



FY 2019

## Other Information



Management Challenges	175
Summary of Financial Statement Audit and Management Assurances	180
Payment Integrity	200
Fraud Reduction Report	237
Reduce the Footprint	239
Civil Monetary Penalty Adjustment for Inflation	240



**2019 DoD Warrior Games' Senior Athlete Learns New Meaning of "Still in the Fight"**

*Click picture for the full article*

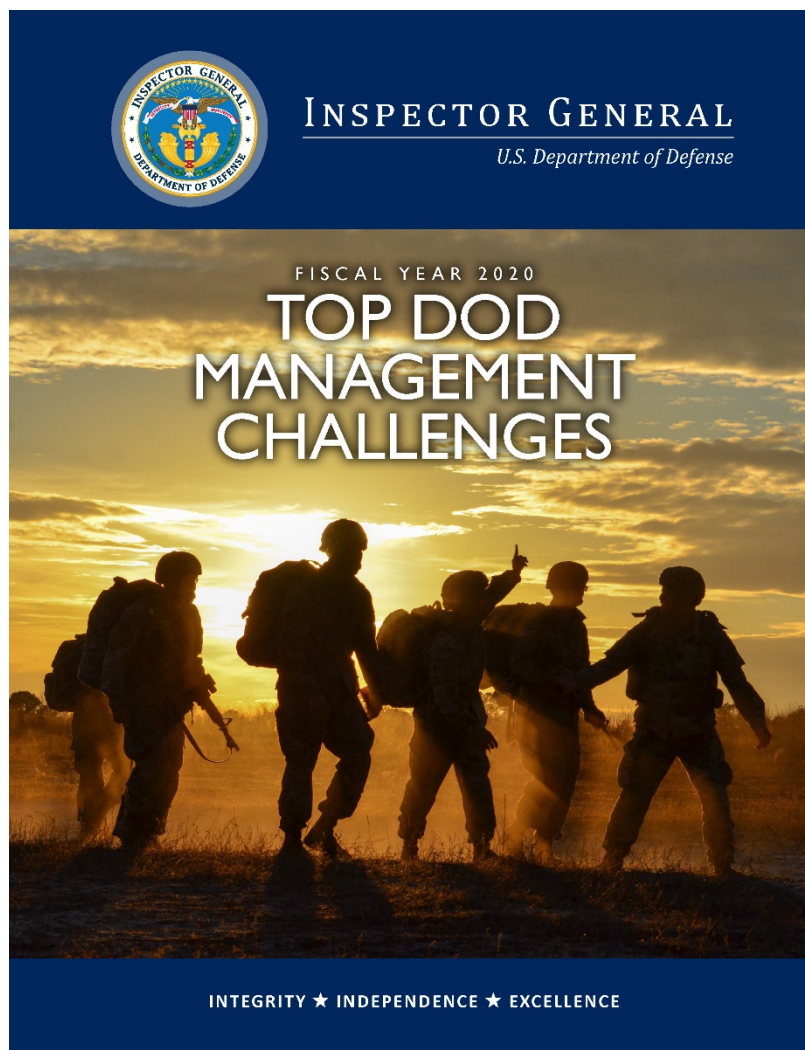


## Management Challenges

In accordance with the [Reports Consolidation Act of 2000](#), the DoD Inspector General ([DoD IG](#)) prepares an annual statement that summarizes what the DoD IG considers to be the most serious management and performance challenges facing the Department. This statement is included in a larger report by the DoD IG that provides additional background and descriptive information about each challenge and provides an assessment of the Department's progress in addressing the challenges.

The DoD Office of the Inspector General uses the DoD IG report as a research and planning tool to identify areas of risk in DoD operations. As the report is forward-looking and outlines the most significant management and performance challenges facing the Department now and in the future, it is labelled as FY 2020 rather than FY 2019 to reflect its forward-looking orientation.

The DoD IG's statement and executive summary of the most serious management and performance challenges facing the Department are included on the following pages. The complete DoD IG report on FY 2020 Top DoD Management Challenges as well as reports from previous years are available at the [DoD IG website](#).





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



October 15, 2019

The Reports Consolidation Act of 2000 requires each Inspector General (IG) to prepare an annual statement that summarizes what the IG considers to be the “most serious management and performance challenges facing the agency” and to assess the agency’s progress in addressing those challenges. According to the law, each “agency head may comment on the IG’s statement, but may not modify the statement.” The IG’s statement must also be included in the Agency Financial Report.

This document, the FY 2020 Top DoD Management Challenges, outlines the DoD OIG’s independent assessment of the DoD’s most significant management challenges. This document is forward looking and identifies the top challenges facing the DoD in FY 2020 and beyond. The DoD OIG also uses this document as a critical part of the DoD OIG’s oversight planning process, which seeks to ensure that the DoD OIG’s planned oversight of DoD programs and operations addresses the DoD’s most significant management challenges.

The DoD OIG independently identifies these challenges based on a variety of factors, including our independent research, assessment, and judgment; oversight work completed by the DoD OIG and other oversight organizations; congressional hearings and legislation; input from DoD officials; and issues highlighted by the media that are adversely affecting the DoD.

This year, many of the challenges remain from previous years, because they are persistent, long-standing challenges that the DoD will continue to face. The DoD OIG added two new management challenges this year, focused on the welfare and well-being of service members and their families and on supply chain management and security. Both of these are critical issues that contribute to the readiness of the DoD and its ability to pursue its mission.

In this document, we discuss each challenge, the actions taken by the DoD to address the challenge, and we assess the DoD’s progress towards addressing each challenge. We also discuss completed oversight work and ongoing and planned DoD OIG oversight work related to the challenges.

The DoD OIG will continue to assess these challenges and conduct independent oversight to help promote the economy, efficiency, and effectiveness of the DoD; detect and deter fraud, waste, and abuse in DoD programs and operations; and ensure ethical conduct throughout the DoD.

A handwritten signature in black ink that reads "Glenn A. Fine".

Glenn A. Fine  
Principal Deputy Inspector General  
Performing the Duties of Inspector General

## Executive Summary

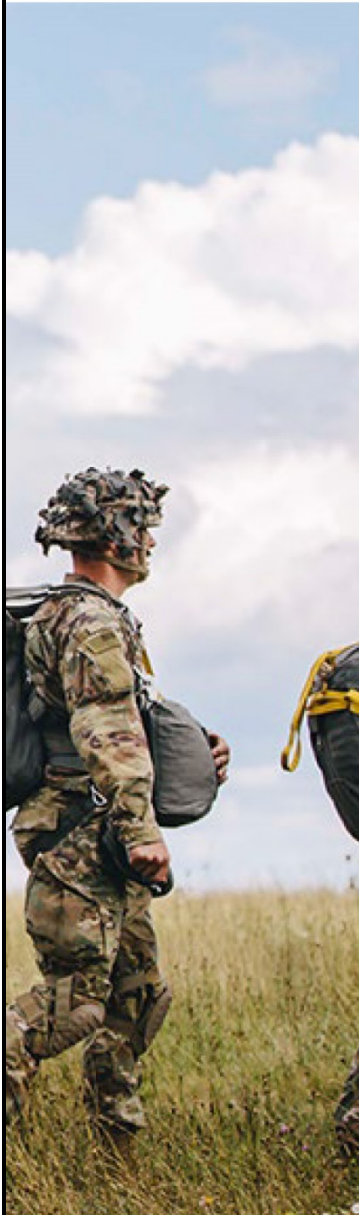
The DoD OIG independently identifies the top management challenges after soliciting input from across the DoD, reviewing congressional legislation and hearings, considering oversight work completed by the U.S. Government Accountability Office and other Defense oversight organizations, and examining issues highlighted by the media that are adversely affecting the performance of the DoD. The DoD OIG also assesses the DoD's progress towards addressing previously reported findings and recommendations from completed audits, evaluations, and investigations.

### FY 2020 TOP DOD MANAGEMENT CHALLENGES

The FY 2020 Top DoD Management Challenges are:

1. Countering China, Russia, Iran, and North Korea
2. Countering Global Terrorism
3. Ensuring the Welfare and Well-being of Service Members and Their Families
4. Ensuring Ethical Conduct
5. Financial Management: Implementing Timely and Effective Actions to Address Financial Management Weaknesses Identified During the First DoD-Wide Financial Statement Audit
6. Enhancing DoD Cyberspace Operations and Capabilities
7. Enhancing Space-Based Operations, Missile Detection and Response, and Nuclear Deterrence
8. Improving Supply Chain Management and Security
9. Acquisition and Contract Management: Ensuring That the DoD Gets What It Pays For On Time, at a Fair Price, and With the Right Capabilities
10. Providing Comprehensive and Cost-Effective Health Care

These challenges are not listed in order of importance or by magnitude of the challenge. All are critically important management challenges facing the DoD.



## EXECUTIVE SUMMARY

## NEW DOD MANAGEMENT CHALLENGES

Many of the top management challenges facing the DoD are enduring challenges that do not change each year. However, each year the OIG assesses the challenges, deleting some, adding others, and modifying the scope of some of the challenges.

This year, the DoD OIG added two new management challenges focused on the welfare and well-being of service members and their families and supply chain management and security. The FY 2019 Management Challenge “Implementing DoD Reform Initiatives” is no longer a standalone challenge, although the DoD OIG’s oversight work continues to assess the effectiveness of DoD reform initiatives. Additionally, the DoD OIG revised the management challenge that traditionally addressed operational readiness to focus on the welfare and well-being of service members and their families.

The first new challenge, Management Challenge 3, “Ensuring the Welfare and Well-being of Service Members and Their Families,” highlights the importance of taking care of the DoD’s most important asset, its people. In July 2019, when he became the Secretary of Defense, Secretary Mark Esper stated during his welcoming ceremony:

[A]s a personal priority of mine, we will place a particular focus on the well-being of our families. Our military spouses and civilians and children make tremendous sacrifices for this country [a]nd in return, I am committed to ensuring they are properly cared for. . . . They know that this administration, that this Congress and the American people have their back. And they know that when they are deployed far away from home, their families will be taken care of.

This management challenge discusses issues related to the quality and effectiveness of measures that affect the welfare and well-being of service members and their families, such as substance abuse programs, sexual assault prevention and response programs, suicide prevention programs, installations and housing, child care services, and spousal employment.

The second new challenge is Management Challenge 8, “Improving Supply Chain Management and Security.” In today’s global and integrated world, ensuring the security of the DoD’s supply chain is critical to the DoD’s mission. This management challenge examines the risks of diminishing supplies and reliance on sole-source suppliers, repairing existing parts economically and efficiently, identifying and prosecuting fraudulent parts suppliers, expanding limited distribution networks and transportation capabilities, improving asset visibility and property accountability, and maintaining cybersecurity in the supply chain.

## ENDURING DOD MANAGEMENT CHALLENGES

Some challenges remain persistent, even as the DoD continues to address them.

Management Challenge 1, “Countering China, Russia, Iran, and North Korea,” and Management Challenge 2, “Countering Global Terrorism,” discuss the continued threats to the United States and to international and regional stability from these countries and terrorist groups. In this challenge, the DoD must maintain technological superiority and military readiness to deter military operations from U.S. adversaries; prevent increased development of nuclear weapons; counter support of terrorism; and combat cyber intrusions and technological theft from the U.S. Government, corporations, and allies.

Management Challenge 4, “Ensuring Ethical Conduct,” discusses the need to maintain high ethical standards and ensure appropriate accountability for any misconduct. According to a June 2019 Gallup poll on confidence in institutions, the U.S. military remains the most highly trusted public institution, with more than 70 percent of Americans having a great deal of trust in the U.S. military, which is higher than any other U.S. institution. This management challenge focuses on trends in ethical misconduct and how investigations of senior officials, investigations of whistleblower reprisal and restriction, and

criminal investigations support the DoD's efforts to maintain the American public's trust and execute its mission.

Management Challenge 5, "Financial Management: Implementing Effective Correction Action Plans to Correct Identified Financial Management Weakness," another persistent challenge, focuses on the importance of accurate and comprehensive financial records. Last year, the DoD OIG completed and oversaw the first ever full scope financial statement audit of the DoD. While the DoD received a disclaimer of opinion the benefit of the audit was in the findings and deficiencies the audit identified. If corrected, these findings can help the DoD address longstanding financial management challenges that continue to impair the DoD's ability to provide reliable, timely, and useful financial and managerial information to support reported financial statement balances. The lack of reliable financial information can adversely affect the DoD's operating, budgeting, and policy decisions.

Management Challenge 6, "Enhancing DoD Cyberspace Operations and Capabilities," highlights the threat to the DoD from cyber attacks that seek to collect intelligence, target DoD critical infrastructures, manipulate information, conduct cyber attacks, and disrupt or extort critical U.S. Defense contractors. To counter these threats, the DoD is conducting offensive and defensive cyber operations to protect its cyberspace networks and is attracting and retaining a skilled cyber workforce.

Management Challenge 7, "Enhancing Space-based Operations, Missile Detection and Response, and Nuclear Deterrence," is an increasingly important challenge. The DoD is heavily investing in space-based operations, ballistic missiles, and nuclear weapons to counter threats from adversaries. According to the 2019 Missile Defense Review, Russia, China, and North Korea are investing substantially in their missile capabilities, enhancing their ground and sea-launched missile arsenals with short, intermediate, and intercontinental-range systems, in addition to fielding mobile missiles to challenge the U.S. ability

to detect their launch preparations. To ensure that the United States maintains its dominance in these areas and to protect itself and its allies, the DoD must modernize and replace these systems to meet current and future threats.

Management Challenge 9, "Acquisition and Contract Management: Ensuring That the DoD Gets What It Pays For On Time, at a Fair Price, and With the Right Capabilities," recognizes long-standing challenges in acquisition and contract management. Without clearly defined requirements, acquisitions of weapons systems that are regularly experiencing cost overruns and schedule delays may reduce the DoD's capabilities and readiness. The complexity of developing major systems, while also addressing cyber security challenges within the acquisition process and deterring contractor fraud in DoD acquisition programs, further compounds the challenge for the DoD. In addition, the DoD obligates hundreds of billions of dollars for goods and services each year, which if not managed properly, creates the potential for significant fraud, waste, and abuse.

Management Challenge 10, "Providing Comprehensive and Cost-Effective Health Care," discusses the challenges DoD faces in providing high-quality health care, at a reasonable cost, for 9.4 million beneficiaries, including service members, retirees, and eligible family members. Annual appropriations for Defense Health Programs have increased from \$31.4 billion in FY 2015 to \$33.3 billion in FY 2019, an increase of 6.1 percent. The DoD will also transfer the administration and control of military medical treatment facilities to the Defense Health Agency in FY 2020, as part of broader reform of the military healthcare system. This transition will create additional challenges, while the DoD seeks to reduce vulnerabilities and inefficiencies in the health care system, prevent health care fraud, and improve the integration of health records with the Department of Veterans affairs.

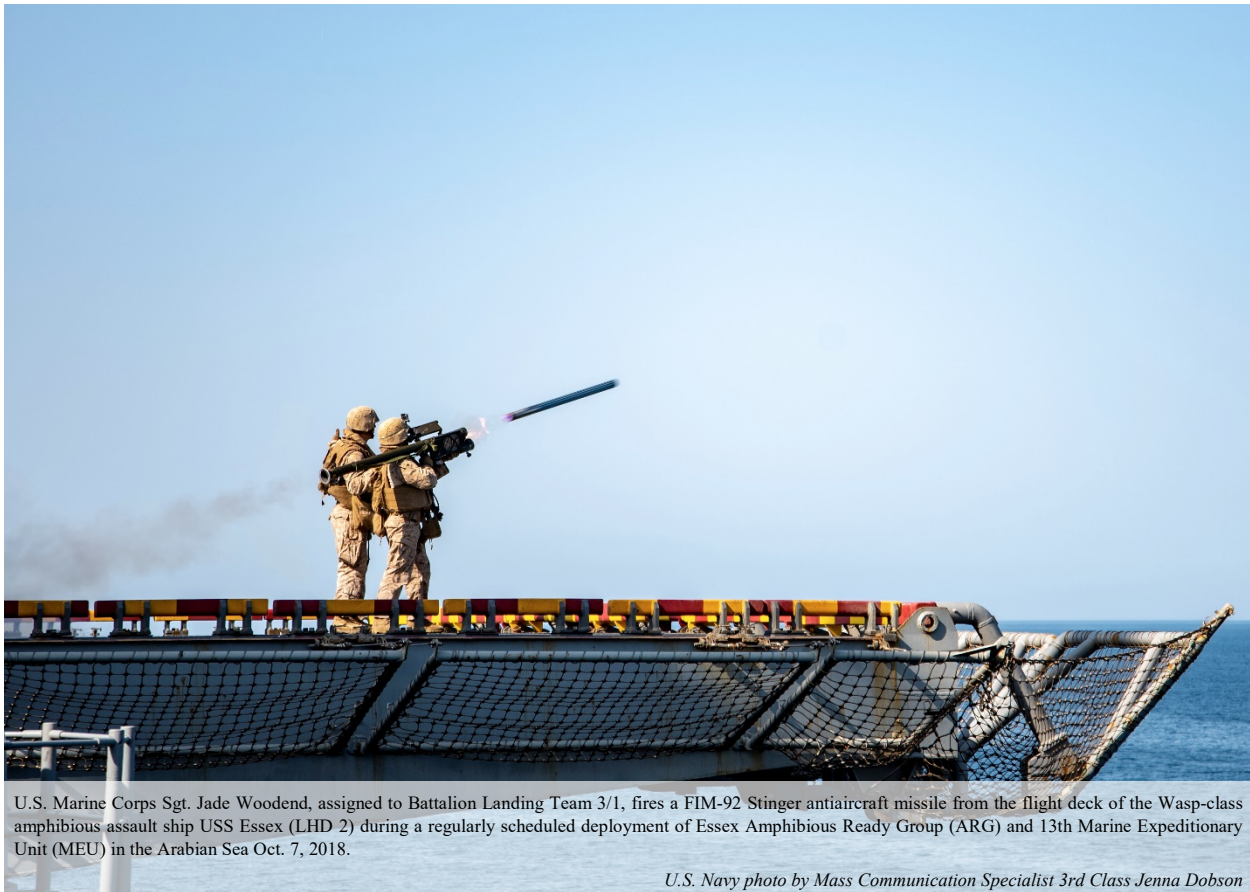
While there are other challenges facing the DoD, the DoD OIG considers these the top 10 challenges facing the DoD.

## Summary of Financial Statement Audit and Management Assurances

Department of Defense (DoD or the Department) management has a fundamental responsibility to develop and maintain effective internal controls to ensure that its programs operate, and federal resources are used, efficiently and effectively to achieve the DoD mission. As discussed in Management's Discussion and Analysis, managers throughout the Department are accountable for ensuring effective internal controls in their areas of responsibility. All DoD Components are required to establish and assess internal controls over financial reporting, mission-essential operations, and financial management systems.

Management-identified weaknesses are determined by assessing internal controls, as required by the Federal Managers' Financial Integrity Act of 1982 ([FMFIA](#)), the Federal Financial Management Improvement Act of 1996 ([FFMIA](#)), and Office of Management and Budget (OMB) [Circular No. A-123](#), and fall into one of the following categories:

- FMFIA Section 2, Effectiveness of Internal Control over Financial Reporting;
- FMFIA Section 2, Effectiveness of Internal Control over Operations; or
- FMFIA Section 4, Compliance with Federal Financial Management Systems Requirements / FFMIA Section 803(a), Implementation of Federal Financial Management Improvements.



U.S. Marine Corps Sgt. Jade Woodend, assigned to Battalion Landing Team 3/1, fires a FIM-92 Stinger anti-aircraft missile from the flight deck of the Wasp-class amphibious assault ship USS Essex (LHD 2) during a regularly scheduled deployment of Essex Amphibious Ready Group (ARG) and 13th Marine Expeditionary Unit (MEU) in the Arabian Sea Oct. 7, 2018.

*U.S. Navy photo by Mass Communication Specialist 3rd Class Jenna Dobson*



---

## Summary of Financial Statement Audit

Exhibit 1 lists the 25 areas of material weaknesses in the Department's financial statement reporting as identified by the DoD Inspector General ([DoD IG](#)) in the Independent Auditor's Report. The material weakness areas identified by DoD IG in the Independent Auditor's Report are consistent with those identified by DoD management (which are primarily identified using the assessable unit categories as defined by the DoD Enterprise Risk Management and Internal Control Program) with five exceptions: Joint Strike Fighter Program, Military Housing Privatization Initiative (MHPI), Service Providers, DoD-Wide Oversight and Monitoring, and Component-Level Oversight and Monitoring. The Department concurs with DoD IG's conclusions and will focus on implementing the necessary corrective actions to address each of the material weaknesses noted by the DoD IG in the Independent Auditor's Report.

### *Joint Strike Fighter Program*

The Department concurs with DoD IG's conclusions and will initiate further efforts to substantiate the existence, completeness, and valuation of the [Joint Strike Fighter](#) program's government property. The independent auditors of the relevant Military Services recognized improved DoD asset valuation efforts, but additional effort is required to gain full accountability and proper financial reporting of the Joint Strike Fighter program's assets and activities.

### *Military Housing Privatization Initiative (MHPI)*

The Department concurs with DoD IG's conclusions and will initiate further efforts to properly record and disclose the financial activities of the [Military Housing Privatization Initiative](#) program in accordance with the requirements of Accounting Standards Codification ([ASC](#)) 302, Statements of Federal Financial Accounting Standards ([SFFAS](#)) 49, and Office of Management and Budget ([OMB](#)) [Circular No A-136](#).

### *Service Providers*

The Department concurs with DoD IG's conclusions and will initiate further efforts to design and implement reliable controls at DoD service providers to provide greater assurance to their DoD Component and Federal Agency customers. During FY 2019, the Department continued to assess DoD service provider controls through the use of Statement on Standards for Attestation Engagements ([SSAE](#)) 18 examinations. Through these and other related efforts, the Department successfully closed approximately 65% of notices of findings and recommendations (NFRs) identified during the FY 2018 examinations that related to DoD service provider controls.

### *DoD-Wide Oversight and Monitoring & Component-Level Oversight and Monitoring*

The Department concurs with DoD IG's conclusions and will initiate further efforts to strengthen controls to oversee and monitor DoD Agency-Wide and Component-level financial statements. During FY 2019, the Department made progress toward the remediation of the Oversight and Monitoring material weakness identified by the DoD IG in FY 2018 related to the development of enterprise-wide corrective actions through the implementation and use of a Department-wide NFR database. As of September 30, 2019, approximately 93% of the NFRs related to material weakness assessable unit areas have corrective action plans entered into the NFR database.

**Exhibit 1. Summary of Financial Statement Audit***Audit Opinion: Disclaimer**Restatement: No*

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Management Systems and Information Technology <sup>1</sup>	1				1
Universe of Transactions <sup>2</sup>	1				1
Fund Balance with Treasury	1				1
Suspense Accounts <sup>3</sup>	0	1			1
Inventory and Related Property	1				1
Operating Materials & Supplies	1				1
General Property, Plant, and Equipment <sup>4</sup>	1				1
Real Property <sup>4</sup>	0	1			1
Government Property in Possession of Contractors <sup>5</sup>	1				1
Joint Strike Fighter Program	0	1			1
Military Housing Privatization Initiative (MHPI)	0	1			1
Accounts Payable <sup>3</sup>	1				1
Environmental and Disposal Liabilities	1				1
Legal Contingencies <sup>6</sup>	1				1
Beginning Balances <sup>6</sup>	1				1
Unsupported Accounting Adjustments <sup>7, 8</sup>	1				1
Intradepartmental Eliminations and Intragovernmental Transactions <sup>7</sup>	1				1
Gross Costs <sup>6, 9</sup>	0	1			1
Earned Revenue <sup>6, 9</sup>	0	1			1
Reconciliation of Net Cost of Operations to Outlays <sup>6</sup>	1				1
Budgetary Resources <sup>10</sup>	1				1
Service Providers	0	1			1
Entity-Level Controls	1				1
DoD-Wide Oversight and Monitoring <sup>11</sup>	0	1			1
Component-Level Oversight and Monitoring <sup>11</sup>	0	1			1
Financial Statement Compilation <sup>12</sup>	1			(1)	0
Accounts Receivable <sup>13</sup>	1		(1)		0
Statement of Net Cost <sup>9</sup>	1			(1)	0
Oversight and Monitoring <sup>11</sup>	1			(1)	0
<b>Total Material Weaknesses</b>	<b>20</b>	<b>9</b>	<b>(1)</b>	<b>(3)</b>	<b>25</b>

<sup>1</sup> The Financial Management Systems and Information Technology material weakness identified by the DoD IG is included within the Federal Financial Management Systems Requirements material weakness identified by DoD management in Exhibit 6.

<sup>2</sup> The Universe of Transactions material weakness identified by the DoD IG is included within the Federal Financial Management Systems Requirements material weakness identified by DoD management in Exhibit 6.

<sup>3</sup> The Suspense Accounts, Accounts Payable, and Intradepartmental Eliminations and Intragovernmental Transactions material weaknesses identified by the DoD IG are included within the Health Care Liabilities, Military Pay, Contract/Vendor Pay, Reimbursable Work Orders, and Fund Balance with Treasury material weaknesses identified by DoD management in Exhibit 2.

<sup>4</sup> The General Property, Plant, and Equipment and Real Property material weaknesses identified by the DoD IG includes the Equipment Assets and Real Property Assets material weaknesses identified by DoD management in Exhibit 2.

<sup>5</sup> The Government Property in Possession of Contractors material weakness identified by the DoD IG is included within the Accountability and Management of Property Furnished to Contractors for the Performance of a Contract material weakness identified by DoD management in Exhibit 2.

<sup>6</sup> The Legal Contingencies, Beginning Balances, Gross Costs, Earned Revenue, and Reconciliation of Net Cost of Operations to Outlays material weaknesses identified by the DoD IG are included within the Financial Reporting Compilation material weakness identified by DoD management in Exhibit 2.

<sup>7</sup> The Unsupported Accounting Adjustments material weakness identified by the DoD IG was titled Journal Vouchers by the DoD IG in the DoD Agency Financial Report for FY 2018.

<sup>8</sup> The Unsupported Accounting Adjustments material weakness identified by the DoD IG is included within the Fund Balance with Treasury material weakness identified by DoD management in Exhibit 2.

<sup>9</sup> The Gross Costs and Earned Revenue material weaknesses identified by the DoD IG were broken out from the Statement of Net Cost material weakness identified in the DoD Agency Financial Report for FY 2018.

<sup>10</sup> The Budgetary Resources material weakness identified by the DoD IG is included within the Financial Reporting Compilation material weakness identified by DoD management in Exhibit 2.

<sup>11</sup> The DoD-Wide Oversight and Monitoring and Component-Level Oversight and Monitoring material weaknesses identified by the DoD IG were broken out from the Oversight and Monitoring material weakness identified in the DoD Agency Financial Report for FY 2018.

<sup>12</sup> The Financial Statement Compilation material weakness identified by the DoD IG in the DoD Agency Financial Report for FY 2018 was consolidated into the DoD-Wide Oversight and Monitoring and Entity-Level Controls material weaknesses identified by the DoD IG in FY 2019.

<sup>13</sup> The Accounts Receivable material weakness identified by the DoD IG in the DoD Agency Financial Report for FY 2018 was downgraded to a significant deficiency in FY 2019.



U.S. Navy Master-at-Arms 2nd Class Christopher Henderson, and Military Working Dog Mark, forward-deployed to the security department, practice on an agility course at Camp Lemmonier, Djibouti, Jan. 4, 2019.

*U.S. Navy photo by Mass Communication Specialist 1st Class Joe Rullo*

## Summary of Management Assurances

### FMFIA Section 2, Effectiveness of Internal Controls over Financial Reporting

Exhibit 2 lists the FY 2019 material weaknesses in internal controls over financial reporting, captured by end-to-end process and assessable unit, and reports the changes from the material weaknesses disclosed in the DoD Agency Financial Report (AFR) for FY 2018.

#### Exhibit 2. FY 2019 Effectiveness of Internal Control over Financial Reporting (FMFIA §2)

Statement of Assurance: Modified Assurance

End-to-End Process	Assessable Unit	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A	Entity Level Controls	0	1				1
	Oversight and Monitoring <sup>1</sup>	0	1	(1)			0
Budget-to-Report	Fund Balance with Treasury (FBWT)	3					3
	Financial Reporting Compilation	6					6
Hire-to-Retire	Health Care Liabilities <sup>2</sup>	2			(1)		1
	Military Pay	3					3
Procure-to-Pay	Contract/Vendor Pay	6	2				8
	Reimbursable Work Orders	3					3
Acquire-to-Retire	Equipment Assets	2					2
	Real Property Assets	2					2
	Environmental Liabilities	0	1				1
	Accountability and Management of Property Furnished to Contractors for the Performance of a Contract	1					1
	Internal Use Software (IUS)	1					1
Plan-to-Stock	Inventory <sup>3</sup>	4	3			(3)	4
	Operating Materials & Supplies (OM&S)	3	2				5
	Requisitioning Process (Customer Orders) <sup>4</sup>	2			(2)		0
<b>Total Material Weaknesses</b>		<b>38</b>	<b>10</b>	<b>(1)</b>	<b>(3)</b>	<b>(3)</b>	<b>41</b>

<sup>1</sup> In FY 2019, the Department concurred with a material weakness identified by the auditor, implemented corrective actions to remediate the material weakness, and validated the effectiveness of the corrective actions.

<sup>2</sup> In FY 2019, two material weaknesses that were separately reported in FY 2018 were consolidated into a single reportable material weakness.

<sup>3</sup> In FY 2019, three material weaknesses that were separately reported in FY 2018 were determined to be defined more accurately under new headings.

<sup>4</sup> In FY 2019, two material weaknesses that were separately reported in FY 2018 as Requisitioning Process (Customer Orders) were consolidated into the existing Reimbursable Work Orders material weaknesses.

## Exhibit 3. Internal Control over Financial Reporting Corrective Action Plans

Areas of Material Weakness	Corrective Actions
<p style="text-align: center;"><u>Entity Level Controls</u> Department-wide; Identified FY 2019</p> <ul style="list-style-type: none"> <li>Multiple DoD Components do not have sufficient Entity Level Controls to establish an internal control system that will produce reliable financial reporting. The lack of sufficient controls at the Component level increase the risk of material misstatement on both the Components' financial statements and Agency-wide financial statements</li> </ul>	<p style="text-align: center;"><u>Entity Level Controls</u> Department-wide; Correction Target FY 2021</p> <ul style="list-style-type: none"> <li>Components will conduct an annual evaluation of Entity Level Controls to analyze high-risk areas and develop mitigation and corrective action efforts.</li> </ul>
<p style="text-align: center;"><u>Fund Balance with Treasury</u> Department-wide; Identified FY 2005</p> <ul style="list-style-type: none"> <li>Ineffective processes and controls related to the reconciliation of transactions posted to the Department's Fund Balance with Treasury (FBwT) accounts with the Treasury's records.</li> <li>Collections and disbursements are reported to Treasury but are not recorded in the Department's general ledger.</li> <li>Ineffective processes for providing sufficient and accurate documentation to support FBwT transactions and reconciling items.</li> </ul>	<p style="text-align: center;"><u>Fund Balance with Treasury</u> Department-wide; Correction Target FY 2023</p> <ul style="list-style-type: none"> <li>Track and reconcile collection/disbursement activity from the core financial systems and associated feeder systems to the Department's general ledgers and to Treasury accounts.</li> <li>Develop an auditable FBwT reconciliation process, to include the implementation of internal controls that ensure reconciling differences are accurate, documented, and resolved in a timely manner.</li> <li>Analyze and resolve transactions posted to budget clearing accounts ("suspense" accounts).</li> <li>Analyze and resolve transactions reported on Treasury's Statement of Differences (e.g., deposit in-transit, Intra-Governmental Payment and Collection, and check issue differences).</li> <li>Perform aging analysis of appropriations received and apply reconciliations back to at least FY 2013.</li> <li>Obtain Statement on Standards for Attestation Engagements (SSAE) 16/SSAE 18, Reporting on Controls on Fund Balance with Treasury – Transaction Distribution, which includes Defense Cash Accountability Systems.</li> </ul>
<p style="text-align: center;"><u>Financial Reporting Compilation</u> Department-wide; Identified FY 2005</p> <ul style="list-style-type: none"> <li>Ineffectively designed processes and controls to prepare accurate financial statements supported by general ledger balances that align with strategic performance plans to ensure compliance with Generally Accepted Accounting Principles (GAAP) and the DoD Financial Management Regulation.</li> <li>Inability to reconcile detail-level transactions with the general ledgers and provide adequate supporting documentation for adjusting entries.</li> <li>Accounting balances are unsupported due to inadequate financial management systems and related processes and procedures.</li> <li>Inconsistency between documented processes and procedures versus actual procedures performed regarding reconciliations and resolving differences.</li> <li>Lack of developed approach for performing reconciliations and retaining data for sensitive activities.</li> <li>Inconsistent procedures for recording Journal Vouchers and Standard Business Transactions. Supporting documentation retention procedures also pose a significant risk to producing accurate and complete financial statements and reports.</li> </ul>	<p style="text-align: center;"><u>Financial Reporting Compilation</u> Department-wide; Correction Target FY 2024</p> <ul style="list-style-type: none"> <li>Revise standard operating procedures and control descriptions to incorporate the requirements of OMB Circular No. A-136, and improve variance analysis and annual financial report review procedures. Implement Standard Financial Information Structure (SFIS) to standardize financial reporting that aligns with the Department's mission.</li> <li>Obtain population of feeder system transactional data and perform reconciliations from feeder systems to the general ledgers and financial statements.</li> <li>Establish process to govern posting logic changes within DoD accounting systems; consolidate, categorize, document, and prioritize system requirements for changes to enable correct posting logic compliance issues.</li> <li>Establish guidelines for reconciliation variances that need to be resolved and require relevant service providers to post corrections in a timely manner.</li> <li>Develop approach for performing reconciliations and retaining data for sensitive activities.</li> <li>Implement controls that ensure adequate documentation exists to validate and support journal entries</li> <li>Establish an enterprise records management program and develop file management plans that will identify a centralized repository for documentation retention.</li> </ul>

Areas of Material Weakness	Corrective Actions
<p style="text-align: center;"><u>Health Care Liabilities</u> Department-wide; Identified FY 2003</p> <ul style="list-style-type: none"> <li>The Military Treatment Facilities (MTFs) do not have compliant, transaction-based accounting systems that apply common and consistent business rules in a manner envisioned by the Department’s planned Standard Financial Information Structure. There is insufficient evidence that adequate controls exist and have been implemented to ensure the timeliness and accuracy of medical coding processes at MTFs. The MTF-level data is based on budget execution processes, rather than accrual-based accounting. There is insufficient evidence that appropriate and consistent cutoff of accounting activity occurs at the MTF level.</li> </ul>	<p style="text-align: center;"><u>Health Care Liabilities</u> Department-wide; Correction Target FY 2025</p> <ul style="list-style-type: none"> <li>Complete the implementation of new Enterprise Resource Planning (ERP) core financial systems for each Service in order to record accrual-based, patient-level cost accounting data.</li> <li>Develop and implement methodology for patient itemized bills to address the auditor-identified weakness related to direct care. Itemized patient bills for all patients provided care will be attainable with the deployment of the new Electronic Health Record; which is projected to be implemented across the Military Health Services by close of FY 2025.</li> <li>Deploy the Itemized Billing Solution and the Coding Compliance Editor to support the Department’s ability to generate accurate itemized bills and establish justifiable audit trails. The initial deployment is projected to begin in July 2021, and is anticipated to be fully deployed by the close of FY 2025.</li> </ul>
<p style="text-align: center;"><u>Military Pay</u> Department-wide; Identified FY 2011</p> <ul style="list-style-type: none"> <li>Ineffective processes and controls to record military pay transactions and personnel actions in a timely, complete, and accurate manner.</li> <li>Unreliable and/or lack of supporting documentation for personnel actions.</li> <li>Outdated military pay and financial management information technology systems lack modern capabilities to support required auditability framework. Current deficiencies require unsustainable manual activities to support auditability.</li> </ul>	<p style="text-align: center;"><u>Military Pay</u> Department-wide; Correction Target FY 2020</p> <ul style="list-style-type: none"> <li>Develop and implement a plan for an integrated pay and personnel system designed to determine pay and entitlements, report ad hoc financial management data, and capture and store key supporting documentation.</li> </ul>
<p style="text-align: center;"><u>Contract/Vendor Pay</u> Department-wide; Identified FY 2003</p> <ul style="list-style-type: none"> <li>Lack of standard data structure governing purchase request format prevents traceability and use of electronic transactions from initiation of funding through contract execution.</li> <li>Funding may not be accurately recorded or available in the accounting system at the time of contract award. Lack of standard processes for recording contract obligations electronically in financial systems.</li> <li>Insufficient policies governing the recording of accruals related to contracts.</li> <li>Inability to reconcile contract data to financial data. Unable to reconcile buyer and seller intragovernmental and intergovernmental transactions.</li> <li>Current systems and processes do not enable match of award to accounting data for public transparency, (e.g., Data Act).</li> <li>Lack of timely contract closeout and de-obligation of funds limits the Department’s access to capital.</li> <li>Improper payments may result from incorrect payment request type or from assignment of contracts to entitlement systems that do not have procedures for the financing payments or payment of cost vouchers on cost type contracts.</li> </ul>	<p style="text-align: center;"><u>Contract/Vendor Pay</u> Department-wide; Correction Target FY 2025</p> <ul style="list-style-type: none"> <li>Establish and publish DoD Instruction setting policies, procedures, and data standards for purchase requests.</li> <li>Publish and implement an automated pre-award funds validation standard operating procedure to ensure funds have been accurately recorded and are available prior to award, and that accounting systems can accurately record proposed contract award structure.</li> <li>Publish a policy to expand the use of accrual recording based on Wide Area Workflow acceptance data to additional accounting systems</li> <li>Develop policies, procedures, and data standards for electronic intergovernmental / intragovernmental transactions. Pilot capability to obtain contract source data can be accurately matched to recorded accounting data for public posting.</li> <li>Remove regulatory discretion in establishing type of payment request. Establish entitlement systems assignment rules based on payment type.</li> <li>Implement controls to ensure contract data can be accurately matched to recorded accounting data for public posting.</li> <li>Develop department-wide contract closeout standard operating procedures to ensure financial systems are in balance and de-obligations of funds occur returning available funds back to programs in a timely manner.</li> </ul>

Areas of Material Weakness	Corrective Actions
<ul style="list-style-type: none"> <li>Lack of standard processes for recording contract obligations electronically in financial systems.</li> </ul>	<ul style="list-style-type: none"> <li>Scorecard all accounting and entitlement systems to track progress toward recording contract obligation compliance with standard procedures</li> </ul>
<p style="text-align: center;"><u>Reimbursable Work Orders</u> Department-wide; Identified FY 2011</p> <ul style="list-style-type: none"> <li>Lack of evidence of performance, acknowledgement of receipt of intragovernmental goods and services, and validity of open obligations.</li> <li>Inability to verify the timeliness and accuracy of disbursements and validate recorded reimbursable agreements.</li> <li>Ineffective process to collect, exchange and reconcile buyer and seller intragovernmental transaction.</li> </ul>	<p style="text-align: center;"><u>Reimbursable Work Orders</u> Department-wide; Correction Target FY 2022</p> <ul style="list-style-type: none"> <li>Treasury has identified G-Invoicing as a solution to intragovernmental transaction differences and will develop an online portal for conducting Buy/Sell transactions to manage the processing and approval of general terms and conditions (GT&amp;C) Agreements, Orders, and Invoices.</li> <li>DoD Components will perform gap analyses on key processes, build and enter GT&amp;C's agreements in G-Invoicing system, participate in G-Invoicing training, and build orders in accordance with data standards.</li> <li>DoD Components will fund, design, and build all accounting system interfaces in alignment with Treasury's G-Invoicing release schedule.</li> <li>DoD Components and the Defense Finance and Accounting Service will implement training, guidance, and management oversight of periodic reviews, and identify and implement standard enterprise reconciliations that provide for validation of the seller/buyer-side balances and input of supported journal vouchers for timing differences.</li> </ul>
<p style="text-align: center;"><u>Equipment Assets</u> Department-wide; Identified FY 2006</p> <ul style="list-style-type: none"> <li>Processes and controls to account for the quantity and value of military and general equipment are not effective.</li> <li>Insufficient internal controls and supporting documentation requirements to ensure timely recording, relief, and accuracy of Construction in Progress (CIP).</li> </ul>	<p style="text-align: center;"><u>Equipment Assets</u> Department-wide; Correction Target FY 2022</p> <ul style="list-style-type: none"> <li>DoD Components to continue to validate asset listings, document process and control environments.</li> <li>DoD Components are developing and implementing an approach for valuing Equipment and sustaining these values, modifying Accountable Property System of Record (APSR) to ensure they capture the required data.</li> <li>DoD Components are applying controls and procedures to manage property accountability.</li> <li>Provide a consistent and streamlined valuation methodology for General Equipment (GE) across the department.</li> <li>Continue to convene the GE Working Group, report on quarterly progress in establishing accountable records.</li> <li>Leverage Component Property Lead property accountability workshop to promote sound accountability practices.</li> <li>Develop standard data elements and reporting metrics to standardize equipment accountability.</li> </ul>
<p style="text-align: center;"><u>Real Property Assets</u> <i>Existence and Completeness</i> Department-wide; Identified FY 2000</p> <ul style="list-style-type: none"> <li>Real property processes, controls and supporting documentation do not substantiate that (1) all existing assets are recorded in an APSR and (2) all assets recorded in the APSR properly reflect the Department's legal interest in the asset.</li> </ul>	<p style="text-align: center;"><u>Real Property Assets</u> <i>Existence and Completeness</i> Department-wide; Correction Target FY 2021</p> <ul style="list-style-type: none"> <li>Implement and regularly conduct a lifecycle process for a real property physical inventory: <ul style="list-style-type: none"> <li>Include validation of information for those data elements required in the calculation of Plant Replacement Value for alternative valuation in accordance with Statement of Federal Financial Accounting Standards 50.</li> <li>Ensure adequate documentation is available to support existence and completeness and placed in service dates.</li> </ul> </li> <li>Implement lifecycle process for regular reconciliation of real property assets and the financial statements.</li> </ul>

Areas of Material Weakness	Corrective Actions
<p><i>Valuation, Rights &amp; Obligations, Presentation, and Disclosure</i> Department-wide; Identified FY 2000</p> <ul style="list-style-type: none"> <li>Real property processes, controls and supporting documentation do not substantiate that (1) all real property assets are properly valued and (2) documentation for all real property assets properly support rights and obligations, and are appropriately presented and consistently reported in the financial statements. The Department has insufficient internal controls and supporting documentation to ensure complete physical inventories to support deemed cost; and the timely recording relief, and accuracy of CIP values for real property construction or improvements in financial systems and the Accountable Property System of Record.</li> </ul>	<p><i>Valuation, Rights &amp; Obligations, Presentation, and Disclosure</i> Department-wide; Correction Target FY 2024</p> <ul style="list-style-type: none"> <li>Ensure proper posting and reporting within financial systems and implement process for regular reconciliation of CIP and the financial statements.</li> <li>Ensure adequate documentation is available to support valuation of real property in the APSR, to include physical inventories used to calculate deemed cost values.</li> <li>Ensure adequate documentation is available to support rights and obligations for financial statement reporting, specifically real property use agreements outlining responsibilities of each party, to include but not limited to, responsibility for financial reporting.</li> </ul>
<p><u>Environmental Liabilities</u> Department-wide; Identified FY 2019</p> <ul style="list-style-type: none"> <li>The Department is unable to develop accurate estimates and account for Environmental Liabilities (EL) in accordance with generally accepted accounting procedures due to the following issues: <ul style="list-style-type: none"> <li>The Real Property Department-wide Existence and Completeness Material Weakness does not allow a full and accurate accounting of asset-driven EL outside of the Defense Environmental Restoration Program.</li> <li>Existence and Completeness issues with the General Equipment inventories does not allow a full and accurate accounting of asset-driven EL associated with equipment.</li> <li>Insufficient formal policy, procedures and supporting documentation exists for developing and supporting cost estimates.</li> </ul> </li> </ul>	<p><u>Environmental Liabilities</u> Department-wide; Correction Target FY 2021</p> <ul style="list-style-type: none"> <li>Track progress of individual action plans related to real property and equipment physical inventory procedures.</li> <li>Review NFRs for overarching policy gaps and develop policy as needed.</li> <li>Review and track Component corrective action plans to implement systems, processes, and controls to ensure the accuracy of environmental liabilities identification, valuation, documentation and reporting.</li> <li>Complete centralized packages for support of Remedial Action Cost Engineering Requirements model during Component audit.</li> </ul>
<p><u>Accountability &amp; Management of Property Furnished to Contractors for the Performance of a Contract</u> Department-wide; Identified FY 2011</p> <ul style="list-style-type: none"> <li>The Department does not have clear guidance and had not properly trained Program Office staff, contract specialists, and accountable property officers regarding policies and procedures for appropriately managing property provided to a contractor (this includes both contractor acquired property and Government Furnished Property (GFP)). As a result, the Department's Accountability records are incomplete. Audit reports have consistently identified a lack of accountability concerning GFP and contractor acquired property, for which the Department has title but not immediate physical control.</li> </ul>	<p><u>Accountability &amp; Management of Property Furnished to Contractors for the Performance of a Contract</u> Department-wide; Correction Target FY 2021</p> <ul style="list-style-type: none"> <li>Improve guidance and business processes to ensure accountability of GFP and contractor acquired property and continue to review existing contracts and establish accountability over legacy GFP.</li> <li>Continue to deploy and utilize the electronic DoD enterprise solutions for standard GFP transactions.</li> <li>Review metrics such as GFP contract clause compliance, assertion packages and APSRs for each component and provide analysis of progress towards accountability.</li> <li>Continue to hold GFP Working Group meetings.</li> <li>Monitor newly established requirements for reporting compliance.</li> </ul>



Areas of Material Weakness	Corrective Actions
<p style="text-align: center;"><u>Internal Use Software</u> Department-wide; Identified FY 2015</p> <ul style="list-style-type: none"> <li>The Department has not properly addressed the management and financial reporting of Internal Use Software (IUS), which is required by Statement of Federal Financial Accounting Standards (SFFAS) 10 and must be addressed through updated guidance in the Financial Management Regulation (FMR)</li> </ul>	<p style="text-align: center;"><u>Internal Use Software</u> Department-wide; Correction Target FY 2023</p> <ul style="list-style-type: none"> <li>Continue to identify and establish accountability over existing IUS and identify new acquisitions to ensure capital IUS costs are captured and reported appropriately in accordance GAAP.</li> <li>Develop and implement processes and system changes to APSRs, and deploy and update APSRs to account for IUS. Evaluate Department-wide compliance for IUS APSR requirements to drive IUS APSR requirement and policy changes. Continue to convene the IUS working group to highlight policy and guidance gaps.</li> <li>Develop implementation guidance and updated policies in response to Component identified gaps.</li> <li>Validate corrective actions; promote use of SFFAS 50 allowances for opening balance of IUS.</li> <li>Develop and draft implementation guidance on software licenses in conjunction with Chief Information Officer, Comptroller, and Components.</li> </ul>
<p style="text-align: center;"><u>Inventory</u> Department-wide; Identified FY 2005</p> <ul style="list-style-type: none"> <li>Inadequate policies and procedures over comingled inventory, timely reconciliation of subsidiary ledgers to the Electronic Business System, and proper application of SFFAS 48 inventory costing methodologies.</li> <li>Lack of internal controls to support management's assertion of existence and completeness of Inventory, to prevent users from posting transactions that exceed their approved thresholds, to review and follow-up of inventory and to review interface transmission errors, and to ensure transactions are recorded in the proper period for existence, completeness, and valuation of inventory.</li> <li>Insufficient evidential matter to support inventory transactions, inventory held at third parties, and that erroneous transactions were identified and corrected completely and accurately.</li> <li>Insufficient documentation to ensure updated business process control measures completely reflect all sub-processes within inventory and are recorded on a timely basis.</li> </ul>	<p style="text-align: center;"><u>Inventory</u> Department-wide; Correction Target FY 2023</p> <ul style="list-style-type: none"> <li>The Department drafted policy to address issues with physical inventories and comingling. DoD Components will develop systematic requirements to perform a transactional level reconciliation by implementing automated solutions, developing policy, and testing internal controls. DoD Components have updated and implemented procedures and are testing internal controls around inventory valuation. DoD Components are developing and implementing a new policies and Standard Operating Procedures covering SFFAS 3 methods.</li> <li>DoD Components will use Enterprise Risk Management and Internal Control Programs to develop a Manager's Internal Control Program process with internal controls in accordance with an enterprise Corrective Action Plans. The Department drafted policy to address issues with physical inventories and comingling and has placed priority on Government Property in Possession of Contractors. Efforts will continue to updated inventory accrual internal control activities. DoD Components will update inventory processes to include controls to verify the existence, completeness and valuation of inventory and implement policy changes to support long-term Courses of Action to mitigate inventory weaknesses</li> <li>The Department drafted policy to address issues with physical inventories. The Department published a memo to prioritize Government Property in possession of contractors. DoD Components to design better reports and improve management oversight and the procedures to improve Design and Effectiveness of management oversight controls.</li> <li>DASD(Logistics) and the DoD Components will define Title Transfer for each category of in-transit inventory. DoD Components will create and maintain documentation that provides an end-to-end process narrative including an accurate depiction of the internal control environment.</li> </ul>

Areas of Material Weakness	Corrective Actions
<p><u>Operating Materials &amp; Supplies (OM&amp;S)</u> Department-wide; Identified FY 2005</p> <ul style="list-style-type: none"> <li>• Historical cost data is not maintained while using the Moving Average Cost calculation method as required by the FMR.</li> <li>• DoD Components do not consistently have evidential matter readily available to demonstrate that OM&amp;S was properly reported in financial statement.</li> <li>• DoD Components lack policies and procedures to demonstrate end-to-end process to account for OM&amp;S-Remainder and related financial documentation.</li> <li>• The Department has not performed an annual assessment of OM&amp;S acquired by Components for the purposes of determining appropriate accounting treatment under SFFAS 3.</li> <li>• The Department does not report OM&amp;S Inventory on the Balance Sheet in accordance with SFFAS 3 and related standards.</li> </ul>	<p><u>Operating Materials &amp; Supplies (OM&amp;S)</u> Department-wide; Correction Target FY 2024</p> <ul style="list-style-type: none"> <li>• The Department is implementing a new system to calculate Moving Average Costs and maintain proper documentation, as required by the FMR.</li> <li>• The Department is implementing a new accounting system to improve transaction recording, improve documentation, correct control gaps, and improve internal processes to ensure proper valuation and documentation.</li> <li>• The Department drafted policy to address issues with physical inventories. DoD Components will create and update policies and procedures to accurately process and document OM&amp;S. Services to migrate accounting processes to an accountable property system of record.</li> <li>• The Department Plant Property &amp; Equipment team is developing enterprise level guidance to appropriately account and value all Inventory &amp; Real Property assets.</li> <li>• The Department will determine the aggregate value of the OM&amp;S categories and analyze which the Purchase Method to be used. The Department will finalize the analysis and reporting format/approach for OM&amp;S amounts in accordance with the FMR.</li> </ul>



U.S. Army Paratroopers with the 1st Squadron, 40th Cavalry Regiment (Airborne), 4th Infantry Brigade Combat Team (Airborne), 25th Infantry Division, U.S. Army Alaska, huddle to protect a mock casualty from the rotor-wash of a landing UH-60 Black Hawk helicopter at Joint Base Elmendorf-Richardson, Alaska Feb. 20, 2019.

*U.S. Army photo by Sgt. Alex Skripnichuk*

*FMFIA Section 2, Effectiveness of Internal Control over Operations*

DoD Components use an entity-wide, risk-based, self-assessment approach to establish and assess internal controls for mission-essential operations. Exhibit 4 lists the FY 2019 material weaknesses in the internal controls over operations, captured by operational area, and reports the changes from the material weaknesses disclosed in the DoD AFR for FY 2018.

**Exhibit 4. FY 2019 Effectiveness of Internal Controls over Operations (FMFIA §2)**

*Statement of Assurance: Modified Assurance*

Assessable Unit	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Acquisition	1	2			0	3
Comptroller and/or Resource Management	1					1
Communication	1					1
Contract Administration <sup>5</sup>	3			(2)		1
Information Technology	2	1				3
Force Readiness	1					1
Manufacturing, Maintenance, and Repair	1					1
Personnel and/or Organizational Management	5					5
Operations <sup>6</sup>	1		(1)			0
Security <sup>7</sup>	1				(1)	0
Support Services	2					2
Supply Operations	1	1				2
<b>Total Material Weaknesses</b>	<b>20</b>	<b>4</b>	<b>(1)</b>	<b>(2)</b>	<b>(1)</b>	<b>20</b>

<sup>5</sup> In FY 2019, three material weaknesses that were separately reported in FY 2018 were consolidated into a single reportable material weakness

<sup>6</sup> In FY 2019, one material weakness reported in FY 2018 related to Department of the Navy ship operations was downgraded to a significant deficiency following implemented improvements

<sup>7</sup> In FY 2019, one material weakness reported in FY 2018 related to Department of the Navy facility security was downgraded to a significant deficiency following implemented improvements

**Exhibit 5. Effectiveness of Internal Controls over Operations Corrective Action Plans**

Areas of Material Weakness	Corrective Actions
<u>Acquisition</u> Department-wide; Identified FY 2011	<u>Acquisition</u> Department-wide; Correction Target FY 2021
<ul style="list-style-type: none"> <li>• Many DoD acquisition programs fall short of cost, schedule, and performance expectations resulting in unanticipated cost overruns, reduced buying power, and/or in some cases resulting in a delay or reduction in the capability ultimately delivered to the warfighter.</li>   <li>• Lack of Program Executive Office Program, as mandated by the DoD 5000 series of issuances                         <ul style="list-style-type: none"> <li>○ Acquisition lifecycle oversight, policies, regulations, and organizational structure are non-compliant</li> <li>○ Lack of effective process to support mission by identifying, assessing, and providing oversight of development and procurement solutions.</li> <li>○ Inadequate documentation and filing of acquisition records.</li> </ul> </li>   <li>• Non-compliance with Clinger Cohen Act, 10 U.S.C. §2222, DoD Instruction (DoDI) 5000.74, and DoDI 5000.75; insufficient management and oversight of IT services and Defense Business Systems; Inadequate use of DoD and Defense Contract Management Agency controls.</li> </ul>	<ul style="list-style-type: none"> <li>• Implement DoD 5000 series policy mandates and guidance to properly align acquisition with Agency Mission and Needs which reduces risk and impacts to cost, schedule and performance.</li> <li>• Continue to improve implementation of Better Buying Power 3.0 and clarification/update of DoD Instruction 5000.02.</li> <li>• Develop and implement Procedural Instruction for Acquisition Approval and Governance. Create supporting tools to aid and inform decisions, reduce the staff effort to review the programs, and improve the monitoring and forecasting of potential trouble or risk areas.</li> <li>• Conduct Systems Reviews, Capability Portfolio Reviews, Configuration Steering Boards and Cost Reviews to identify process inefficiencies and improve the acquisition management process.</li> <li>• Develop additional procedures to establish oversight controls for programs, including procedures to report cost, schedule and performance variances, and to address reported variances.</li> <li>• Establish a system of tracking to report acquisition program performance and highlight variances.</li> <li>• Publish updated Investment Management Guidance with business capability review instructions and schedule.</li> <li>• Publish the Defense Business Operations Management Strategic Plan addressing investment management, portfolio management, business architecture, and information technology modernization strategies.</li> <li>• Establish portfolios and capability strategies for each portfolio, conduct portfolio reviews following implementation.</li> <li>• Identify initial optimization opportunities for review by Defense Enterprise Business Operations Senior Steering Group / Defense Business Council, pursue approved optimization opportunities.</li> <li>• Complete validation of Defense Acquisition Workforce Improvement Act (DAWIA) acquisition certification required positions.</li> <li>• Establish training plan for involved personnel, certify personnel;</li> <li>• Staff-up DAWIA positions with certified employees.</li> </ul>
<u>Comptroller and/or Resource Management</u> Department-wide; Identified FY 2013	<u>Comptroller and/or Resource Management</u> Department-wide; Correction Target FY 2021
<ul style="list-style-type: none"> <li>• Ineffective internal controls and management oversight for processes such as management of improper payments and use of Internal Use Software and property furnished to contractors.</li> </ul>	<ul style="list-style-type: none"> <li>• Brief leadership, appoint and train staff, develop risk profiles, conduct initial, quarterly and annual validation and assessment, and automate as appropriate.</li> </ul>

Areas of Material Weakness	Corrective Actions
<p style="text-align: center;"><u>Communication</u> Department of the Air Force; Identified FY 2018</p> <ul style="list-style-type: none"> <li>The Department of the Air Force (AF) has identified a systemic issue in communication of security information between installations and appropriate external entities.</li> </ul>	<p style="text-align: center;"><u>Communication</u> Department of the Air Force; Correction Target FY 2023</p> <ul style="list-style-type: none"> <li>Identify Digital fingerprinting hardware, software to improve archiving, and ability to reference/verify fingerprinting and facilitate transfer of fingerprints between U.S. law enforcement agencies.</li> <li>Identify partnering solution with AF Office of Special Investigations.</li> <li>Security Forces Management Information System Replacement.</li> <li>Long-term software solution for case management.</li> </ul>
<p style="text-align: center;"><u>Contract Administration</u> Department-wide; Identified FY 2009</p> <ul style="list-style-type: none"> <li>The Department must strategically manage Services Acquisition, define outcomes, and capture data to facilitate strategic management of the acquisition function.</li> <li>The Department continues to face challenges meeting fiscal year competition goals and needs to address ill-suited contract arrangements and utilize incentives.</li> <li>The acquisition workforce is not appropriately sized, trained, and equipped to meet the Department's needs.</li> </ul>	<p style="text-align: center;"><u>Contract Administration</u> Department-wide; Correction Target Reassessed annually</p> <ul style="list-style-type: none"> <li>Continue to track and monitor training requirements for Acquisition workforce including new training for Mid / High Level Requirements and Contracting Professionals.</li> <li>Publication of a revised DoDI 5000.74, "Acquisition of Services" as required by the National Defense Authorization Act (NDAA) for FY 2017, Sec. 803.</li> <li>Continue publication of DoD quarterly competition achievement; on-track to achieve continuing goal of 53%; continue to implement the April 2016 DoD publication, "Guidance on Using Incentive and Other Contract Types" when selecting and negotiating a contract type.</li> </ul>
<p style="text-align: center;"><u>Information Technology</u> Department-wide; Identified FY 2010</p> <ul style="list-style-type: none"> <li>DoD financial and business management systems and processes do not provide reliable, timely, and accurate information.</li> <li>Systemic shortfalls in implementing cybersecurity measures to guard the data protection environment. Gaps in cybersecurity access controls including privileged user authentication and public key infrastructure and device hardening / encryption contribute to data protection vulnerabilities. Issues exist in policy compliance with cybersecurity measures, oversight, and accountability.</li> <li>Numerous weaknesses in IT governance, especially in the areas of security management, access controls, segregation of duties, and inconsistent IT policies/procedures/practices across Components; lack of clear, concise IT security requirements for in-house-developed and acquired systems; inability to produce detailed user listings to support periodic recertification of privileged and non-privileged user accounts; an inability to produce application-level</li> </ul>	<p style="text-align: center;"><u>Information Technology</u> Department-wide; Correction Target FY 2020</p> <ul style="list-style-type: none"> <li>Expand review and analysis of proposed information technology (IT) systems. Update the DoDI 5000.75 and increase Investment Review Board oversight. The target date to correct this material weakness coincides with the full deployment schedule of the core business systems.</li> <li>Establish processes to ensure stakeholder participation in the Cybersecurity Scorecard meetings and alignment of service scorecard metrics to audit findings.</li> <li>Revise current user system access policy, to include clear guidance on requirements for privileged user access authorization and credential revocation, user access and control training certification, user monitoring and Public Key Infrastructure-based authentication/credentials.</li> <li>Revise current acquisition and IT purchase contracts and policy to require the adoption of established user access controls and encryption/hardening standards.</li> <li>Revise current policy on shared file and drive protection, to include requirements for encryption use and stringent password protection that at a minimum meets password requirements specified in DoDI 8520.03 for stronger authentication.</li> <li>Develop, communicate, and implement entity-level IT security policy, procedures, and practices focusing in the areas of security management, access controls, and segregation of duties.</li> <li>Develop and provide training to users and privileged users regarding the consistent implementation of new IT security policy, procedures, and practices for Defense Health Program Component systems.</li> </ul>

Areas of Material Weakness	Corrective Actions
<p>audit logs related to account management and configuration management; and a lack of periodic review and update of system-level policy documentation. DoD Component officials did not assess network components for cybersecurity vulnerabilities prior to connection and throughout the component life cycle.</p>	<ul style="list-style-type: none"> <li>• Continuously monitor implementation of entity-level IT policies, procedures, and practices locally and holistically.</li> <li>• Designate employees to manage accountable property; establish &amp; implement cyclical inventory schedule (staff up).</li> <li>• Integrate software acquisition, license media management, and limited asset resources into a single focus point managing software lifecycle.</li> <li>• Automate acquisition, discovery, tracking, fielding, retirement, and involved audit processes to the greatest extent possible.</li> <li>• Research and acquire, or design and implement an access control system or record.</li> <li>• Update Enterprise Configuration Monitoring Strategy to include investigating, identifying, and disseminating the best use of monitoring tools and techniques for the network component level.</li> <li>• Clearly identify lines of demarcation between acquisition and provisioning.</li> <li>• Deploy and Test Access control system where appropriate.</li> </ul>
<p style="text-align: center;"><u>Force Readiness</u> Department-wide; Identified FY 2016</p> <ul style="list-style-type: none"> <li>• Independent and internal reviews of DoD's nuclear enterprise identified problems and recommendations needed for a safe, reliable, and credible nuclear deterrent. These included internal control related items such as a need for increased managerial oversight, for an improved self-assessment program, for increased oversight capability, and for useful nuclear inspection reports. The reviews also made recommendations to address these problems.</li> </ul>	<p style="text-align: center;"><u>Force Readiness</u> Department-wide; Correction Target Reassessed annually</p> <ul style="list-style-type: none"> <li>• Develop corrective action plans that align with the recommendations from the independent reviews. Classified corrective action plans are maintained by the applicable entities within the U.S. Strategic Nuclear Forces and are based on year-to-year Congressional funding. Remediation of this corrective action will involve incremental improvements over a multi-year horizon.</li> </ul>
<p style="text-align: center;"><u>Manufacturing, Maintenance, and Repair</u> Department of the Navy; Identified FY 2016</p> <ul style="list-style-type: none"> <li>• Multiple audits and studies identified a wide range of control issues that cumulatively create material weaknesses in ship depot maintenance. Policies for defining, costing, and executing maintenance all require improvement to correctly predict both cost and duration of depot maintenance.</li> </ul>	<p style="text-align: center;"><u>Manufacturing, Maintenance, and Repair</u> Department of the Navy; Correction Target FY 2020</p> <ul style="list-style-type: none"> <li>• Identify obstacles to execution performance.</li> <li>• Identify variance between Execution Year Guidance to President's Budget and developed mitigations.</li> <li>• Integrate depot maintenance in assessable units Managers' Internal Control Program.</li> <li>• Establish the President's Budget as the baseline for execution year variance tracking.</li> </ul>

Areas of Material Weakness	Corrective Actions
<p style="text-align: center;"><u>Personnel and/or Organizational Management</u> Department-wide; Identified FY 2017</p> <ul style="list-style-type: none"> <li>• Average civilian time-to-hire in the Department increased by 40% (from 70 to 106 days) between FY 2013 and FY 2017.</li> <li>• The Department does not systematically collect data on hiring manager satisfaction with process or with quality of candidates for civilian positions.</li> <li>• The Department manages its civilian workforce under 66 personnel systems, over 60 pay systems, and scores of special Human Resource (HR) authorities and flexibilities. This has caused excessive complexity and variability in HR processes.</li> <li>• DoD HR specialists and managers lack training and tools to master the complex civilian federal hiring process.</li> </ul>	<p style="text-align: center;"><u>Personnel and/or Organizational Management</u> Department-wide; Correction Target FY 2023</p> <ul style="list-style-type: none"> <li>• The Department has multiple civilian personnel HR service providers operating within and across components but no systems to define, collect, monitor, or analyze their performance or cost data, nor to monitor and control the types of services provided.</li> <li>• The Department required all components to develop and execute data-based Action Plans to reduce time to hire. The Department’s initial goal is to reduce average time to hire from 106 to 85 days or less. A Department-level functional workgroup was established and is working to reach the target goal.</li> <li>• The Department will start collecting hiring quality and satisfaction data; after determining baseline measures, the Department will establish future quality / satisfaction goals consistent with results achieved by other large federal agencies.</li> <li>• The Department is undertaking procedures to simplify, streamline, and standardize its HR processes and to provide better and more cost-effective HR services. The Department intends to pursue legislative relief where necessary to reduce complexity and increase efficiency of HR processes. Expect initial results in FY 2020.</li> <li>• The DoD HR Functional Community was formally organized in FY 2018 to define and assess HR competencies, establish learning standards, and develop career paths. Expect initial results in FY 2021.</li> <li>• Execute HR Service Delivery project (HR Reform lead) to define, monitor, and evaluate key performance and efficiency measures for Defense Agency and Field Agency HR Service providers; identify and remedy instances of fragmentation, overlap, and duplication; and address inefficiencies and implement reforms. Expect initial results in FY 2021.</li> <li>• Transition to single Software as a Service/Cloud civilian human capital management system initially for core HR transactions, and eventually for integrated talent management (i.e., performance management, learning, compensation, awards, workforce and succession planning). (Joint IT, HR, FM Reform project continuing through FY 2023.)</li> </ul>
<p style="text-align: center;"><u>Support Services</u> Department-wide; Identified FY 2017</p> <ul style="list-style-type: none"> <li>• Insufficient Component/Assessable Unit (AU) audit or review of internal operations: Lack of evidence showing sufficient leadership actions regarding internal audit or review results. Excessive Government Accountability Office and DoD Inspector General (DoD IG) findings. DoD IG report indicates 37% of DoD internal audit organizations have deficiencies or fail in effectively monitoring Component / AU activities, several DoD Components / AUs do not seem to have an internal audit/review function. Systemic deficiencies exist across the audit and review services.</li> <li>• Business Transformation: The Department spends billions of dollars each year to maintain key business functions intended to support the warfighter. Lack of support for transformation. The Department continues to confront decades-old management weaknesses related to its business functions that support these forces.</li> </ul>	<p style="text-align: center;"><u>Support Services</u> Department-wide; Correction Target FY 2020</p> <ul style="list-style-type: none"> <li>• Generate requirements for internal audit/review of operations performance and law, regulation, and policy compliance and document in DoD instruction.</li> <li>• Generate and deliver training in audit objectives and techniques to Department leadership and entire global DoD audit/review and managements’ internal control program communities.</li> <li>• Form Office of the Secretary of Defense-level audit function reviewing the audit performance of DoD entity audit / review functions and reporting to DoD senior leadership routinely.</li> <li>• Adopt a reorganization under the new Chief Management Officer in accordance with the NDAA for FY 2018. Initiate expanded Department-wide continuous process improvement (CPI) training, develop CPI experts, and promote continuous and visible leadership support for transformation.</li> </ul>

Areas of Material Weakness	Corrective Actions
<p style="text-align: center;"><u>Supply Operations</u> Department-wide; Identified FY 2011</p> <ul style="list-style-type: none"> <li>• Insufficient asset visibility causes the DoD to unnecessarily order supplies it already has. Lack of supply condition knowledge inhibits reorder of supplies were damaged and need to be reordered.</li> <li>• Recent reductions in the number of suppliers from which the DoD can purchase raw materials and finished goods affects the DoD's ability to obtain necessary supplies in a timely manner and of sufficient quality. The DoD needs to continue to focus on strengthening the security and effectiveness of its supply chain.</li> </ul>	<p style="text-align: center;"><u>Supply Operations</u> Department-wide; Reassessed annually</p> <ul style="list-style-type: none"> <li>• Improve supplier threat assessment collection and analyses, implement methods to mitigate risk such as improved hardware and software testing; and enhancing processes for approved product and vendor lists.</li> <li>• Conduct an evaluation of whether DoD Components are conducting appropriate risk assessments, implementing risk mitigation strategies, and using continuous monitoring procedures</li> <li>• Improve the buying power of the DoD.</li> <li>• Increase transparency in the procurement process.</li> <li>• Implement best practices in cost and contract management by strategically sourcing.</li> <li>• Continue utilization of reverse engineering where applicable and appropriate.</li> <li>• Repair existing parts economically and efficiently where applicable and appropriate.</li> <li>• Remove fraudulent suppliers currently in the supply chain.</li> <li>• Address limited distribution networks and transportation capabilities to transport supplies to the right place at the right time, safely and securely.</li> </ul>



The Navy's forward-deployed aircraft carrier USS Ronald Reagan (CVN 76) sails alongside the Japan Maritime Self-Defense Force guided-missile destroyer JS Myoko (DDG-175) while underway.

*U.S. Navy photo by Mass Communication Specialist 2nd Class Kaila V. Peters*



### *FMFIA Section 4, Compliance with Federal Financial Management Systems Requirements*

In accordance with FMFIA section 4, the Department requires that all DoD financial systems comply with federal financial management systems requirements. Exhibit 6 lists the number of instances of non-conformance with federal financial management systems requirements and reports the changes from the instances of non-conformance disclosed in the DoD AFR for FY 2018.

#### **Exhibit 6. FY 2019 Compliance with Federal Financial Management System Requirements (FMFIA §4)**

*Statement of Assurance: No Assurance*

Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Federal Financial Management Systems Requirements <sup>8</sup>	3				(3)	0
Business System Modernization	0	1				1
General & Application Controls	0	1				1
FFMIA Compliance	0	1				1
<b>Total Non-Conformances</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>(3)</b>	<b>3</b>

### *FFMIA Section 803(a), Implementation of Federal Financial Management Improvements*

Section 803(a) of the FFMIA requires each federal agency to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. Exhibit 7 lists the instances of non-compliance with federal financial management systems requirements.

#### **Exhibit 7. FY 2019 Implementation of Federal Financial Management Improvements (FFMIA §803(a))**

	Agency	Auditor
Federal Financial Management Systems Requirements	Lack of Compliance Noted	Lack of Compliance Noted
Applicable Federal Accounting Standards	Lack of Compliance Noted	Lack of Compliance Noted
USSGL at Transaction Level	Lack of Compliance Noted	Lack of Compliance Noted

<sup>8</sup> In FY 2019, three material weaknesses that were previously reported together under a single heading were determined to be defined more accurately under separate headings.

## Exhibit 8. Compliance with Federal Financial Management System Requirements Corrective Action Plans

Areas of Material Weakness	Corrective Actions
<p data-bbox="349 317 672 367"><u>Business System Modernization</u> Department-wide; Identified FY 2001</p> <ul data-bbox="199 417 800 611" style="list-style-type: none"> <li>• Delays in achieving business system modernization targets, results in a significant probability of degraded DoD business process operations to include efficiency and effectiveness and non-compliance with certain laws and regulations (ex., FFMLA). In addition, the number of applications, hosting locations, variations in technology, number of interfaces, etc. creates a complex environment where it is difficult to maintain effective IT General and Application controls (including information security).</li> </ul>	<p data-bbox="933 317 1328 367"><u>Business System Modernization</u> Department-wide; Correction Target FY 2028</p> <ul data-bbox="824 417 1421 709" style="list-style-type: none"> <li>• By the end of FY 2020, the Department will have a business system rationalization plan that will, lay out the number of systems to be retired, resulting in a reduced footprint of systems that impact Financial Reporting. This includes a reduction in the number of legacy IT systems by 51, between FY 2019 to FY 2023.</li> <li>• To date, 23 of 26 Other Defense Organizations (ODOs) have been migrated to a common ERP system, the Defense Agencies Initiative (DAI). There are three additional ODOs scheduled for deployment in FY 2021. The DAI application received an unmodified SOC 1 report for FY 2019. DAI is an FFMLA-compliant Oracle ERP Commercial off the Shelf (COTS) solution.</li> </ul>
<p data-bbox="349 758 672 808"><u>General &amp; Application Controls</u> Department-wide; Identified FY 2001</p> <ul data-bbox="199 858 800 1249" style="list-style-type: none"> <li>• The DoD IT systems environment includes numerous legacy systems, core enterprise systems that support the major end-to-end processes, and nine Enterprise Resource Planning (ERP) systems. Most of the business legacy systems were originally designed to support functional purposes, such as human resource management, property management, and logistics management. These systems were not originally created for auditable financial statement reporting. The current systems environment is made up of many legacy, core, and newly implemented (feeder and general ledger) systems that lack integration and are not in line with the Federal Information System Controls Audit Manual (FISCAM) requirements with regards to entity-level technology general controls, application-level general controls and automated application controls (including security management, access, segregation of duties, configuration management, system interfaces, master data, and audit trails).</li> </ul>	<p data-bbox="933 758 1328 808"><u>General &amp; Application Controls</u> Department-wide; Correction Target FY 2025</p> <ul data-bbox="824 858 1421 1837" style="list-style-type: none"> <li>• The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) has established a database, FIAR Systems Database, to identify applications and hosting locations that impact DoD financial statement audits and track the auditor feedback regarding system controls reliance. During the FY (June 30, 2019), DoD Reporting Entities and Service Organizations had identified 247 systems relevant to internal controls over financial reporting. This number is expected to change as the system environment evolves and the financial statement audits mature.</li> <li>• The Military Departments (MILDEPS) continue to deploy ERP solutions to their Commands along with software upgrades, implement System Change Requests (SCRs) and standup formal enterprise monitoring programs for transitioning to a Risk Management Framework (RMF). In addition, the Department has integrated audit relevant IT controls into the RMF system accreditation process (for systems that impact internal controls over financial reporting).</li> <li>• In 2005, DoD service organizations began to obtain System and Organization Control (SOC 1) Reports for systems and hosting services. For FY 2019, DoD Service Organizations have obtained 11 unmodified opinions and 12 modified opinions. This includes one new SOC 1 report and two transitioning from a Type 1 to a Type 2 for FY 2019. Reporting entities and their auditors have been instructed to provide feedback on the SOC 1 reports and service organizations have also been instructed to provide plans for SOC1 scope expansions and additional SOC 1 reports.</li> <li>• OUSD(C) has implemented a database to track auditor NFRs and associated corrective action plans. A CFO IT Functional Council was established in April 2018 to report on the status of IT NFRs and associated CAPs, identify common IT issues, share solutions, and identify instances where common solutions are needed.</li> <li>• In February 2019, the Secretary of Defense issued a memo defining high priority areas for correction identified during the FY18 Financial Statement Audit, which included system access controls. Subsequently, DoD CMO/CFO/CIO issued a policy memo in July 2019, defining six priority items for corrective actions.</li> </ul>

Areas of Material Weakness	Corrective Actions
----------------------------	--------------------

Areas of Material Weakness	Corrective Actions
<p style="text-align: center;"><u>FFMIA Compliance</u></p> <p style="text-align: center;">Department-wide; Identified FY 2001</p> <ul style="list-style-type: none"> <li>• The Department’s financial systems currently do not provide the capability to record financial transactions in compliance with:                             <ul style="list-style-type: none"> <li>○ Current federal financial management requirements</li> <li>○ Applicable federal accounting standards</li> <li>○ The Treasury USSGL at the transaction level</li> </ul> </li> </ul>	<p style="text-align: center;"><u>FFMIA Compliance</u></p> <p style="text-align: center;">Department-wide; Correction Target FY 2028</p> <ul style="list-style-type: none"> <li>• OUSD(C) updated the Internal Control Guide in April 2018 to include additional guidance related to identifying relevant financial and non-financial systems and performing FFMIA assessments. System owners record the FFMIA compliance status for their applications in the FIAR Systems Database concurrent with audit readiness status.</li> <li>• To date, a 23 of 26 Other Defense Organizations (ODOs) have been migrated to a common ERP system, the Defense Agencies Initiative (DAI). There are three additional ODOs scheduled for deployment in FY 2021. The DAI application received an unmodified SOC 1 report for FY 2019. DAI is an FFMIA compliant Oracle ERP COTS solution.</li> <li>• The Military Departments (MILDEPS) continue to deploy ERP solutions to their Commands along with software upgrades, implement System Change Requests (SCRs).</li> <li>• With the assistance of the Joint Interoperability Test Command, OUSD(C) worked with the Department financial system owners to complete SFIS compliance assessments for 28 systems through FY 2018. Assessments for an additional 26 systems are currently planned through FY 2020. The SFIS requirements are aligned to and consistent with FFMIA requirements. Currently, the Department is assessing which systems require SFIS compliance assessments.</li> <li>• In the interim for systems not providing USSGL compliant data to ADVANA (Universe of Transactions), we are building automated SFIS validation checks into ADVANA. Currently, these checks have been validated for DAI and Navy ERP, with the remainder of the systems to be validated by the end of FY 2020. This includes checks such as: posting logic, tie point logic, and valid USSGL attributes.</li> <li>• By the end of FY 2020, DoD will have a business system rationalization plan that will, lay out the number of systems to be retired, resulting in a reduced footprint of systems that impact Financial Reporting. This includes a reduction in the number of legacy IT systems by 51, between FY19 to FY23.</li> </ul>



U.S. Army Sgt. Nicholas Ofield, assigned to the 91st Brigade Engineer Battalion, 1st Armored Brigade Combat Team, 1st Cavalry Division, takes up a defensive position in an M2 Bradley Fighting Vehicle during exercise Combined Resolve XI in Hohenfels, Germany, Dec. 6, 2018.

*U.S. Army National Guard photo by Staff Sgt. Ron Lee*

## Payment Integrity

The reduction of improper payments<sup>9</sup> and compliance with the Improper Payments Elimination and Recovery Act of 2010 (*IPERA*) continue to be top financial management priorities for the Department. The Department complied with the requirements of federal improper payments legislation<sup>10</sup> through the activities of its Payment Integrity program. This program is comprised of eight separate programs that report improper payments for six categories of pay/benefits (civilian pay, commercial pay, military health benefits, military pay, military retirement, and travel pay) that collectively encompass the majority of payments made by the Department annually.

In FY 2019, each of the Department's eight programs reported improper payment estimates below the IPERA statutory threshold of 10%. Specifically, the Department identified \$608.42 billion in payments<sup>11</sup> subject to testing under IPERA and estimated an overall improper payments rate of 1.43%. Given the large dollar amount of DoD payments, this percentage represents \$8.68 billion in improper payments and an estimated \$599.74 billion (98.57%) in properly paid payments (see Exhibit 9).

- Overpayments, underpayments, and technically improper payments due to noncompliance with statutes or regulations totaled \$1.09 billion (0.18% of total outlays subject to testing under IPERA).
- Unknown payments, which are payments with insufficient supporting documentation available to review totaled \$7.59 billion (1.25% of total outlays subject to testing under IPERA). As a result of a new sampling methodology and a more extensive examination of key supporting documentation in the Military Pay program in FY 2019, a significant increase in improper payments due to insufficient supporting documentation<sup>12</sup> was identified in this program. As such, the majority of the improper payments were categorized as unknown payments and may or may not equate to inaccurate payments or monetary losses. The Department is aggressively researching these results in an effort to develop corrective action plans (CAPs) and institute the internal controls necessary to ensure complete and accurate supporting documentation.

---

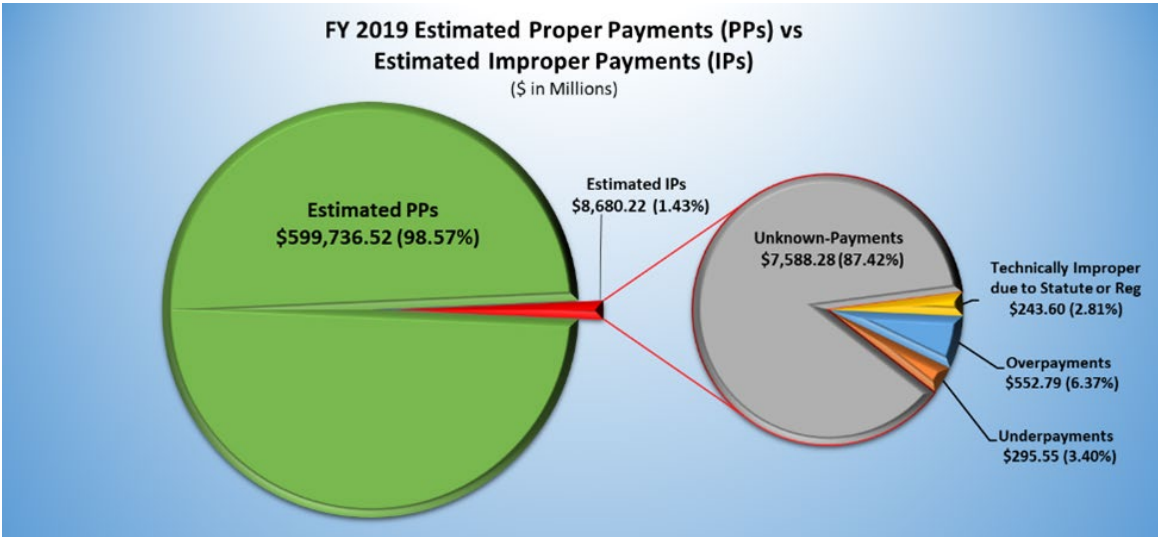
<sup>9</sup> OMB Circular No. A-123, [Appendix C](#) defines an "improper payment" as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). Additionally, when an agency's review is unable to discern whether a payment was proper as the result of insufficient or lack of documentation, the payment must be considered an improper payment.

<sup>10</sup> Improper Payments Information Act of 2002 (*IPIA*), as amended by the Improper Payments Elimination and Recovery Act of 2010 (*IPERA*) and the Improper Payment Elimination and Recovery Improvement Act of 2012 (*IPERIA*)

<sup>11</sup> The Independent Auditor's Report on the DoD FY 2018 and FY 2017 Basic Financial Statements issued by the Office of the Inspector General identified a material weakness related to the Universe of Transactions because "DoD components were unable to validate the completeness of the universe of transactions underlying their financial statements." Past improper payment audits identified similar weaknesses attributable to the Department's inability to perform reconciliations to ensure complete and accurate populations of payments from which to select statistical samples. Once the Department is able to validate the completeness of the universe of transactions underlying its financial statements, the DoD Payment Integrity program will be able to ensure the completeness and accuracy of sampled populations. In the interim, the Department is working to strengthen the program by adding omitted payment populations as it becomes aware of them through internal reviews, self-assessments, and audits.

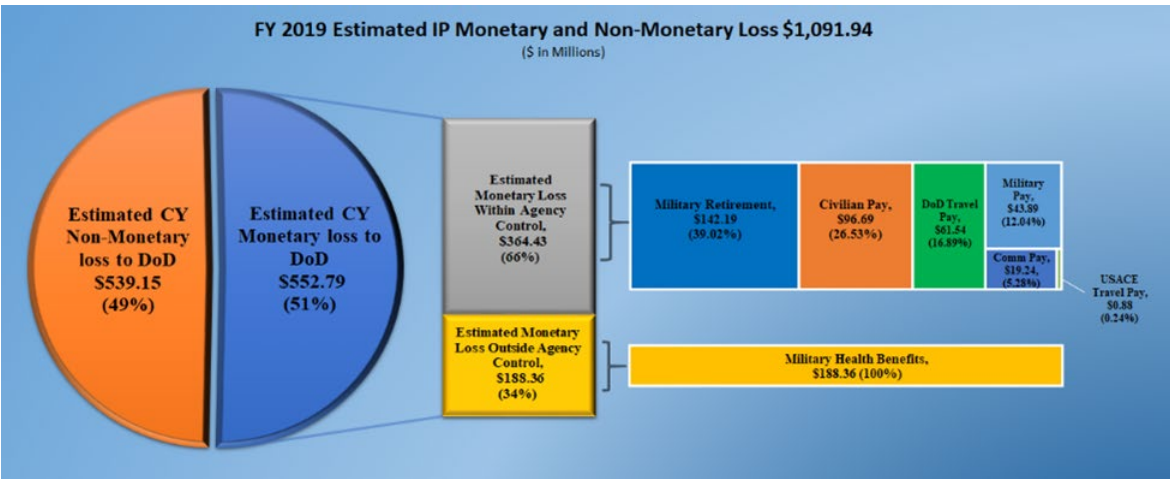
<sup>12</sup> The insufficient supporting documentation errors identified in the Military Pay program resulted from an inability to provide reviewers of sampled Military Service member entitlements and/or allowances, such as Basic Allowance for Housing (BAH), with proper supporting documentation. For more information on the types of errors identified, see the Military Pay root causes and corrective action plan section.

Exhibit 9. FY 2019 Estimated Proper and Improper Payments



Of the \$1.09 billion in overpayments, underpayments, and technically improper payments due to noncompliance with statutes or regulations, only \$552.79 million was identified as monetary losses. The \$552.79 million estimated total monetary loss represents overpayments only—amounts that should not have been paid by the Department and in theory can be recovered. This amount was further analyzed and classified into two subcategories (see Exhibit 10): (1) estimated monetary loss within DoD control (\$364.43 million) and (2) estimated monetary loss outside DoD control (\$188.36 million). The \$539.15 million estimated total non-monetary loss represents underpayments and amounts paid to the right recipients and in the right amounts, but did not follow applicable regulations and statutes. Unknown payments (\$7.59 billion) are not reported as monetary or non-monetary losses.

Exhibit 10. FY 2019 Estimated Improper Payments Monetary and Non-Monetary Loss



When improper payments are identified, the relevant DoD Components conduct evaluations to identify their root causes. CAPs are then developed to mitigate the root causes. The CAPs include milestones or actions that are to be completed by specific dates. Depending on the complexity of the CAPs, execution of the plan may occur over multiple fiscal years until the root causes are fully mitigated.

The Department continues to improve payment accuracy in all of its programs to ensure the billions of dollars in federal funds it disburses annually reach the intended recipients in the right amounts and for the right purposes. Through responsible stewardship and accountability, the Department is committed to upholding the trust and confidence of the Congress and the American people.

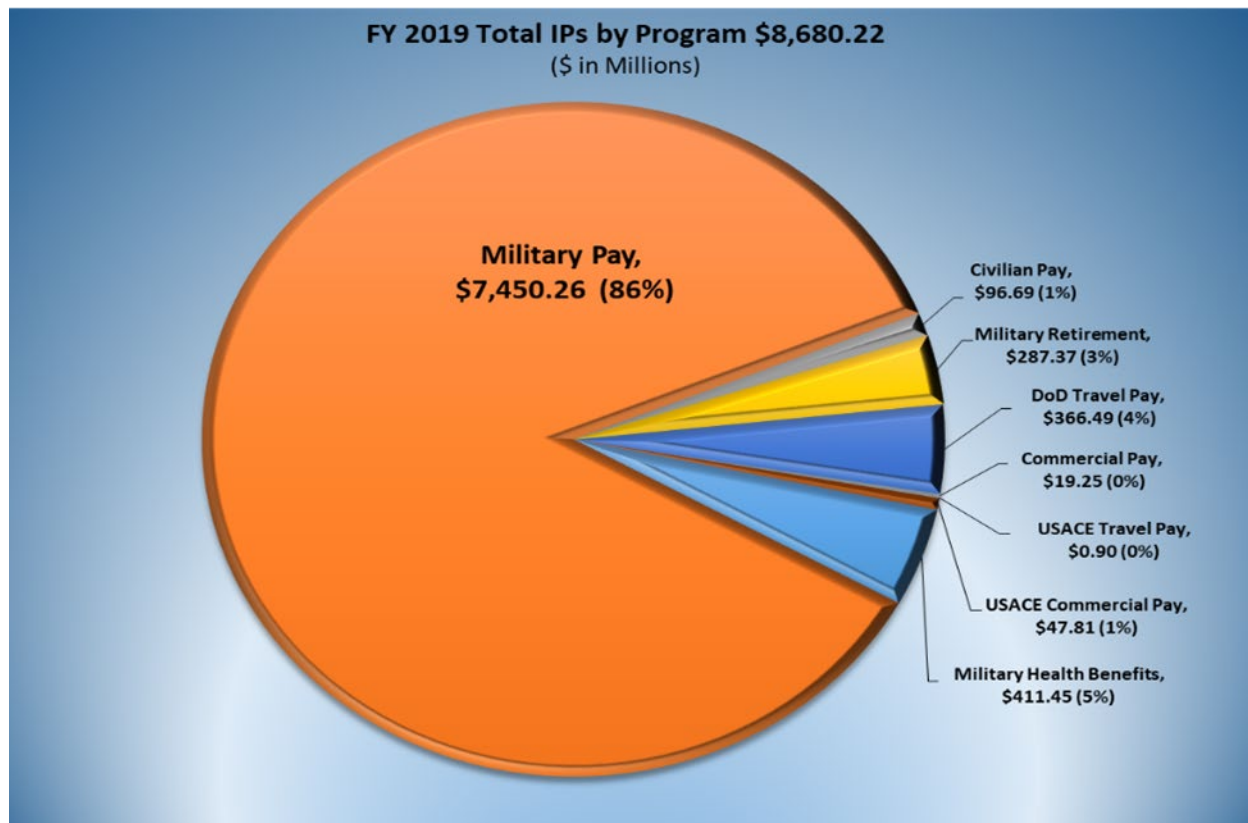
In FY 2019, the Department reported improper payments of \$8.68 billion for the following eight programs (see Exhibit 11):

1. Military Health Benefits: Payments made by the Defense Health Agency ([DHA](#)) to private sector contractors for delivery of health care services to [TRICARE](#)-eligible beneficiaries.
2. Military Pay: Payments made by the Defense Finance and Accounting Service ([DFAS](#)) to Active, Reserve, and [National Guard](#) Military Service members for salary, benefits, and other compensation entitlements.
3. Civilian Pay: Payments made by DFAS to civilian employees for salary, benefits, and other compensation entitlements.
4. Military Retirement: Payments made by DFAS to military retirees and their surviving spouses and other family members for pension and/or disability entitlements.
5. DoD Travel Pay: Payments made by DFAS, the [Army](#), the [Navy](#), the [Air Force](#), and the [Marine Corps](#) to Active, Reserve, and National Guard Military Service members and civilian employees for temporary and permanent travel- and/or transportation-related expenses.
6. Commercial Pay: Payments made by DFAS, the Army, and the Navy to vendors and contractors for goods and services. It also includes Disaster Relief Funding payments made by the Military Services and DoD Components under [Public Law 115-123](#). This program does not include payments for “Transportation of Things”<sup>13</sup> or payments related to government purchase cards.
7. United States Army Corps of Engineers ([USACE](#)) Travel Pay: Payments made by USACE to Active, Reserve, and National Guard Military Service members and civilian employees for temporary and permanent travel- and/or transportation-related expenses.
8. USACE Commercial Pay: Payments made by USACE to vendors and contractors for goods and services. It also includes Disaster Relief Funding payments made by USACE under Public Law 115-123.

---

<sup>13</sup> Transportation of Things payments are expenditures related to the movement of items such as equipment, spare parts, vehicles, food, clothing, and fuel.

Exhibit 11. FY 2019 Total Improper Payments Reported by Program



The information reported in this section complies with the guidance provided in OMB Circular No. A-123, Appendix C and OMB [Circular No. A-136](#). This section provides required information that demonstrates the Department's commitment to reducing improper payments. For additional information on improper payments not included in this report, please refer to [PaymentAccuracy.gov](#).

This section reports detailed information on the following improper payment requirements:

- I. Payment Reporting
- II. Recapture of Improper Payments Reporting
- III. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative
- IV. Accountability
- V. Agency Information Systems and Other Infrastructure
- VI. Sampling and Estimation
- VII. Risk Assessment

## I. Payment Reporting

Exhibit 12 reports the estimated amount of payments that were properly paid (PP), improperly paid (IP), and the corresponding percentages of each by program for FY 2019. It also reports the estimated amount of improper payments that resulted in overpayments, underpayments, unknown payments, and technically improper payments due to noncompliance with statutes or regulations in FY 2019.

### Exhibit 12. FY 2019 Estimated Improper Payment

(\$ in millions)

Program Name	FY 2019 Outlays (\$M)	FY 2019 PP Amount (\$M)	FY 2019 PP Rate (%)	FY 2019 IP Amount (\$M)	FY 2019 IP Rate (%)	FY 2019 Overpayments (\$M)	FY 2019 Overpayments Rate (%)	FY 2019 Underpayments (\$M)	FY 2019 Underpayments Rate (%)	FY 2019 Unknown-Payments (\$M)	FY 2019 Unknown-Payments Rate (%)	FY 2019 Technically Improper due to Statute or Reg (\$M) <sup>12</sup>	FY 2019 Technically Improper due to Statute or Reg (%) <sup>12</sup>	Month and Year Start Date for Data	Month and Year End Date for Data
Military Health Benefits <sup>1,2</sup>	\$ 23,685.24	\$ 23,273.79	98.26%	\$ 411.45	1.74%	\$ 188.36	0.80%	\$ 146.35	0.62%	-	-	\$ 76.74	0.32%	Aug-2017	Oct-2018
Military Pay <sup>3</sup>	102,742.39	95,292.13	92.75%	7,450.26	7.25%	43.89	0.04%	28.12	0.03%	7,374.48	7.18%	3.77	0.00%	Oct-2017	Sep-2018
Civilian Pay <sup>4</sup>	66,980.02	66,883.34	99.86%	96.69	0.14%	96.69	0.14%	-	-	-	-	-	-	Aug-2018	Jul-2019
Military Retirement <sup>5</sup>	71,572.63	71,285.26	99.60%	287.37	0.40%	142.19	0.20%	106.89	0.15%	33.82	0.05%	4.48	0.01%	Aug-2018	Jul-2019
DoD Travel Pay <sup>6</sup>	7,700.69	7,334.20	95.24%	366.49	4.76%	61.54	0.80%	14.17	0.18%	179.98	2.34%	110.80	1.44%	Aug-2018	Jul-2019
Commercial Pay <sup>7,8</sup>	315,096.92	315,077.66	99.99%	19.25	0.01%	19.24	0.01%	0.01	0.00%	-	-	-	-	Jul-2018	Jun-2019
USACE Travel Pay <sup>9</sup>	237.33	236.43	99.62%	0.90	0.38%	0.88	0.37%	0.02	0.01%	-	-	-	-	Jul-2018	Jun-2019
USACE Commercial Pay <sup>10,11</sup>	20,401.52	20,353.71	99.77%	47.81	0.23%	-	-	-	-	-	-	\$ 47.81	0.23%	Jul-2018	Jun-2019
<b>TOTAL</b>	<b>\$608,416.74</b>	<b>\$599,736.52</b>	<b>98.57%</b>	<b>\$8,680.22</b>	<b>1.43%</b>	<b>\$ 552.79</b>	<b>0.09%</b>	<b>\$ 295.55</b>	<b>0.05%</b>	<b>\$7,588.28</b>	<b>1.25%</b>	<b>\$ 243.60</b>	<b>0.04%</b>		

Note: Amounts may not sum or calculate exactly due to rounding.

#### Exhibit 12 Footnotes:

<sup>1</sup> DHA reports data 12 months in arrears. The sample populations for the Military Health Benefits program is comprised of ten sub-programs. Of these transactional data samples (outlays), 99% fall within the period October 2017 to September 2018; the remaining samples are from periods falling between August 2017 and October 2018. DHA's staggered sampling time frames are the result of the various TRICARE purchased care contract option year start work dates that are defined to represent external independent contractor (EIC) quarterly or semi-annual sampling time frames.

<sup>2</sup> FY 2019 outlays are the sum of the dollars paid for civilian health care by private sector contractors to health care providers and/or TRICARE beneficiaries. These payments are reviewed by an EIC on a quarterly basis. In addition, the FY 2019 outlays also include administrative payments shared among multiple contractors to administer the TRICARE program and other contracts that are not included in the DHA EIC reviews, but which are subject to internal and external pre- and post-payment controls. For post-payment evaluations, DHA is in the process of implementing post-payment reviews for one of its sub-programs (DHA's Administrative costs). The Estimated IP rates for the low dollar reviews of three sub-programs were significantly influenced by informational errors; these claims were processed and paid correctly, but the contracts were terminated and the Government was unable to obtain timely information from the contractors. Excluding these errors would lower the Estimated IP rate for these three sub-programs by an average of 0.41%. Overall, the Military Health Benefits Estimated IP rate



increased by 1.35% from 0.39% in FY 2018 to 1.74% in FY 2019, and the Estimated IP amount increased by \$320.21 million, from \$91.24 million in FY 2018 to \$411.45 million in FY 2019.

<sup>3</sup> In FY 2019, the Department implemented a revised sampling plan and testing methodology for the Military Pay program, which included the review of Military Service member entitlements paid with available supporting documentation. The Military Pay outlays population utilized for statistical sampling was tested a year in arrears, representing payments from October 2017 to September 2018. The Department performed a full key supporting documentation (KSD) review of entitlements, which constitutes a substantial shift to the sampling and testing methodology from the previous years. As a direct result of the new testing methodology, the Military Pay Estimated IP rate increased by 6.95% from 0.30% in FY 2018 to 7.25% in FY 2019, and the Estimated IP amount increased by \$7,144.50 million from \$305.76 million in FY 2018 to \$7,450.26 million in FY 2019. However, approximately 99% of FY 2019 IPs identified were due to missing or insufficient documentation.

<sup>4</sup> In FY 2020, the Department will implement a revised sampling plan and testing methodology for the Civilian Pay program, which will include an examination of KSDs for entitlements paid to civilian employees, to verify the accuracy and eligibility of pay allowances. As a result of this new sampling plan and testing methodology, the Department anticipates the Estimated IP rate and Estimated IP amount in FY 2020 to be different than those reported for FY 2019.

<sup>5</sup>Based on the confidence intervals in FY 2018 and FY 2019, there is no statistical evidence of an increase or decrease in IPs between the two years. In FY 2018, the Military Retirement program Estimated IP rate and amount were 0.45% and \$314.44 million, respectively, compared to 0.40% and \$287.37 million in FY 2019.

<sup>6</sup> The DoD Travel Pay program reports travel payments disbursed for the period August 2018 to July 2019 by DFAS, the Military Services, and Army Outside the Continental United States (OCONUS) offices. Based on the confidence intervals in FY 2018 and FY 2019, there is no statistical evidence of an increase or decrease in IPs between the two years. In FY 2018, the Travel Pay program estimated IP rate and amount were 4.59% and \$365.32 million, respectively, compared to 4.76% and \$366.49 million in FY 2019.

<sup>7</sup> The Commercial Pay program reports commercial payments disbursed for the period July 2018 to June 2019 by DFAS, the Army, and the Navy. It also includes Disaster Relief Funding payments made by the Military Services and defense agencies under Public Law 115-123. With the exception of Army Outside the Continental United States office disbursements, for which a different 12 month sampling timeframe (August 2018 to July 2019) was used in FY 2019 to test commercial vendor service payments. Based on the confidence intervals in FY 2018 and FY 2019, there is no statistical evidence of an increase or decrease in IPs between the two years. In FY 2018, the Commercial Pay program Estimated IP rate and amount were 0.01% and \$15.03 million, respectively, compared to 0.01% and \$19.25 million in FY 2019. The Commercial Pay program is reported as the DFAS Commercial Pay program on PaymentAccuracy.gov.

<sup>8</sup> The Commercial Pay program is comprised of payments made by DFAS, the Army, and the Navy to vendors and contractors for goods and services. This program does not include payments for the “transportation of things” or payments related to government purchase cards. Title 31, United States Code, section 3726 ([31 U.S.C. §3726](#)) gives the General Services Administration ([GSA](#)) the authority and responsibility to audit and settle all federal payments for transportation of things. The GSA [Transportation Audits Division](#) conducts post-payment audits on all transportation payments (and supporting documentation) provided by the Department. GSA reviews DoD transportation payments for overcharges only. GSA finances their post-payment audit contract and audit-related functions with overpayments collected from the transportation payments previously paid by the Department and other federal agencies. GSA reported the following data related to DoD transportation payments for the 12 month period of July 2018 to June 2019: Total Number of Transactions Submitted by the Department = 209.66 million; Total Value of Transactions Submitted by the Department = \$6,033.15 million; Total Number of Overcharges Collected by GSA = 0.03 million; and Total Value of Overcharges Collected by GSA = \$10.43 million. Based on the data provided by GSA, the FY 2019 overpayment rate for DoD Transportation payments was

## Other Information

0.17%, a decrease of 0.06% compared to 0.23% in FY 2018, and the FY 2019 overpayment amount was \$10.43 million, an increase of \$1.11 million compared to \$9.32 million in FY 2018. The GSA reported results are not included in the FY 2019 Commercial Pay IP amounts.

<sup>9</sup> The USACE Travel Pay program Estimated IP rate decreased by 0.08%, from 0.46% in FY 2018 to 0.38% in FY 2019. The Estimated IP amount decreased by \$0.33 million, from \$1.23 million in FY 2018 to \$0.90 million in FY 2019. Based on the confidence intervals in FY 2018 and FY 2019, there is no statistical evidence of an increase or decrease in IPs between the two years.

<sup>10</sup> The Estimated IP rate for USACE Commercial Pay increased by 0.15%, from 0.08% in FY 2018 to 0.23% in FY 2019, and the Estimated IP amount increased by \$32.77 million, from \$15.04 million in FY 2018 to \$47.81 million in FY 2019. The increase is due to receipt of significant supplemental funding, resulting in increased risk of improper payments associated with a high volume of contract actions occurring in dispersed locations, some remote, under tightened deadlines. Based on the confidence intervals in FY 2018 and FY 2019, there is no statistical evidence of an increase or decrease in IPs between the two years.

<sup>11</sup> The USACE Commercial Pay program includes Disaster Relief Funding payments made by USACE under Public Law 115-123.

<sup>12</sup> Technically improper due to statute or regulation represents a payment made to the right recipient for the right amount but the payment process failed to follow applicable regulations or statutes.



Exhibit 13 reports the estimated improper payments and improper payment classifications (i.e., estimated monetary, non-monetary, and unknown amounts) and their respective percentages by program. Monetary loss to the Department represents overpayments such as duplicate payments or amounts that should not have been paid and can be recovered. Non-Monetary loss represents underpayments and technically improper payments due to noncompliance with statutes or regulations. Unknown represent payments with insufficient supporting documentation available at the time of the post payment review in which the Department is unable to confirm if the payment was proper.

**Exhibit 13. FY 2019 Improper Payment Classification (Monetary Loss and Non-Monetary Loss, and Monetary Loss Control)**

(\$ in millions)

Program Name	FY 2019 IP Amount (\$M)	Estimated Total FY 2019 Monetary Loss to the Department (\$M)	Estimated FY 2019 Monetary Loss to the Department (%)	Estimated Total FY 2019 Non-Monetary Loss to the Department (\$M)	Estimated FY 2019 Non-Monetary Loss to the Department (%)	Estimated Total FY 2019 Unknown-Payments to the Department (\$M)	Estimated Total FY 2019 Unknown-Payments (%)
Military Health Benefits	\$ 411.45	\$ 188.36	45.78%	\$ 223.09	54.22%	-	-
Military Pay	7,450.26	43.89	0.59%	31.89	0.43%	7,374.48	98.98%
Civilian Pay	96.69	96.69	100.00%	-	-	-	-
Military Retirement	287.37	142.19	49.48%	111.36	38.75%	33.82	11.77%
DoD Travel Pay	366.49	61.54	16.79%	124.97	34.10%	179.98	49.11%
Commercial Pay	19.25	19.24	99.93%	0.01	0.07%	-	-
USACE Travel Pay	0.90	0.88	98.00%	0.02	2.00%	-	-
USACE Commercial Pay	47.81	-	-	47.81	100.00%	-	-
<b>TOTAL</b>	<b>\$8,680.22</b>	<b>\$ 552.79</b>		<b>\$ 539.15</b>		<b>\$ 7,588.28</b>	

Note: Amounts may not sum or calculate exactly due to rounding.



U.S. Army Spc. Brent Garlic, retired, participates in the Wheelchair Basketball Prelim event of the Department of Defense Warrior Games competition at The Tampa Convention Center in Tampa, Fla., June 24, 2019.

U.S. Army photo by Pfc. Dominique Dixon

Exhibit 14 reports the FY 2020 estimated outlays, improper payment amounts, and OMB approved future year reduction target improper payment rates by program.

**Exhibit 14. FY 2019 Improper Payment Out Year Projections**

(\$ in millions)

Program Name	FY 2020 Est. Outlays (\$M)	FY 2020 Est. IP Amount (\$M)	FY 2020 Est. IP Rate (%)
Military Health Benefits <sup>1</sup>	\$ 24,727.39	\$ 187.93	0.76%
Military Pay <sup>2</sup>	105,259.81	-	-
Civilian Pay <sup>2</sup>	72,818.50	-	-
Military Retirement	73,847.60	295.39	0.40%
DoD Travel Pay <sup>3</sup>	7,354.11	397.12	5.40%
Commercial Pay <sup>4</sup>	339,111.37	20.72	0.01%
USACE Travel Pay <sup>5</sup>	253.66	0.92	0.36%
USACE Commercial Pay <sup>6</sup>	21,475.87	49.39	0.23%
<b>TOTAL</b>	<b>\$ 644,848.30</b>	<b>\$ 951.49</b>	<b>0.15%</b>

*Note: Amounts may not sum or calculate exactly due to rounding.*

Exhibit 14 Footnotes:

<sup>1</sup> DHA established its FY 2020 estimated IP rate of 0.76% based on a trend of sampled IP data from the four most recent full fiscal years.

<sup>2</sup> The Department is not able to estimate an IP rate and an estimated IP amount for the Military Pay and Civilian Pay programs for FY 2020 since the Military Pay program implemented a new sampling and testing methodology in FY 2019 and the Civilian Pay program will implement a new sampling and testing methodology in FY 2020. Changes to both the Military Pay and Civilian Pay programs mark a substantial shift in the review of these programs. As a result, a baseline has not been established for these programs to generate a future estimate. The Department will be able to estimate an IP rate and an IP amount for the Military Pay program in FY 2021 and for the Civilian Pay program in FY 2022.

<sup>3</sup> The DoD Travel Pay IP rate has fluctuated significantly over the past four fiscal years, though numerous corrective actions have been implemented to reduce IPs in this program. However, the Department will continue to estimate future year IP target rates based on the average IP rates reported in the previous four fiscal years until a more consistent baseline is established. The average IP rate for this program based on the rates reported from FY 2016 to FY 2019 is 5.40%. As such, the Department is confident that 5.40% is an achievable target rate. The FY 2020 rate for the DoD Travel Pay program is therefore estimated to be 5.40%. This rate is 0.35% lower than the target rate of 5.75% that was projected for FY 2019.

<sup>4</sup> The Department has reported IP rates of less than one percent for the Commercial Pay program. Since the rates have been very low, the Department is unable to measure a statistically valid difference between the IP rates and the future year reduction targets for this program.

<sup>5</sup> FY 2020 estimated IP rate for USACE Travel Pay equals the FY 2019 estimated IP rate minus twenty percent (20%) of the difference between the FY 2019 estimated IP rate and the FY 2018 estimated IP rate.

<sup>6</sup> The FY 2020 Estimated IP rate for USACE Commercial Pay equals the FY 2019 IP rate.

Exhibit 15 reports the root causes of overpayments, underpayments, unknown payments, and technically improper payments due to noncompliance with statutes or regulations by amount and program for FY 2019.

### Exhibit 15. FY 2019 Improper Payment Root Cause Category Matrix

(\$ in millions)

Program Name	Payment Type	Insufficient Documentation to Determine (\$M)	Administrative or Process Errors Made by: Federal Agency (\$M)	Administrative or Process Errors Made by: Other Party <sup>1</sup> (\$M)	Program Design or Structural Issue (\$M)	Inability to Authenticate Eligibility; Inability to Access Data (\$M)	Medical Necessity (\$M)	TOTAL
Military Health Benefits <sup>2</sup>	Overpayments			\$ 182.52		\$ 5.29	\$ 0.55	\$188.36
	Underpayments			146.34		0.01		146.35
	Unknown Payments							-
	Technically Improper due to Statute or Reg				\$ 76.74			76.74
Military Pay <sup>2</sup>	Overpayments		\$ 43.89					43.89
	Underpayments		28.12					28.12
	Unknown Payments	\$ 7,374.48						7,374.48
	Technically Improper due to Statute or Reg				3.77			3.77
Civilian Pay	Overpayments		96.69					96.69
	Underpayments							-
	Unknown Payments							-
	Technically Improper due to Statute or Reg							-
Military Retirement <sup>2</sup>	Overpayments		142.19					142.19
	Underpayments		106.89					106.89
	Unknown Payments	33.82						33.82
	Technically Improper due to Statute or Reg				4.48			4.48
DoD Travel Pay <sup>2</sup>	Overpayments		61.54					61.54
	Underpayments		14.17					14.17
	Unknown Payments	179.98						179.98
	Technically Improper due to Statute or Reg				110.80			110.80
Commercial Pay	Overpayments		19.24					19.24
	Underpayments		0.01					0.01
	Unknown Payments							-
	Technically Improper due to Statute or Reg							-
USACE Travel Pay	Overpayments		0.88					0.88
	Underpayments		0.02					0.02
	Unknown Payments							-
	Technically Improper due to Statute or Reg							-
USACE Commercial Pay	Overpayments							-
	Underpayments							-
	Unknown Payments							-
	Technically Improper due to Statute or Reg				47.81			47.81
<b>Total</b>		\$ 7,588.28	\$ 513.62	\$ 328.86	\$ 243.60	\$ 5.30	\$ 0.55	\$ 8,680.22

Note: Amounts may not sum or calculate exactly due to rounding.

#### Exhibit 15 Footnotes:

<sup>1</sup> "Other Parties" includes participating lenders, health care providers, and any other organizations administering federal dollars.

<sup>2</sup> The Military Health Benefits, Military Pay, Military Retirement, and DoD Travel Pay programs were determined to be susceptible to significant improper payments in accordance with OMB Circular No. A-123, Appendix C.

*Root Causes and Corrective Action Plans for Programs Susceptible to Significant Improper Payments (IPs Exceeding \$100 million)*

When significant improper payments are identified in a program through testing, DoD Components are required to determine the root causes and develop CAPs to remediate them. The CAPs are monitored throughout the year by the DoD Components and the Office of the Under Secretary of Defense (Comptroller) (*OUSD(C)*) to ensure milestone dates are completed on a timely basis. The implementation and effectiveness of corrective actions are evidenced through the subsequent improper payment testing results for the program. Based on testing performed on the eight programs in FY 2019, four programs (Military Health Benefits, Military Pay, Military Retirement, and DoD Travel Pay) were estimated to have made improper payments in excess of \$100 million and were therefore required to develop and disclose CAPs. OUSD(C) continued to work with DoD Components to strengthen the CAPs for these programs by reinforcing measurable and effective milestones to ensure that the corrective actions achieved the desired results.

The following information relates to overpayments, underpayments, unknown payments, and technically improper payments due to noncompliance with statutes or regulations as well as root causes and corrective actions summarized and described at the DoD consolidated level. Individual DoD Component CAPs and target completion dates are maintained and monitored by the DoD Components and OUSD(C).



The Ohio-class fleet guided-missile submarine USS Florida (SSGN 728) sails in the Mediterranean Sea Aug. 27, 2019.

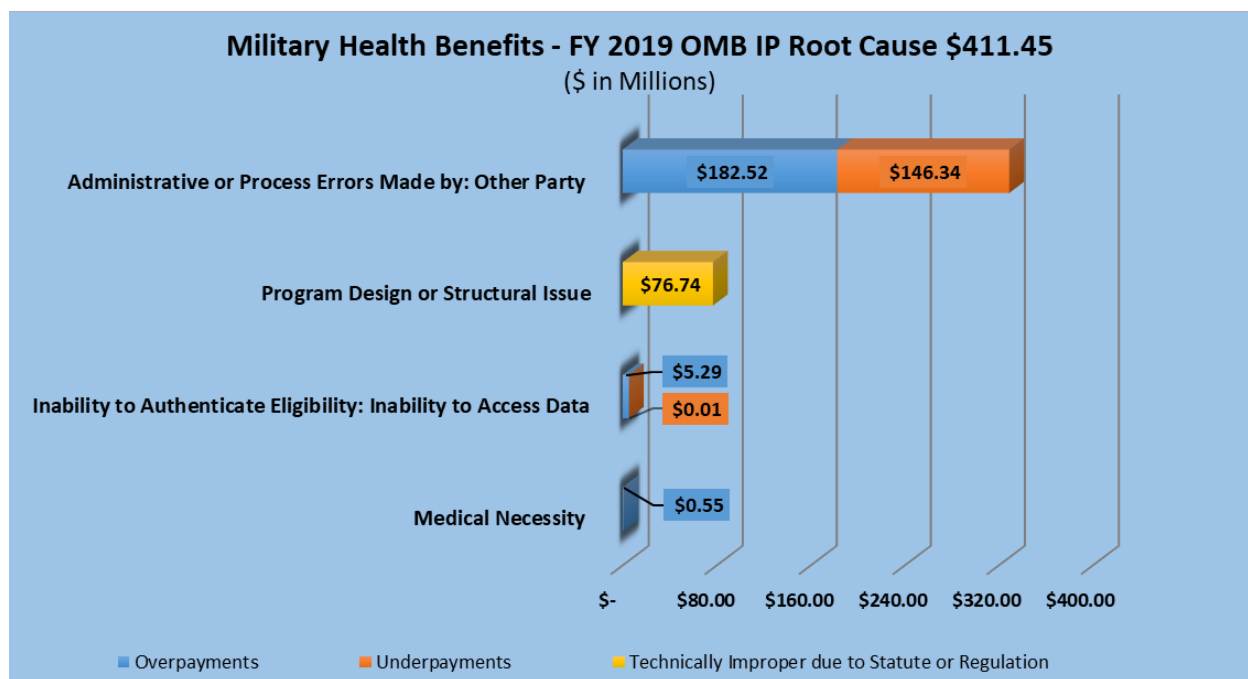
*U.S. Navy photo by Mass Communication Specialist 2nd Class Jonathan Nelson*

## Military Health Benefits

In FY 2019, the estimated improper payments for the Military Health Benefits program were \$411.45 million (see Exhibit 16). This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 1.74% (+/- 0.3) improper payment rate and an estimated proper processing rate of 98.26%. The estimated improper payments increased by \$320.21 million, from \$91.24 million in FY 2018 to \$411.45 million in FY 2019. The increase is primarily the result of DHA transitioning the administration of healthcare services and claims processing services for the TRICARE health benefits program from three to two regional Managed Care Support Contracts (MCSC) effective January 1, 2018. While the transition of administration efforts for the new TRICARE 2017 MCSC East and West regional contracts was successful, the claims processing services for one of TRICARE 2017 MCSC was impacted by significant challenges.

The primary root cause of improper payments in this program was attributed to “Administrative or Process Errors Made by: Other Party” (e.g., participating lender, health care provider, or any other organization administering federal dollars), which accounted for \$328.86 million (79.93%) of the program’s improper payments. The second major root cause of improper payments was Program Design or Structural Issue, which accounted for \$76.74 million (18.65%) of the program’s improper payments.

**Exhibit 16. FY 2019 Military Health Benefits Estimated Improper Payments by OMB Root Cause Category**



The majority of errors were the result of TRICARE claims processors making duplicate payments for previously paid healthcare services or supplies, miscalculating the appropriate hospital reimbursement rates based on the appropriate TRICARE reimbursement system(s)/methodology, or miscalculating and/or omitting provider or procedural discounts when making final payment.

**Exhibit 17. Military Health Benefits Summary Corrective Action Plans**

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
<b>Administrative or Processing Errors Made by: Other Party &amp; Program Design or Structural Issue</b>	<ul style="list-style-type: none"> <li>▪ Modify TRICARE purchased care contracts adding requirements for the contractor to identify and document the root cause of each payment error and develop CAPs for the payment errors assessed during a compliance review.</li> </ul>	January 2021
	<ul style="list-style-type: none"> <li>▪ Develop Contract Data Requirements List (CDRL) template and instructions as part of TRICARE purchased care contract modifications. The CDRL will require contractors to submit monthly status reports on established CAPs.</li> </ul>	January 2021
	<ul style="list-style-type: none"> <li>▪ Develop database or tracking tool to monitor all error assessments and corrective actions. The tool will provide information on error assessments for each claim by TRICARE purchased care contract and compliance review cycle. The database or tracking tool will also maintain information on the status of contractor CAPs.</li> </ul>	January 2021

DHA does not deem it to be cost effective to create CAPs for the OMB root cause categories, “Medical Necessity” and “Inability to Authenticate Eligibility: Inability to Access Data” due to the immaterial amounts associated with these improper payments. However, DHA private sector contractors are contractually required to perform the following actions to prevent improper payments:

- Review result findings, formulate an action plan to mitigate error findings, and derive a process to avoid future improper payments.
- If warranted, modify their claims processing systems to meet the Department's health care policy, reimbursement, and benefit requirements.

*Results of Corrective Actions*

DHA began implementing CAPs for the Military Health Benefits program in FY 2019 and the corrective action procedures are still ongoing. As such, improvements to the program’s improper payment rate have not yet been realized. DHA anticipates completing the full implementation of CAPs during FY 2020; results of the corrective actions will be reported in the DoD Agency Financial Report for FY 2020.



U.S. Navy Gunner's Mate 1st Class Tatiana Clark, foreground, fires an M4 carbine during a qualification course aboard the Arleigh-Burke class guided-missile destroyer USS Jason Dunham (DDG 109) in the 5th Fleet Area of Operations, Nov. 17, 2018.

*U.S. Navy photo by Mass Communication Specialist 3rd Class Jonathan Clay*





A U.S. Marine Corps drill instructor with Alpha Company, 1st Recruit Training Battalion, gives his platoon a command during a final drill evaluation at Marine Corps Recruit Depot San Diego, Dec. 22, 2018.

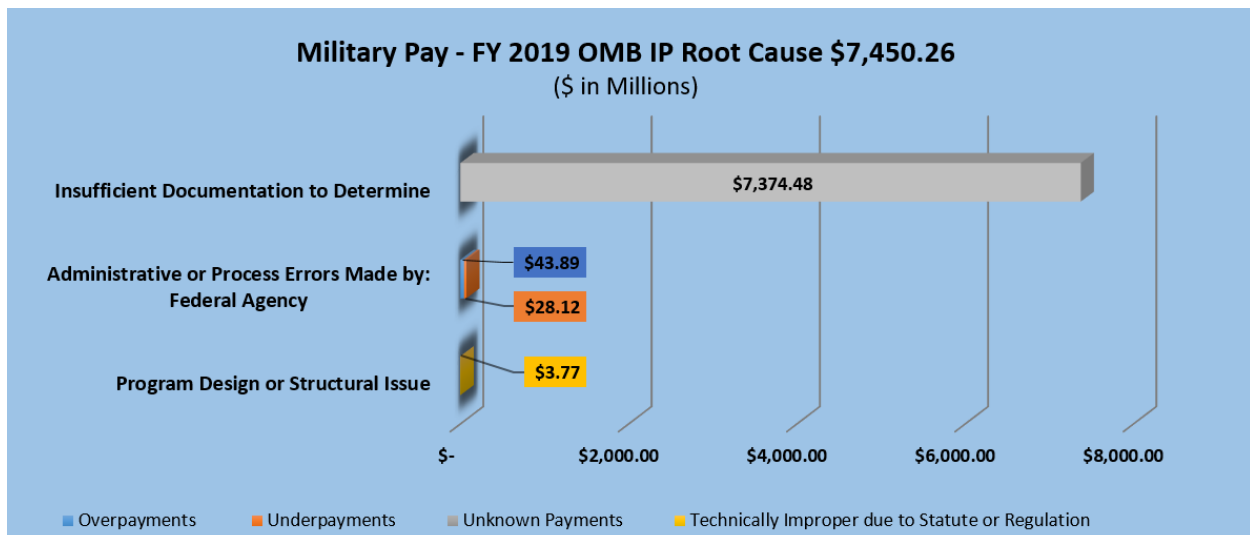
*U.S. Marine Corps photo by Lance Cpl. Jesula Jeanlouis*

### Military Pay

In FY 2019, the estimated improper payments for the Military Pay program were \$7,450.26 million (see Exhibit 18). This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 7.25% (+/- 1.24) improper payment rate and an estimated proper processing rate of 92.75%. The estimated improper payments increased by \$7,144.50 million, from \$305.76 million in FY 2018 to \$7,450.26 million in FY 2019.

The primary root cause of improper payments in this program was attributed to Insufficient Documentation to Determine, which accounted for \$7,374.48 million (98.98%) of the program’s improper payments. The second major root cause of improper payments was Administrative or Process Errors Made by: Federal Agency, which accounted for \$72.01 million (0.97%) of the program’s improper payments

**Exhibit 18. FY 2019 Military Pay Estimated Improper Payments by OMB Root Cause Category**



DoD military pay is a complicated mix of pay entitlements and benefits, used to recruit and retain Active and Reserve Component Military Service members worldwide. The combination of military payroll entitlements and eligibility criteria result in very complex compensation arrangements which become increasingly more complex each year. The intricacy of military pay is evident in the more than 80 entitlement tables required to process over 200 unique pay conditions such as Hazardous Duty Incentive Pay, Aviation Bonuses, Nuclear Officer Pay, and Hostile Fire Pay/Imminent Danger Pay.

Timing issues coupled with the complexity of entitlement rules dependent on multiple variables including the number, status, and location of dependents are the most critical elements in determining the accuracy of pay. A primary driver of pay inaccuracy is the timeliness of entering changes in personnel status into the military pay systems the longer it takes for a change in status to be recorded, the more erroneous payments result. Military pay is driven primarily by human resource activities or changes captured via manual entry into personnel systems, which feed a disbursement system via interface or additional manual entry. Military pay is also impacted by timely notification (or lack thereof) from Military Service members regarding changes in status (e.g., dependents).

In FY 2019, the Department implemented a revised sampling plan and testing methodology for the Military Pay program, which included verification of Military Service member pay and allowances (i.e., entitlements) against available supporting documentation. As a result, more extensive reviews were performed and improper payments resulting from insufficient supporting documentation that were not detected through previous testing methodologies were identified in FY 2019. The majority of the improper payments identified for the Military Pay program in FY 2019 resulted from insufficient supporting documentation and may or may not equate to inaccurate payments or monetary losses to the Department.

In addition to developing CAPs to mitigate the insufficient documentation errors, the Military Services have also begun implementation of Integrated Personnel and Pay System (IPPS) solutions to reduce improper payments and accelerate payroll processing time.



U.S. Navy Petty Officer 3rd Class Andrew Mercier builds a fire during jungle survival training during exercise KAMANDAG 2 in Ternate, Cavite, Philippines, Oct. 2, 2018.

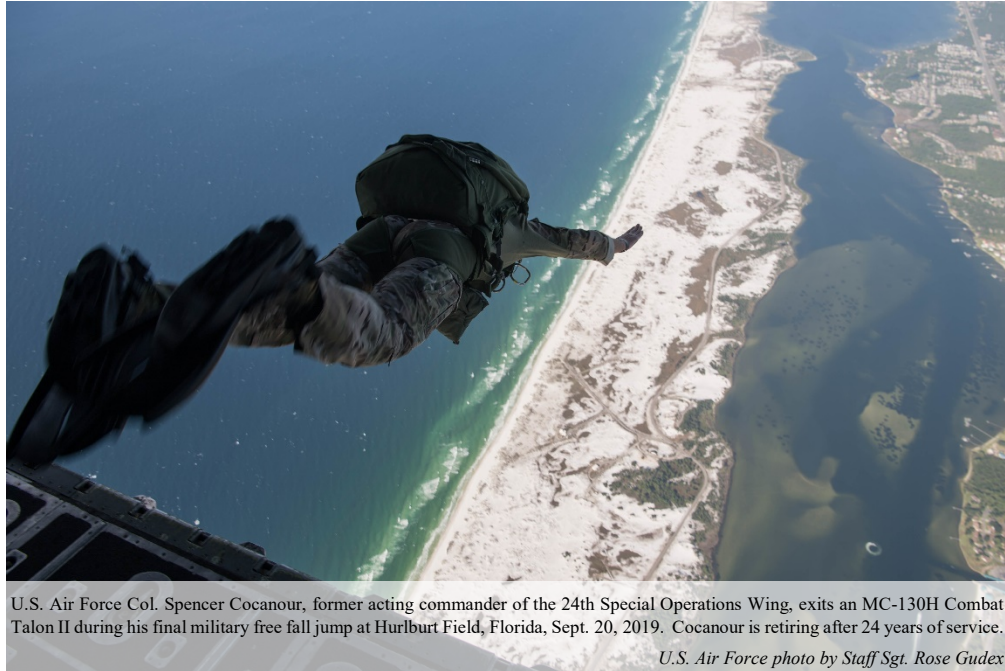
*U.S. Marine Corps photo by Sgt. Mackenzie Carter*

## Exhibit 19. Military Pay Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
<p><b>Insufficient Documentation to Determine</b></p> <p>Insufficient Documentation Errors related to the following entitlements and/or allowances:</p> <ul style="list-style-type: none"> <li>▪ Basic Allowance for Housing</li> <li>▪ Family Separation Allowance</li> <li>▪ Overseas Housing Allowance</li> <li>▪ Hostile Fire Pay/Imminent Danger Pay</li> <li>▪ Active Duty Pay (Recoupment of Annual Training Pay or Active Duty Operational Support)</li> <li>▪ Drill Pay</li> </ul>	<ul style="list-style-type: none"> <li>▪ Based on reviewing supporting documentation for each sample item, determine improper payment exceptions and report exceptions to the DoD Component.</li> <li>▪ Determine and document the root causes in a detailed analysis for each improper payment exception.</li> <li>▪ Develop CAPs to address specific root causes identified for improper payments attributable to payroll disbursements.</li> <li>▪ Execute CAPs and monitor remediation to ensure sustainment through various internal controls – manual and automated.</li> </ul>	<p>Completed September 2019</p> <p>December 2019</p> <p>December 2019</p> <p>September 2020</p>
<p><b>Administrative or Process Errors Made by the Department &amp; Program Design or Structural Issue</b></p> <p>Improper payments resulted from the following errors:</p> <ul style="list-style-type: none"> <li>▪ Payroll data input errors</li> <li>▪ Untimely updates to payroll records and systems.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Marine Corps continues to enhance its integrated pay and personnel system through automation of administrative and finance processes and the incorporation of travel into the Marine Corps Total Force System as well as implementing the Treasury Disbursing Office Initiative.</li> <li>▪ The Navy is transforming its Manpower Personnel Training and Education (MPT&amp;E) enterprise to meet the future needs of the Fleet and Sailors and to mitigate the threat to the Navy’s ability to execute future missions vital to national security. The Navy is also establishing a core suite of MPT&amp;E Systems, including the implementation of an auditable commercial off-the-shelf Navy Personnel and Pay (NP2) capability implementing the Treasury Disbursing Office initiative.</li> <li>▪ The Air Force is implementing the Air Force Integrated Personnel and Pay System (AF-IPPS), a single Total Force military personnel and pay system, enabling financial auditability and long-term sustainment.</li> <li>▪ The Army’s primary strategy for improving the accuracy, effectiveness, and auditability of military pay is focused on the phased, incremental implementation of the Integrated Personnel and Pay System-Army (IPPS-A). In conjunction with the phased implementation of IPPS-A, the Army has initiated a three-prong strategy for training human resources professionals on military pay.</li> </ul>	<p>January 2020</p> <p>January 2021</p> <p>January 2021</p> <p>January 2022</p>

*Results of Corrective Actions*

In FY 2019, the Department’s corrective actions resulted in an improved standard operating procedure (SOP) for post-payment reviews of Military Pay accounts. The updated SOP requires reviewers to verify that Military Service members are eligible for special pay and allowances by validating the information included in pay accounts with supporting documentation. This improved level of review enabled the DoD Components to adequately assess the risk of improper payments, identify primary entitlement drivers of improper payments, and develop more effective corrective actions. The Department’s new post-payment reviews also resulted in more accurate identification of monetary loss errors, as reviewers were able to more accurately identify and classify improper payments based on available supporting documentation rather than relying on established payroll debts to Military Service members.

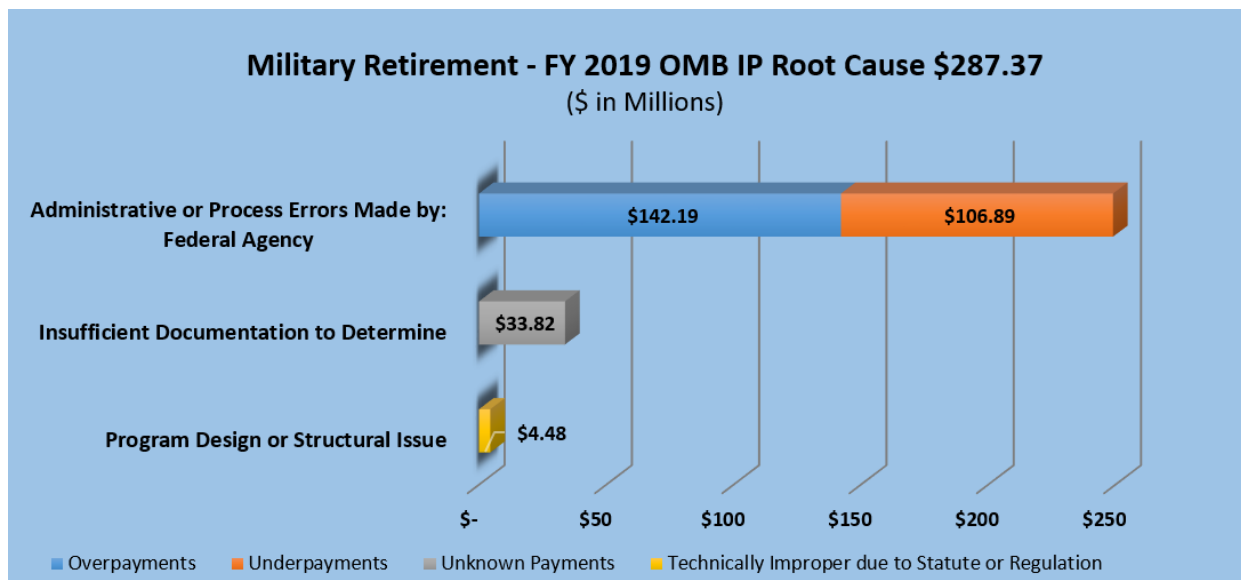


### Military Retirement

In FY 2019, the estimated improper payments for the Military Retirement program were \$287.37 million (see Exhibit 20). This estimate was based on a sampling methodology with a 95% confidence level, equating to a 0.40% (+/- 0.09) improper payment rate and an estimated proper processing rate of 99.6%.

The primary root cause of improper payments in this program was attributed to Administrative or Process Errors Made by: Federal Agency, which accounted for \$249.08 million (86.67%) of the program’s improper payments. The second major root cause of improper payments was Insufficient Documentation to Determine, which accounted for \$33.82 million (11.77%) of the program’s improper payments.

**Exhibit 20. FY 2019 Military Retirement Estimated Improper Payments by OMB Root Cause Category**



The majority of the errors were the result of untimely application of Dependency and Indemnity Compensation offsets, manual and systematic computation errors, insufficient supporting documentation, and errors in following processing procedures and applying policy changes for Department of Veterans Affairs' (VA) waiver awards.

**Exhibit 21. Military Retirement Summary Corrective Action Plans**

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
<p><b>Administrative or Process Errors Made by the Department &amp; Insufficient Documentation to Determine &amp; Program Design or Structural Issue</b></p>	<ul style="list-style-type: none"> <li>▪ Implement a cost refund system change to automate the processing of standard or common cost refund accounts. This automation effort is expected to reduce the number of technician input errors, and thus reduce the number of improper payments due to cost refund processing</li> <li>▪ Update the cost refund workbook to streamline data transfer from a manual process to automated field population. This will streamline the process and contribute to a greater level of accuracy, which should lead to fewer improper payments</li> </ul>	<p>October 2020</p> <p>October 2020</p>
<p>Errors for retired and annuitant pay (new annuitants, new retirees, and changed annuitant account) included:</p> <ul style="list-style-type: none"> <li>▪ Payments made despite insufficient documentation</li> <li>▪ Errors in following processing procedures and applying policy changes for Department of Veterans Affairs waiver awards</li> <li>▪ Untimely application of Dependency and Indemnity Compensation offsets</li> <li>▪ Systematic computation errors</li> <li>▪ Manual computation errors</li> </ul>	<ul style="list-style-type: none"> <li>▪ Implement several New Accounts system change requests to reduce the amount of manual processing and eliminate over 50 excel workbooks currently in use. Eliminating manual processing is expected to reduce human errors that result in improper payments. Increase timeliness of processing so that Survivor Benefit Plan elections can be established correctly at the start of retired pay.</li> </ul>	<p>October 2020</p>

*Results of Corrective Actions*

In FY 2019, DFAS implemented comprehensive updates in all areas of retired and annuitant training to more adequately address the complex cases that contributed to the most errors leading to improper payments. They also redesigned the workload distribution and held additional supplemental training at the operational level based on performance monitoring, specifically for the complex cases related to Survivor Benefit Plans and Annuities.

The goal to reduce the improper payment rate from random reviews by 10% was not achieved. DFAS conducted a strategic mid-year review of their operational processes in an effort to make progress toward the ultimate goal of less than \$100 million in improper payments. As a result of the review, DFAS concluded they needed to alter their FY 2018 CAP to better posture their operations towards reducing improper payments.

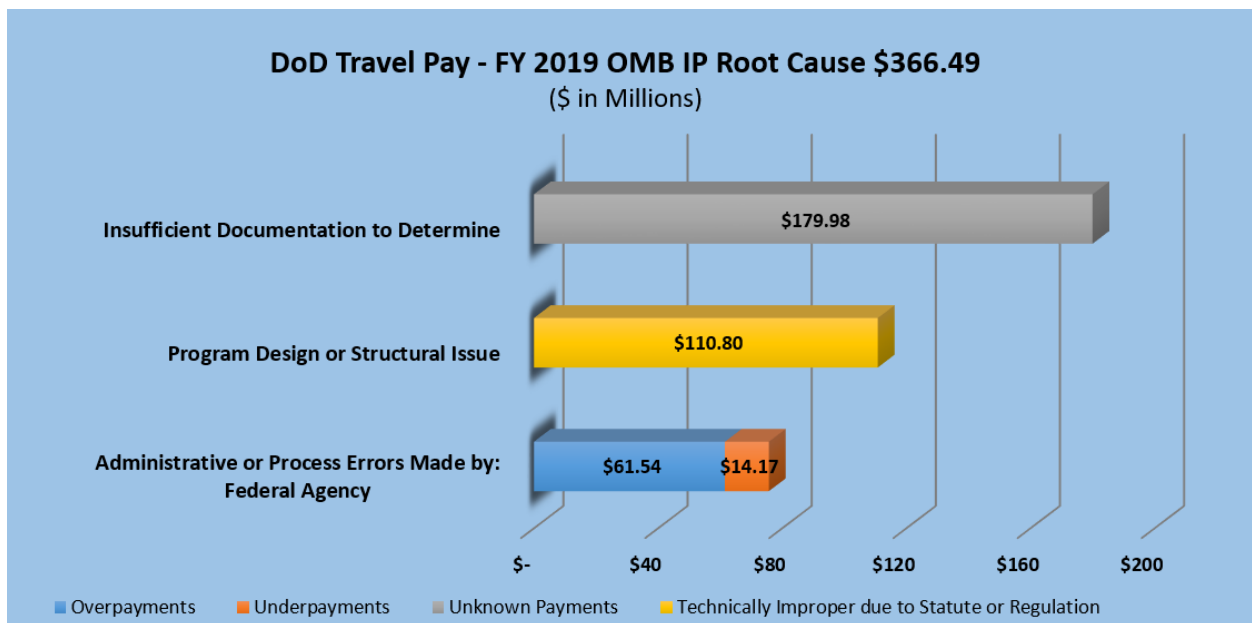


### DoD Travel Pay

In FY 2019, the estimated improper payments for the DoD Travel Pay program were \$366.49 million (see Exhibit 22). This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 4.76% (+/- 0.37) improper payment rate and an estimated proper processing rate of 95.24%.

The primary root cause of improper payments in this program was attributed to Insufficient Documentation to Determine, which accounted for \$179.98 million (49.11%) of the program’s improper payments. The second major root cause of improper payments was Program Design or Structural Issue, which accounted for \$110.80 million (30.23%) of the program’s improper payments.

Exhibit 22. FY 2019 Travel Pay Estimated Improper Payments by OMB Root Cause Category



The errors resulted from invalid or incorrect receipts for expenses, unsigned vouchers or claims for Reimbursement for Expenditures on Official Business, no receipts provided for expenses, meal rates paid incorrectly, and incorrect payments of Permanent Change of Station-related expenses.

## Exhibit 23. DoD Travel Pay Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
<p><b>Insufficient Documentation to Determine</b></p> <p>Improper payments resulted from the following types of inability to verify the accuracy of payments:</p> <ul style="list-style-type: none"> <li>Invalid and/or inadequate documentation (i.e., receipts) to verify travel related expenses reimburses</li> <li>Lack of supporting documentation provided to determine if travel expenses are allowable based on established policies</li> <li>Lack of sampling plan and/or execution of sampling plan for Army Outside the Continental United States (OCONUS) disbursement offices to accurately evaluate, monitor, and measure improper payments.</li> </ul>	<ul style="list-style-type: none"> <li>The Navy DTS project management office updated the current AO checklist to include specific checks to ensure valid receipts are submitted for specific expense types (airfare, lodging, and car). The AO checklist was made available on the Navy Supply Systems Command website and distributed to all Navy Defense Travel Administrators and AOs.</li> <li>Draft a standard sampling plan for use by Army OCONUS paying offices for inclusion of site-specific details.</li> <li>The Defense Travel Management Office will make modifications to DTS to include additional capabilities for receipt verification. DTS will be able to detect when support documentation (e.g., receipt) is required for an expense and, if not included, will prevent the user from submitting the voucher or the AO from approving the voucher. This additional capability is anticipated to greatly reduce the majority of improper payments due to missing supporting documentation.</li> </ul>	<p>Completed March 2019</p> <p>November 2019</p> <p>March 2020</p>
<p><b>Program Design or Structural Issue &amp; Administrative or Process Errors Made by: Federal Agency</b></p> <p>Improper payments resulted from the following errors:</p> <ul style="list-style-type: none"> <li>Inaccurate Permanent Change of Station (PCS)-related expense reimbursement</li> <li>Voucher errors and incomplete data provided by the traveler</li> <li>Traveler and/or Approving Official (AO) did not sign travel related documentation (e.g., Travel Voucher)</li> </ul>	<ul style="list-style-type: none"> <li>DFAS updated the post pay database to consolidate the Travel Pay reviews with corresponding results to provide DoD leadership with timely information on payments errors identified, root causes, and recovery of funds.</li> <li>DFAS established a review forum for post payment reviewers and Travel Pay operations personnel to discuss and implement a common policy in computing, establishing policy, or conducting reviews.</li> <li>The Air Force implemented a Defense Travel System (DTS) and Reserve Travel System root cause analysis process focusing on payment errors identified during post pay reviews to determine needed governance changes, training requirements, performance evaluations, and possible pecuniary liability actions for AOs.</li> <li>Complete the Travel Pay improper payment remediation plans that account for approximately 95% of the Department's travel pay disbursements processed in the DTS. This includes establishing milestones, monitoring progress, and holding DoD Components accountable for their completion.</li> <li>Implement continuous training programs for PCS that include performance assessments of various disbursement locations to identify travel payment errors and root causes for known improper payments. The training program will emphasize accuracy, timeliness, and effective travel voucher review procedures (i.e., preventive measures) for the traveler, Command Pay/Personnel Administrator, and AO to incorporate prior to submitting the voucher for processing.</li> </ul>	<p>Completed September 2019</p> <p>Completed September 2019</p> <p>Completed September 2019</p> <p>December 2019</p> <p>April 2020</p>

*Results of Corrective Actions*

In FY 2019, the Department's corrective actions resulted in the calculation of the Travel Pay improper payment estimate using a complete population, to include travel payments made by the Army 266<sup>th</sup> Financial Management Support Center (FMSC). In FY 2018, the Army 266<sup>th</sup> FMSC did not complete their travel improper payment reviews because a rotational policy in Europe resulted in high turnover and limited personnel resources. Moreover, DoD remediation efforts continue to reduce improper travel payments (i.e., approximately 2.5% since FY 2016), and this program met its improper payment goal rates of 6.0% in FY 2018 and 5.75% in FY 2019.

## II. Recapture of Improper Payments Reporting

When IPERA was passed in 2010, the Department awarded several contracts to identify and recover improper payments. Recovery auditors would be paid only on a contingency basis and only after funds were recovered. However, in most cases the private sector firms were not able to establish an adequate profit margin; consequently, the firms asked that the contracts be terminated. Based on historical experience with the use of contingency contracts to recover outstanding overpayments, the Department determined this type of effort was not cost effective.

The Department performs three separate and distinct activities that can result in the collection of amounts improperly paid to the recipient. Collection of these amounts is often referred to as “payment recapture.” The three activities performed by the Department are:

1. Testing payments selected in statistical samples under OMB Circular No. A-123, Appendix C (IPERA Testing);
2. Testing under the requirements of OMB [Circular No. A-123](#) (Enterprise Risk Management and Internal Control Program (ERM/ICP) Control Activities); and
3. Payment Recapture Audits as defined under OMB Circular No. A-123, Appendix C (Payment Recapture Audit).



A U.S. Air Force F-16C Fighting Falcon fires flares over the Atlantic Ocean after performing a flyover for the 2019 Atlantic City Airshow, "A Salute To Those That Serve," on Aug. 21, 2019.

*U.S. Air National Guard photo illustration by Senior Master Sgt. Andrew J. Moseley*



### IPERA Testing

Under IPERA Testing, sampled items are tested to identify overpayments or underpayments to eligible recipients, payments to ineligible recipients, payments for ineligible goods or services, and payments for goods or services not received. Tests include review of supporting documentation and other test procedures as applicable. When a review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, the payment is considered to be improper.

As part of the Department's overall system of internal control, individual overpayments identified in sampled items are reported to the DoD Component where the transaction originated. For example, if DFAS were performing the IPERA testing for the DoD Travel Pay program and identified an overpayment involving an Army employee, DFAS would report the overpayment to the Army. The Army would then contact the impacted employee and agree upon a repayment method consistent with the Army's debt management program. In most situations, the repayment would occur through payroll deduction or direct reimbursement by the employee to the Department for the overpayment.

### ERM/ICP Control Activities

The framework of internal controls has five components - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. Within this framework, Control Activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the system of internal control.

Execution of Control Activities can result in the identification of an overpayment. For example, an overpayment in the Commercial Pay program may be identified through Control Activities at the DoD Component level. These overpayments would be subject to collection efforts coordinated between DFAS and the DoD Component offices responsible for originating the transactions. These collection efforts may include direct collection from the contractor or offset against the same contract with that contractor.

### Payment Recapture Audit

A Payment Recapture Audit is a review and analysis of a program's accounting and financial records, supporting documentation, and other pertinent information supporting its payments, and is specifically designed to identify overpayments. It is not an audit in the traditional sense covered by Generally Accepted Government Auditing Standards.

As part of their internal controls over payments, federal agencies are required to conduct Payment Recapture Audits for all programs that expend more than \$1 million in a fiscal year if conducting such audits is cost effective. However, federal agencies may exclude program payments from Payment Recapture Audits if the agency determines that Payment Recapture Audits are not a cost-effective method for identifying and recapturing payments. The Department has determined that Payment Recapture Audits are not a cost-effective repayment capture method for its programs, with the exception of a portion of the DoD Travel Pay program administered by the Defense Travel Management Office ([DTMO](#)).

Currently, the only DoD payment recapture audit is conducted by DTMO as part of the DoD Travel Pay program. DTMO reviews all travel vouchers for Temporary Duty personnel processed through DTS using a set of 14 predefined queries designed to identify the most common improper payments.

Individual overpayments identified by DTMO through its [Travel Policy Compliance Tool](#) are reported through automated notifications to locally based Compliance Tool Administrators at the DoD Component where the travel transaction originated. The DoD Component then contacts the impacted

employee and agrees upon a repayment method consistent with the DoD Component’s debt management program. In most situations, the repayment occurs through payroll deduction or direct reimbursement by the employee to the Department for the overpayment.



### *Overpayment Capture Reporting*

Exhibit 24 reports the results of overpayments recaptured as a result of IPERA Testing and ERM/ICP Control Activities as “Overpayments Recaptured Outside of Payment Recapture Audits.” Overpayments recaptured as a result of the DTMO Payment Recapture Audit are reported as “Overpayments Recaptured Through Payment Recapture Audits.”

Amounts reported as “Overpayments Recaptured Outside of Payment Recapture Audits” in Exhibit 24 may differ from those reported in Exhibit 12 as “FY 2019 Overpayments” due to timing differences in reporting, the fact that Exhibit 12 reflects estimates while Exhibit 24 reflects actuals, and differences in the manner of compilation. Additionally, note that overpayments identified in one fiscal year may be collected in that fiscal year or in a subsequent fiscal year.

**Exhibit 24. FY 2019 Payment Recapture Audit Reporting**

(\$ in millions)

Does This Include Funds Recaptured from a High-Priority Program (Y/N) <sup>1</sup>	Program or Activity	Overpayments Recaptured Through Payment Recapture Audits				Overpayments Recaptured Outside of Payment Recapture Audits	
		Amount Identified in FY 2019 (\$M)	Amount Recaptured in FY 2019 (\$M)	Recapture Rate in FY 2019 (%)	FY 2020 Recapture Rate Target (%)	Amount Identified in FY 2019 (\$M)	Amount Recaptured in FY 2019 (\$M)
N	Military Health Benefits <sup>2,3,4</sup>					\$ 8.95	\$ 827.47
Y	Military Pay <sup>5</sup>					279.39	249.98
N	Civilian Pay <sup>5</sup>					96.60	96.60
N	Military Retirement <sup>6</sup>					72.30	36.60
N	DoD Travel Pay <sup>7,8,9</sup>	\$ 5.19	\$ 2.51	48%	75%	0.21	0.07
N	Commercial Pay					-	-
N	USACE Travel Pay					0.45	0.45
N	USACE Commercial Pay					2.60	2.58
	<b>TOTAL</b>	<b>\$5.19</b>	<b>\$2.51</b>	<b>48%</b>	<b>75%</b>	<b>\$460.49</b>	<b>\$1,213.75</b>

Note: Amounts may not sum or calculate exactly due to rounding.

## Exhibit 24 Footnotes:

<sup>1</sup> The OMB threshold for designation as a high-priority program for FY 2019 reporting is \$2 billion in estimated improper payments reported by the federal agency, regardless of the improper payment rate estimate.

<sup>2</sup> "Amount Identified in FY 2019" represents the total overpayment dollars from sampled claims. These amounts include recoupments for overpayments identified in audits as well as refunds occurring in the course of routine claim adjustments. DHA has no way to distinguish overpayment recoupments from routine claim adjustments. "Amount Recaptured in FY 2019" represents negative TRICARE Encounter Data (*TED*) record adjustments for overpayments.

<sup>3</sup> These amounts include recoupments for overpayments identified in reviews conducted by an external independent contractor as well as contractor refunds (i.e., negative *TED* record adjustments) occurring in the course of routine claim adjustments (for claims initially paid in previous fiscal years). DHA has no way to distinguish overpayment recoupments from routine claim adjustments.

<sup>4</sup> The amount recaptured in FY 2019 for the Active Duty Dental Program (*ADDP*) represents refunds shown on contractor invoices to DHA. *ADDP* data is not included in the *TED* system, thus contractor invoices were used to calculate the amount recaptured because *TED* transactions are not available.

<sup>5</sup> The Military Pay program includes both in-service collections (i.e., collections from active employees) and out-of-service debts (i.e., collections from individuals not actively employed by the Department) in the Amount Recaptured. The Civilian Pay program includes only in-service collections in the Amount Recaptured.

<sup>6</sup> The amounts identified and recaptured for the Military Retirement program are based on a 100% review of deceased retired and deceased annuitant accounts.

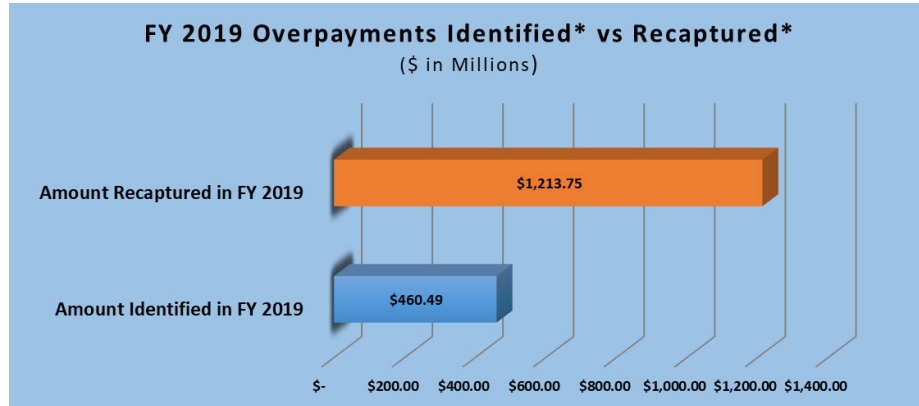
<sup>7</sup> "Overpayments Recaptured Outside of Payment Recapture Audits" for the DoD Travel Pay program are overpayments of paid DTS and Navy Windows Integrated Automated Travel System (WinIATS) vouchers that were identified by DFAS through their sampling and post-payment review process.

<sup>8</sup> The DoD Travel Policy Compliance Program is the only formal payment recapture audit program of the DoD Travel Pay program and its results are reported "through" payment recapture audits.

<sup>9</sup> "Amount Recaptured" includes debts that have been fully collected or are currently in the debt process, such as payroll deductions.

Exhibit 25 reports the actual amount (i.e., not estimated) of overpayments identified and recaptured outside of payment recapture audits in FY 2019. Note: not all overpayments will be collected in the same fiscal year that they were made and/or identified. The Department continues to work to improve its methods to identify, collect, and report improper payments.

**Exhibit 25. FY 2019 Overpayments Identified and Recaptured Outside of Payment Recapture Audits**



\* Amounts do not include Overpayments Recaptured Through Payment Recapture Audits

Exhibit 26 reports the disposition of funds recaptured as a result of payment recapture audits. In accordance with IPERA requirements, only funding which is expired at the time of collection can be reallocated.

**Exhibit 26. FY 2019 Disposition of Funds Recaptured Through Payment Recapture Audits**

(\$ in millions)

Program or Activity	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other
DoD Travel Pay	\$ -	\$ -	\$ -	\$ 2.51	\$ -	\$ -	\$ -
<b>TOTAL</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2.51</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Note: Amounts may not sum or calculate exactly due to rounding.

Exhibit 27 reports an aging schedule of the amount of overpayments identified through payment recapture audits that are outstanding (i.e., overpayments that have been identified, but not recaptured). Identified overpayments were determined to be uncollectible for one of the following reasons: the amount of the debt is \$10 or less; a waiver has been approved; or the amount is an out-of-service debt (i.e., debt from an individual not actively employed by the Department).

**Exhibit 27. Aging of Outstanding Overpayments Identified Through Payment Recapture Audits**

(\$ in millions)

Program or Activity	FY 2019 Remaining Unrecovered	Amount Outstanding (0 – 6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount determined to not be collectable	Percent determined to not be collectable
DoD Travel Pay	2.68	0.98	\$ 1.70	\$ -	\$ 0.01	0.26%
<b>TOTAL</b>	<b>2.68</b>	<b>0.98</b>	<b>1.70</b>	<b>\$ -</b>	<b>0.01</b>	

Note: Amounts may not sum or calculate exactly due to rounding.

### III. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

The Department of Treasury (*Treasury*) Do Not Pay (*DNP*) Portal is the legislatively mandated and OMB-designated source of centralized data analytics services to help federal agencies verify eligibility for payment. Federal agencies interface with Treasury’s centralized data to achieve a higher degree of certainty that a payee is legitimate and eligible before making a payment. All payments that are identified to be potentially improper are then adjudicated and either paid or not paid. Improper payments, however, may still occur at some later point due to reasons that the DNP Portal cannot detect or prevent.

The Department uses the online search, payment integration, and batch matching features of DNP. Ninety nine percent of the flagged payees are based on the *Death Master File* and the name match results from the rest of the DNP databases (e.g., System for Award Management). The Department researches all payments that are identified to be potentially improper. Research has determined that the majority of these match results are false positives (e.g., a vendor’s tax identification number being matched to a deceased individual’s social security number). The remaining 1% are deemed proper based on established business rules related to contracts terms and vendor performance. The Department has adjudicated and deemed proper all potential improper payments identified using the DNP Portal. The DNP initiative has not reduced DoD improper payments.



A Bell UH-1 Iroquois Helicopter, nicknamed the “Huey”, takes off amidst an explosion during a reenactment of a Vietnam era combat search and rescue mission performed by Cavanaugh Flight Museum at Joe Foss Field, South Dakota, August 18, 2019.

*U.S. Air National Guard photo by Staff Sgt. Jorrie Hart*

#### IV. Accountability

The Department recognizes the difficulty of any single official exercising direct personal control over all aspects of each business transaction. Therefore, the Department relies on automated systems, manual controls, and accountable officials to ensure accountability of government funds, including the accuracy, propriety, and legality of payments. The Under Secretary of Defense (Comptroller)/Chief Financial Officer ([USD\(C\)/CFO](#)) is the Accountable Official for the Department and is responsible for ensuring that, to the greatest extent possible, all DoD payments are accurate.

The Department adheres to [10 U.S.C. §2773\(a\)](#), which holds Departmental Accountable Officials (DAOs) and Certifying Officials (COs) accountable for government funds. DAOs and COs are subject to pecuniary liability for an illegal, improper, or incorrect payment. This law forms the basis of the DoD Financial Management Regulation ([DoD FMR](#)), [Volume 5, Chapter 5](#), which addresses: the selection, appointment, responsibilities, and qualifications for certifying officers; certification of vouchers for payment; DAOs; random review of disbursement vouchers; and pecuniary liability. Moreover, the Department's efforts to recover overpayments are administered in accordance with the debt collection policy in DoD FMR, [Volume 16](#).

The DoD FMR also contains chapters that specifically address improper payments (i.e., [Volume 4, Chapter 14](#)) and recovery auditing (i.e., [Volume 10, Chapter 22](#)). The Deputy Chief Financial Officer ([DCFO](#)) is the Executive Agent and Senior Accountable Official (SAO) for the DoD Payment Integrity Program. The DCFO, Director of Financial Management Policy and Reporting, and the Payment Integrity Program Manager provide oversight to the Payment Integrity Program and are each held accountable in their performance plans for reducing and recapturing improper payments as well as achieving compliance with IPERA.

The Department continues to take many proactive steps to hold individuals accountable for the prevention and reduction of improper payments. In FY 2013, following the DoD Travel Pay program's initial year of noncompliance, a Department-wide remediation plan was developed and implemented to assist the program in meeting its improper payment reduction target rates. By FY 2017, this plan evolved into an improper payments SAO steering committee, which is responsible for proactive oversight of the Payment Integrity program, implementing best practices, monitoring performance, and driving actions for achieving IPERA compliance. This committee, which is comprised of SAOs from across the Military Services and several other DoD Components<sup>14</sup>, is held accountable for reducing and recapturing improper payments through corrective action plans and progress is monitored and measured through performance metrics. Moreover, the SAO steering committee helps ensure that improper payment estimates for all programs are complete and accurate and that program target rates are met.

---

<sup>14</sup> The SAO steering committee includes Senior Executive Service representatives from the following DoD Components and offices: OUSD(C); Department of the Army; Department of the Navy; Department of the Air Force; United States Marine Corps; USACE; United States Special Operations Command ([USSOCOM](#)); Defense Information Systems Agency ([DISA](#)); Defense Logistics Agency ([DLA](#)); Defense Contract Audit Agency ([DCAA](#)); Missile Defense Agency ([MDA](#)); DFAS; Defense Contract Management Agency ([DCMA](#)); DHA; and the Defense Human Resources Activity ([DHR](#))/DTMO.

### *Military Health Benefits*

DHA continually strives to improve its payment accuracy performance for all its private sector contracts and ensure that the billions of dollars in federal funds it disburses annually reach intended recipients in the right amount and for the right purpose. Through responsible stewardship and accountability, DHA is committed to earning the trust and confidence of Congress and the American people.

TRICARE private sector contractors are monetarily incentivized or dis-incentivized through contract requirements and TRICARE claims processing performance standards. In addition to quarterly compliance reviews, MCSCs are subject to annual health care cost reviews. Overpayments identified during Annual Health Care Costs (AHCC) compliance reviews are extrapolated to the AHCC claims universe and the MCSC is liable for the extrapolated overpayment error amounts that must be reimbursed directly to the Government.

DHA-Contract Resource Management (CRM) Government Certifying Officers responsible for authorizing payments are held accountable as documented in their Performance Plans. Certifying officers must ensure vouchers prepared for disbursement are correct and comply with the terms of the assigned contract and the [Prompt Payment Act](#). Certifying Officers are allowed no more than three errors resulting in an incorrect dollar amount or payee during a rating period. All payments on file must be certified in time to make scheduled Treasury payment cycles and DHA paying agents must maintain all standard operating procedures associated with these processes. Performance evaluations are performed annually by the Chief, CRM Finance Accounting Branch, who annotates and properly addresses any failure to meet performance requirements.

### *Military Pay*

The Department is committed to ensuring that Military Service members are paid timely and accurately. To accomplish this important mission, individuals within the Military Pay hire-to-rotate process are held accountable for their respective areas of responsibilities. Military Service members are held accountable to report their eligibility information as well as any qualifying change of life situations affecting their pay timely to their Personnel and/or Finance offices. Personnel and/or Finance offices are held accountable to process Military Service member payroll and benefit documentation accurately and timely and to ensure the documentation is correctly entered into entitlement systems. Personnel and/or Finance office employees are required to perform reconciliations on a regular basis and to make timely edits or updates to a Military Service member's pay in entitlement systems, as necessary. Management is held accountable for ensuring that controls are in place to properly capture, record, and approve Military Service members' pay and entitlement information. Additionally, management is responsible for reviewing finance reports, which reflect pay and entitlements paid to Military Service members, and for conducting monthly internal reviews to compare and reconcile pay and personnel records.

### *Military Retirement*

The DFAS Director of Retired and Annuitant [\(R&A\) Pay](#) is held accountable in a performance plan for reducing and recapturing improper payments. The DFAS Director of R&A Pay is required, under a performance plan element of "Internal Controls and Audit Support," to actively support R&A work group efforts to reduce improper payments identified by the DFAS Post-pay Review & Analysis and the Reports & Analysis Enterprise Solutions & Standards – Compliance team. Moreover, executives at [DFAS Cleveland](#), where R&A Pay is managed, are held accountable to meet established percentage goals for improper payments through annual performance plan criteria.

### *DoD Travel Pay*

The Department is committed to ensuring that all employees, both Military Service members and civilians, are reimbursed timely and accurately for their travel-related expenses. To accomplish this mission, individuals within the travel management process are held accountable for their respective areas of responsibility.

DAOs involved in the travel management process serve as control points within the Department. Individuals officially appointed as DAOs for the travel process may include reviewing officials, approving officials, and authorizing officials. If appointed, DAOs are subject to pecuniary liability for illegal, improper, or incorrect payments resulting from information, data, or services they negligently provide to COs and upon which the COs relied to certify payment vouchers.

COs are subject to pecuniary liability under 10 U.S.C. §2773(a) and [31 U.S.C. §3528](#). They are responsible for certifying travel claims for payment, forwarding certified claims to the supporting disbursing office, comparing pre-trip and post-trip estimates of expenses, reviewing all lodging receipts, and reviewing individual reimbursable expense receipts of \$75 or more. Responsibilities for individuals appointed as COs are applicable to both DTS and non-DTS travel claims. COs must be appointed by an appropriate authority and they must acknowledge their appointment as a CO by signature.

Travelers are held accountable for preparing their vouchers after travel has been completed. Travelers must provide all supporting documentation including the original (or legible copies of) orders and receipts for all lodging expenses, as well as claimed reimbursable expenses of \$75 or more, to their DAOs and/or COs. Moreover, travelers are liable under [18 U.S.C. §§287](#) and [1001](#) and the False Claims Act, [31 U.S.C. §§3729-3731](#), if they knowingly submit false, fictitious, or fraudulent travel claims.



U.S. Army Soldiers assigned to the 10th Special Forces Group (Airborne) conduct an airborne operation near the island of Mont Saint Michel, Avranches Commune, France, May 18, 2019.

*U.S. Army photo by Sgt. Avery Cunningham*



## V. Agency Information Systems and Other Infrastructure

### *Military Health Benefits*

#### Internal Controls

DHA has internal controls in place to support the reduction of improper payments in the TRICARE purchased health care program to the levels the DHA has targeted. However, for the FY 2019 AFR reporting cycle, DHA identified a material weakness as a result of a private sector contractor's inadequate claims processing performance. Effective January 1, 2018, and in fulfillment of section 701 of the [National Defense Authorization Act for FY 2017](#), the DHA implemented sweeping changes to the TRICARE health benefits structure and MCS contract management to synchronize these changes. As a result, the DHA transitioned its TRICARE-3 MCSCs (supported by three regional contracts/contractors) to the TRICARE 2017 contract and regional oversight model (supported by two regional contracts/contractors).

While the transition of MCSC contracts from three to two was considered a success, the transitioning of claims processing services under one of the two T2017 MCSC has been met with challenges. As a result of the contractor's claims processing performance, DHA's program and contracting offices have increased contract oversight and monitoring for this T2017 contractor. The DHA contracting office has issued a number of Contract Action Requests, while the program office has increased contract oversight and surveillance efforts. Although the material weakness has had an impact on the DHA Payment Integrity program, significant progress has been made by the DHA and the MCSC contractor to resolve this deficiency by the FY 2020 AFR reporting cycle.

#### Human Capital

Currently, DHA has the human capital it needs to reduce improper payments in the Military Health Benefits program to the level the Department has targeted. However, as the DHA Payment Integrity program evolves and as operations change, additional skill sets and personnel resources may be needed to sustain and advance the program.

#### Information Systems and Other Infrastructure

DHA has the information systems and other infrastructure it needs to reduce improper payments in the Military Health Benefits program to the levels the Department has targeted. The Agency Private Sector program (managed by the Contract Resource Management Division) includes an immense volume of healthcare claims processed by TRICARE private sector contractors into the TED Operational Data Store. To track programs, CRM uses the TRICARE Encounter Data Set (TEDS), a financial feeder system through which claims are processed to Oracle Federal Financials; the E-Commerce System (ECS); and the Oracle Federal Financials (OFF). The OFF system supports budget and accounting/financial functions and health care (TEDS) claims processing and contains TRICARE Claims Management, Accounts Receivable, Accounts Payable, Purchase Orders and General Ledger modules.

## Military Pay

### Internal Controls

The Department has internal controls in place that support the reduction of improper payments in the Military Pay program to the levels the Department has targeted. However, in FY 2019 there were three outstanding material weaknesses in the Military Pay hire-to-rotate process. The material weaknesses were identified by the Army and the Navy in FY 2011. Although the material weaknesses have had an impact on the Payment Integrity Program, significant progress has been made by the Army and the Navy to remediate them. The Army plans to fully resolve the deficiencies by FY 2020. The Navy reassessed the material weakness and downgraded it to a significant deficiency, which is anticipated to be completely resolved in FY 2023. Moreover, OUSD(C) provides ongoing oversight to ensure material weaknesses are resolved by their target dates and coordination continues between the ERM/ICP and the Payment Integrity Program.

### Human Capital

Currently, the Department has the human capital it needs to reduce improper payments in the Military Pay program to the levels the Department has targeted. However, as the Military Pay program evolves and DoD operations change, additional skill sets and personnel resources may be needed to sustain and advance the program.

### Information Systems and Other Infrastructure

The Department has the information systems and other infrastructure it needs to reduce improper payments in the Military Pay program to the levels the Department has targeted. The primary system currently used by the Department to process Military Pay is the Defense Joint Military Pay System (DJMS). DJMS received an unmodified System and Organizational Control (SOC) 1 Type 2 report under Statement on Standards for Attestation Engagements ([SSAE No. 18](#)) in FY 2019. However, as technology advances, the Department continues to improve the accuracy and efficiency of Military Pay through implementation of new payroll and entitlement processing systems and enhancements to existing systems.



Navy Seaman Gabriel George uses his teeth to draw a bow during the archery finals at the 2019 Department of Defense Warrior Games in Tampa, Fla., June 25, 2019.

*DoD photo by EJ Hersom*

## *Military Retirement*

### Internal Controls

The Department has internal controls in place to support the reduction of improper payments in the Military Retirement program to the levels the Department has targeted. As part of the internal control framework for this program, the DFAS Director of R&A Pay has identified and documented known risks associated with the processes for providing pay services to the customers of the Military Retirement program. Along with identifying these risks by process, the Director of R&A Pay instituted key controls and control activities to mitigate the documented risks. The Director also tests the controls to ensure their effectiveness and documents the test results. In addition, OUSD(C) is committed to the coordination of activities between the ERM/ICP and the Payment Integrity Program to leverage best practices in internal controls.

### Human Capital

Currently, the Department has the human capital it needs to reduce improper payments in the Military Retirement program to the levels the Department has targeted. However, as the Military Retirement program evolves and DoD operations change, additional skill sets and personnel resources may be needed to sustain and advance the program.

### Information Systems and Other Infrastructure

The Department has the information systems and other infrastructure it needs to reduce improper payments in the Military Retirement program to the levels the Department has targeted. As technology advances, the Department continues to consider improving the accuracy and efficiency of Military Retirement through implementation of new retiree and annuitant pay systems and enhancements to existing systems.



U.S. Secretary of Defense Dr. Mark T. Esper presents a U.S. flag to WWII veteran Herman Zeitchik and his family at the Pentagon, Washington, D.C., Aug. 29, 2019.

*DoD photo by U.S. Navy Petty Officer 2nd Class James K. Lee*

## *DoD Travel Pay*

### Internal Controls

The Department has the internal controls in place to support the reduction of improper payments in the DoD Travel Pay program to the levels the Department has targeted. In addition, OUSD(C) is committed to the coordination of activities between the ERM/ICP and the Payment Integrity Program to leverage best practices in internal controls.

### Human Capital

Currently, the Department has the human capital it needs to reduce improper payments in the DoD Travel Pay program to the levels the Department has targeted. However, as the DoD Travel Pay program evolves and DoD operations change, additional skill sets and personnel resources may be needed to sustain and advance the program.

### Information Systems and Other Infrastructure

The Department has the information systems and other infrastructure it needs to reduce improper payments in the DoD Travel Pay program to the levels the Department has targeted. The primary system currently used by the Department to process travel payments is DTS. DTS received an unmodified SOC 1 Type 2 report under SSAE No. 18 in FY 2019. However, as technology advances, the Department continues to consider ways to improve the accuracy and efficiency of travel pay through implementation of new travel and entitlement processing systems and enhancements to existing systems.



U.S. Marine Corps Lance Cpl. Donovan Massieperez, a reproduction specialist with Headquarters Battalion, 3rd Marine Division, exits the training helicopter body during Underwater Egress Training (UET), at Camp Hansen, Okinawa, Japan, on March 14, 2019.

*U.S. Marine Corps photo by Lance Cpl. Christine Phelps*

## VI. Sampling and Estimation

The primary disbursing DoD Components use statistically valid and rigorous methods that are designed to meet or exceed OMB's requirements of a 95% confidence level and a margin of error of +/- 3.0%. By using these methods, disbursing DoD Components are able to identify valid sample sizes and project improper payment percentages for the Department's Payment Integrity Program. The smaller disbursing DoD Components normally perform 100% post-payment reviews or a full review of payments above a specific dollar threshold, with random sampling for lower dollar payments.

### *Military Health Benefits*

The DHA reports improper payment data one year in arrears, thus the FY 2019 Sampling Methodology represents FY 2018 Purchased Health Care Costs. The DHA followed OMB Circular No. A-123, Appendix C, dated October 20, 2014, when developing its sampling plan for FY 2018 disbursements. The Circular required sampling to be performed at the 90% confidence level with a margin of error of  $\pm 2.5\%$ . The OMB approved DHA's sampling plan because it met these requirements.

On June 26, 2018, the OMB published a revised Appendix C to Circular A-123, which changed the parameters of a "statistically valid" sampling plan from a 90% to a 95% confidence level, stating that the change was effective starting in FY 2018. Since DHA's sampling activities were nearly completed by the time the updated guidance was released, the OMB provided approval and confirmation that DHA's sampling plan was still statistically valid under the revised Appendix C guidance. To clearly meet the updated OMB Circular No. A-123, Appendix C guidance, the DHA revised its sampling methodology for FY 2019 (to be reported in FY 2020) to reflect 95% confidence with a margin of error of  $\pm 2.5\%$ .

DHA's FY 2018 payment integrity samples were designed as a post-payment review following stratified sampling on payment amounts, by contract. Strata boundaries were determined via the Cumulative Square Root Frequency method. Sample sizes were calculated to yield estimates with 90% confidence plus or minus 2.5% margin of error (if additional resources were available, these parameters were reduced to plus or minus as little as 1.0 percentage point to result in a larger sample size, to increase the likelihood that the samples met precision targets). Records within every stratum were selected with equal probability, and database software was utilized to randomly select records to be sampled.

On a quarterly basis, DHA sampled records for the managed care contracts (except for ADDP, which was sampled on a semi-annual basis). Records were stratified by contractor and paid amount for non-denied claims, and billed amount for denied claims. Additionally, an annual low-dollar review was performed on each contract to represent claims which were excluded from quarterly and semi-annual reviews due to low paid amounts. Results from all the reviews were combined to derive a complete fiscal year payment error rate for these contracts.

DHA's Administrative costs were reviewed for prepayment accuracy every year since FY 2009. DHA is in the process of implementing a post-payment review process (expected to be completed by FY 2021). The post-payment review will stratify these costs by payment type and amount.

### *Military Pay*

DFAS designed the program samples using a dollar-stratified sampling plan and the Neyman Allocation method. The Neyman Allocation method stratifies financial data from DJMS and the Marine Corps Total Force System and allocates the data to defined strata. The overall variable sample size was calculated for the combined systems to produce a point estimate with a 95% confidence interval and a

margin of error of +/- 2.5%. Samples were then randomly selected using statistical software from each system's population as a whole. Each payment within each stratum had an equal probability of selection.

On a monthly basis, DFAS statistically sampled Military Pay accounts stratified by Active Duty (i.e., Army, Navy, Air Force, and Marine Corps) and Reserve Components (i.e., Army Reserve, Army National Guard, Navy Reserve, Air Force Reserve, Air National Guard, and Marine Corps Reserve), and further stratified by the dollar amount of disbursements. The Defense Management Data Center provided the total universe of Military Pay accounts for each Military Service. DFAS reviewed the sampled pay accounts and calculated estimates of improper payments.

In FY 2019, based on a recommendation made by the Government Accountability Office (GAO) in Report No. [GAO-18-377](#), the Department revised its post-payment review procedures for this program to include verification of Military Service members pay and allowances with sufficient supporting documentation.

### *Military Retirement*

On a monthly basis, DFAS statistically sampled Military Retirement payments stratified by retired and annuitant pay accounts. The reviews contained samples of drilling Reserve units, retiree offsets, survivor benefit plans, transfers to/from the Temporary Disability Retired List to the Permanent List, and Veterans Affairs offsets. The overall variable sample size was calculated to produce a point estimate with a 95% confidence interval and a margin of error of +/- 2.5%.

### *DoD Travel Pay*

DFAS designed the program samples using a dollar-stratified sampling plan and the Neyman Allocation method. The Neyman Allocation method stratifies financial data from DTS and WinIATS and allocates the data to defined strata. The overall variable sample size was calculated for the combined systems to produce a point estimate with a 95% confidence interval and a margin of error of +/- 2.5%. Samples were then randomly selected using statistical software from each system's population as a whole. Each payment within each stratum had an equal probability of selection.

On a monthly basis, DFAS sampled vouchers from DTS stratified by Component (i.e., Army, Navy, Marine Corps, Air Force, and other DoD Components) and vouchers from WinIATS stratified by travel type (i.e., Active, Reserve, Casualty, Contingency, Civilian Permanent Change of Station, other DoD Component, International Military Education and Training, Military Permanent Change of Station, Navy Reserve Officers' Training Corps, and Navy Travel). In addition, each population was further stratified by dollar amount.

DFAS statisticians selected a random sample and the Post-pay Review and Analysis team reviewed the samples and calculated estimates of improper payments. Furthermore, to form the overall DoD Travel Pay improper payments estimate, the DFAS DTS and WinIATS improper payment estimates were combined with the Army's WinIATS estimates of overseas travel, the Navy's WinIATS estimate, the Air Force's Reserve Travel System estimate, and the Marine Corps' WinIATS estimate.

## VII. Risk Assessment

OMB Circular No. A-123, Appendix C requires agencies to review all programs and activities and assess their risk for improper payments. Agencies are required to institute a systematic method of reviewing all programs to determine whether the programs are or are not susceptible to significant improper payments<sup>15</sup>. Improper payment reviews or risk assessments may use qualitative or quantitative methods. If an agency determines that a program or activity is not susceptible to significant improper payments, the agency must re-assess that program's improper payment risk at least once every three years. Conversely, if an agency determines a program to be susceptible to significant improper payments, the agency is required to estimate and report improper payments for that program annually.

Programs already reporting an annual improper payment estimate in accordance with OMB Circular No. A-123, Appendix C requirements do not need to perform an additional improper payment risk assessment to comply with IPERA requirements, as the quantitative risk assessment method used for reporting the annual estimate fulfills the risk assessment requirement under IPERA. In FY 2019, the Department reported improper payment estimates for each of its eight programs. In addition, the Department performed risk assessments on three other programs: Academy Cadet Pay, Transportation of Things, and Government Purchase Card.

### *Academy Cadet Pay*

In FY 2019, the Department conducted an improper payments risk assessment on payments made to academy cadets at U.S. service academies from the Military Personnel appropriation. Outlays for academy cadets are approximately \$15 million per month (i.e., \$180 million annually). These payments are fundamentally different from regular payroll payments to Military Service members; therefore, they are evaluated as a separate program from the Military Pay program for IPERA purposes. Based on the testing results, the Department concluded that payments to academy cadets did not meet the OMB thresholds for significant improper payments and are not required to be tested annually. The Academy Cadet Pay program will be reported as a separate program in FY 2020 and it will be tested and assessed for risk at least once every three years.

### *Transportation of Things*

In FY 2019, the Department assessed the adequacy of the post-payment audits performed by the General Services Administration ([GSA](#)) on DoD Transportation of Things Payments. Title 31, United States Code, section 3726 ([31 U.S.C. §3726](#)) gives GSA the authority and responsibility to audit and settle all federal payments for transportation. The GSA [Transportation Audits Division](#) conducts post-payment audits on all transportation payments (and supporting documentation) related to freight service, foreign and domestic shipping of household goods, pipeline, rail, and ocean provided by the Department. GSA reviews DoD transportation payments for overcharges only. GSA finances their post-payment audit contract and audit-related functions with overpayments collected from the transportation payments previously paid by the Department and other federal agencies. GSA does not test for underpayments during their post-payment audits and they only conduct a limited review of DoD small parcel shipments. Based on the assessment of the GSA post-payment audits conducted by the GSA Transportation Audits Division, the Department, in coordination with the DoD Office of Inspector General,

---

<sup>15</sup> "Significant improper payments" are defined as gross annual improper payments (i.e., the total amount of overpayments and underpayments) in the program exceeding (1) both 1.5% of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payment percentage of total program outlays).

concluded that the reviews adequately test DoD Transportation of Things payments for overcharges and can be relied upon for DoD IPERA reporting purposes. As a result, the Department will not perform additional testing on Transportation of Things payments. Beginning in FY 2020, the Department will report the improper payment testing results produced and supplied by GSA as a part of the Payment Integrity program. Additionally, the Department will work through the U.S. Transportation Command to assess the risk of underpayments and improper payments related to small parcel shipments<sup>16</sup>.

### *Government Purchase Card*

In FY 2019, the Department initiated an improper payments risk assessment on government purchase card payments. The risk assessment is ongoing and it will be concluded in FY 2020. As such, the results of the risk assessment will be reported in the DoD Agency Financial Report for FY 2020.



The amphibious dock landing ship USS Ashland (LSD 48) launches a Rolling Airframe Missile (RAM) during a missile exercise (MSLEX) in the Pacific Ocean, March 16, 2019.

*U.S. Navy photo by Mass Communication Specialist 2nd Class Markus Castaneda*

<sup>16</sup> Small parcel shipments typically weigh under 70 lbs. per shipment, are not shipped on pallets, and are not shipped with private courier companies.



## Fraud Reduction Report

The Fraud Reduction and Data Analytics Act of 2015 ([FRDAA](#)) was enacted on June 30, 2016 to help improve federal agencies' financial and administrative controls, implement procedures to assess and mitigate fraud risks, and to improve federal agencies' development and use of data analytics for the purposes of preventing, detecting, and responding to fraud. Each agency is required to report its progress in implementing: (1) the financial and administrative controls; (2) the fraud risk principle in the Government Accountability Office ([GAO](#)) Standards for Internal Control in the Federal Government ("[Green Book](#)"); and (3) management of fraud risk in accordance with OMB Circular No. A-123. Additionally, in July 2015, GAO issued Report No. [GAO-15-593SP](#), *A Framework for Managing Fraud Risks in Federal Programs*, providing leading practices for mitigating fraud risks and enhancing program integrity.

In response to these requirements, the Office of the Under Secretary of Defense (Comptroller) ([OUSD\(C\)](#)) provided fraud expertise and expanded guidance to assist the DoD Components in performing their fraud risk assessment. OUSD(C) is responsible for the issuance of guidance and oversight of FRDAA compliance across the Department. In FY 2019, the Department led the following activities related to fraud risk management:

- Improved communication across the Department to increase awareness through the publication of a periodic newsletter. This is provided to all internal control and fraud coordinators across each Component and includes updates on fraud risk management initiatives, high-risk fraud areas, and communication platforms to report potential fraud.
- Leveraged the individual DoD Component fraud risk assessments to develop a consolidated Department-wide fraud risk register, which provides an inventory of fraud risks at the DoD Component level, as well as an opportunity to facilitate the identification of fraud risks that may be systemic across the Department. Through this effort, OUSD(C) has identified potential fraud risks across payroll, beneficiary payments, grants, large contracts, information technology and services, asset safeguards, and the purchase and travel card programs. The Department-wide fraud risk register serves as a baseline tool for managing risks and corresponding mitigation strategies.
- Piloted a data-driven approach that focused on government purchase card data and provided insights into potential fraudulent transactions for research by subject matter experts across the Department. As a result of the analysis performed, fraud indicators were applied to the data to develop views to show different key performance indicators and visualizations of merchant and cardholder information. The data-driven framework leveraged for this pilot can be scaled across the DoD enterprise and expanded to incorporate additional fraud schemes for high-risk areas.
- Identified Department-wide fraud control gaps to incorporate into FY 2020 guidance to help Components improve their fraud internal control environment.
- Participated in the FY 2019 GAO audit engagement related to risk factors associated with contractor ownership. As part of this audit, GAO reviewed the Department's fraud risk and control assessments that were piloted during FY 2018 and provided recommendations for improvement. The Department reviewed this final FY 2019 GAO report and has planned to expand current DoD risk assessment guidance to include additional fraud schemes. Going forward, the Department will continue to apply a risk-based approach in prioritizing high risk fraud areas for developing mitigation plans.

In addition, each of the DoD Components have a shared responsibility in preventing, detecting, and responding to potential fraud. The Components are the risk owners for their individual programs and must establish policies, procedures, and mechanisms to comply with risk management and internal control requirements to manage and respond to fraud risk. Examples of mechanisms used by the Components to manage fraud risk include:

- Monitoring and evaluating controls through the Enterprise Risk Management and Internal Controls program to provide assurance that Components are effectively preventing, detecting, and responding to potential fraud. To assist Components with this effort, the Department added an assertion statement to the Statement of Assurance Execution Handbook for the Components to confirm that they have conducted an assessment of entity-level controls, including fraud controls, in accordance with the Green Book, OMB Circular No. A-123, the FRDAA, and the GAO Fraud Risk Management Framework.
- Conducting individual fraud control and risk assessments to establish a baseline for their respective fraud risk management programs. Components are able to leverage the results of the fraud control and fraud risk assessments to develop a remediation plan to mitigate identified fraud control gaps and fraud risks.

Looking ahead, the Department will lead the coordination of all fraud risk efforts through the development of a Fraud Task Force. This Task Force will consist of enterprise-level fraud risk points of contact for each high-risk fraud area identified. The Department will continue to build its Fraud Risk Management Strategy to include leading practices, trends, fraud schemes and areas of opportunity to help mature the DoD-wide fraud risk program. Inputs obtained from the annual fraud risk assessments and fraud control assessments, as well as insights gained from the data-driven fraud activities will continue to inform focus areas and training topics that will influence the Fraud Risk Management Strategy. In addition, the Department will establish a communications channel to proactively monitor high-risk fraud areas as identified by key stakeholders including the DoD Office of the Inspector General and GAO. The Department aims to finalize and disseminate the Department-wide Fraud Risk Management Strategy in FY 2020.



U.S. Air Force A-10 Thunderbolt IIs fire flares while breaking away after aerial refueling from a KC-135 Stratotanker assigned to the 340th Expeditionary Aerial Refueling Squadron out of Kandahar Airfield, Afghanistan, Aug. 15, 2019.

*U.S. Air Force photo by Staff Sgt. Keifer Bowes*

## Reduce the Footprint

Consistent with Section 3 of OMB [Memorandum M-12-12](#), OMB Management Procedures [Memorandum No. 2015-01](#), and the [National Strategy for the Efficient Use of Real Property](#), the Department sets annual targets to reduce the total square footage of domestic office and warehouse inventory compared to the FY 2015 baseline as part of the annual Real Property Efficiency Plan submission to OMB and the General Services Administration. Exhibit 28 and Exhibit 29 present the Department's Reduce the Footprint comparisons of FY 2018 office and warehouse square footage and operations and maintenance costs to the FY 2015 baseline.

### Exhibit 28. Reduce the Footprint Baseline Comparison

Square footage (in millions)	FY 2015 Baseline	FY 2018	Change (FY 2018 - FY 2015 Baseline)
	339.3	345.5	6.2

Through FY 2018, the Department's office and warehouse square footage increased slightly, primarily resulting from the Department's audit remediation efforts. Tests of existence and completeness over the Department's General Property, Plant and Equipment balances led to the discovery of assets (including offices and warehouses) that were not previously reported or not reported correctly in the Department's accounting records. While the correction of these errors resulted in increased asset account balances, it also provided DoD management with more accurate data for use in decision making. Additionally, the inclusion of several facility code categories in the calculation of office and warehouse square footage that were not previously included also contributed to the increase in reported square footage. Despite the reported increase, the Department disposed of over 1.2 million square feet of office and warehouse assets during FY 2018. The Department plans to achieve further reductions in square footage over the next five years through the construction of new, more efficient assets to eliminate excess space no longer needed to meet mission requirements.

### Exhibit 29. Reporting of Estimated Operation and Maintenance Costs – Owned and Direct Lease Buildings

Operation and Maintenance Costs (\$ in millions)	FY 2018 Reported Costs	FY 2018	Change (FY 2018 - FY 2015 Baseline)
	\$ 829.5	\$ 989.3	\$ 159.8

Through FY 2018, the Department's estimated annual operation and maintenance costs of its owned and direct-leased facilities increased more than \$159 million from the FY 2015 baseline. This is partially attributable to increases in General Property, Plant, and Equipment balances resulting from the Department's correction of existence and completeness errors. The Department's operation and maintenance costs are funded, managed, and disbursed at the base or installation level as opposed to the asset level (e.g., by facility). As a result, the Department is not currently able to trace the actual operations and maintenance costs associated with its office and warehouse inventory at the asset level and must rely on estimates mathematically derived from the allocation of base or installation level costs to all of the various facilities contained therein. As the Department's office and warehouse inventory represents less than 17% of the total DoD real property footprint, changes in the calculated allocation of operations and maintenance costs may potentially be driven by multiple factors other than office and warehouse square footage.

## Civil Monetary Penalty Adjustment for Inflation

The Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (*the 2015 Act*), which amended the Federal Civil Penalties Inflation Adjustment Act of 1990 (*Inflation Adjustment Act, 28 U.S.C. § 2461, note*), requires federal agencies to annually adjust the level of civil monetary penalties for inflation to improve their effectiveness and maintain their deterrent effect. The implementation of this law helps deter violations of law; encourages corrective actions for existing violations; and helps prevent fraud, waste, and abuse within the Department.

The Department's civil monetary penalty adjustments are published as final rules in the *Federal Register* separately for adjustments pertaining to the U.S. Army Corps of Engineers (*USACE*) and those related to the remainder of the Department. Exhibit 30 provides the civil monetary penalties that the Department may impose, the authority for imposing the penalty, the year enacted, the year of the latest adjustment, and the current penalty level. Additional supporting details about these penalties are available at Federal Register Volume 84, page 12098 (*84 FR 12098*), *84 FR 18979*, and *84 FR 31493*.

**Exhibit 30. FY 2019 Civil Monetary Penalty Adjustments for Inflation**

Penalty (Name or Description)	Statutory Authority	Year Enacted	Latest Year of Adjustment	Current Penalty (\$ amount or range)	Sub-Agency / Bureau / Unit	Location for Penalty Updates
Unauthorized Activities Directed at or Possession of Sunken Military Craft	National Defense Authorization Act for FY 2005, 10 U.S.C. § 113, note	2004	2019	\$132,470	Department of the Navy	84 FR 12098 (April 1, 2019)
Unlawful Provision of Health Care	10 U.S.C. §1094(c)(1)	1985	2019	\$11,632	Defense Health Agency	84 FR 12098 (April 1, 2019)
Wrongful Disclosure - Medical Records	10 U.S.C. §1102(k)	1986	2019	\$6,878 (First Offense) \$45,854 (Subsequent Offense)	Defense Health Agency	84 FR 12098 (April 1, 2019)
Violation of the Pentagon Reservation Operation and Parking of Motor Vehicles Rules and Regulations	10 U.S.C. §2674(c)(2)	1990	2019	\$1,895	Deputy Chief Information Officer	84 FR 12098 (April 1, 2019)
Violation Involving False Claim	31 U.S.C. §3802(a)(1)	1986	2019	\$11,463	Office of the Inspector General	84 FR 12098 (April 1, 2019)
Violation Involving False Statement	31 U.S.C. §3802(a)(2)	1986	2019	\$11,463	Office of the Inspector General	84 FR 12098 (April 1, 2019)
Class I Civil Administrative Penalties for Violations of Clean Water Act Section 404 Permits	Clean Water Act, 33 U.S.C. §1319(g)(2)(A)	1987	2019	\$21,934 per violation, with a maximum of \$54,833	U.S. Army Corps of Engineers	84 FR 18979 (May 3, 2019)
Judicially Imposed Civil Penalties for Violations of Clean Water Act Section 404 Permits	Clean Water Act, 33 U.S.C. §1344(s)(4)	1987	2019	Maximum of \$54,833 per day for each violation	U.S. Army Corps of Engineers	84 FR 18979 (May 3, 2019)
Civil Administrative Penalties for Violations of Section 205(e) of the National Fishing Enhancement Act	National Fishing Enhancement Act, 33 U.S.C. §2104(e)	1984	2019	Maximum of \$24,017 per violation	U.S. Army Corps of Engineers	84 FR 18979 (May 3, 2019)
Violations of the Rivers and Harbors Appropriation Act of 1922	33 U.S.C. §555	1986	2019	Maximum of \$5,732 per violation	U.S. Army Corps of Engineers	84 FR 31493 (July 2, 2019)