Section 3: Other Accompanying Information

This section contains the DoD Inspector General's summary of the most significant management and performance challenges facing the Department, and the Department's response to the Inspector General's assessment. This section also includes a summary of the financial statement audit and management assurances, as well as a detailed report of the Improper Payments Information Act of 2002.

The FY 2008 financial statements for programs of the Executive Office of the President (EOP) are included in the "Defense Security Cooperation Agency Unaudited Financial Statements and Notes" available on the DoD Comptroller Web site. (See Appendix B.) In FY 2007, DoD financial statements included certain programs of EOP. Revised guidance from the Office of Management and Budget (OMB) declared that these programs be reported separately from the DoD financial statements. All other activities resulting from EOP allocation transfers are reported within the DoD financial statements.

INSPECTOR GENERAL'S SUMMARY OF MANAGEMENT AND PERFORMANCE CHALLENGES, AND MANAGEMENT'S RESPONSE TO INSPECTOR GENERAL'S CHALLENGES

The Reports Consolidation Act of 2000 requires that the Agency Financial Report include a statement prepared by the Agency's Inspector General (IG) summarizing what the IG considers the most serious management and performance challenges facing the Agency and briefly assessing the progress in addressing those challenges. The DoD Inspector General identified the following seven management and performance challenges facing the Department of Defense for FY 2008:

1. Financial Management
2. Acquisition Processes and Contract Management
3. Joint Warfighting and Readiness
4. Information Assurance, Security, and Privacy
5. Health Care
6. Equipping and Training Iraqi and Afghan Security Forces
7. Nuclear Enterprise

The following table outlines these challenges and includes both the IG's and DoD management's assessments of the Department's progress in addressing these issues. Columns A and B were prepared by the IG; Column C was prepared by the Department.

1. FINANCIAL MANAGEMENT	
FINANCIAL STATEMENTS	A. IG Summary of Challenge

The Department continues to face financial management challenges that adversely affect DoD's ability to provide reliable, timely, and useful financial and managerial data needed to support operating, budgeting, and policy decisions. Since 1995, the Government Accountability Office has identified DoD's Financial Management as a high-risk area. The DoD's financial management problems are so significant, they constitute the single largest and most challenging impediment to the U.S. Government's ability to obtain an opinion on its consolidated financial statements.

In the FY 2007 audit opinion on DoD's consolidated financial statements, the IG reported the same 12 material internal control weaknesses as the previous year, and added one additional material weakness. These pervasive and longstanding financial management issues directly affect the Department's ability to obtain an unqualified opinion on its financial statements. These weaknesses affect the safeguarding of assets and proper use of funds, and impair the prevention and identification of fraud, waste, and abuse.

FINANCIAL STATEMENTS	B. IG Assessment of Progress

One significant measure of the ongoing progress in the area of financial management would be the Department's ability to obtain an unqualified opinion on its financial statements. The U.S. Army Corps of Engineers received a qualified opinion on its FY 2007 financial statements. While some agencies maintained their audit opinions, other agencies had their audit opinions downgraded. Specifically, the Defense Commissary Agency, Defense Contract Audit Agency, Defense Finance and Accounting Service, Military Retirement Fund, and Defense Office of the Inspector General all continued to receive unqualified opinions while the Medicare-Eligible Health Care Fund continued to receive a qualified audit opinion. However, the Defense Threat Reduction Agency received a qualified opinion from an independent public accounting firm, which the IG would not endorse because the problems identified were pervasive, and a disclaimer of opinion was more appropriate under these circumstances. In addition, the Chemical and Biological Defense Program received a disclaimer of opinion.

Although DoD is far from reaching an unqualified opinion, the Department has demonstrated improvement.

FINANCIAL STATEMENTS	C. Management's Assessment

The Department appreciates the opportunity to address the improvements in financial management being made throughout DoD. Our financial management challenges are pervasive and well documented. The Department's goals are to correct its financial material weaknesses, improve financial information for decision-makers, and accomplish an unqualified audit opinion on the Department's consolidated financial statements. The Department's corrective action plan is provided in the Financial Improvement and Audit Readiness (FIAR) Plan, described in more detail in the next section.

Significant progress in improving financial statements and achieving unqualified opinions has been made. In FY 2007, seven reporting entities received an audit opinion on their financial statements:

- Defense Commissary Agency (Unqualified)
- Defense Contract Audit Agency (Unqualified)
- Defense Finance and Accounting Service (Unqualified)
- Military Retirement Fund (Unqualified)
- Office of the Inspector General (Unqualified)
- Medicare-Eligible Retiree Health Care Fund (Qualified)
- U.S. Army Corps of Engineers (Qualified)

For the fourth consecutive year, the Department has received favorable audit reviews on the following Departmentwide financial statement line items:

- Investments
- Federal Employees' Compensation Act Liabilities
- Appropriations Received

The Department is making substantial progress in achieving audit readiness. For example, USACE has been audited for the first time and received a qualified opinion. Audit readiness accomplishments in FY 2008 represent approximately $49 billion in assets and $241 billion in liabilities, as follows:

- USACE received a qualified audit opinion on its FY 2007 and FY 2006 financial statements. This represents $44.6 billion in assets and $4.4 billion in liabilities.
- An (Independent Public Auditor) IPA completed its examination of the TRICARE Management Activity's (TMA) Contract Resource Management (CRM) ($1.3 billion in assets and $236.0 billion in liabilities), and validated the TMA's assertion on audit readiness for the CRM Balance Sheet.
- The TMA recently submitted two segment assertion packages: 1) the CRM Statement of Net Cost ($8.9 billion), Statement of Changes in Net Position (-$232.9 billion), and Statement of Budgetary Resources ($11.8 billion); and 2) the Uniformed Services University of the Health Sciences (USUHS) Statement of Budgetary Resources ($160.3 million).
- The TMA recently awarded a contract for an IPA to perform an examination on the USUHS Balance Sheet ($151.6 million in assets and $10.3 million in liabilities), Statement of Net Cost ($158.3 million), and Statement of Changes in Net Position ($141.2 million).
- The Defense Information Systems Agency's (DISA) General and Working Fund Balance Sheets ($2.9 billion in assets and $1.1 billion in liabilities) are undergoing financial statement audit.

IMPROVING FINANCIAL STATEMENTS	A. IG Summary of Challenge

The following elements and actions continue to be key to improving the Department's financial management:

- Creating an environment that fully supports clean financial reporting. The financial managers need buy-in from senior management and personnel in the field offices to successfully implement the corrective action plans.

- Fully implementing and maintaining an effective internal review and monitoring process to identify all material financial management and reporting deficiencies, internal control weaknesses, and quality of data issues.

- Developing corrective action plans that will adequately correct the deficiencies and result in financial reporting in accordance with generally accepted accounting principles.

- Implementing corrective action plans that address the systems, control, reporting, or quality of data weakness.

IMPROVING FINANCIAL STATEMENTS	B. IG Assessment of Progress

The Department's ongoing initiatives in the area of financial management improvement indicate DoD management is responding to the significant and pervasive financial management issues and is positioning itself to leverage planned systems and business improvements to achieve sustainable and long-term solutions. One initiative is the Financial Improvement and Audit Readiness (FIAR) Plan.

As discussed in the March 2008 update to the FIAR Plan, the Department has refined the FIAR Plan's audit strategy to validate and sustain financial improvements and audit readiness not across individual line items as previously done, but across segments of the business environment.

Also new to this FIAR plan update is a clearer focus on a comprehensive business process framework as defined in the Department's Business Enterprise Architecture. Implementation of the framework has begun across the following areas:

- Acquire to Retire for Military Equipment (obtain, manage, and dispose of accountable property and capital assets).

- Acquire to Retire for Real Property (obtain, manage, and dispose of accountable property and capital assets).

- Hire to Retire (plan for, hire, develop, assign, sustain, and separate personnel resources).

- Procure to Pay (obtain and pay for goods and services).

DoD is tracking and reporting through Progress and Status Reports on each of the completed, ongoing and planned improvements in these areas.

The IG considers the following DoD financial management efforts to be limited successes:

- Implementation of integrated organizational structures and processes to address financial management improvement.

- Assignment of accountability to DoD managers.

- DoD improvement initiatives at the entity and line item level.

Although the IG anticipates that DoD will need to make improvements in these areas, the IG considers these to be the critical steps for establishing a culture and ingrained structure that will enable DoD managers to identify internal control weaknesses and plan effectively for resolution of those weaknesses. This culture and structure also will hold DoD managers accountable for improving internal controls over financial reporting. Further, these steps should result in a financial management structure that can provide accurate, relevant, and timely financial management information for decision-making.

Additionally, an overall shortage of qualified auditors and accountants continues to hinder progress on the challenges outlined above. Continual turnover of qualified staff who conduct audits at DoD Agencies and independent public accounting firms, and also turnover of qualified accounting staff to support financial functions and audits, is a formidable obstacle to the effective and efficient execution of those audits. The Department needs improved recruiting and retention practices, as well as robust training and continuity of operations planning to alleviate the problem.

IMPROVING FINANCIAL STATEMENTS	C. Management's Assessment

The Department initiated the FIAR Plan in 2005 to accomplish three primary goals: 1) improve decision making by providing relevant, accurate, reliable, and timely financial information; 2) sustain improvements through a process of annual assessments and internal controls; and 3) achieve unqualified audit opinions on DoD annual financial statements. To accomplish these goals, DoD employs a strategy that unites financial management improvement with business transformation by integrating the FIAR Plan with the DoD Enterprise Transition Plan and Business Best Practices.

When the FIAR effort began, DoD had to first establish cross-functional "buy in" to the goal of achieving auditability and develop in its functional workforce a basic familiarity with audit requirements. As the functional communities better understood audit requirements, and the financial community embraced long-term change, the FIAR Plan approach was expanded to focus financial improvement efforts within the business processes (e.g., Acquire to Retire, Hire to Retire, Procure to Pay) that generate financial transactions.

The FIAR approach:

- Applies OMB Circular No. A-123, Appendix A, to confirm continued audit readiness.
- Requires Component-level Financial Improvement Plans detailing the tasks and timelines for remediating business process issues negatively impacting auditability.
- Structures improvement efforts and ensures consistency through the mandatory use of Business Rules.
- Drives incremental progress through prioritized improvement objectives and segments.
- Focuses improvement work on four essential elements of financial improvement (Policies, Processes & Controls,Systems & Data, and Audit Evidence).

The Department has taken steps to ensure FIAR progress continues and to increase accountability and oversight of the accuracy of its financial statements and the plans to improve them by requiring the Secretaries of the Military Departments to certify to their accuracy and to report FIAR progress quarterly to the Deputy Secretary of Defense.

The Department has been aggressively working to retain and hire highly qualified accountants and financial personnel, and is taking steps to improve the knowledge and competency of its financial community. During 2008, the Department, in partnership with the CFO Council, created the CFO Academy as part of the National Defense University.

Note: The FIAR Plan and Enterprise Transition Plan provide details about the Department's goals and accomplishments and are available on the DoD Comptroller Web site. (See Appendix B.)

2. Acquisition Processes and Contract Management

ACQUISITION WORKFORCE	A. IG Summary of Challenge

Since 1990 and 1992, respectively, Government Accounting Office (GAO) has designated DoD Weapon Systems Acquisition and Contract Management as high-risk areas. Acquisition initiatives that began in the 1990s led to reductions in acquisition oversight assets and when the spending trend dramatically reversed after September 11th, the Department was not able to quickly react to the need for more contract and oversight support. The emphasis on urgency to support the war effort, especially for contracting in an expeditionary environment, has only served to increase the challenges. In FY 2008, the Defense budget with war funding will approach $650 billion. This total is more than double the last DoD budget preceding September 11, 2001. Keeping pace with this spending would be a difficult proposition if acquisition and oversight assets were increasing at a proportional rate. But, from 1990 until the end of FY 1999, total personnel included in the DoD acquisition workforce decreased about 50 percent, from 460,516 to 230,556 personnel.

As of May 2008, there were approximately 25,000 contracting officers to handle over $315 billion in procurements of goods and services. Other organizations, such as the Defense Contract Management Agency, which is responsible for much of the administration and surveillance of DoD contracts, decreased its staff levels by similar amounts during the same time frame. Even within the Inspector General's office, we reported in our March 31, 2008, growth plan that our auditors are unable to keep pace with the ballooning Defense budget and this growth "leaves the Department increasingly more vulnerable to fraud, waste and abuse."

ACQUISITION WORKFORCE	B. IG Assessment of Progress

Progress in training and equipping more contract officials within DoD to handle the increased workload will take time. However, a number of initiatives are underway that are addressing the challenges, both within the Department and from proposed legislation, that should lead to improvement and better meet these challenges. A commission, headed by Dr. Jacques Gansler, evaluated the Army Expeditionary Contracting and recommended urgent reform. As a result, the U.S. Army Materiel Command activated the Army Contracting Command, which will oversee more than $85 billion in contracts annually and focus on maintaining and improving the Army's ability to respond globally in support of warfighters' needs.

ACQUISITION WORKFORCE	C. Management's Assessment

DoD had a number of acquisition excellence initiatives in process that addressed contracting and contract management issues prior to the Gansler Commission Report issued recommendations for improvements to Army Expeditionary Contracting. The DoD has integrated and aligned the appropriate recommendations from the Commission with the existing Departmentwide initiatives to ensure an integrated Departmentwide strategy for improving the acquisition workforce. The DoD Human Capital Strategic Plan will provide the necessary focus for these initiatives. The DoD Task Force for Contracting and Contract Management in Expeditionary Operations, created by the Under Secretary of Defense Acquisition, Technology and Logistics (USD(AT&L)) to evaluate the Commission recommendations, was integral in developing the long-term, enterprisewide solutions for contracting and contract management in expeditionary operations. They will continue to monitor the accomplishment of the various initiatives milestones over time, with oversight provided by the Senior Leaders Steering Committee established by the DUSD Acquisition and Technology (A&T).

DoD initiatives to improve contingency contracting that predate or are independent of the Commission recommendations include: The increase in staffing in Defense Procurement and Acquisition Policy (DPAP) dedicated specifically to contracting in expeditionary operations. The DPAP development of the first-ever Joint Contingency Contracting Handbook, which provides essential tools and training for contingency contracting officers, and will be updated yearly. Draft Expeditionary Contracting Policy has also been developed, which forms a foundation for the handbook; DPAP coordinated the internal review and staffing of legislative proposals to provide solutions in areas where DoD lacked the authority to respond to Commission recommendations regarding additional general officer billets, increases in the number of contracting personnel and incentives for civilian personnel to pre-volunteer for expeditionary operations, and prepositioning of waivers of small business, U.S. labor, Buy American, Berry Amendment, and Specialty Metals provisions. The DoD has also established a business system team to leverage existing resources and knowledge to quickly provide electronic solutions for in-theater problems experienced in requirements generation, contract writing, invoicing, and the use of the Government Purchase Card.

In addition to these initiatives, DoD has conducted a contracting competency assessment of all military and civilian members of the Departmentwide contracting workforce. Results of the contracting competency assessment will be finalized during the first quarter of FY 2009. These results will provide a complete inventory of competencies that exist in the Departmentwide contracting workforce, identify current and projected competency gaps, and support workforce development in ways best fitting the strengths and weaknesses of the workforce and the needs of the contracting mission. By using key data provided from the contracting workforce assessment and from the Components, and by linking this data to drive workforce planning solutions, the Departmentwide contracting community can better meet future requirements and respond to its stakeholders.

DoD's commitment to a long-range vision for improving the contracting and contract management process and the continued accomplishment of near-term initiatives should ensure both immediate and long-term improvements in contracting and contract management in expeditionary operations.

In response to the FY 2008 NDAA, the Department established the DoD Acquisition Workforce Development Fund, which will be used for the recruitment, training, and retention of acquisition personnel for DoD. The fund ensures DoD's acquisition workforce has the capacity, in both personnel and skills, to properly perform the acquisition mission, oversee contractor performance, and ensure the Department and taxpayer receives the best value for investment dollars.

MAJOR WEAPON ACQUISITION	A. IG Summary of Challenge

Challenges also continued with major acquisition programs. Many large weapons systems acquisitions are receiving Congressional scrutiny because of continued cost, schedule, and control problems. GAO reported between FY 2000 and FY 2007, the number of DoD major defense acquisition programs increased from 75 to 95, total planned commitments grew from $790 billion to $1.6 trillion, while the average schedule delay in delivering initial capabilities increased from 16 to 21 months.

MAJOR WEAPON ACQUISITION	B. IG Assessment of Progress

DoD also outlined a series of initiatives to the House Oversight Committee on acquisition improvements. Three recent studies produced 55 recommendations for improving acquisition processes. Of these, 48 have been fully or partially implemented. These initiatives include early and competitive prototyping, continuous improvement through use of process review tools, stability in program management tenure, use of capital funding and configuration steering boards, and a capital funding pilot program. Another proposed initiative to improve major acquisition programs would require all new efforts to move through a "material development decision" milestone and would shift the crucial Milestone B decision to later in the process.

DoD continues to make limited progress in controlling cost and schedule of major acquisition programs and will have to make critical decisions about which systems should continue or be cut based on competing resources. The DDG 1000 is one recent example of a major system that succumbed to cost and schedule pressures.

MAJOR WEAPON ACQUISITION	C. Management's Assessment

The Department is pursuing a number of key initiatives designed to enhance the effectiveness of the DoD acquisition business process, and, consequently, improve cost, schedule, and performance outcomes.

Examples follow:

On September 19, 2007, the USD(AT&L) issued a policy memo requiring pending and future programs to implement a competitive prototyping approach. The policy is intended to reduce risk, validate designs, improve cost estimates, evaluate manufacturing processes and refine requirements.

On July 30, 2007, the USD(AT&L) issued policy establishing Configuration Steering Boards (CSBs) for all current and future major defense acquisition programs. The purpose of a CSB is to review all requirements changes that have the potential to impact program cost and schedule; assess them; and accept, reject, or defer them to future increments of capability.

The USD(AT&L) and the Director, Operational Test and Evaluation issued a policy memorandum on December 22, 2007, emphasizing the integration of developmental and operational testing to maximize Test and Evaluation process efficiency.

These policies are being institutionalized via the ongoing update to DoD Acquisition Policy [DoDI 5000.02]. In addition, a number of new policies are being considered via the update. These include the requirement for a formal acquisition process entry point, the Materiel Development Decision, and the requirement for preliminary designs prior to Milestone B, system development.

CONTRACTING AND THE IMPACT ON DECISION MAKING	A. IG Summary of Challenge

Dealing with the decreasing acquisition workforce has created a myriad of other challenges.

The Department has increasingly relied on interagency contracting and use of contractors to fill the gap from the reduced acquisition and oversight workforce, bordering on inherently governmental functions, thereby potentially taking on decision-making roles. Key areas where use of contractor support has bordered on inherently government functions impacting decision making include: strategic planning within programs and organizations; acquisition planning for specific acquisitions; source selection assistance and source selection decision making; contract administration and surveillance; and contractor testing of systems and weapons in which they participate in the development.

Our recent audit coverage has found a number of problems with use of interagency contracting, including lack of competition, inadequate price reasonableness determinations, and insufficient surveillance. In addition, the use of contractors has raised concerns about contractor ethics requirements and conflicts of interest.

Distorted use of acquisition initiatives such as commercial item procurements to achieve speed and reduce oversight in procurements continues to challenge contracting officials and the oversight community. Use of commercial items is beneficial when there is an established market to allow contracting officials to use the marketplace to establish price reasonableness for the items we buy. It also reduces the need for Government quality assurance when the Department can rely on a well-established commercial quality assurance program. However, the broad definition of commercial items that includes items that are not commercial items, but are "of a type" or have not been in the marketplace, such as items offered to the public or items that will be available in time to meet the Government's needs, cause significant challenges to ensure reasonable prices and sufficient quality assurance practices.

CONTRACTING AND THE IMPACT ON DECISION MAKING	B. IG Assessment of Progress

The Under Secretary of Defense for Acquisition, Technology and Logistics, and the Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD[C]/CFO) have taken a series of corrective actions to improve systemic problems that our audits disclosed on interagency contracting. Each Under Secretary issues policy memoranda to implement actions based on our recommendations, and the USD (C)/CFO formed a task force to review the potential Antideficiency Act Violations we reported.

In addition, Section 813 of the John Warner National Defense Authorization Act (NDAA) for FY 2007 directed the Department of Defense to establish a Panel on Contracting Integrity. The panel consisting of senior leaders is focused on eliminating areas of vulnerability in contracting that allow fraud, waste, and abuse. The committee has established subcommittees in the areas of sustained senior leadership, capable contracting workforce, adequate pricing, appropriate contracting approaches, and techniques, sufficient contract surveillance, contracting integrity in a contingent environment, procurement fraud indicators, and contractor employee conflicts of interest. Initially, the Panel has developed 21 recommendations and is working on actions to improve the contracting process.

House and Senate proposed bills also address defining inherently governmental functions, tightening requirements on conflict of interest by contractor personnel disclosures, increasing contractor accountability, and curbing commercial item authorities.

CONTRACTING AND THE IMPACT ON DECISION MAKING	C. Management's Assessment

The Department has issued several policies regarding the use of interagency acquisition. Included in the policy guidance were specific process requirements addressing identified deficiencies in the interagency acquisition process. These included:

- Eliminating the use of advance payments (March 1, 2007).
- Requiring contracting officer review of nonEconomy Act transactions in excess of $500,000 (October 16, 2006, and January 18, 2008).

In addition, the Department provided the following tools to the acquisition workforce in this area:

- Assisted the OMB Office of Federal Procurement Policy in the development and issuance of an Interagency Acquisition Guide, entitled "Improving the Management and Use of Interagency Acquisitions (June 8, 2008)."
- The Department developed and fielded a continuous learning module (February 1, 2008).

Additionally, in accordance with Section 811 of the 2006 National Defense Authorization Act, the Department took specific action to review each transaction in excess of $100,000 that was to be issued on behalf of DoD by the Department of the Interior's acquisition office in Herndon, Virginia. This limitation was subsequently rescinded, except for one minor exception.

The Panel continues to make good progress, with five implemented actions and more than half of the actions in coordination. Nine additional actions were identified on May 22, 2008. To date, the panel has implemented policies on senior contracting leadership positions and succession plans; coordinated contract policy execution review plans to address many issues noted in audits; leveraged other training to improve Army training in contingency contracting; issued a Contingency Contracting Training handbook; incorporated procurement fraud indicator training and Contracting Officer's Representative (COR) training in Contingency Contracting; developed a new DAU Contingency Contracting Class; and completed several measures to improve Competition Advocacy and Fair Opportunity. Three legislative proposals and one proposed DFARs clause are pending other actions, but the Panel fully expects to implement the other actions during this calendar year. Highlights will include DoD COR certification standards and a COR policy memorandum, significant documentation to improve the contracting workforce, an interagency acquisition policy memorandum, and a memorandum regarding separation of duties. The Panel will address tightening requirements on conflict of interest through the use of contractor personnel disclosures, increasing contractor accountability, and mitigating risks of personal services contracts.

3. JOINT WARFIGHTING AND READINESS

JOINT WARFIGHTING AND READINESS	A. IG Summary of Challenge

The challenge of Joint Warfighting and Readiness is to provide the right force, the right personnel, and the right equipment and supplies in the right place, at the right time, and in the right quantity, across the full range of military operations. This challenge is compounded by the strain on resources as a result of Operation Iraqi Freedom and Operation Enduring Freedom. Furthermore, this challenge encompasses the need for the services and allies to be interoperable, communicate with each other effectively, share data when necessary, and train together when possible. It also, encompasses the need to ensure that basic services continue uninterrupted for the members of the armed forces and their families. The other management challenges encompass areas that support the ability of the United States to conduct joint warfighting and readiness issues. The synergy of those other management challenges will shape the United States' ability to achieve its national objectives through joint operations.

JOINT WARFIGHTING AND READINESS	B. IG Assessment of Progress

The Department is making progress on the issue of Joint Warfighting and Readiness, but that progress must be monitored to ensure it continues. The Department cannot afford to ignore new, and in some cases recurring, situations that will require its attention. For example, the ongoing efforts to relocate service members to Guam and other locations around the globe will enable the armed forces to better shape and focus their force structure in a way that will provide greater flexibility in responding to threats. However, some challenges facing the Department were evident during reviews pertaining to the reset of Army equipment returning from Operation Iraqi Freedom (OIF) and the training of DoD ground forces supporting OIF.

JOINT WARFIGHTING AND READINESS	C. Management's Assessment

The Department's main focus remains on achieving success in ongoing operations. To accomplish this, a number of initiatives over the past few years continue to reap dividends. Our Global Force Management (GFM) processes allow us to effectively meet current operational demands with mission-ready forces. Recognizing the current operational demands stresses particular skill sets, GFM processes aid us in identifying and then training in-lieu-of forces to great effect thereby mitigating the strain on the overall force. Also, the emerging Defense Readiness Reporting System will provide access to more comprehensive readiness data in greater detail, and promises to improve support to our operational decision-making capability. Furthermore, we know the Department recruits individuals but retains the family, therefore high priority is given to those services that support our soldiers, sailors, airmen, Marines and their families.

ALIGNMENT OF RESOURCES	A. IG Summary of Challenge

While U.S. forces continue to operate around the world, changes are underway to better align the resources of the Department to benefit the warfighters, wherever they are. Those changes have taken a variety of forms, not the least of which is the improvement of the tools used to fight the enemies of the United States. The Department's available resources are finite and require constant monitoring of our abilities and of the world situation to enable the Department to successfully operate on a global scale. The combination of these various factors continues to challenge the Department.

ALIGNMENT OF RESOURCES	B. IG Assessment of Progress

During our review of the Army's technical inspection process for the reset of unit equipment returning from OIF, we concluded that the process was generally effective. However, inconsistencies occurred among redeploying units in the conduct of technical inspections, the granting of exemptions from automatic reset induction, and the reporting of reset equipment. As a result, units returning from OIF in the coming years will not use a standard method for initiating repair or replacement. Items needing reset may be delayed in entering the national-level reset pool. Exempting equipment reduces availability and creates difficulties in the redistribution of equipment to higher priority units. Additionally, reset status reporting may not provide decision makers with complete and consistent information. The Army continues to address issues and risks regarding the reset of equipment.

ALIGNMENT OF RESOURCES	C. Management's Assessment

Reset is a critical component of joint force readiness. Understanding the health of our weapon systems and the effect resourcing has on that health can be enhanced by taking a view across the Services through logistics portfolio management. Capability area managers are beginning to assess resourcing strategies and risk mitigation across the enterprise to improve our understanding of the appropriate alignment of resources to maximize readiness.

TRANSFORMING THE ARMED SERVICES	A. IG Summary of Challenge

The demands placed on the Armed Forces over the past few years have been extensive, but our military is unwavering in its focus on, and resolve and dedication to, peace and freedom. With the Congress' continued strong support, the military will continue to effectively combat terrorism, counter the proliferation of weapons of mass destruction, help Iraq and Afghanistan build a stable and secure future, improve joint warfighting capabilities, and transform the Armed Forces to meet future threats.

Pre-deployment training of individual Augmentees for mentoring missions in Afghanistan and Iraq calls for a new approach to provide specialized preparation for these nontraditional missions. Combined and coalition operations require improved coordination of training priorities with our Coalition or International Security Assistance Force (ISAF) partners.

TRANSFORMING THE ARMED SERVICES	B. IG Assessment of Progress

In the last 3 years, the Army has been transforming its traditionally division-centric force to a more flexible, agile force. Part of this transition has included a restructuring of the Operations Groups, specifically Observer/Controllers, at Army Maneuver Combat Training Centers. While Army Maneuver Combat Training Centers (MCTC) have successfully trained U.S. ground forces to deploy in support of OIF, future training of U.S. ground forces could be negatively impacted due to planned restructuring of Army MCTC Operations Groups. This is because current Army manning guidance will not support future changes to staffing of Observer/Controllers at Army MCTCs. As a result, U.S. ground forces training to deploy in support of OIF may not receive the most realistic training and may not receive feedback that could be critical to the success of their mission. The Army recognizes this risk and is currently reviewing the Active Component Manning Guidance.

The Services have incorporated 14 theater-specific areas into their pre-deployment and annual training requirements. In addition, the Services effectively collected information from a variety of sources and regularly updated pre-deployment training. As a result, the Services generally provided realistic, theater-inspired training for units deploying in support of OIF. However, predeployment training for logistics and medical mentoring missions in Afghanistan and Iraq has not received the appropriate attention from the Geographic Combatant Commander or the Services.

| TRANSFORMING THE ARMED SERVICES | C. Management's Assessment |

Our Armed forces continue to transform effectively to meet today's dynamic and volatile environment. Concurrent with transformation, the Services train and certify their forces prior to deployment to any contingency area. Despite changes in U.S. ground force combat structure, the Army's Maneuver Combat Training Centers (MCTC) have adapted well to meet the demand for maneuver units. However, training of specialized support units and security assistance mission units has been more challenging. To overcome these shortcomings, the MCTCs and other Service training centers are evolving to incorporate lessons learned from theater. Feedback obtained from all Services and the Combatant Commands is shared through the Joint Lessons Learned Information Systems (JLLIS).

The Department continues to adapt its training transformation initiatives for the benefit of the Services and Joint Forces. The Joint Warfare Fighting Center (JWFC) of the Joint Forces Command (JFCOM) supports individual augmentees (IAs) with a number of distance learning courses available through the Joint Knowledge Development Distribution Capability (JKDDC). Additionally, JWFC assists combatant commanders in certifying Joint Task Force Headquarters (JTF) in emerging missions through the Joint National Training Capabilities (JNTC) and Joint Headquarters exercises. These efforts continue as we transform forces while adapting to the dynamic environment in which they fight.

| TRANSFORMING LOGISTIC CAPABILITIES | A. IG Summary of Challenge |

Transformation of logistics capabilities poses a significant challenge to the Department. The Department's transformed logistics capabilities must support future joint forces that are fully integrated, expeditionary, networked, decentralized, adaptable, capable of decision superiority, and increasingly lethal. Additionally, transformed logistics capabilities must support future joint force operations that are continuous and distributed across the full range of military operations. Supply chain management is a challenge for the Department. Since 1990, GAO has identified supply chain management as a high-risk area because of weaknesses uncovered in key aspects, such as distribution, inventory management, and asset visibility. It has reported on numerous problems associated with supply chain management such as shortages of items caused by inaccurate or inadequately funded war reserve requirements and DoD's lack of visibility and control over the supplies and spare parts it owns.

| TRANSFORMING LOGISTIC CAPABILITIES | B. IG Assessment of Progress |

The Department has made progress toward meeting its goal of transforming logistics through numerous initiatives. However, that progress is tempered by the sheer magnitude of logistics operations that will continue to make it a long-term challenge.

The Assistant Secretary of the Army for Acquisition, Logistics, and Technology activated the Program Executive Office Soldier (PEO Soldier) in April 2002 to develop, acquire, field, and sustain everything the soldier wears, carries, and operates to increase combat effectiveness. The Army viewed the soldier as a system and began taking a more strategic approach to designing, producing, and fielding clothing and individual equipment. PEO Soldier requested and used emergency supplemental Operational and Maintenance funds in FY 2006 of $221 million and $177 million in FY 2007 to provide Rapid Fielding Initiative items to soldiers who did not and were not scheduled to deploy in support of contingency operations. Army Officials took these actions because its managers believed that Rapid Fielding Initiative items qualified for emergency supplemental funds.

As a result, PEO Soldier used about $221 million in emergency supplemental funds during FY 2006 to provide RFI items to about 125,000 soldiers who had not deployed and were not scheduled to deploy in support of contingency operations. Additionally, PEO Soldier's records as of October 2006 showed that during the first 5 months of FY 2007 the Program Office planned to provide these items to about 100,000 soldiers who were not scheduled to deploy at a cost of about $177 million.

| TRANSFORMING LOGISTIC CAPABILITIES | C. Management's Assessment |

The Department continues to improve supply chain management. In July 2005, the Department developed the DoD Supply Chain Management High Risk Improvement Plan, which was endorsed as a template for use by other high-risk area owners in developing their plans. The Department's goals are to ensure continuous improvement in the area of Supply Chain Management by implementing the DoD Supply Chain Management High Risk Improvement Plan initiatives; publishing a roadmap for use in developing future improvement recommendations; monitoring supply chain management improvement; and implementing Supply & Storage Base Realignment and Closure.

The Department also continues to improve its management of the logistics process with many projects to improve asset visibility throughout the worldwide supply chain. For example, The Joint Supply Chain Architecture (JSCA) project crosses Service organizational and funding boundaries to improve supply chain effectiveness and efficiency. It employs an enterprisewide, end-to-end perspective to achieve or improve logistics readiness across DoD. The project outlines the Joint supply chain; develops supply chain terms of reference (lexicon); delivers supply chain process architecture using industry's Supply Chain Operations Reference (SCOR) Model; and develops supply chain metrics. Ultimately, the JSCA could realize improved readiness and cost savings.

An example of a Logistics transformation initiative is the Defense Transportation Coordination Initiative (DTCI). The Department is implementing DTCI with a world class coordinator of transportation management services in the Continental United States. The DTCI incorporates best commercial practices to improve the reliability, predictability, and efficiency of DoD materiel movement. The Department anticipates cost avoidances estimated at $40 to 60 million beginning in FY 2009, as more sites implement DTCI.

4. INFORMATION ASSURANCE, SECURITY AND PRIVACY

RISK MANAGEMENT	A. IG Summary of Challenge

Ensuring that a robust risk management, security, and information assurance program is in place is a significant on-going challenge to the Department. Such a program includes periodic risk assessments; physical and information security awareness training; security policies, procedures, and practices, as well as tests of their effectiveness; procedures for addressing deficiencies and for detecting, reporting, and responding to security incidents and privacy data breaches; and ensuring the continuity of operations.

The Department also faces the challenge of ensuring that security and privacy protections are not compromised by advances in technology, while also taking advantage of those advances to enhance collaboration and sharing of time-sensitive information.

RISK MANAGEMENT	B. IG Assessment of Progress

The Department made little improvement during the course of FY 2008 in its information assurance and security posture. Previous issues have been exacerbated by ongoing losses of government data, to include privacy and sensitive but unclassified data, and the lack of clear DoD policy regarding protection of such data and the reporting of incidents regarding its compromise. Of particular concern is protection of DoD information in the hands of contractors, to include all members of the Defense Industrial Base, and other nonDoD entities such as foreign, state, local and tribal governmental entities.

RISK MANAGEMENT	C. Management's Assessment

The Department has made significant advances in FY 2008 to improve information assurance (IA) and security posture. These include:

- Expanding enterprise rollout of vulnerability scanning and remediation tools to reduce system and network vulnerabilities.
- Increasing enterprisewide deployment of the Host-Based Security System.
- Awarding an enterprise contract for an insider threat focused tool to permit detailed analysis of user activities.
- Establishing BPAs for data at rest encryption products to facilitate the protection of sensitive data, both through disk encryption and file encryption.
- Making progress in certifying 40 percent of the IA workforce by the end of 2008 to ensure the Department has personnel with proven knowledge in securing the systems.
- Completing the security redesign of the public facing internet firewalls to limit internet access into DoD networks.

The Department has recently issued policies specifically addressing the protection of sensitive data, including personally identifiable information (PII) and controlled unclassified information (CUI). Given the lag time between issuance of a DoD policy and evidence of quantifiable effects, the impact of these policies started to become apparent during FY 2008. Policies addressing the protection of sensitive data include:

- DoD Chief Information Officer (CIO) policy memorandum, "Guidance on Protecting Personally Identifiable Information," August 18, 2006.
- Secretary of Defense memorandum, "Information Security/Website Alert," August 6, 2006.
- DoD Senior Privacy Official policy memorandum, "Safeguarding Personally Identifiable Information," June 15, 2006.
- DoD CIO policy memorandum, "Encryption of Sensitive Unclassified Data at Rest on Mobile Computing Devices and Removable Storage Media," July 3, 2007.
- Numerous Security Technical Implementation Guides addressing insecure technologies and mitigation of vulnerabilities.

The OMB Memorandum M-06-19 and guidance at www.us-cert.gov requires agencies to report to the U.S. Computer Emergency Readiness Team (US CERT) within one hour of receiving the notification of PII loss. The Defense senior privacy official requires organizations to report within 24 hours to the DoD Component Privacy Office/Point of Contact (POC) and within 48 hours to the DoD Privacy Office.

The Department is also responding to the challenges of ensuring security and privacy protections by continuing to work closely with the commercial sector. We expect to evaluate and adopt for use sophisticated "controlled sharing" capabilities emerging from the commercial sector.

PROTECTING DOD INFORMATION	A. IG Summary of Challenge

One of the major challenges identified last year was protection of DoD information in the hands of contractors and the appropriate response to data breaches involving both privacy-protected data, such as personally-identifiable information, and sensitive but unclassified information, such as contractor proprietary information. This challenge continues and is amplified by challenges associated with continued critical inaccuracies in the DoD database used for oversight of the DoD information system inventory. Further, DoD has made very limited progress in developing a Homeland Security Presidential Directive-12 compliant Personal Identity Verification credential, thereby failing to take advantage of possible enhancements to the DoD physical and logical access security programs.

PROTECTING DOD INFORMATION	B. IG Assessment of Progress

Longstanding issues impeding improved security of DoD operations have not been addressed. The Department continues to lack an accurate, authoritative data repository for information regarding DoD systems, and does not have a requirement for an inventory of systems containing DoD information operated by contractors and other nonDoD entities. This fundamental inadequacy renders nearly all metrics regarding DoD information security meaningless as there is no possibility of meaningful management oversight and verification of reported data. This inadequacy applies to all information assurance programs, as well as all privacy programs. Further, DoD has yet to develop a Homeland Security Presidential Directive-12 compliant Personal Identity Verification credential, thus failing to achieve the possible benefits of utilizing such a credential for logical and physical access envisioned by the 2004 Presidential Directive. In addition, internal controls over card stock for existing DoD identification credentials are inadequate.

PROTECTING DOD INFORMATION	C. Management's Assessment

Contractor systems that are under DoD control, i.e., those operated on behalf of the Department, are treated the same as DoD-owned systems and are subject to all DoD IA policies and requirements. However, it is not feasible nor practical to require contractor systems that are not operating on behalf of the Department but may contain some DoD information because of a business relationship with the Department to comply with all DoD IA policies. By the IG's own estimate, there are some 46,000 such systems in the commercial sector. The Department does recognize a need for more definitive guidance in this challenging area and is in the final stages of formal coordination of a DoD CIO policy memorandum specifying steps that must be taken to ensure greater and more consistent protection of DoD information in the possession of contractors doing business with the Department. The Department is breaking new ground with this policy, as we know of no other government policy or guidance that addresses this issue.

The Department is leading an extensive effort to implement automated application controls which prevent the introduction of inconsistent data into the DoD Information Technology Portfolio Repository (DITPR) and performs periodic scans of DITPR to ensure accuracy. Additional user guidance to clarify the business rules and simplify use has been developed. The annual FISMA Reporting Guidance also directs Components to include the total number of operational systems that are Contractor Owned and Contractor Operated (COCO) on behalf of DoD and Contractor Owned and Government (DoD) Operated (COGO). As a part of the overall IA compliance program, the Department has ongoing programs to assess and verify the accuracy and completeness of reports by the Components.

As outlined in the OMB-approved DoD HSPD-12 Implementation Plans, OMB recognized that the Department's requirement to transition to HSPD-12 from an already deployed operational program is different from deploying a new system. Over 600,000 DoD Common Access Card (CAC) Personal Identity Verification (PIV) transitional credentials have been issued. These are in addition to the 3.5 million nonPIV cards that the Department uses daily to access unclassified networks, secure Web sites, and bases/installations around the world. This is the reason Federal Information Processing Standard (FIPS) 201 allows for a transitional card, as well as the reason OMB approved the DoD HSPD-12 Implementation Plan. The Department's plan is focused on minimizing any adverse effects to the Department's 3.5 million daily users and minimizing the disruption of services during and after the transition. The Department will conduct General Services Administration (GSA)-approved conformance testing by the end of calendar year 2008 as it migrates from PIV transitional implementation to PIV end-state.

5. HEALTH CARE

IMPROVED HEALTH CARE	A. IG Summary of Challenge

The DoD Military Health System must provide quality care for approximately 9.2 million eligible beneficiaries within fiscal parameters while facing growth pressures, legislative imperatives, and inflation that make cost control difficult in both the public and private sectors. The DoD's challenge is magnified because the Military Health System provides health care support for the full range of military operations. The increased frequency and duration of military deployment further stresses the Military Health System in both the Active and Reserve Components. Part of the challenge in delivering health care is combating fraud. Health care fraud is among the top 5 categories of criminal investigations; currently representing approximately 7 percent of the 1,646 open cases of the Defense Criminal Investigative Service.

IMPROVED HEALTH CARE	B. IG Assessment of Progress

The DoD Military Health System has been moving forward on improving health care while attempting to control costs. Although the transition to the new TRICARE contracts has been delayed until FY 2009, the Military Health System has made progress in defining the requirements and issuing the request for proposal for the new TRICARE contracts. The current contracts provide incentives for customer satisfaction and include the managed care support contractors as partners in support of medical readiness. The Military Health System continues to work with the contractors to ensure performance under the contracts with the ultimate goal of improving readiness and the quality of care. Lessons learned from all prior solicitations, as well as senior Departmental leadership and industry comments, will be incorporated into the next set of TRICARE contracts.

IMPROVED HEALTH CARE	C. Management's Assessment

TRICARE Management concurs with the IG's Summary of Challenge and Assessment of Progress.

OVERSIGHT OF COSTS	A. IG Summary of Challenge

A major challenge to the Department is sufficient oversight of the growing cost of health care for its beneficiaries. During a recent hearing with the Senate Appropriations Subcommittee on Defense, the Secretary of Defense stated the cost of health care is a concern that must be controlled. The DoD budget for health care costs was approximately $42 billion in 2008, a 35 percent increase since FY 2005 ($31 billion). Congress provided an additional $1.4 billion via the Supplemental Appropriations Act of 2008. Increasing health care benefits provides additional pressure to manage and contain costs. One of the Department's challenges is to effectively transition to the next generation of TRICARE contracts.

OVERSIGHT OF COSTS	B. IG Assessment of Progress

DoD obtained authority to use federal ceiling prices for pharmaceuticals, and is in the process of issuing a proposed rule. The DoD is also making headway in economizing on pharmacy costs by implementing use of generic drugs and promoting use of the TRICARE Mail Order Pharmacy system. Additionally, the MHS has adopted an approach to cost control that will simultaneously improve quality and reduce cost by focusing on the elimination of unnecessary care, test and procedures.

OVERSIGHT OF COSTS	C. Management's Assessment

TRICARE Management concurs with the IG's Summary of Challenge and Assessment of Progress.

MEDICAL READINESS	A. IG Summary of Challenge

The ability to support and develop the people in the Military Health System continues to be a challenge. Maintaining medical readiness of the medical staff and units includes ensuring that medical staff can perform at all echelons of operation, and that the units have the right mix of skills, equipment sets, logistics support, and evacuation and support capabilities. The challenge of keeping reservists medically ready to deploy continues because of the frequency and duration of Reserve deployments.

MEDICAL READINESS	B. IG Assessment of Progress

The MHS Human Capital Strategic Plan for 2008 to 2013 has been published, and the Department established a Military Health System Human Capital Strategic Support Office. The Medical Readiness Review was completed and efforts are underway to institutionalize the analytic process for determining operational medical personnel needs. The Military Health System has continued to meet all mission requirements despite very high operational tempo. Data from the Joint Theater Trauma Registry reveal unprecedented outcomes, including died of wounds rates of 5 percent and the lowest ever disease nonbattle injury rates.

MEDICAL READINESS	C. Management's Assessment
TRICARE Management concurs with the IG's Summary of Challenge and Assessment of Progress.	

TRANSITION OF CARE	A. IG Summary of Challenge

Strengthening medical care from accession through active service to rehabilitation and transition to VA care is a major challenge for the Department. The number of wounded warriors associated with Southwest Asia and other such conflicts significantly impact the health care resources within the Department, and can result in issues such as the conditions that were raised at Walter Reed Army Medical Center. Another related challenge to medical readiness is the issues inherent in providing efficient processes for post-deployment health care and benefits to severely injured and ill service members. Transitioning wounded, ill, or injured service members to post-deployment care will continue to grow as a challenge while the Global War on Terror, Operation Iraqi Freedom, and Operation Enduring Freedom continue. The Department needs to improve the medical care and benefits transition program to achieve a streamlined, transparent process as wounded warriors move from the DoD system to the Department of Veterans Affairs' system.

Increased numbers of returning service members with mental health complaints, along with a shortage of uniformed and civilian mental health workers, will require examination of automated screening tools and improved diagnostics to provide earlier detection and intervention.

TRANSITION OF CARE	B. IG Assessment of Progress

The revised MHS strategic plan recognizes continuum of care as a strategic priority. As stated last year, disparities in the transition of health care and benefits are easily identified, yet actionable solutions are difficult to implement and streamline.

The opening of the Center for the Intrepid in San Antonio, Texas, in 2007 provides the MHS with a technologically advanced rehabilitation center for amputees and burn victims.

In addition, DoD's response to Traumatic Brain Injury (TBI) and psychological health, including Post Traumatic Stress Disorder (PTSD), is showing promise with the creation of the Defense Centers of Excellence for Psychological Health and TBI.

This year, the Department established the Senior Oversight Council (SOC) to ensure that all aspects of care, rehabilitation and reintegration for wounded warriors was accomplished. One focus of the SOC is to overhaul the disability processing system and implement improved case management for recovering warriors.

The Armed Forces Health Surveillance Center was established to ensure tracking and ongoing surveillance of the health of service members would be accomplished in a joint manner and coordinated with Veterans Affairs.

TRANSITION OF CARE	C. Management's Assessment
TRICARE Management concurs with the IG's Summary of Challenge and Assessment of Progress.	

SHARING OF INFORMATION	A. IG Summary of Challenge

Providing information to the right people so they can make more informed decisions continues to be a challenge in the health care community. Along with the benefits of expanding automation efforts comes the increased risk to security and privacy of information. The transition from paper to electronic patient records increases the exposure of sensitive patient information to inadvertent or intentional compromise. Maintaining information operations that ensure the protection and privacy of data will continue to grow as a challenge.

SHARING OF INFORMATION	B. IG Assessment of Progress

The organizational goal to deliver information that aids in better decision-making was added to the Military Health System strategic plan. Specific milestones were established to implement a personal health record prototype, and to expand bidirectional sharing of health information between DoD and the Department of Veterans Affairs. In addition, a deadline was established to define the Military Health System strategic plan for implementing a paperless electronic health record. The DoD continues to progress in sharing electronic medical records with the Department of Veterans Affairs. The DoD and VA executive leadership initiated a joint assessment project to determine the best approach for sharing inpatient electronic health records. The final report on the assessment project recommends the Departments pursue a common-services approach, which will allow DoD and VA to build upon their already extensive information sharing capabilities. It also will set the stage for the appropriate level of interoperability with other government and private sector organizations.

SHARING OF INFORMATION	C. Management's Assessment
TRICARE Management concurs with the IG's Summary of Challenge and Assessment of Progress.	

IMPLEMENTING BRAC	A. IG Summary of Challenge

Implementing recommendations resulting from the 2005 Base Realignment and Closure process will continue to be a challenge. In addition to improving the readiness and cost efficiency associated with realigning base structure, a primary objective of the process was to examine and implement opportunities for greater joint activity among the Military Departments. Recapitalization of the physical infrastructure is a challenge. Military treatment facilities are aging and in need of replacement.

IMPLEMENTING BRAC	B. IG Assessment of Progress

The base realignment and closure process addresses part of the aging infrastructure, but to fully address the challenge, better standardized data on the condition of facilities is needed. The Military Health System has begun the multiyear transition and acquisition process of improving capability and access to care in two major and several minor markets. Groundbreaking for the new Walter Reed National Military Medical Center at Bethesda occurred July 3, 2008.

Additionally, the Military Health System is following a roadmap for changes in governance that should result in increased unity of purpose and functional integration. The road map should yield improvements in quality, efficiency, and patient satisfaction consistent with the MHS Strategic Plan. Each of the elements of the plan should contribute to the achievement of stability and uniformity of healthcare processes and resource acquisition.

By establishing more unity of command in each of the major markets, the market leaders should be able to distribute resources across hospitals and clinics within a market to meet the needs of the entire population of eligible beneficiaries. In addition, the increased span of control will enable improved continuity of care and coordination of safety and quality programs. In the National Capital Region, the Secretary of Defense established the Joint Task Force National Capital Region Medical to clarify command and control.

Through the establishment of joint governance for the Joint Medical Education and Training Center, the MHS should improve the quality and consistency of training for all enlisted, contributing to a culture of jointness and interoperability.

The combination of all medical research and development assets under joint governance should foster better coordination of research activities, eliminate redundant efforts, and focus resources on developing solutions for both the warfighter and the clinician.

Co-locating of the headquarters functions of Health Affairs, the TRICARE Management Activity, the Army Medical Command, the Navy Bureau of Medicine and the Air Force Medical Service should enhance efforts to achieve unity of purpose for MHS policy, strategy, and financial programming and yield greater consistency across the Services in program execution.

IMPLEMENTING BRAC	C. Management's Assessment

TRICARE Management concurs with the IG's Summary of Challenge and Assessment of Progress.

HUMANITARIAN ASSISTANCE	A. IG Summary of Challenge

The Department's expanded role in providing humanitarian assistance and disaster relief to support U.S. strategic objectives and promote human dignity through better health will provide financial and organizational challenges. One of the first challenges will be developing plans and budgets to support the expanded role.

HUMANITARIAN ASSISTANCE	B. IG Assessment of Progress

Building a bridge to peace through humanitarian assistance and disaster relief is a goal under the Military Health System strategic plan. The Summer 2008 Military Health System Strategic Plan recognizes many of these challenges and includes a set of performance metrics to measure mission success. This clearly defined roadmap is progress toward meeting the challenges.

HUMANITARIAN ASSISTANCE	C. Management's Assessment

TRICARE Management concurs with the IG's Summary of Challenge and Assessment of Progress.

6. EQUIPPING AND TRAINING IRAQI AND AFGHAN SECURITY FORCES

IRAQI SECURITY FORCES	A. IG Summary of Challenge

The Iraqi Security Forces (ISF) are comprised of the military and police forces. The Iraqi government continues to pursue significant expansions of ISF authorized end-strength, currently at 488,000 personnel with 445,500 on the payroll. This expansion will require addressing an already existing leadership shortage within the officer and noncommissioned officer ranks.

Coalition efforts to build the capability of the Iraqi Ministries of Defense (MoD) and Interior (MoI) and their respective forces continue to focus on four major areas: developing ministerial capability; improving the proficiency of military and police forces through the assistance of embedded advisors and partnership unit relationships; building the logistic, sustainment, and training capability of the MoD and MoI; and supporting the expansion of the army and police.

IRAQI SECURITY FORCES	B. IG Assessment of Progress

The existing Iraqi-run training centers continue to operate at full capacity to achieve ISF personnel goals.

Efforts are ongoing to build the capability of the security forces and the MoD and MoI to sustain themselves, without Coalition logistical support, and for the forces to be able to operate independently without the full range of Coalition combat enablers, such as: air and ground transport of troops, equipment, and supplies; tactical air support; communication (signal) capabilities; and artillery.

IRAQI SECURITY FORCES	C. Management's Assessment

As of July 31, 2008, the current Iraqi Security Force (ISF) overall assigned strength is approximately 588,000. One hundred fifty-nine Iraqi Army (IA) battalions are in the fight, and 105 of those are in the lead for operations. Twenty-eight more are in force-generation. Though the MoDs, leader-to-led ratios are improving, the shortage of key leaders in the ISF is a challenge that will take years to overcome. Officer training and development are improving, but much work remains. The four Military Academies are graduating enough cadets for the needs of the Iraqi Joint Forces, but facilities remain rudimentary and tactical training is limited. The NCO corps has grown in the last couple of years, but most significantly in the last year—mostly at the junior ranks. The Iraqis understand they need an NCO Corps and have developed an NCO education system, starting with corporals to sergeants to platoon sergeants. The top 10 percent of the graduates from basic training attend the corporal's course. From January 1 to July 31, 2008, the training base graduated 6,772 NCOs. Additionally, as of June 30, 2008, 13,077 total NCOs have entered the IA since June 2007; 8,362 of those NCOs have accessed since January 1, 2008. The NCO ranks are at almost 70 percent fill in the aggregate. Some measures to address this issue are occurring now such as the rehiring of former NCOs and officers into the ISF. From January 1 to May 30, 2008, the MoD successfully vetted 2,177 officers from the former regime and allowed them to "rejoin" the IA.

In all operations, the ISF continued to rely on Coalition enablers. Overall, the ISF continues to improve, but relies on Coalition forces (CF) for close air support, fire support, intelligence, surveillance and reconnaissance, logistics, sustainment and communications. The IA units must also improve in their ability to specify command relationships. Operations in Diyala and Amarah demonstrated a gradual improvement in the command and support relationships of attached brigades from other IA divisions.

Logistics unit development is progressing. By the end of 2008, the IA will grow one division headquarters, five brigade headquarters, eight infantry battalions, five additional location commands, two motor transport regiments, one general transport regiment, one logistics battalion, and an Army ammunition depot. Each of the additional logistics units will be dedicated to support specific IA divisions and each is essential for the IA to achieve self-sufficiency.

Dependency on CF to move supplies from the central depots will be reduced by accelerating the fielding of motor transport regiments. The IA has fielded ten motor transportation regiments and will field two additional transport regiments in 2008. The donation of a number of German transport trucks, and the purchase of medium and heavy cargo vehicles has accelerated the generation of a general transportation regiment, with projected Initial Operating Capability (IOC) by November 2008.

IRAQI NATIONAL ARMY	A. IG Summary of Challenge

The Iraqi Army continues to experience shortfalls in generating officer and noncommissioned officer personnel to meet the requirements of an expanding army, and the challenge of high attrition rates.

The Iraqi Army also continues to experience shortfalls in self-sustaining logistics. While the initiatives to develop the Iraqi Army logistics base are significant, success may be hampered by shortages in formally trained Iraqi logistics personnel and lack of information connectivity.

The Iraqis still have concerns about the responsiveness of Foreign Military Sales (FMS) to a country generating forces in the midst of ongoing combat operations and hostilities. On-the-ground U.S. commanders responsible for training, equipping, and supporting ISF have voices similar concerns.

IRAQI NATIONAL ARMY	B. IG Assessment of Progress

The Iraqi Army is taking several steps to mitigate leader shortage, such as actively recruiting prior service officers and noncommissioned officers, using mobile recruiting teams, and exploring accelerated promotions of personnel currently in the Army. However, it is unclear whether sufficient candidates can be recruited to offset increased force requirements.

Multinational Security Transition Command-Iraq and Multinational Corps-Iraq are making significant strides in assisting the Iraqi Army to develop an Iraqi logistics sustainment base, but much work remains to be done.

Through the efforts of the Iraqi Logistics Development Committee, specific logistics advisory, training, and partnering relationships have been established throughout Iraq to assist the Iraqi Army build its logistics system using an Iraqi model.

Thirteen regional Iraqi logistics Location Commands are projected to be in full operation by the end of 2008. U.S. Logistics Management Advisory Teams will be assigned to each Location Command. In addition, U.S. Logistics Training and Assistance Teams, formed from in-country U.S. logistics sustainment brigades, are refocusing their efforts to provide more intense interaction with Iraqi Army units including the regional Location Commands to the line units, division and below.

Development is underway of a robust FMS program to assist with Iraqi Government force expansion by procuring U.S. standard equipment. Progress has been made regarding MoD and MoI willingness to use the U.S. FMS system as a source of supply. However, the timeliness of equipment deliveries has not been satisfactory.

IRAQI NATIONAL ARMY	C. Management's Assessment

The IA, as with the other services, remain understaffed in the officer and NCO ranks, but is taking steps to mitigate these challenges. MOD is developing a strong NCO Educational System that has produced nearly 14,000 NCOs including re-joining former army leaders from key courses. The MOD is also training former militia members mandated by the transition and reintegration program. The Government of Iraq (GOI) has also begun taking over control of the Sons of Iraq (SoI) program, intending to integrate 20% of the 100,000 SoI into the ISF. Once complete, the National Reconciliation Program will allow former soldiers the option to re-join the ISF, and should yield a moderate increase in the number of mid-grade officers and NCOs within the IA.

The MOD is developing a national supply and distribution network, including location commands in support of each IA division with the Taji National Depot as the centerpiece. Accelerated fielding of the last motor transport regiments and the fielding of the general transportation regiment will reduce, but not eliminate ISF dependency on CF to move supplies.

Since the advent of the FMS task force, the average time required to process FMS cases has improved significantly, and the delivery of equipment has improved substantially.

IRAQI NATIONAL POLICE	A. IG Summary of Challenge

Because the training effort of the past four years has focused on generating policemen, and because of the time it takes to grow professional junior officers, there have been inadequate numbers of officer-rank police entering at junior levels. The resulting low officer manning has affected command and control, planning functions, street-level supervision, morale, retention, and ethical conduct.

IRAQI NATIONAL POLICE	B. IG Assessment of Progress

Although progress has been made, some National Police units lack personnel, individual equipment, and reliable vehicles to conduct operations without Coalition support.

The Iraqi Police Service and the National Police use various methods to acquire officers. Both of the police services are actively seeking to increase officers through four methods: a 3-year officer course, a 9-month officer course, a 6-month police commissioner's course, and a 3-week officer transition program for previously trained police officers. The police services have difficulty attracting officer candidates because they compete with the Iraqi Army for the same pool of personnel.

IRAQI NATIONAL POLICE	C. Management's Assessment

Coalition advisors report continued improvement in the MoI's ability to perform key ministerial functions. Such functions include force management, personnel management, acquisition, training, logistics and sustainment, and the development and implementation of plans and policies.

The MoI is improving its ability to provide life support (e.g., food, water, fuel, and most maintenance) for its forces. The Ministry has instituted a self-reliance policy. All life support, at both the Central Ministry and at the provincial level, is now contracted through the MoI contracting process.

The MoI has expanded to a total of 18 training facilities. The Iraqi instructor cadre at the Baghdad Police College conducts all basic officer and enlisted recruit training and continues to increase the proportion of the specialized and advanced course loads. The Multi-National Security Transition Command–Iraq (MNSTC-I) advisors and international police advisors assist by providing advice, oversight, and quality control at all training institutions.

The MoI training base is capable of training 67,170 enlisted police and 2,330 officers per year and operates at a total student capacity of 24,810 at any given time. For 2008, the MoI expects to train a total of approximately 42,235 basic policemen for the Iraqi Police Service (IPS), 14,435 for the National Police (NP), and 10,500 for the Department of Border Enforcement (DBE). With the MoI training base expansion plan through mid-2009, seat capacity will increase annual throughput to 117,100 enlisted and 5,472 officer seats.

Overcoming the MoI training backlog continues to be a significant challenge. In the past, deteriorating security conditions necessitated rapid MoI growth in basic security skills. This rapid expansion was accomplished through a truncated 80-hour training course, which provided police officers with basic operational skills; however, this course fell short of the full training requirement to be an effective police officer. As a result, the current IPS training backlog is approximately 88,000 personnel. The MoI's goal is to train all IPS personnel with the full 400-hour course, as the security situation and training capacity allows. MNSTC-I is working with the MoI to shorten duration of the full 400-hour course to 240-hours by extending the length of the training day and eliminating low priority training to reduce its training backlog to approximately 56,000 by July 2009.

As of July 31, 2008, there are 31 NP battalions in the fight, with 10 of them in the lead for security. Thirteen more are in force-generation.

The MoI is executing a four-phased plan to improve the professionalism of the NP, with all phases executed simultaneously. This has involved significant changes in senior leadership from division through battalion level to reduce sectarian behavior and achieve a balance of the sects representative of the makeup of Iraq. The MOI completed collective training for every brigade in the fall of 2007 and, situations permitting, these brigades undergo continuous sustainment training. Furthermore, leadership training conducted by the Carabinieri has been successful. The fourth class of Italian Carabinieri-led NATO Training Mission-Iraq (NTM-I) training concluded on June 21, 2008, with 422 graduates. The MNSTC-I and NTM-I are laying the foundation to double the throughput, accelerating professionalism of the NP. Finally, plans are in place to regionalize the NP by generating a third NP division. This will enable the NP to be regionally focused and postured to reinforce the IPS and allow the MOD to focus on external defense.

The MoI continues to receive large shipments of FMS purchases. Deliveries on a $96.3 million contract for ammunition and light weapons, brokered independently with China, demonstrate that the ministry is improving the capability to direct contract for goods.

ISF HEALTH CARE SYSTEM	A. IG Summary of Challenge

The Iraqi Security Forces depend on the development of supporting capability within the civilian sector for medical support.

Strong collaborative planning interactions are necessary between the Iraqi Ministries of Defense and Health for infrastructure development, training, and medical logistics, so sustainable, independent health care for the security forces can be developed.

ISF HEALTH CARE SYSTEM	B. IG Assessment of Progress

The partnerships between these Ministries for planning are just developing, and will need to be facilitated by Multinational Security Transition Command-Iraq and Multinational Forces-Iraq in order to be effective.

ISF HEALTH CARE SYSTEM	C. Management's Assessment

The Coalition Forces (CF) continue in their efforts to help the ISF design, recruit providers, train and provide initial medical infrastructure and medical supplies for the ISF to develop medical capability. These efforts include assisting MOI and MOD developing the capability to identify requirements, budget, commit, monitor and execute funds to procure medical equipment, supplies, and personnel; improving supply chain management to enhance the efficiency and effectiveness of the medical logistics system; and developing medical personnel training progression. CF are also supporting continued development of internal programs by the Ministries of Health and Higher Education to broaden ISF medical capability. FMS have included field hospitals, ambulances, mortuary vehicles, and medical supplies.

AFGHAN SECURITY FORCES	A. IG Summary of Challenge

The Afghan National Security Forces (ANSF) are comprised of the military and police forces. Their effectiveness is being tested by increased Taliban attacks, including in heretofore safe areas of the country.

Coalition efforts to build the capability of the Afghan Ministries of Defense (MoD) and Interior (MoI) and their respective forces continue to focus on four major areas: developing ministerial capability; improving the proficiency of military and police forces through the assistance of embedded advisors and partnership unit relationships; building the logistic, sustainment, medical, and training capability of the MoD and MoI; and supporting the expansion of the army and police, and their ability to operate on an independent basis.

The Afghan government continues to pursue significant expansion of the ANSF. The MoD has requested an increase in the end-strength of the Afghan National Army (ANA), in particular, to 134,000 – an increase that is favorably endorsed by the U.S. Government.

AFGHAN SECURITY FORCES	B. IG Assessment of Progress

The ANA as an institution is generally highly regarded by the populace, although only a minority of its units are yet capable of operating without significant Coalition support.

Progress in building the capability effectiveness of the Afghan National Police (ANP), which is often viewed with mistrust, lags that of the ANA, arguably as much as several years.

AFGHAN SECURITY FORCES	C. Management's Assessment

We agree with the IG's assessment of progress made by the ANSF. The ANA is one of the most trusted and respected institutions within Afghanistan. As of Sept 2008, the ANA has grown to a force size of approximately 67,000. Over the last year they have made great progress and since March 2008, 13 ANA units have reached Capability Milestone-1 which indicates they are fully operationally capable. The ANA is increasingly capable of taking a lead role in planning and conducting operations, which is another sign of increased capacity and capability.

In September 2008, the Government of Afghanistan and the international community agreed to increase the end strength of the ANA to 134,000 personnel by 2014, thus allowing for increased combat support and capability. The decision to increase the size of the ANA is consistent with the Government of Afghanistan's and the International Community's goal that Afghan Security Forces are eventually able to assume security functions within Afghanistan.

As stated, the ANP currently lags behind the ANA in development but much progress has been made. The ANP is at a force level of 77,000 and growing towards 82,000. 31 Districts have completed FDD training and, as of Sept 2008, and six of these districts were validated at Capability Milestone 1, indicating that district ANP forces were capable of independent operations.

The Combined Security Transition Command-Afghanistan (CSTC-A) is also implementing a training program for Afghan Border Police (ABP) along the eastern Pakistan border. Focused Border Development (FBD) provides additional survivability and interdiction skills for ABP Companies who will partner with JTF-101 units once they complete the training. The FBD training begins in late October 2008.

AFGHAN NATIONAL ARMY	A. IG Summary of Challenge

Developing an effective Afghan National Army (ANA) force is a significant challenge in the midst of a war.

The Afghan Army logistics system within the ANA is progressing, but is in its infancy and continues to experience shortfalls in having a self-sustaining logistics capability. While the initiatives to develop the Afghan Army logistics base are significant, success may be hampered by shortages in formally trained Afghan logistics personnel and lack of information connectivity. In addition, one of the problems in establishing logistics sustainment within the Afghan Army has been the lack of a systems approach. The Afghans have been accustomed to working in stovepipes with little coordination. The result of this is that important nodes in the logistics system were lacking visibility of the Afghan Army logistics capability, and senior leaders were unable to make informed decisions about logistics requirements.

U.S. commanders have noted that progress has been made in improving Foreign Military Sales (FMS) program responsiveness. However, successful execution of the $7.4 billion FMS program in Afghanistan requires support beyond the norm for rapid ANSF force generation, replacement of combat losses, and force modernization. Similar concerns have been voiced by U.S. commanders on the ground, responsible for training, equipping, and supporting the ANA.

AFGHAN NATIONAL ARMY	B. IG Assessment of Progress

Progress has been made in developing a capable Afghan National Army, but significant work still needs to be done.

A continually improving national logistics infrastructure exists and is already supporting the Afghan Army. A series of national and forward support depots currently provide the bulk of Afghan Army needs. Brigade-level logistics structures and systems continue to develop. However, there is a gap in the linkage from the brigade level to the national level. This gap will require development of a corps-level logistics structure that will be addressed with the increase of 10,000 ANA personnel beginning in 2009. Plans for 2009 lay the groundwork for making currently-contracted logistics an Afghan Army core responsibility.

The MoD recently requested that Combined Security Transition Command-Afghanistan (CSTC-A) assist in the development of a systems approach to logistics. The CSTC-A conceived the Logistics Readiness Assessment Tool, which was to have been implemented in May 2008 as an initial effort to gain visibility over the Afghan Army logistics system.

AFGHAN NATIONAL ARMY	C. Management's Assessment

As stated above, the ANA has made great progress over the past year. As the ANA grows to 134,000, it is increasingly improving in capability and in building logistics capacity

While we agree with the need for more robust ANA logistics processes, it should be noted that Afghanistan poses unique issues in terms of implementing an integrated nation wide logistics system. Many areas within Afghanistan lack reliable power and communications capacity and do not allow for a networked logistics system. Additionally, the issue is made even more challenging because of low literacy rates among the populace and the lack of trained personnel with a logistics background.

The DoD is focused on improving logistics within the ANA. One of the objectives of the CSTC-A Campaign Plan is to develop an efficient logistics system that is capable of acquiring and distributing resources to the ANA. The CSTC-A is developing a unified ANA logistics strategy which will ensure standardized logistics mentoring within the ANA. A robust Ministerial Development program is in place which focuses on building logistics capabilities within the MOD and the General Staff Headquarters.

AFGHAN NATIONAL ARMY HEALTH CARE SYSTEM	A. IG Summary of Challenge

Development of medical support for the ANA depends on a strong collaborative relationship with the civilian Ministries of Public Health and Higher Education. ANA capacity development must therefore include commensurate strengthening of the authority and ability of these ministries to support the ANA.

AFGHAN NATIONAL ARMY HEALTH CARE SYSTEM	B. IG Assessment of Progress

Little progress has been made in developing strong civil – military relationships within the medical community in Afghanistan, largely due to limited resources, and lack of a clear policy commitment with a corresponding multi-year strategic plan for training, mentoring, and infrastructure development.

AFGHAN NATIONAL ARMY HEALTH CARE SYSTEM	C. Management's Assessment

The DoD has provided mentorship and training to improve the Afghan Army health care system through the CSTC-A Command Surgeon's office.

We concur with the need to build better Civil-Military cooperation and to better collaborate with the Afghan Ministry of Public Health and other international players. The DoD has coordinated policies with NATO and other international partners as well as the Ministry of Public Health but the scope of this challenge is beyond DOD's ability to influence. Fully developing the Civil-Military relationship will require assistance from other U.S. Government agencies, and international partners, as well as the Government of the Islamic Republic of Afghan.

AFGHAN NATIONAL POLICE	A. IG Summary of Challenge

The National Police are the face of the government to most Afghan people. Unfortunately, in the past, this has often been the face of corruption and unprofessionalism.

The Afghan MoI and National Police logistics system continues to experience shortfalls in self-sustaining logistics. While the initiatives to develop the Afghan Police logistics base are significant, success may be hampered by shortages in formally trained Afghan logistics personnel.

Logistics sustainment for the MoI and the Afghan Police significantly lags that of Afghan Army. Supplying regional, district, and provincial police units is a vastly different problem than providing support for an army corps, brigade, or battalion. The MoI is behind in establishing needed logistics policies and procedures and in obtaining the requisite training for their logistics personnel. The U.S. Police Mentoring Teams have been under-resourced for personnel, requiring CSTC-A to fill the gap by using U.S. military personnel who had previously been assigned to train the Afghan Army. The shortage of qualified logistics trainers for the Police Mentoring Teams is and has been a continuing problem in advancing the logistics capability of the Afghan Police.

AFGHAN NATIONAL POLICE	B. IG Assessment of Progress

A program of focused district development has been created to break the cycle of corruption and provide Afghanistan a professional, well-led, and well-trained police force. The program involves an eight-week formal police training course and reflects a strategy of reforming the way policing is done at the district and community levels, and reinforcing the government's counterinsurgency capability at the interface with the populace.

For the Afghan Police, logistics development is currently focused on verification and accountability. Regional, provincial, and district level gaps in Afghan Police logistics stem in part from still-developing MoI logistics policies and procedures and lack of logistics officer skills. The MoI is working to close these gaps through regional, provincial, and district level logistics officer training.

AFGHAN NATIONAL POLICE	C. Management's Assessment

The ANP have made great progress over the last year as a result of the implementation of the Focused District Development (FDD) program. We concur with the comments made regarding the issues being addressed within the MoI.

The FDD has attempted to improve the logistic capabilities of ANP districts by ensuring equipment is properly issued and accounted for. The FDD training program that the district police attend also teaches ANP officers about logistics and equipment accountability. Logistics officers within police units are provided additional training in these areas.

The CSTC-A has a robust program that is focusing on ministerial-level logistics development within the MoI.

AFGHAN NATIONAL POLICE HEALTH CARE SYSTEM	A. IG Summary of Challenge

The Afghan Police do not have effective medical support. The general lack of Afghan Police resources and dispersed nature of much of the force in remote areas calls for an integrated health care approach between MoI and MoD and with the civilian Ministry of Public Health.

AFGHAN NATIONAL POLICE HEALTH CARE SYSTEM	B. IG Assessment of Progress

Although the Afghan Police do not have effective medical support, they are reluctant to integrate with the Afghan Army due to institutional mistrust.

Effective partnering with the Afghan Army and the civilian Ministry of Public Health is needed, but little progress has been made, largely due to limited resources and lack of a clear policy commitment on a way forward with a corresponding multi-year strategic plan for training, mentoring, and integration.

AFGHAN NATIONAL POLICE HEALTH CARE SYSTEM	C. Management's Assessment

The ANP has made progress in their health system and CSTC-A continues to mentor them in this area.

We agree that a coordinated ANSF health care system is desirable but as noted, we cannot accomplish this without support from the Afghan Government. The International Community and other areas of the U.S. Government outside of DoD will need to be involved in this effort as well.

7. NUCLEAR ENTERPRISE

A. IG Summary of Challenge	B. IG Assessment of Progress	C. Management's Assessment

DECLINE OF FOCUS ON THE NUCLEAR ENTERPRISE	A. IG Summary of Challenge

The Department faces complex and long standing nuclear enterprise management challenges that affect the Department's ability to provide public assurance that it can meet its nuclear operational and surety responsibilities. A recent Defense Science Board report stated that since the end of the Cold War, there has been a marked but gradual decline in the level and intensity of focus on the nuclear enterprise and the nuclear mission. When comparing the current level of focus to that of 1990, the aggregate change is dramatic. The decline is characterized by:

- Embedding nuclear mission forces in nonnuclear organizations.
- Markedly reducing levels of leadership whose daily focus is on nuclear enterprise.
- Generally devaluing the nuclear mission and those who perform the mission.

Numerous reports and studies issued over the past decade have documented the decline. From 1991 to 2008, the IG identified and reported on aspects of this decline in a series of classified audit reports related to the security of nuclear systems. Although specific report details are classified; the weaknesses identified in each of those reports are a direct result of the decline in emphasis of the nuclear enterprise and mission.

DECLINE OF FOCUS ON THE NUCLEAR ENTERPRISE	B. IG Assessment of Progress

The Department has begun to address and reverse the nuclear enterprise decline.

For example, in February 2008, the Air Force issued its report on the "Air Force Blue Ribbon Review of Nuclear Weapons Policies and Procedures." The report contained 36 observations and recommendations, as well as the following general conclusions:

- Air Force Nuclear Surety is sound but needs strengthening.
- Air Force focus on nuclear mission has diminished since 1991.
- Nuclear enterprise in the Air Force works, despite being fragmented.
- Declining Air Force nuclear experience has led to waning expertise.
- Air Force nuclear surety inspection programs need standardization.

The Air Force is in the process of implementing the report recommendations.

Other studies and task forces have been initiated as described below. However, it is critical that DoD leadership recognize the consequences of failure to ensure the security of its nuclear forces and to implement as quickly as possible, viable recommendations to stop and reverse the decline focus on the nuclear enterprise.

DECLINE OF FOCUS ON THE NUCLEAR ENTERPRISE	C. Management's Assessment

The Department agrees there has been a decline in the level and intensity of focus on the nuclear enterprise and the nuclear mission. The Department continues to address and reverse the nuclear enterprise decline. Actions to address the findings and recommendations from various reports and studies are overseen by the DoD Senior National Security Presidential Directive-28 Oversight Committee (Senior NOC), and the joint DoD/DOE Nuclear Weapons Council (NWC), both chaired by the USD(AT&L); as well as the Interagency Nuclear Command and Control System Committee of Principals (NCCS CoP), chaired by the Deputy Secretary of Defense. The Military Departments are aggressively implementing changes to organizational structure, processes, and procedures to improve the security of nuclear forces and senior leaders' focus on the nuclear mission.

INCIDENTS INDICATE SYSTEMIC PROBLEMS	A. IG Summary of Challenge

Over the past year, the Department experienced series of incidents that indicated significant problems with nuclear enterprise management. Failure to follow prescribed verification procedures resulted in nuclear warheads being inadvertently transferred from Minot AFB to Barksdale AFB. Sensitive missile components were erroneously shipped to Taiwan. The 2nd Bomb Wing at Barksdale AFB failed a nuclear surety inspection and had to be re-inspected to a satisfactory rating. The recent series of limited nuclear surety inspections conducted as a result of the Minot transfer incident exposed potential problems related to operational readiness.

INCIDENTS INDICATE SYSTEMIC PROBLEMS	B. IG Assessment of Progress

In response to the Minot transfer incident, the Secretary of the Air Force conducted a Commander-Directed Investigation of the incident, decertified a portion of the 5th Bomb Wing at Minot, and executed a series of limited nuclear surety inspections. However, the 5th Bomb Wing failed the May 2008 Defense Nuclear Surety Inspection and was re-inspected.

In response to a February 2008 request from the Under Secretary of Defense (Acquisition, Technology, and Logistics), the Defense Science Board Permanent Task Force issued its "Report on the Unauthorized Movement of Nuclear Weapons." The report identified the root and systemic causes of the Minot transfer incident and provided 12 recommendations to strengthen nuclear surety programs and practices. The Department is implementing the recommendations. Recently, the Under Secretary tasked the Defense Science Board to review the nuclear inspection regime and make recommendations for improvement.

In March 2008, the Secretary of Defense appointed Admiral Donald, USN, to conduct an investigation into the facts and circumstances surrounding the accountability for, and shipment of, sensitive missile components to Taiwan in 2006. The investigation concluded that the specific cause was the Air Force and Defense Logistic Agency's "sole reliance on, and lack of compliance with," existing supply system procedures to provide positive control of the components. The investigation identified 7 findings, and 3 systemic problems, and contained 13 recommendations for corrective action. The report makes clear that the problems and mistakes have their roots in decisions made over a period of at least 10 years.

INCIDENTS INDICATE SYSTEMIC PROBLEMS	C. Management's Assessment

The Department is applying the highest levels of accountability and control to the stewardship of nuclear weapons. The Department has reviewed and is enhancing logistics processes for the nuclear weapons enterprise that identifies, manages, and accounts for all nuclear weapons and sensitive nuclear weapons-related material. These improvements will be incorporated into DoD directives and Service/Agency-level policies. The USD(AT&L) staff will monitor processes through full implementation.

KEYS TO IMPROVEMENT	A. IG Summary of Challenge

To reverse this trend, the Department needs to refocus on the nuclear enterprise. The following elements are key to improvement:

- Create an environment that emphasizes the nuclear mission and that a reliable, safe, secure, and credible nuclear deterrent is essential to national security and is a high DoD priority.
- Conduct detailed reviews and studies of all critical elements of the nuclear enterprise to identify key deficiencies and methods for improvement.
- Develop corrective action plans that correct the deficiencies and provide adequate funding and leadership to ensure implementation.
- Implement the corrective actions and conduct follow-up reviews to ensure that the action plans are correcting the deficiencies.

As stated in the Defense Science Board report, the series of nuclear related incidents that occurred over the past year "can be a just-in-time rescue if lasting corrective actions are implemented now."

KEYS TO IMPROVEMENT	B. IG Assessment of Progress

The Department initiated additional reviews to address critical aspects of the nuclear enterprise. In June 2008, the Secretary of Defense tasked the Under Secretary of Defense for Policy, in coordination with the Director of Administration and Management, to establish the Task Force on Nuclear Weapons Management as a subcommittee of the Defense Policy Board. The task force will have two phases. The first phase, to be completed within 60 days, will make recommendations on organizational, procedural, and policy matters involving the Air Force. The second phase, to be completed within 120 days, will examine management and oversight of nuclear weapons and related materials and systems across the entire Department.

Additionally, the Secretary directed that a Nuclear Command and Control System Comprehensive Review (NCR) be conducted. This review will examine and make recommendations on the full range of nuclear command and control (NCCS) policies, procedures, responsibilities, functions, capabilities, management and oversight necessary to meet national and Department policy and guidance, and maintain the highest standards required for planning, directing, and controlling nuclear weapons, weapon systems, and associated operations. The Department will also be conducting a Nuclear Posture Review intended to examine the New Triad and its relationship to Defense policy goals, command and control planning and intelligence, and sizing of the nuclear force.

We fully support these efforts and believe they are a necessary first step in reversing the decline. However, in the past, similar types of reviews were conducted that resulted in good, solid recommendations, which were never implemented. Fixing the problems will require commitment, effort, and resources. The IG will monitor the Department's progress in implementing the various report and study recommendations.

KEYS TO IMPROVEMENT	C. Management's Assessment

The Department fully supports these efforts and agrees they are the first step in reversing the decline in the emphasis of the nuclear enterprise and mission. The Department's focus will be on determining and correcting the root and systemic causes of the decline. The Senior NOC, NWC, and NCCS CoP will continue to oversee actions to ensure the proper level of leadership, commitment, effort, and resources are applied to correct the problems and refocus the nuclear enterprise.

SUMMARY OF MANAGEMENT ASSURANCES AND FINANCIAL STATEMENT AUDIT

Department leadership is resolute in its determination to continuously establish and maintain effective internal management controls for all mission-essential processes. In June 2008, the Public Relations Society of America awarded the Department's Check It campaign its prestigious Silver Anvil Award for the best internal communications campaign. Check It, with the tagline "What gets checked, Gets done," reminds the workforce to double check their work and helps ensure effective internal management controls.

The Check It campaign also sponsors a competition to report best process improvements. In two rounds of competition, 40 improvements from 24 Components were submitted to the Deputy Secretary of Defense. Submissions reported a total of $3 billion worth of savings due to improving internal management controls.

DoD Managers' Internal Control Program

The Department conducts self-assessments of internal management controls throughout the Department in accordance with the Federal Managers' Financial Integrity Act (FMFIA), formally designated as the Department's Managers' Internal Control

U.S. Deputy Secretary of Defense Gordon England at the DoD Check It Campaign's Most Improved Process Ceremony. Secretary England recognizes DoD Components for the most improved processes totaling $3 billion worth of savings due to improving internal management controls through the Check It Campaign.

DoD photo – March 2008

Program. These internal management controls are the checks and balances that assist program and financial managers to achieve results, and safeguard the integrity of the programs. As prescribed by OMB Circular No. A-123, the Department's internal management control program assesses both the effectiveness of nonfinancial functions and processes, and the management controls as prescribed by Appendix A for financial reporting. A description of each self-assessed category with weaknesses and the corresponding results follow:

The right people, with the right skills, at the right time, to do the job right.

We count on you.

CHECK IT
what gets checked, gets done

We Are At War. Are You Doing All You Can?

453-17

1. FMFIA Section 2 Financial Reporting Material Weaknesses.

The DoD is using a phased-in approach for the FMFIA Section 2 Financial Reporting, and the areas that were tested in the FY 2008 are listed below.

- Fund Balance with Treasury
- Investments
- Military Equipment
- Real Property
- Medicare-Eligible Retiree Health Care Fund
- Federal Employees Compensation Act Liabilities
- Environmental Liabilities
- Appropriations Received
- Accounts Receivable
- Inventory
- Accounts Payable
- Operating Materials and Supplies
- Other Assets
- Other Liabilities
- General Property and Equipment (Defense Organizations only)
- Compilation of financial reports
- Internal Use Software (Intelligence Community only)

Table 1a identifies the resulting weaknesses. The column entitled "Ref Table 2" crosswalks the reported FMFIA manager-identified weaknesses to similar auditor-identified weaknesses in Table 2.

Table 1a. Summary of Management Assurances							
Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)							
Statement of Assurance	**No Assurance**						
Material Weaknesses *(information deemed necessary for clarification)*	**Ref Table 2**	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
1) Valuation of Property Plant and Equipment - Military Equipment	11	1					1
2) Real Property Assets	11	1					1
3) Environmental Liabilities	3	1					1
4) Health Care *(Medicare-Eligible Retiree Health Care Liability in military departments direct care operations)*		1					1
5) Fund Balance with Treasury	10	1					1
6) Accounts Receivable	13	1					1
7) Inventory Valuation	12	1					1

Table 1a. Summary of Management Assurances - continued							
Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)							
Statement of Assurance	**No Assurance**						
Material Weaknesses *(information deemed necessary for clarification)*	**Ref Table 2**	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
8) Operating Materials and Supplies	6	1					1
9) Accounts Payable	1	1					1
10) Personal Property -General Personal Property *(Includes reported problems with the cost of DoD property and materiel in the possession of contractors. Reassessed and moved from Overall Nonfinancial Operations #3 to DoD Financial Reporting Material Weakness #10)*	11 & 4		1				1
11) Financial Reporting Compilation *(Includes Statement of Net Cost, Statement of Budgetary Resources, Statement of Net Position, and Accounting Adjustments)*	2, 7, & 8		1				1
12) Financial Reporting of Intragovernmental Eliminations *(Includes Anti-Deficiency Act Violations)*	5		1				1
Total Financial Reporting Material Weaknesses		**9**	**3**	**0**	**0**	**0**	**12**

2. FMFIA Section 2 Overall (Nonfinancial) Operations Material Weaknesses. The Department's 34 Component heads follow a robust, programmatic approach to establish and assess internal management controls for their respective nonfinancial, mission-essential operations. Table 1b shows the resulting weaknesses for this assessment.

Table 1b. Summary of Management Assurances							
Effectiveness of Internal Control over Overall (Nonfinancial) Operations (FMFIA Section 2)							
Statement of Assurance	Qualified						
Overall Material Weaknesses *(information deemed necessary for clarification)*	Ref Table 2	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
1) Department of Defense Financial Management Systems and Processes *(Reassessed as a consolidation into Conformance with Financial Management System Requirement FMFIA Section 4, Material Weakness #1, Table 1c.)*		1				1	
2) Management of Information Technology and Assurance		1					1
3) Personal Property *(Reassessed as new financial weakness #10, Table 1a.)*		1				1	
4) Personnel Security Investigations		1					1
5) Real Property Infrastructure		1		1			
6) Government Card Program		1		1			
7) Contracting		1					1
8) Procurement Data		1		1			
9) Interagency Acquisition and Potential Anti-Deficiency Act Violations		1		1			
10) Certain Audits Do Not Meet Professional Standards			1				1
Total Material Weaknesses for Overall Operations		**9**	**1**	**4**	**0**	**2**	**4**

3. FMFIA Section 4 Financial System Nonconformance Weaknesses: The Department considers financial system conformance with governmentwide requirements and reports one weakness that covers the wide range of pervasive problems identified during the assessment. Table 1c shows the resulting weakness.

| Table 1c. Summary of Management Assurances							
Conformance with Financial Management System Requirements (FMFIA Section 4)							
Statement of Assurance	**No Assurance**						
System Nonconformance *(information deemed necessary for clarification)*	**Ref Table 2**	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
1) Department of Defense Financial Management Systems and Processes	9	1					1
Total System Conformance Material Weaknesses		**1**					**1**
Total FMFIA Weaknesses		**19**	**4**	**4**	**0**	**2**	**17**

Improvement Results

Since FY 2001, the Department has reduced the number of outstanding management-identified material weaknesses by 85 percent—from 116 material weaknesses to 17 (Figure 3-1). From FY 2003 to FY 2007, the total number decreased 59 percent, from 41 to 19. And in the last year, the Department further reduced the self-identified weaknesses from 19 to 17 by correcting four, reassessing two, and identifying four new weaknesses.

Financial Statement Audit

In addition to the management-identified weaknesses described in the categories above, the Department of Defense Inspector General identified material weaknesses in financial statement reporting as shown in Table 2.

Figure 3-1. Reducing Internal Management Control Weaknesses

Source: FY 2001-2007 DoD Performance and Accountability Reports

453-09
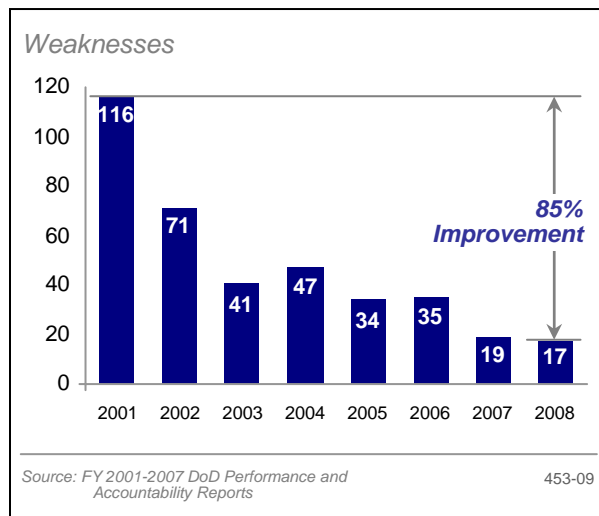
Table 2. Summary of Financial Statement Audit					
Audit Opinion				**Disclaimer**	
Restatement				**Yes**	
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
1 Accounts Payable	1				1
2 Accounting Entries	1				1
3 Environmental Liabilities	1				1
4 Government Property in Possession of Contractors	1				1
5 Intragovernmental Elimination	1				1
6 Operating Materiels and Supplies	1				1
7 Reconciliation of Net Cost of Operations to Budget	1				1
8 Statement of Net Cost	1				1
9 Financial Management Systems	1				1
10 Fund Balance with Treasury	1				1
11 General Property, Plant & Equipment	1				1
12 Inventory	1				1
13 Accounts Receivable	1				1
Total Material Weaknesses	**13**	**0**	**0**	**0**	**13**

Compliance with Federal Financial Management Improvement Act

Table 3 shows the Department's compliance with the Federal Financial Management Improvement Act. The Department is committed to implementing the FIAR Plan and the ETP to achieve significant progress toward financial management improvement.

Table 3. Compliance with Federal Financial Management Improvement Act		
	Agency	**Auditor**
Overall Substantial Compliance	No	No
1. System Requirements	No	No
2. Accounting Standards	No	No
3. U.S. Standard General Ledger at Transaction Level	No	No

Good News Results

The Department has improved its financial management by focusing its efforts on fixing material weaknesses and strengthening internal controls. This approach has yielded positive results providing a more complete depiction of the Department's financial health and improved operational processes. The Department remains committed to transformational efforts to continue reducing material weaknesses.

IMPROPER PAYMENTS INFORMATION ACT REPORTING

The Improper Payments Information Act (IPIA) of 2002, as implemented by the OMB Circular No. A-123, Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments," requires federal agencies to review all programs and activities annually, and identify those that may be susceptible to significant erroneous payments. The Department strengthened financial management controls and improved processes used to detect and prevent improper payments. Eliminating improper payments ensures that taxpayer dollars are spent wisely and efficiently. The Department's FY 2008 review did not identify any programs at risk of significant erroneous payments in accordance with OMB criteria (programs with erroneous payments exceeding both $10 million and 2.5 percent of program payments). All DoD improper payment estimates for FY 2008 are at or below 2 percent for all programs. However, based on the large volume of transactions and/or high dollar amounts, DoD is required to report on all programs regardless of threshold criteria. The five programs are:

- Military Health Benefits

- Military Pay

- Civilian Pay

- Military Retirement

- Travel Pay

Improper payment estimates for these programs are presented in Figure 3-2. Commercial pay information is included in the Recovery Audit Reporting section of this report. Additional information regarding DoD's IPIA program and statistical sampling methodology is available on the Comptroller Web site. (See Appendix B.)

Risk Assessment

The Department's risk assessments for each of the programs identified above addressed the effectiveness of internal controls for preventing improper payments (such as prepayment reviews), and system weaknesses

Figure 3-2. FY 2008 Estimated Improper Payments

Program	Estimated $	Estimated %
Military Health Benefits	$ 178.0M	2.00 %
Military Pay	$ 434.6M	0.60 %
Civilian Pay	$ 73.9M	0.28 %
Military Retirement	$ 44.0M	0.12 %
Travel Pay	$103.0M	2.00 %

453-10

identified internally or by outside audit activities. While the Department's improper payment percentages are low, numerous pre- and post-payment controls further minimize or eliminate improper payments. The following paragraphs summarize the processes in place and the results of survey assessment reviews.

Statistical Sampling Process

The Department of Defense uses random sampling methods designed to meet or exceed the OMB requirement of annual estimates of improper payments with a 90 percent confidence interval (plus or minus 2.5 percent).

Corrective Action Plans

Military Health Benefits

The Department's contracts have had payment performance standards for military health benefit claims processing in place for many years. The estimate of 2 percent is based on the contract performance standard,

U.S. Air Force Airman 1st Class Travis Oswald, 332nd Expeditionary Security Force, Immediate Reaction Force, prepares for a patrol at Joint Base Balad, Iraq.

DoD photo by Staff Sgt. Aaron Allmon, U.S. Air Force – September 2008

however, actual results have been consistently less than 2 percent. The FY 2007 results reflect an improper payment rate of 0.93 percent. Overpayments found in the annual audit process are projected to the audit universe, and the managed care support contractor is liable for the total amount. This contractual design, combined with numerous prepayment and post-payment controls, effectively minimizes improper payments and ensures the Government's risk for improper payments in military health benefits is minimized.

Military Pay

Reviews of military pay accounts for FY 2008 resulted in projected improper payments of an estimated $435 million (0.6 percent of approximately $72 billion in total military net pay). Most of these improper payments were due to inaccurate or untimely reporting of entitlement data to the automated pay system.

The Department has worked closely with the Active Duty Components to develop metrics and track timeliness and accuracy of pay entitlements. Senior leaders participate in quarterly Personnel and Pay Council meetings to discuss problem areas and seek solutions to mitigate discrepancies causing improper payments. This partnership with the Active Duty Components has improved pay entitlement timeliness and accuracy. The Department continues to develop Reserve and Guard performance metrics and goals to improve accuracy and timeliness, which should further reduce improper payments.

Civilian Pay

Reviews of civilian payments resulted in an improper payment estimate of $73.9 million (0.28% of approximately $26.4 billion). Efforts to identify and reduce actions contributing to net pay errors continue. Improper payments that resulted in collection actions are primarily attributed to untimely and inaccurate reporting of time and attendance (60 percent of total collections), and personnel actions and pay allowances (40 percent of total collections).

The Personnel and Pay Council continues to serve as a forum for senior leadership to address civilian pay problem areas and seek methods to mitigate risks and reduce improper payments. Civilian pay metrics, corresponding accuracy and timeliness goals, and corrective action plans have been developed at the component level.

Military Retirement

Payments to deceased retirees continue to be the highest risk for improper payments in military retired pay. Based on FY 2008 reviews, the Department projected approximately $44 million in improper payments for this program, with almost the entire amount paid to deceased retirees. This represents an overpayment rate of 0.12 percent of the estimated $36 billion in annual military retirement payments. In certain situations, payment to deceased retirees is unavoidable due to payment cycle dates and the fact that notifying a payroll activity is not likely to be the first action for next-of-kin at the time of a retiree's passing. A review of confirmed payments to deceased retirees in FY 2008 indicated that the Department recovered 96 percent of the overpayment amounts within 60 days, demonstrating the effectiveness of controls within the retired pay system once a retiree's death confirmation is received and processed for final disposition.
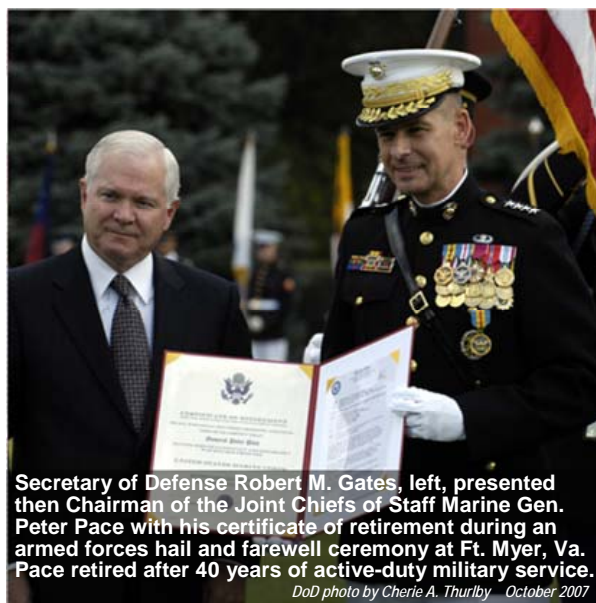
Secretary of Defense Robert M. Gates, left, presented then Chairman of the Joint Chiefs of Staff Marine Gen. Peter Pace with his certificate of retirement during an armed forces hail and farewell ceremony at Ft. Myer, Va. Pace retired after 40 years of active-duty military service.
DoD photo by Cherie A. Thurlby   October 2007

The Department's control processes to prevent, identify, and reduce overpayments to deceased retirees include a series of periodic eligibility notifications, early detection data mining efforts, and partnerships with other Federal and state entities. The Department routinely compares retired and annuity payroll master file databases to Social Security Administration deceased records and periodically compares records with the Office of Personnel Management's deceased files. File comparisons are also conducted with the Department of Veterans Affairs' cemetery database and with individual states with sizable retiree and annuitant populations (e.g., Texas, California, and Florida). Retirees identified as deceased in these comparisons must validate their continued eligibility, or the accounts are suspended.

Travel Pay

The Department performs monthly random post-pay reviews of travel vouchers processed through the Defense Travel System (DTS) and the Windows Integrated Automated Travel System (WinIATS), as well as permanent change of station (PCS) vouchers, and regularly reports the results to management. Estimates of travel overpayments are projected based on random reviews of WinIATS temporary duty

(TDY) and military PCS vouchers that were not included in last year's AFR. The Department implemented a sampling and review process for Army IATS in FY 2008 that meets the improper payment reporting requirements. Reports to management address accuracy rate trends, over- and underpayment dollar amounts, reasons for errors, and recommendations for corrective actions to alleviate similar errors in the future.

The DTS is targeted to be the single, online travel system used by the Department. Until DTS is fully implemented, Components will continue to use other travel systems, such as IATS and Reserve Travel System, to settle travel vouchers. Summary results for the Department during FY 2008 revealed an estimated $103 million (2 percent) in improper payments out of a total of $5.2 billion in travel voucher reimbursements.

Improper Payment Program Reporting

Figure 3-3 summarizes the Department's improper payment reduction outlook and total program outlays (payments) from FY 2007 through FY 2011. Detailed information regarding DoD's IPIA program and notes relating to Figure 3-3 are available on the Comptroller Web site. (See Appendix B.)

Figure 3-3. Improper Payment (IP) Reduction Outlook

Program	FY 2007			FY 2008			FY 2009 Estimated			FY 2010 Estimated			FY 2011 Estimated		
	Outlays ($ B)	IP (%)	IP ($ M)	Outlays ($ B)	IP (%)	IP ($ M)	Outlays ($ B)	IP (%)	IP ($ M)	Outlays ($ B)	IP (%)	IP ($ M)	Outlays ($ B)	IP (%)	IP ($ M)
Military Health Benefits	$ 9.5	0.93	$88.6	$ 8.9	2.00	$178.0	$10.8	2.00	$ 216	$ 10.5	2.00	$ 211	$ 10.8	2.00	$ 216
Military Pay	$72.9	0.57	$ 416.4	$ 72.1	0.60	$434.6	$68.4	0.53	$ 362.5	$ 69.7	0.52	$362.4	$ 71	0.51	$ 362.1
Civilian Pay	$29.6	0.25	$ 74.6	$ 26.4	0.28	$ 73.9	$31.3	0.24	$ 73	$ 32.3	0.23	$ 72.3	$ 32.3	0.22	$ 72.2
Military Retirement	$37.1	0.13	$48.7	$ 35.6	0.12	$ 44.0	$41.3	0.12	$ 51.4	$ 42.9	0.12	$ 54.2	$ 44.5	0.12	$ 52.3
Travel Pay	$ 5.8	1.00	$43.6	$ 5.2	2.00	$103.0	$ 8.6	0.95	$ 82.4	$ 8.5	0.90	$ 76.5	$ 8.3	0.88	$ 72.3

IP – Improper Payments, B – Billions, M – Millions   453-11

Recovery Auditing Reporting

The Department uses a number of different mechanisms to prevent, identify, and collect improper payments, including recovery and contract auditing for all commercial payments.

Recovery Auditing

The Department maintains an extensive post-payment review process for identifying improper payments in the commercial pay arena. This process uses post-payment reviews performed both internally and by recovery auditing contractors paid from the recovered proceeds. Departmentwide commercial payments constitute a large volume of transactions with high dollar values, and DoD is vigilant about ensuring payment accuracy. In addition to the post-payment reviews, DoD also prevents over- and under-payments through various manual and automated prepayment initiatives.

Commercial pay overpayments identified for recovery result from internal recovery audit efforts and contract reconciliation. Selected high dollar value payments are reviewed manually, and periodic independent reviews of commercial payments improve improper payment detection, correction, and prevention efforts.

The Department's Mechanization of Contract Administration Services (MOCAS) system processed 57 percent of the $331 billion in DFAS commercial pay disbursements made in FY 2008. Reviews of this system accounted for 67 percent ($203.9 million) of the total $303.7 million in improper commercial payments identified by DFAS in FY 2008. Over two-thirds of this total represented underpayments (Figure 3-4).

Recovery Audit Activity Table

The $331.2 billion represents the total dollar value of disbursements (payments) in MOCAS and vendor pay systems. In accordance with IG recommendations, the recoveries identified do not include unsolicited refunds of overpayments from vendors. The DFAS successfully separated voluntary and involuntary refunds for FY 2008 reporting.

Cumulative amounts reflect totals from FY 2006 and 2007 since detailed information on collections by type, excluding voluntary repayments, is not readily available prior to FY 2006. In addition to the success of DFAS, the Department is continuing to separate voluntary from involuntary refunds until all DoD Components achieve this capability. Components reported an additional $26.7 billion in commercial payments that were processed independently from DFAS in FY 2008. Recovery audit statistics for this amount includes voluntary refunds and, therefore, was excluded from the Recovery Audit Activity table. Additional recovery audit activity that includes voluntary refunds is available on the Comptroller Web site. (See Appendix B.)

Contract Auditing

The Defense Contract Audit Agency (DCAA) routinely performs billing system audits at major contractors to determine the adequacy of the contractor's billing system, internal controls, and compliance with those controls. Such audits assure the Department that the contract payment billings are based on costs incurred and on approved provisional billing rates. The DCAA also performs paid voucher reviews at major contractors, and special

Figure 3-4. Recovery Audit Activity

Recovery Audit Activity *(Amounts in millions)*	Departmental Recovery Audit Totals
Amount Subject to Review for FY 2008 Reporting	$331,192
Actual Amount Reviewed and Reported (FY 2008)	$331,192
Overpayment Amounts Identified for Recovery (FY 2008)	$53.3
Amounts Recovered (FY 2008)	$41.7
Overpayment Amounts Identified for Recovery (Prior Years)	$66.0
Amounts Recovered (Prior Years)	$60.0
Cumulative Amounts Identified for Recovery (FY 2008 and Prior)	$119.3
Cumulative Amounts Recovered (FY 2008 and Prior)	$101.7

453-12

U.S. Sailors set the aircraft training barricade on the flight of the Nimitz-class aircraft carrier USS Ronald Reagan (CVN 76) while under way in the Gulf of Oman, during flight deck drills.
U.S. Navy photo by Specialist 3rd Class Chelsea Kennedy – September 2008

purpose audits at contractor locations, when an improper payment risk factor is identified and neither a billing system review nor a test of paid vouchers is planned.

Accountability

Certifying officer legislation holds certifying and disbursing officers accountable for government funds. In accordance with section 2773a of title 10, United States Code, pecuniary liability attaches automatically when there is a fiscal irregularity, i.e., 1) a physical loss of cash, vouchers, negotiable instruments, or supporting documents, or 2) an improper payment. Efforts to recover payments from a recipient must be undertaken in accordance with debt collection procedures in the DoD Financial Management Regulation.

Infrastructure

The Department has the information and infrastructure needed to reduce improper payments in each of the Improper Payment Program areas. The Department began implementing a Business Activity Monitoring (BAM) toolset in FY 2008, which will employ the latest technology to increase the efficiency and effectiveness of commercial pay improper payment detection and prevention procedures. The BAM toolset is expected to reach full functionality for improper payments in FY 2009.

Barriers

Military retirement is the only program area facing statutory or regulatory barriers limiting corrective actions. Barriers include the Retired and Annuitant Pay service contract and the Federal Acquisition Regulation.

In January 2002, DFAS awarded Retired and Annuitant Pay service operations to a contractor. Although most functions remained unchanged from when the Government performed these functions, there are now contractual limits to the Government's involvement in the day-to-day operations of Retired and Annuitant Pay. The Continuing Government Activity Office was formed to oversee this contract. However, the Government can no longer direct how the work is accomplished. To bring about an operational change, both the Government and the contractor must agree on how to effect and fund the change and modify the contract accordingly.