

IMPROPER PAYMENTS INFORMATION ACT REPORTING

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

- Military Health Benefits
- Military Pay
- Civilian Pay
- Military Retirement
- Travel Pay

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

Risk Assessment

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

Figure 3-2. FY 2008 Estimated Improper Payments

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

453-10

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

Statistical Sampling Process

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

Corrective Action Plans

Military Health Benefits

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



Department of Defense Agency Financial Report 2008

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

Military Pay

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

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

Civilian Pay

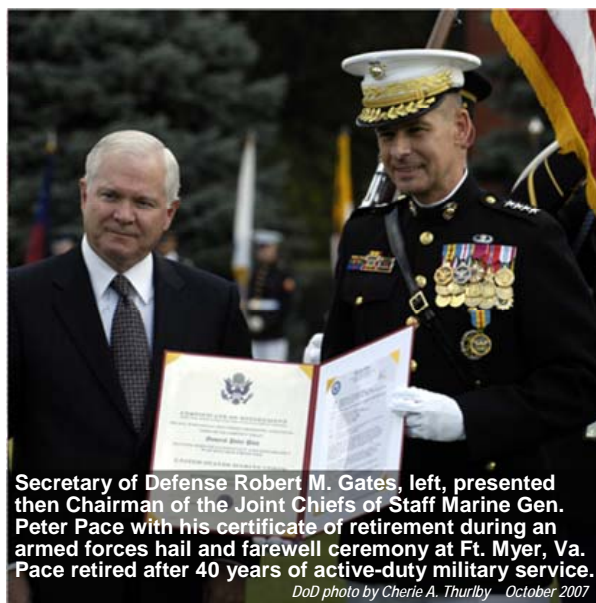
Reviews of civilian payments resulted in an improper payment estimate of \$73.9 million (0.28% of approximately \$26.4 billion). Efforts to identify and reduce actions contributing to net pay errors continue. Improper payments that resulted in collection actions are primarily attributed to untimely and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

The Personnel and Pay Council continues to serve as a forum for senior leadership to

address civilian pay problem areas and seek methods to mitigate risks and reduce improper payments. Civilian pay metrics, corresponding accuracy and timeliness goals, and corrective action plans have been developed at the component level.

Military Retirement

Payments to deceased retirees continue to be the highest risk for improper payments in military retired pay. Based on FY 2008 reviews, the Department projected approximately \$44 million in improper payments for this program, with almost the entire amount paid to deceased retirees. This represents an overpayment rate of 0.12 percent of the estimated \$36 billion in annual military retirement payments. In certain situations, payment to deceased retirees is unavoidable due to payment cycle dates and the fact that notifying a payroll activity is not likely to be the first action for next-of-kin at the time of a retiree's passing. A review of confirmed payments to deceased retirees in FY 2008 indicated that the Department recovered 96 percent of the overpayment amounts within 60 days, demonstrating the effectiveness of controls within the retired pay system once a retiree's death confirmation is received and processed for final disposition.



Secretary of Defense Robert M. Gates, left, presented then Chairman of the Joint Chiefs of Staff Marine Gen. Peter Pace with his certificate of retirement during an armed forces hail and farewell ceremony at Ft. Myer, Va. Pace retired after 40 years of active-duty military service.

DoD photo by Cherie A. Thurlby October 2007

Department of Defense Agency Financial Report 2008

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

Travel Pay

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

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

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

Improper Payment Program Reporting

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

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

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

IP – Improper Payments, B – Billions, M – Millions

453-11

Recovery Auditing Reporting

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

Recovery Auditing

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

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

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

Recovery Audit Activity Table

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

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

Contract Auditing

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

Figure 3-4. Recovery Audit Activity

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

453-12



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

Accountability

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

Infrastructure

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

Barriers

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

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