The PIIA requires that an agency initiate corrective action when it does not comply with the PIIA. According to OMB Circular No. A-123, Appendix C, the agency will treat any non-compliance in FY 2021 as the 1st year of non-compliance, for each program found to be non-compliant. According to the PIIA, if an agency is non-compliant in a fiscal year, the agency head must submit a plan to Congress describing the actions the agency will take to come into compliance. OMB Circular No. A-123, Appendix C further requires that for each program deemed non-compliant, the agency will describe the actions that the agency will take to come into compliance, in the OMB Annual Data Call. This information will be published to [paymentaccuracy.gov](https://paymentaccuracy.gov) and will serve as the plan that agencies are required to submit to the appropriate authorizing appropriations committees of Congress. Therefore, the USD(C)/CFO should submit to the OMB a plan detailing actions the DoD has taken to meet the requirements for 1 year of non-compliance.

## Recommendations, Management Comments, and Our Response

### ***Recommendation 1***

**We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:**

- a. **Develop and implement a process to obtain accurate confirmed fraud amounts, report them in [paymentaccuracy.gov](https://paymentaccuracy.gov), and consider the fraud amounts when reviewing and approving the Sampling and Estimation Methodology Plans for each program.**

### ***Management Comments***

The Deputy Chief Financial Officer (DCFO), responding for the USD(C)/CFO, partially agreed with the recommendation, stating that the OUSD(C)/CFO will develop and implement a process to obtain accurate confirmed fraud amounts, and will report the confirmed fraud amounts to OMB during the FY 2022 PIIA Compliance annual submission. The DCFO stated that OMB has agreed to allow Federal Agencies to report confirmed fraud amounts at the Agency level as opposed to the specific Payment Integrity program amount requested if it is more cost-beneficial for the Agency.

The DCFO stated that OMB does not require the use of confirmed fraud amounts within an S&EMP; nonetheless, the DoD will review the confirmed fraud results and, depending on the results, possibly coordinate various identification, prevention, and recovery fraud efforts to determine the potential alignment of ongoing or future Payment Integrity lines of effort within the programs. The DCFO expects to complete this action by November 2022.

### *Our Response*

Although the DCFO partially agreed with the recommendation, the proposed actions meet the intent of the recommendation; therefore, the recommendation is resolved and remains open. We will close the recommendation once we verify that OUSD(C)/CFO personnel have reported confirmed fraud amounts to OMB through their FY 2022 PIIA Compliance annual submission, and once we verify that OUSD(C)/CFO personnel have incorporated confirmed fraud results into the identification, prevention, and recovery efforts within the DoD's payment integrity program.

- b. Update the DoD Financial Management Regulation, volume 4, chapter 14, to ensure the guidance is consistent with all current payment integrity requirements, and include a definition of baselining that standardizes the application for all DoD payment integrity programs.**

### *Management Comments*

The DCFO, responding for the USD(C)/CFO, partially agreed with the recommendation, stating that the OUSD(C)/CFO will update the DoD FMR, volume 4, chapter 14, to ensure it is representative of the PIIA and applicable guidance within OMB Circular No. A-123, Appendix C, and OMB Circular No. A-136. The DCFO agreed to provide a justification for programs that are not reporting an achieved baseline within the End-to-End (E2E) program-specific annual packages. The DCFO further explained that program-specific scenarios may exist that do not necessitate establishing a baseline; as such, the justification that describes the scenario is better served in the E2E package as opposed to the DoD FMR. The DCFO expects to complete this action by November 2022.

### *Our Response*

Although the DCFO partially agreed with the recommendation, the proposed actions meet the intent of the recommendation; therefore, the recommendation is resolved and remains open. We will close the recommendation once we verify

that OUSD(C)/CFO personnel have updated the DoD FMR guidance to align with PIIA and current versions of OMB guidance and confirm the E2E packages include justification for those programs that are not reporting an achieved baseline.

- c. **Develop and implement internal control procedures to ensure that DoD Components produce reliable estimates by validating that the Sampling and Estimation Methodology Plans are accurate and complete.**

### ***Management Comments***

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that based on the DoD OIG feedback received during the FY 2021 PIIA Compliance Audit, OUSD(C)/CFO has implemented additional internal controls to ensure the DoD Components have produced reliable estimates. The DCFO stated that OUSD(C)/CFO will now require the DoD Components to reconcile the PIIA Universe of Transactions to the Statement of Budgetary Resources; document the payment inclusions and exclusions; justify the statistical validity of the estimate, S&EMP design elements, and characteristics of the program data; and test program-specific procedures. The DCFO expects to complete this action by November 2022.

### ***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 OUSD(C)/CFO personnel have reviewed and determined whether the DoD Components met the additional criteria listed in the DCFO's response to this recommendation.

- d. **Submit for the Military Health Benefits, Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–U.S. Marine Corps, Civilian Pay, Military Retirement, Travel Pay, and Commercial Pay programs to the Office of Management and Budget, the planned actions that the DoD will take to come into compliance, including:**
  - **Measurable milestones to be accomplished in order to achieve compliance for each program or activity.**
  - **The designation of a senior executive who will be accountable for the progress of the DoD to come into compliance for each program in this recommendation.**
  - **The establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the official designated to lead the efforts of the DoD to come into compliance for each program.**

### ***Management Comments***

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, stating that OUSD(C)/CFO personnel will answer this recommendation as required by OMB during the Annual Data Call and Supplemental Questions for Payment Integrity for FY 2022. The DCFO explained that these specific questions are now built into the annual OMB submissions, similar to FY 2021 OMB requirements. The DCFO expects to complete this action by November 2022.

### ***Our Response***

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved and remains open. We will close the recommendation once we verify that OUSD(C)/CFO's annual data call submission includes measurable milestones, a designated senior executive, and an established accountability mechanism for each of the programs listed in the recommendation.

### ***Recommendation 2***

**We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Deputy Director of Enterprise Accounting and Audit Support for the Defense Finance and Accounting Service:**

- a. Use a sufficient sample size to support the improper payment estimate by calculating the sample size based on improper payment amounts instead of only using the paid amount. To reduce the required sample size, we recommend considering alternative improper payment estimation methodology, and conducting risk assessments of the payment types for each program.**

### ***Management Comments***

The DCFO, responding for the USD(C)/CFO, disagreed with the recommendation, stating that OMB Circular No. A-123, Appendix C, is not prescriptive in the methodology that must be used by Federal Agencies to determine sample sizes for testing. The DCFO stated that the DoD worked with an internal team of statisticians to implement statistically valid and accurate sampling plans that generated point estimates with appropriate confidence intervals around those estimates, given the programs' characteristics and available resources. The DCFO generally stated that implementing the DoD OIG's recommendation would result in an increased burden to the DoD, and that the current methodology is sufficient for identifying improper payments and preventing future improper payments.

The DCFO proposed an alternative course of action the DoD will take to achieve compliance with publishing adequate estimates, which includes the following steps.

1. Use the historically accepted statistically valid Sampling and Estimation Plans.
2. Reconcile the PIIA Universe of Transactions to the Statement of Budgetary Resources.
3. Update the existing S&EMPs to include the list of payment inclusions and exclusions.
4. Add justification that would support the statistical validity of the program's point estimates and confidence intervals; account for the reliability of the statistical formulas used to prepare estimates; and support the program characteristics or cost benefit analysis that takes available resources into consideration.
5. Complete program-specific testing procedures to ensure adequacy and accuracy of the reviews in alignment with GAO Federal Internal Control Standards.
6. Include these steps in the E2E packages for approval by the DoD's Payment Integrity Senior Accountable Officials.

The DCFO expects to complete this action by November 2022.

### *Our Response*

The DCFO disagreed with the recommendation and provided an alternative course of actions that did not fully address the intent of the recommendation; therefore, the recommendation is unresolved. While proposed DCFO actions two through six would help the DoD's PIIA compliance efforts, the proposed action to use the same, "historically accepted Statistically Valid Sampling and Estimation Plans" that produced unreliable estimates for 11 consecutive years will continue to result in unreliable estimates.

The DCFO stated that this recommendation proposes a vast and excessive increase in the administrative and fiscal burden of the DoD to comply with the PIIA. Therefore, instead of considering alternative methods of producing reliable improper payment estimates, the DCFO proposed continuing to use the same "historically accepted Statistically Valid Sampling and Estimation Plans" that have produced unreliable estimates in the past. For example, the DCFO's proposed course of action would continue using extremely inconsistent sample sizes when comparing the Travel Pay sampling methodology and the other DoD programs.

- Travel Pay – sample of 20,271 transactions from a population of 3.5 million transactions

- Civilian Pay – sample of 1,011 transactions from a population of 19.9 million transactions
- Military Retirement – sample of 1,000 transactions from a population of 27.6 million transactions

The DCFO's claim that applying the "DoD OIG's Civilian Pay simulation variables, assumptions and parameters," to the Civilian Pay population would increase the sample to over 35,000 and "cost at least \$8 million more per year to review," is not supported. During a May 16, 2022 meeting with OUSD(C)/CFO and DFAS personnel, DoD OIG personnel explained that if the DoD performed risk assessments to remove low-risk transactions from populations, and focused sampling on high-risk transactions, DFAS could potentially reduce sample sizes and sampling costs from those presented in the DCFO response.

In a prior meeting, OUSD(C)/CFO personnel also acknowledged the benefits of conducting risk assessments on select populations in order to identify their higher-risk populations to reduce sampling. OUSD(C)/CFO personnel stated that other Federal Agencies are conducting similarly structured risk assessments with their programs and have reduced or eliminated sampling. To determine the feasibility of removing low risk payments, the DoD should first assess the risk in its programs to gain a better understanding of the transaction characteristics and their relative risks for improper payments. Once the DoD can identify where riskier payments occur, then the DoD will be able to better align its resources to address the sample sizes.

The DCFO proposed an alternate approach including "the continued use of the previously acceptable statistically valid S&EMP from the past three years." While we agree that the DoD OIG previously concluded that the S&EMP was valid, this was the first year that the DoD OIG was able to evaluate the DoD's execution of the S&EMP and, as a result, determined that the execution had issues as described in the report. Over the past 3 years, the DoD has made improvements to its payment integrity programs; and for the first time the DoD provided data that was sufficient for the DoD OIG to thoroughly analyze the execution of the S&EMP.

Furthermore, using a statistically valid and previously accepted S&EMP does not imply or guarantee a reliable improper payment estimate. Since 2011, the DoD has failed to produce reliable improper payment estimates, including the past 3 years. If the DoD continues to use the same methodology as used in prior years, the DoD will continue to fail to produce reliable improper payment estimates and ultimately will continue to fail to comply with the PIIA. We ask that the USD(C)/CFO provide comments within 30 days that include the specific actions that will enable the DoD to produce a reliable improper payment estimate.

- b. Develop and implement internal controls to ensure exclusions occurring during the development of the sampling universes, including the Centrally Billed Accounts, are appropriate and fully documented.**

### ***Management Comments***

The DCFO, responding for the USD(C)/CFO, agreed with the recommendation, and acknowledged that the DoD excluded \$132.3 million in CBAs. The DCFO stated that the exclusion of CBAs in the FY 2021 population has since been corrected and these disbursements are being tested in FY 2022. The DCFO expects to complete this action by November 2022.

### ***Our Response***

Comments from the DCFO addressed the specifics of the recommendation; therefore, the recommendation is resolved and remains open. We will close the recommendation once we verify in a future payment integrity audit that DFAS personnel include the CBAs in the population for testing.

- c. Develop and implement additional controls for the post-payment review process in the Travel Pay program, such as providing training for safe haven transactions and overlapping orders or additional supervisory controls to ensure accurate reviews.**

### ***Management Comments***

The DCFO, responding for the USD(C)/CFO, partially agreed with this recommendation, stating that in addition to the existing controls, DFAS will add a centralized repository of training materials and update the repository as training issues arise.

According to the DCFO, the DoD agrees with enhancing internal controls in the testing process. However, the DCFO generally disagreed with the DoD OIG's conclusion that the Travel Pay program did not comply with the PIIA, and requested that the DoD OIG take into consideration GAO's Federal Internal Control Standards. The DCFO also requested that the DoD OIG give additional consideration to GAO's Government Auditing Standards regarding the low "likelihood of occurrence" of overlapping orders and evacuation travel. The DCFO expressed concern whether three errors provided sufficient evidence to prove that the Travel Pay program failed to comply with the PIIA, particularly when the three errors were identified by DFAS personnel or "self-identified." The DCFO stated that the rare instances of evacuation claim or overlapping travel day errors appearing within the population present minimal risk that the DoD significantly misrepresented the payment integrity information for the Travel Pay program. The DCFO expects to complete this action by November 2022.

### ***Our Response***

Although the DCFO partially agreed with the recommendation, the proposed actions meet the intent of the recommendation; therefore, the recommendation is resolved and remains open. We will close the recommendation once we verify that OUSD(C)/CFO personnel have added a centralized repository of training materials and have trained reviewers on using the repository to address different scenarios during the review of travel payments.

The DCFO expressed concern over our conclusion that the review process for the Travel Pay program was insufficient based on finding three payments reviewed in error out of 20,271 sampled payments. However, the DCFO's statement includes an unsupported assumption that DFAS personnel reviewed the other 20,268 payments correctly. We selected and reviewed 20 payments out of DFAS's 20,271 statistically sampled payments, and found 3 out of the 20 to contain an error in the propriety determination. On average, those 3 payments that contained errors represent approximately 524 payments from the sampling population. Systemic weaknesses in the reviewing process caused those errors.

Whether DFAS personnel or the audit team identified the three review errors is of no consequence; the fact remains that the DoD based the Travel Payment estimate on results that contained these three errors. Additionally, until the DoD Travel Pay program has conducted risk assessments and defined "low likelihood of occurrence" or "rare instances" within its universe of travel payments, the DoD OIG cannot presume that any type of travel payment is more or less likely to occur than another. Therefore, the DoD OIG is unable to consider the DCFO's request that we weigh our conclusions based on the type of travel payment reviewed in error.

## Appendix A

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### Scope and Methodology

We conducted this performance audit from August 2021 through May 2022 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 PIIA compliance, as well as to understand their roles for compiling and reporting the DoD FY 2021 AFR, we interviewed personnel from the following agencies.

- DFAS
- OUSD(C)/CFO
- DHA

During our interviews, we discussed personnel roles and responsibilities for PIIA reporting, risk assessments, S&EMPs, improper payment estimates, reduction targets, CAPs, recapture audits, accountability, and agency information systems and other infrastructure. Our audit universe included payment transaction from the nine programs that reported improper payment and unknown payment estimates in the FY 2021 AFR. We discussed with DoD personnel the process they used to compile their universes of transactions used for testing and the review processes they used to determine whether a payment is improper. We tested their processes for creating the sampling universe of transactions to determine whether DoD personnel calculated accurate and complete improper payment estimates. We also examined the documentation they provided that related to our audit objective.

We reviewed the following guidance on PIIA reporting requirements for FY 2021.

- Public Law 116-117, “Payment Integrity Information Act of 2019,” March 2, 2020
- OMB Circular No. A-136, “Financial Reporting Requirements,” August 10, 2021
- OMB Circular No. A-123, Appendix C, “Requirements for Payment Integrity Improvement,” March 5, 2021
- DoD Regulation 7000.14-R, “DoD Financial Management Regulation”

## Internal Control Assessment and Compliance

We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed controls related to OUSD(C)/CFO reporting processes, the development of the sampling plans supporting each program, the development of the improper payment estimate for each program, the improper payment reviews conducted by Components, and the development and execution of CAPs.

We identified deficiencies in internal control that warranted the attention of OUSD(C)/CFO personnel or were significant in the context of the audit objective. Specifically, we identified deficiencies and the lack of internal controls over the:

- development of S&EMPs;
- preparation of CAPs; and
- submission of audit documentation.

Specifically, DFAS prepared S&EMPs without adequate supervisory review and current DFAS personnel could not explain how they were developed. The OUSD(C)/CFO prepared and approved the initial CAP provided for the DHA, but the CAP did not effectively address the root causes. In addition, DoD Components did not provide requested audit documentation by the required due date for several requests. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

## Use of Computer-Processed Data

We relied on computer-processed data included in the Payment Integrity Information Act section of the DoD FY 2021 AFR and supporting documents to perform this audit. Specifically, we relied on the estimates of improper payments and the data used to develop those estimates because determining the accuracy of the estimate was part of our objective. However, the FY 2021 DoD Statement of Assurance stated that the DoD is unable to provide assurance of the effectiveness of internal controls in place to support reliable financial reporting, as of September 30, 2021. This led us to conclude that the financial data within the DoD FY 2021 AFR may not be reliable. We relied on computer-processed data that DoD personnel used to develop their populations and estimates for 9 of the 11 programs. We used FY 2021 populations for the nine programs reported in the AFR and determined the completeness of the population subject to review. We validated these data by using the system-generated data and applying the search criteria used to create the population. Furthermore, we randomly selected a sample of transactions, and re-performed the improper payment review of the

selected sample transactions for the Military Pay-Marine Corps, Travel Pay, and Civilian Pay programs. In this review, we obtained supporting documentation for each of the sampled transactions to determine whether the programs reported the system information accurately. The computer-processed data we used were sufficient to support the audit finding and conclusions in this report. The audit objective was to determine compliance with reporting requirements, which included assessing the accuracy and completeness of the reported improper payment estimate. Therefore, our audit work included an analysis of the data and data processes used to produce the reported results.

## **Use of Technical Assistance**

We received technical assistance from the DoD OIG Data Analytics Team. Data Analytics Team statisticians reviewed the sampling and estimation plans for nine programs that reported improper payment estimates in the DoD FY 2021 AFR to determine whether the sampling methodologies were statistically valid and appropriate in accordance with payment integrity requirements. Data Analytics Team personnel identified characteristics of the payment data, verified the appropriateness of the sampling methodology, and detected mistakes in the implementation of the sample sizes.

## Appendix B

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### Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the DoD Office of Inspector General (DoD OIG) issued 16 reports discussing improper payment reporting requirements. Additionally, we included a DoD OIG report from 2016, which we determined to be relevant to the audit objective.

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

### GAO

Report No. GAO-20-344, “Federal Agencies’ Estimates of FY 2019 Improper Payments,” March 2020

The GAO determined that for FY 2018, 8 years after the implementation of the Improper Payments Elimination and Recovery Act (IPERA), half of the 24 Chief Financial Officers Act of 1990 agencies, whose estimates account for over 99 percent of the Government’s reported estimated improper payments, complied with IPERA, as reported by their Inspectors General. In addition, the Government’s ability to understand the full scope of its improper payments is hindered by incomplete, unreliable, or understated agency estimates; risk assessments that may not accurately assess the risk of improper payments; and agencies not complying with reporting and other requirements in IPERA.

Report No. GAO-19-530, “DOD Should Strengthen Its Ongoing Actions to Reduce Improper Travel Payments,” August 2019

The GAO determined that the DoD has mechanisms to identify errors leading to improper travel payments, and some components have developed specific corrective plans to address the errors. However, these efforts did not clearly identify the root causes of the errors, in part because there was no common understanding of what constitutes the root cause of improper travel payments.

Report No. GAO-19-61, “Process Improvements Needed in Recouping Overpayments to Service Members,” February 2019

The GAO determined that key aspects of the DoD’s Debt Collection Regulation, which includes rules for recoupment of Service member overpayments, were incomplete or unclear. In addition, the Military Services’ debt collection policies and procedures did not consistently follow the DoD Debt Collection Regulation.

Report No. GAO-19-14, “Additional Guidance Needed to Improve Oversight of Agencies with Noncompliant Programs,” December 2018

The GAO determined that for FYs 2016 and 2017, over half of the 24 Chief Financial Officers Act of 1990 agencies were reported by their Inspectors General as noncompliant with one or more criteria under IPERA.

Report No. GAO-18-377, “Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes,” May 2018

The GAO determined that DoD Military Pay and Office of Personnel Management Retirement overpayments did not include a review of aspects of eligibility in their policies and procedures. The DoD and the Office of Personnel Management had not fully assessed whether their estimation processes effectively considered key program risks. OMB guidance does not specifically address how agencies are to test to identify improper payments, such as using a risk-based approach to help ensure agencies address key risks of improper payments.

Report No. GAO-18-36, “Most Selected Agencies Improved Procedures to Help Ensure Risk Assessments of All Programs and Activities,” November 2017

The GAO reviewed 24 Chief Financial Officers Act of 1990 agencies’ AFRs and Performance and Accountability Reports from FY 2014 through FY 2016 and found that these agencies generally complied with OMB directives for risk assessment of improper payments. However, the GAO found instances of noncompliance.

Report No. GAO-17-484, “Additional Guidance Could Provide More Consistent Compliance Determinations and Reporting by Inspectors General,” May 2017

The GAO determined that for FY 2015, 5 years after the implementation of IPERA, 15 of the 24 Chief Financial Officers Act of 1990 agency Inspectors General determined that their agencies did not comply with IPERA. In addition, the inconsistent Inspectors General compliance determinations in the Inspectors Generals’ FY 2015 IPERA compliance reports may have presented potentially misleading information.

### ***DoD OIG***

Report No. DODIG-2022-052, “Audit of the Defense Health Agency’s Improper Payment Estimates Reported for the Military Health Benefits Program,” January 11, 2022

The DoD OIG determined that the DHA did not have adequate processes to identify improper payments and produce a reliable improper payment estimate for the Military Health Benefits program for the FY 2021 reporting period. Specifically, the DHA did not implement effective DHA sampling methodology when developing the improper payment rate, and conduct adequate improper payment reviews of Administrative and Other Costs payments or TRICARE West payments. The DHA could not provide a reliable improper payment estimate because it did not use payment transactions when applying its sampling methodology to the data population. Also, the DHA did not consider the characteristics of its data population before applying its sampling methodology and did not calculate its sample size in accordance with its sampling and estimation methodology. Additionally, the DHA did not complete improper payment reviews for any of the Administrative and Other Costs sub-populations, base its improper payment reviews of TRICARE West medical claims on a payment definition that was in accordance with the PIIA, and conduct medical record reviews in accordance with its sampling and estimation methodology plan. As a result, the DHA is unable to effectively identify improper payments and will not produce a reliable improper payment estimate for the Military Health Benefits program for FY 2021.

Report No. DODIG-2021-080, "Audit of the Department of Defense Compliance in FY 2020 With Improper Payment Reporting Requirements," May 7, 2021

The DoD OIG determined that the DoD did not comply with the PIIA requirements in its FY 2020 reporting of improper payments. The DoD complied with four of the six PIIA requirements. However, it did not comply with two PIIA requirements because the DoD published unreliable improper payment estimates for 7 of its 11 programs and missed its annual improper payment reduction target for the Military Health Benefits program.

Report No. DODIG-2021-024, "Audit of the Accuracy of the Improper Payment Estimates Reported for the Mechanization of Contract Administration Services System," November 12, 2020

The DoD OIG determined that DFAS personnel did not accurately identify or report improper payments from the Mechanization of Contract Administration Services System 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 Mechanization of Contract Administration Services System post-payment review personnel incorrectly deemed proper during their 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 Mechanization of Contract Administration Services System post-payment review would not discover an improper payment. Additionally, DFAS did not document or conduct adequate reviews of the Mechanization of Contract Administration Services System transactions reviewed for improper payments.

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

The DoD OIG determined that the DoD complied with four of the six IPERA requirements by publishing all required information in the Payment Integrity section of the AFR; conducting program-specific risk assessments; publishing CAPs; 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, the DoD did not fully comply with two of the six IPERA requirements.

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 IPERA requirements 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-2018-073, “Completeness and Accuracy of U.S. Army Corps of Engineers Improper Payment Estimates,” February 13, 2018

The DoD OIG determined that USACE Finance Center personnel did not accurately report the total payments, the improper payment estimate, or the improper payment rate for the Commercial Pay program in the DoD FY 2016 AFR. As a result, the auditors projected that USACE Finance Center personnel made \$2.25 million in Commercial Pay program improper payments for the 1,293 sample items reviewed by USACE. The DoD OIG also determined that USACE Finance Center personnel did not accurately report the Travel Pay universe, improper payment estimate, and the improper payment rate for the USACE Travel Pay program in the DoD FY 2016 AFR. As a result, USACE Finance Center personnel understated their Travel Pay program improper payment estimate by at least \$3.73 million.

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-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 IPERA in FY 2015.

## Appendix C

### Status of DoD OIG PIIA Audit Recommendations

When management agrees to implement a recommendation or has proposed actions that will address the underlying finding, but the agreed-upon actions have not yet been completed, we consider the recommendation resolved but open. A recommendation is closed when the DoD OIG verifies that the agreed-upon actions were implemented. A recommendation is unresolved when management does not agree to implement the recommendation and has not proposed actions to address the underlying finding. At the time of this report, the DoD has no unresolved recommendations, 14 open recommendations, and 87 closed recommendations since the issuance of DoD OIG Report No. DODIG-2013-054, March 13, 2013. Table 4 shows the status of all DoD OIG PIIA audit recommendations.

*Table 4. Status of DoD OIG Recommendations as of May 20, 2022*

Report Number	Number of Recommendations	Recommendations Implemented	Open Recommendations
DODIG-2013-054	2	2	0
DODIG-2014-059	9	9	0
DODIG-2015-068	9	9	0
DODIG-2015-121	4	4	0
DODIG-2016-060	3	3	0
DODIG-2016-086	4	3	1
DODIG-2017-078	8	7	1
DODIG-2017-073	12	12	0
DODIG-2018-115	9	9	0
DODIG-2019-039	6	5	1
DODIG-2019-087	10	6	4
DODIG-2020-083	4	4	0
DODIG-2021-024	10	9	1
DODIG-2021-080	7	5	2
DODIG-2022-052	4	0	4
<b>Total</b>	<b>101</b>	<b>87</b>	<b>14</b>

Source: The DoD OIG.

Since May 2021, the DoD OIG closed 8 recommendations from prior improper payment compliance audit reports, while 14 recommendations remain open. Table 5 shows the status of these 22 recommendations.

*Table 5. Status of Open DoD OIG Recommendations From Prior IPERA and PIIA Compliance Reports as of May 20, 2022*

Recommendation		Status
<b>DODIG-2016-086</b>		
1.b	We recommend that the USD(C)/CFO determine the source of all disbursed obligations not reviewed for improper payments and whether those disbursements are subject to improper payment reporting requirements.	<p><b>Resolved:</b> The USD(C)/CFO has partially completed this recommendation, as the Department of the Navy can trace every system that processes payments to the Budget Submitting Office that generated the payment.</p> <p>OUSD(C)/CFO personnel stated they are developing end-to-end processes that will document the reconciliation of the universe of transactions.</p> <p>We will close this recommendation when we verify that the USD(C)/CFO has determined the source of all disbursed obligations and determined whether those disbursements are subject to improper payment reporting requirements.</p> <p>Estimated Completion Date: February 2023</p>
<b>DODIG-2017-078</b>		
1.a.1	We recommend that the USD(C)/CFO coordinate with DoD IPERA reporting Components to verify that all payments are assessed for the risk of improper payments or are reporting estimated improper payments.	<p><b>Resolved:</b> While OUSD(C)/CFO has ensured risk assessments or improper payment estimate reporting for all 11 DoD programs, DHA has limited reporting of their Administrative Costs in the Military Health Benefits program. We will close this recommendation once we verify that the USD(C)/CFO has reported a risk assessment or improper payment estimate that includes the Administrative Costs in the Military Health Benefits program.</p> <p>Estimated Completion Date: November 2022</p>

Table 5. Status of Open DoD OIG Recommendations From Prior IPERA and PIIA Compliance Reports as of May 20, 2022 (cont'd)

Recommendation		Status
<b>DODIG-2019-039</b>		
1.c	We recommend that the USD(C)/CFO, in coordination with the DFAS, Enterprise Solutions and Standards Director, conduct an annual review of the DFAS Commercial Pay program through the Senior Accountable Officials Steering Committee and Action Officers Working Group, to identify all types of payments made across DoD Components; verify that existing risk assessments and sampling plans cover all defined commercial payment types; and update risk assessments and sampling plans for program segments that experienced a significant change in legislation or a significant increase in its funding level.	<p><b>Resolved:</b> The DoD is taking steps toward closing this recommendation, but has yet to complete the recommended actions. We will close this recommendation once we verify that: (1) the USD(C)/CFO developed and implemented an annual review process of the DFAS Commercial Pay program to identify all types of payments made across DoD Components, (2) existing risk assessments and sampling plans covered all defined commercial payment types, and (3) the USD(C)/CFO updated risk assessments and sampling plans for program segments that experienced a significant change in legislation or a significant increase in funding level.</p> <p>Estimated Completion Date: November 2022</p>
<b>DODIG-2019-087</b>		
1.d	We recommend that the USD(C)/CFO ensure that Components establish aggressive yet realistic improper payment reduction targets for each program.	<p><b>Resolved:</b> While the DoD took steps to address this recommendation, several programs reported as baselining and did not report any reduction targets. We will close the recommendation once we receive documentation that all programs over the statutory threshold have completed baselining, assessed the risk of improper payments, and developed realistic improper payment reduction.</p> <p>Estimated Completion Date: January 2023</p>
2.a	We recommend that the USD(C)/CFO, in coordination with the DFAS Director, develop a process that uses the amount paid for the Commercial Pay and Travel Pay programs.	<p><b>Resolved:</b> While the Travel Pay program has addressed this recommendation, the Commercial Pay program has yet to complete the recommended actions. USD(C)/CFO personnel stated they are developing end-to-end processes that will document the reconciliation of the universe of transactions. We will close this recommendation once we verify that the processes DFAS personnel utilize to obtain and test the Commercial program population use the actual paid amounts.</p> <p>Estimated Completion Date: February 2023</p>

*Table 5. Status of Open DoD OIG Recommendations From Prior IPERA and PIIA Compliance Reports as of May 20, 2022 (cont'd)*

Recommendation		Status
2.b	We recommend that the USD(C)/CFO, in coordination with the DFAS Director, develop and implement sufficient control measures in the population review process to ensure that the DoD includes all necessary payments for Military Pay, Civilian Pay, Military Retirement, and Travel Pay populations and reports accurate improper payment estimates in the AFR.	<p><b>Resolved:</b> The USD(C)/CFO and DFAS Director have partially completed this recommendation, as they have developed sufficient control measures for the Travel Pay program. However, they have yet to address the recommendation for the other programs. OUSD(C)/CFO personnel stated they are developing end-to-end processes that will document the reconciliation of the universe of transactions. We will close this recommendation once we verify that the DoD has implemented additional control measures and is including all necessary payments in the Military Pay, Civilian Pay, and Military Retirement populations, and reports accurate improper payment estimates in the AFR.</p> <p>Estimated Completion Date: February 2023</p>
5	We recommend that the USD(C)/CFO, in coordination with the DFAS Director and other DoD Components, establish an improper payment review process for the Civilian Pay program that examines supporting documentation and verifies that civilian employees are eligible for the payments that they received.	<p><b>Resolved:</b> While DFAS is taking steps toward closing this recommendation, such as verifying that civilian employees are eligible for the payments they receive, they have not yet included all entitlement codes within their sample population. We will close the recommendation once we can verify that reviewers are testing for improper payments by examining supporting documentation to validate that civilian employees were eligible for all the entitlements and deductions included in the payments they received.</p> <p>Estimated Completion Date: May 2023</p>
<b>DODIG-2020-083</b>		
2.a	We recommend that the Deputy Director of Enterprise Audit Support for DFAS develop and implement internal controls to ensure that the development of the improper payment estimate for the Military Retirement program is complete and accurate.	<p><b>Closed:</b> We determined that this recommendation fell within the scope of DODIG-2019-087, Recommendation 2.b. Therefore, this recommendation is closed.</p>
2.b	We recommend that the Deputy Director of Enterprise Audit Support for DFAS develop and implement complete standard operating procedures of the Military Retirement improper payment review process.	<p><b>Closed:</b> We verified DFAS personnel developed and implemented complete standard operating procedures of the Military Retirement improper payment review process. Therefore, we closed this recommendation.</p>

Table 5. Status of Open DoD OIG Recommendations From Prior IPERA and PIIA Compliance Reports as of May 20, 2022 (cont'd)

Recommendation		Status
<b>DODIG-2021-024</b>		
3.a	We recommend that the Deputy Director of Enterprise Audit Support and Compliance for DFAS, in coordination with the Director of Accounting Operations for DFAS-Columbus, 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.	<b>Resolved:</b> We will close this recommendation once we verify that DFAS has incorporated the voucher number as one of the key attributes for sampling and DFAS provides documentation supporting that it implemented a reconciliation process for the Commercial Pay program population universe.  Estimated completion date: October 2022
5	We recommend that the USD(C)/CFO, in coordination with the Director of Accounting Operations for DFAS-Columbus and the contracting agencies, conduct a root cause analysis on the Short Pay transactions to prevent future occurrences.	<b>Closed:</b> The USD(C)/CFO, in coordination with the Director of Accounting Operations for DFAS-Columbus and the contracting agencies, conducted a root cause analysis on the Short Pay transactions. Therefore, we closed this recommendation.
<b>DODIG-2021-080</b>		
1.a	We recommend that the USD(C)/CFO develop an improper payment definition that can be consistently applied to the recapture of improper payments and the improper payments identified in the calculation of the improper payment estimate.	<b>Resolved:</b> We will close the recommendation once we verify that the DoD consistently applied the definition of improper payments to the Payment Recapture Audit program and the testing, review, and calculation of the improper payment.  Estimated completion date: November 2022
1.b	We recommend that the USD(C)/CFO identify the recovered amounts from improper payments separately from all other recovered amounts to align with the PIIA in the Payment Recapture Audit program section of the AFR.	<b>Closed:</b> OUSD(C)/CFO and DFAS personnel identified the recovered amounts from improper payments separately from all other recovered amounts in the Payment Recapture Audit program section of the Agency Financial Report to align with the Payment Integrity Information Act of 2019 (PIIA). Therefore, we closed this recommendation.
1.c	We recommend that the USD(C)/CFO provide justification for uncollectable amounts in the Payment Recapture Audit program section of the AFR to follow the Payment Integrity Information Act of 2019.	<b>Closed:</b> OUSD(C)/CFO personnel reported justifications in <a href="https://paymentaccuracy.gov">paymentaccuracy.gov</a> for uncollectable amounts identified in the Commercial Pay, Military Pay–Marine Corps, Military Pay–Air Force, Military Pay–Army, Military Pay–Navy, and Military Retirement programs. Therefore, we closed this recommendation.

*Table 5. Status of Open DoD OIG Recommendations From Prior IPERA and PIIA Compliance Reports as of May 20, 2022 (cont'd)*

Recommendation		Status
1.d	We recommend that the USD(C)/CFO report corrective actions addressing root causes of the improper payments separately from the planned improvements reported for the payment integrity program.	<b>Closed:</b> OUSD(C)/CFO personnel reported the corrective actions addressing root causes of improper payments separately from their planned improvements to the Payment Integrity program in <a href="https://paymentaccuracy.gov">paymentaccuracy.gov</a> . Therefore, we closed this recommendation.
1.e	We recommend that the USD(C)/CFO submit for the Military Health Benefits, Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–Marine Corps, Civilian Pay, Military Retirement, and Commercial Pay programs to the OMB and Congress, within 90 days of this report’s issuance a plan detailing: <ul style="list-style-type: none"> <li>• Measurable milestones to be accomplished in order to achieve compliance for each program or activity.</li> <li>• The designation of a Senior Executive who will be accountable for the progress of the DoD to come into compliance for each program listed in this Recommendation.</li> <li>• The establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the official designated to lead the efforts of the DoD to come into compliance for each program.</li> </ul>	<b>Closed:</b> OUSD(C)/CFO personnel provided the memo documentation verifying that the DoD took appropriate remediation actions to the OMB and Congress. Therefore, we closed this recommendation.
2	We recommend that the USD(C)/CFO and the Deputy Director of Enterprise Audit Support and Compliance for DFAS develop and implement processes to identify root causes and develop corrective actions earlier in the improper payment review process.	<b>Closed:</b> The DoD developed End-of-Year reports that track various metrics to measure the Components review progress and indicate key missing documentation ensuring that the CAPs address corrective actions earlier in the improper payment review process. Therefore, we closed this recommendation.
3	We recommend that the Deputy Director of Enterprise Audit Support and Compliance for DFAS document the process used to reconcile the gross pay amounts for FY 2021 to ensure consistency and transparency within the process.	<b>Resolved:</b> OUSD(C)/CFO personnel stated that DFAS is working to develop a formal end-to-end process that documents the reconciliation process. We will close the recommendation once we verify that DFAS personnel formally documented the process used to reconcile the gross pay amounts. Estimated completion date: April 30, 2023

*Table 5. Status of Open DoD OIG Recommendations From Prior IPERA and PIIA Compliance Reports as of May 20, 2022 (cont'd)*

Recommendation		Status
<b>DODIG-2022-052</b>		
1.a	We recommend that the Director of the DHA develop and implement procedures to use the actual paid amounts in sample populations.	<b>Resolved:</b> We will close this recommendation once we verify that the DHA has developed and implemented procedures to use the actual paid amounts in developing the sample universe.  Estimated completion date: December 2023
1.b	We recommend that the Director of the DHA update sampling methodology to consider data characteristics and ensure the sampling methodology is appropriate, including a reasonable number of sample items.	<b>Resolved:</b> We will close this recommendation after we verify that the DHA has updated sampling methodology to consider data characteristics and ensure that the sampling methodology is appropriate and includes a reasonable number of sample items.  Estimated completion date: December 2023
1.c	We recommend that the Director of the DHA evaluate and plan for the necessary resources to ensure adequate reviews of payments and timely reporting of improper payment estimates.	<b>Resolved:</b> We will close the recommendation after we verify that the DHA has adequately reviewed payments and reported improper payment estimates in a timely manner.  Estimated completion date: September 2022
1.d	We recommend that the Director of the DHA ensure that improper payment reviews use the definition of a payment that complies with the Payment Integrity Information Act of 2019.	<b>Resolved:</b> We will close the recommendation after we verify that the DHA has ensured that improper payment reviews used the definition of a payment that complies with the PIIA.  Estimated completion date: December 2023

## Management Comments

### Under Secretary of Defense (Comptroller)/Chief Financial Officer



COMPTROLLER

#### OFFICE OF THE UNDER SECRETARY OF DEFENSE

1 100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1 100

May 27, 2022

MEMORANDUM FOR PROGRAM DIRECTOR FOR AUDIT, FINANCIAL  
MANAGEMENT AND REPORTING, DEPARTMENT OF  
DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Department of Defense Inspector General Draft Report, "Audit of the Department of Defense's FY 2021 Compliance With Payment Integrity Information Act Requirements," Project No. D2021-D000FL-0155.000

My office and the Defense Finance and Accounting Service (DFAS) have received the subject draft report, dated May 20, 2022, and reviewed your recommendations to the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the Deputy Director of Enterprise Audit Support and Compliance, DFAS. Our responses with your recommendations are provided in the attachment.

The Department met the overarching intent of the Payment Integrity Information Act of 2019 (PIIA) and Office of Management and Budget (OMB) Circular A-123 Appendix C by making Payment Integrity a top management priority in developing effective methodologies to help identify, prevent, and recover improper payments. The Department achieved five out of six PIIA compliance criteria which is a substantial improvement from previous PIIA Compliance Audits. Additionally, we have worked diligently with DFAS and the DoD Components to identify \$1.36 billion specific to monetary losses or overpayments and recovered \$1.29 billion, which demonstrates proper stewardship of funding through the Payment Recovery Audits.

Although we acknowledge the statements within the report related to the unreliability of the \$8.9 billion combined reduction of improper and unknown payments, we feel some degree of attention should be afforded to the overall progress of the Payment Integrity programs. The Department enhanced its internal control processes as a result of prior audit reports issued by the DoD Office of Inspector General. These internal controls directly contributed to the reduction of improper and unknown payments by implementing effective corrective actions, audit performance timeline execution standards, program specific working groups and collaborative meetings. Although the Department continues to improve its Commercial Pay program, which accounts for \$0.3 billion, of this year's reductions. I am confident that Congress may rely on the \$8.6 billion reduction amounts attributed to the Military, Civilian, Travel, Military Retirement and Military Health Pay programs.

## Under Secretary of Defense (Comptroller)/Chief Financial Officer (cont'd)

The Office of the Under Secretary of Defense (Comptroller) appreciates your review of this program and the opportunity to comment on the draft report. My office will work timely to resolve your recommendations. My staff point of contact is [REDACTED], at [REDACTED] or [REDACTED].

STEFFENS.THOMA [REDACTED]  
S.CHARLES. [REDACTED]  
[REDACTED] [REDACTED]  
Thomas C. Steffens  
Deputy Chief Financial Officer

Attachment:  
As stated

## Under Secretary of Defense (Comptroller)/Chief Financial Officer (cont'd)

DOD OIG DRAFT REPORT - DATED MAY 20, 2022

PROJECT NO. D2021-D000FL-0155.000

“Audit of the Department of Defense’s FY 2021 Compliance With Payment Integrity Information Act Requirements”

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) RESPONSES TO RECOMMENDATIONS

### RECOMMENDATION 1

“We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. “Develop and implement a process to obtain accurate confirmed fraud amounts, report them in paymentaccuracy.gov, and consider the fraud amounts when reviewing and approving the Sampling and Estimation Methodology Plans for each program.

#### OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)

(OUSDC(C)) RESPONSE TO RECOMMENDATION 1a: Partially Concur. OUSD(C) will develop and implement a process to obtain accurate confirmed fraud amounts, and will submit to OMB to be reported on paymentaccuracy.gov. The Department has solidified and will formally document the newly established process for obtaining and reporting confirmed fraud to the Office of Management and Budget (OMB) during the FY 2022 PIIA Compliance annual submission. OMB has agreed to allow Federal Agencies to report confirmed fraud at the Agency level opposed to the specific Payment Integrity program amount requested through the recently created reporting tool from FY 2021; if it is more cost beneficial for the Agency.

In reference to confirmed fraud inclusion in the Sampling and Estimation Methodology Plans; OMB states “while agencies should track and report their intentional monetary loss Improper Payments (IP), the IP sampling and estimation methodology plans (S&EMP) used for purposes of reporting the Unknown Payment (UP) and the IPs does not need to be designed as a measure of financial fraud.” As intentional monetary loss is commonly referred to financial fraud, it is important to note that Federal agencies will only be able to classify their intentional monetary loss IPs once the adjudication process confirms the amount to be fraudulent. OMB does not require the use of confirmed fraud within an S&EMP; nonetheless, the Department will review the confirmed fraud results and, depending on the results, will possibly coordinate various identification, prevention and recovery fraud efforts to determine the potential alignment of ongoing or future Payment Integrity lines of effort within the programs.  
Estimated completion date is November 2022.

- b. “Update the DoD Financial Management Regulation, volume 4, chapter 14, to ensure the guidance is consistent with all current payment integrity requirements, and include a

## Under Secretary of Defense (Comptroller)/Chief Financial Officer (cont'd)

definition of baselining that standardizes the application for all DoD payment integrity programs.;"

OUSD(C) RESPONSE TO 1b: Partially Concur. OUSD(C) will update the DoD Financial Management Regulation, Volume 4, Chapter 14; to ensure it is representative of the PIIA and applicable guidance within OMB Appendix C A-123 and A-136.

As a compromise with the DoD OIG the Department has agreed to provide a justification for programs that are not reporting an achieved baseline within the End to End (E2E) program specific annual packages; which are coordinated and signed by the Department's Payment Integrity Senior Accountable Officials prior to the annual OMB reporting requirements. The E2E packages are currently being developed to document the PIIA and OMB Payment Integrity reporting requirements for the Department which, if required, will include the program specific justification for not achieving a baseline. Program specific scenarios may exist that do not necessitate establishing a baseline, as such the justification that describes the scenario is better served in the E2E package as opposed to the DoD Financial Management Regulation. Estimated completion date is November 2022.

- c. "Develop and implement internal control procedures to ensure that DoD Components produce reliable estimates by validating the Sampling and Estimation Methodology Plans are accurate and complete.;"

OUSD(C) RESPONSE TO 1c: Concur. OUSD(C) has implemented additional internal controls to ensure the DoD Components have produced reliable estimates based off of the DoD OIG feedback received during this FY 2021 PIIA Compliance Audit. In addition to the OMB S&EMP requirements; OUSD(C) is requiring the following additional criteria for FY 2022.

1. Reconcile the PIIA Universe of Transaction (UoT) to the Statement of Budgetary Resources (SBR) as published in the Department's FY 2021 Agency Financial Report (AFR), or Component FY 2021 AFR, or similar system-specific reconciliation that can be validated.
2. List of payment inclusions and exclusions for the program to tie out adjusted sampling population totals.
3. Any additional justifications:
  - o To support the statistical validity of the program's position for point estimates and confidence intervals.
  - o To support the S&EMP design to account for the reliability of the statistical formulas used to prepare the estimates.
  - o To support the program characteristics and or cost benefit analysis that takes into consideration the available resources.

## Under Secretary of Defense (Comptroller)/Chief Financial Officer (cont'd)

4. Program-specific testing procedures to ensure adequacy and accuracy of the reviews in alignment with professional standards outlined in the GAO-14-704G Federal Internal Control Standards (i.e. "Green Book")

Estimated completion date is November 2022.

- d. "Submit for the Military Health Benefits, Military Pay–Army, Military Pay–Navy, Military Pay–Air Force, Military Pay–U.S. Marine Corps, Civilian Pay, Military Retirement, Travel Pay, and Commercial Pay programs to the Office of Management and Budget, the planned actions that the DoD will take to come into compliance, including:
  - Measurable milestones to be accomplished in order to achieve compliance for each program or activity.
  - The designation of a senior executive who will be accountable for the progress of the DoD to come into compliance for each program in this recommendation.
  - The establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the official designated to lead the efforts of the DoD to come into compliance for each program."

OUSD(C) RESPONSE TO 1d: Concur. OUSD(C) will answer this recommendation as required by OMB during the Annual Data Call and Supplemental Questions for Payment Integrity for FY 2022. These specific questions are now built into the annual OMB submissions; similar to FY 2021 OMB requirements.

Estimated completion date is November 2022.

### RECOMMENDATION 2

"We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, in coordination with the Deputy Director of Enterprise Audit Support and Compliance for the Defense Finance and Accounting Service:"

- a. "Use a sufficient sample size to support the improper payment estimate by calculating the sample size based on improper payment amounts instead of only using the paid amount. To reduce the required sample size, we recommend considering alternative improper payment estimation methodology, and conducting risk assessments of the payment types for each program.

OUSD(C) AND DFAS RESPONSE TO RECOMMENDATION 2a. Non-Concur. Appendix C of OMB Circular A-123 is not prescriptive in the methodology that must be used by Federal Agencies to determine sample sizes for testing as there is more than one acceptable and statistically valid way to sample a population. As required by OMB A-123 the Department worked with an internal team of statisticians to implement statistically valid and accurate sampling plans that generated point estimates with appropriate confidence intervals around those estimates given the programs characteristics and available resources.

## Under Secretary of Defense (Comptroller)/Chief Financial Officer (cont'd)

The DoD OIG has accepted the Department's sampling methodology for the previous three years, and since 2018 these programs have continued to segment and stratify the populations based on these positive indicators. In this year's report the DoD OIG changed and suggested a new sampling methodology and formula. However, it is the Department's position that the new methodology and formula produces an unreasonable number of samples without sufficient evidence to demonstrate the benefits of the recommendation.

To further expand on this concern, the underlying recommendation proposes a vast and excessive increase in the administrative and fiscal burden of the Department to comply with the PIIA. The revised approach the DoD OIG suggests will require a significant increase in personnel to perform additional sampling that would not measurably improve outcomes. As previously deemed compliant by the DoD OIG, the Department's sampling plans are discovering improper payments and resources should be balanced to spend time on implementing corrective actions that would reduce future occurrences of the errors currently being identified.

Conducting risk assessments of the payment types that remove the low risk portions of the population is beneficial with the previous sampling methodology; however, using the DoD OIG's recommended variable, the remaining volume of disbursements, would still create sample sizes too large to address without significant additional resources. As an example, the Civilian Pay program disbursed over 19 million transactions in FY 2020. If the Department performed a Risk Assessment and could feasibly classify 95% (18 million) of this program's population as "low-risk" and no longer test these disbursements, there would still be nearly 1 million disbursements in the population. It may not be reasonable to classify 95% as low risk. However, using the DoD OIG's Civilian Pay simulation variables, assumptions and parameters (i.e., 10% Improper Payment Amount, +/- 10 Margin of Error, etc.) the number of required samples would be over 35 thousand or 35 times larger than the current sample size previously deemed acceptable by the DoD OIG and cost at least \$8 million more per year to review. Similarly, for the Military Pay programs, the Military Departments could expect a combined increase of at least \$27 million which includes the significant human capital increases required to perform sampling opposed to increasing or strengthening internal controls to prevent improper payments from occurring, efforts to implement corrective actions or recover monetary losses. Similar cost increases in performing sampling would be anticipated for the remainder of the Department's 11 Payment Integrity programs and would reoccur year after year.

Finally, DoD OIG's methodology as referenced in footnote 22 of the draft report states "this reference recommends 10 to 20 observations for each predictor." If this approach is used, as the programs improper payment rates decrease, the sample size perpetually increases, which is counterintuitive to accepted professional accounting practices across the Federal Agencies for the financial statement audits and various other stand-alone performance and compliance audits. The DoD OIG proposed S&EMP methodology framework may be more appropriately aligned to medical or clinical studies as opposed to financial or accounting sampling. This specific framework is not explicitly required by OMB and could result in large increase in the Department's human capital resources to perform sampling.

## Under Secretary of Defense (Comptroller)/Chief Financial Officer (cont'd)

The Department proposes an alternative approach, which would support the continued use of the previously acceptable statistically valid S&EMP from the past three years and will prevent the substantial increase in funding and budgetary requirements needed to attain compliance with the PIIA. The Department's efforts will continue to be directed at achieving a balanced approach that intentionally and thoughtfully considers the risks, cost of the programs, efficiency, customers experience and overall intent of the OMB guidance in identifying, reducing and recovering improper payments. This continued course of action includes the following steps the Department will take to achieve compliance with publishing adequate estimates:

1. Use the historically accepted Statistically Valid Sampling and Estimation Plans
2. Reconcile the PIIA Universe of Transaction (UoT) to the Statement of Budgetary Resources (SBR) as published in the Department's FY 2021 Agency Financial Report (AFR), or Component FY 2021 AFR, or similar system-specific reconciliation that can be validated.
3. Update the existing S&EMPs to include the list of payment inclusions and exclusions for the program to tie out adjusted sampling population totals.
4. Any additional justifications:
  - To support the statistical validity of the program's position for point estimates and confidence intervals.
  - To support the S&EMP design to account for the reliability of the statistical formulas used to prepare the estimates.
  - To support the program characteristics and or cost benefit analysis that takes into consideration the available resources.
5. Complete program-specific testing procedures to ensure adequacy and accuracy of the reviews in alignment with professional standards outlined in the GAO-14-704G Federal Internal Control Standards (i.e. "Green Book")
6. These steps will be included in the End to End packages and approved by the Department's Payment Integrity Senior Accountable Officials

Estimated completion date for this alternative approach is November 2022.

- b. "Develop and implement internal controls to ensure exclusions occurring during the development of the sampling universes, including the Centrally Billed Accounts, are appropriate and fully documented."

OUS(D) AND DFAS RESPONSE TO RECOMMENDATION 2b. Concur. As stated by the DoD OIG the Department excluded \$132.3 million in Centrally Billed Accounts (CBA) which equates to 0.032% of the \$412,187.6 million in outlays for FY 2020. The exclusion of CBA's in the FY 2021 population has since been corrected and these disbursements are being tested in FY 2022. DFAS is working with OUS(D) to document a complete End to End (E2E) package in FY 2022 for each of its payment integrity programs. These E2E package will supplement the S&EMP and detailed syntax currently being provided to the DoD OIG as part of their annual audit.

Estimated completion date is November 2022.

## Under Secretary of Defense (Comptroller)/Chief Financial Officer (cont'd)

- c. "Develop and implement additional controls for the post-payment review process in the Travel Pay program, such as providing training for safe haven transactions and overlapping orders or additional supervisory controls to ensure accurate reviews."

OUSDC(C) AND DFAS RESPONSE TO RECOMMENDATION 2c. Partially-Concur. In addition to the existing DFAS controls which include SOPs, checklists, accuracy standards, Quality Assurance (QA) audits, weekly scorecard reports, error tracking, training and quarterly performance sessions DFAS will add a centralized repository of training materials. As training issues arise, new materials will be updated and added to a searchable repository.

Although the Department agrees with enhancing internal controls in the testing process, there is a concern with DoD OIG's position that three self-identified errors out of over 20,000 annual reviews performed, provides sufficient evidence to prove that significantly inaccurate reviews are being performed to justify the removal of the DoD Travel Pay program's fully compliant status.

When evaluating the adequacy and accuracy of the reviews of improper and unknown payments the Department would respectfully request consideration by the DoD OIG of the GAO-14-704G Federal Internal Control Standards (i.e., "Green Book") which states that "an effective internal control system increases the likelihood that an entity will achieve its objectives. However, no matter how well designed, implemented, or operated, an internal control system cannot provide absolute assurance that all of an organization's objectives will be met." When determining whether the three deficiencies identified present a significant bearing on the accuracy of the published improper payment (IP) rate the Department would also request that the DoD OIG give additional consideration to the GAO-18-568G Government Auditing Standards (i.e., "Yellow Book") guidance on the low "Likelihood of Occurrence" of these items. The rare instances of evacuation claims or overlapping travel day errors appearing within the population present minimal risk that the Department significantly misrepresented the payment integrity information for this program. In addition, the Department would request that "Nature of the Deficiency" be weighed in the evaluation of compliance for this program as DFAS self-identified to the DoD OIG the errors they made in recording the one evacuation claim and the two overlapping travel day claims.

## Acronyms and Abbreviations

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<b>AFR</b>	Agency Financial Report
<b>CAP</b>	Corrective Action Plan
<b>CBA</b>	Centrally Billed Accounts
<b>CRSC</b>	Combat Related Special Compensation
<b>DCFO</b>	Deputy Chief Financial Officer
<b>DFAS</b>	Defense Finance and Accounting Service
<b>DHA</b>	Defense Health Agency
<b>DoD OIG</b>	Department of Defense Office of Inspector General
<b>E2E</b>	End-to-End
<b>FMR</b>	Financial Management Regulation
<b>GAO</b>	Government Accountability Office
<b>IPERA</b>	Improper Payments Elimination and Recovery Act
<b>OMB</b>	Office of Management and Budget
<b>OUS(D)/CFO</b>	Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer
<b>PIIA</b>	Payment Integrity Information Act of 2019
<b>S&amp;EMP</b>	Sampling and Estimation Methodology Plan
<b>USD(C)/CFO</b>	Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD
<b>USACE</b>	U.S. Army Corps of Engineers

# **Whistleblower Protection**

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