VOLUME 4, CHAPTER 14: “PAYMENT INTEGRITY”

SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also denoted by blue font.

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold, italic, blue, and underlined font**.

The previous version dated June 2015 is archived.

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<td>Revised the previous chapter titled, “Improper Payments” to significantly streamline and highlight the key policy requirements of the Payment Integrity program to comply with the Payment Integrity Information Act of 2019.</td>
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*CHAPTER 14

PAYMENT INTEGRITY

1.0 GENERAL (1401)

1.1 Overview (140101)

This chapter establishes policy for the Department of Defense’s (DoD) Payment Integrity program. This program is comprised of eight separate programs that report improper payments related to pay and benefits, commercial goods and services, health care, military retirement, and travel, which collectively encompass the majority of payments made by DoD annually. Improper payments are tested, estimated, and reported in accordance with the Payment Integrity Information Act of 2019 (PIIA). Except for sections specifically noted in the PIIA, it repealed the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Improvement Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015. The requirements for compliance with PIIA are described in the Office of Management and Budget (OMB) Circular A-123, Appendix C, “Requirements for Payment Integrity Improvement” and OMB Circular A-136, “Financial Reporting Requirements,” or their successor publications.

1.2 Purpose (140102)

The purpose of this policy is to provide guidance to the DoD Components (i.e., Military Services, Defense Agencies, DoD Field Activities, Combatant Commands) to implement the requirements from the authorities in paragraph 140103. This policy applies to all DoD Components who make “payments” (as defined in the PIIA) related to pay and benefits, commercial goods and services, health care, military retirement, and travel.

1.3 Authoritative Guidance (140103)

1.3.1. *Title 31, United States Code (U.S.C.), Section 3351 et. seq.*, PIIA

1.3.2. *OMB Circular No. A-123, Appendix C*, “Requirements for Payment Integrity Improvement”


1.3.4. *OMB Memorandum M-18-14*, “Implementation of Internal Controls and Grant Expenditures for Disaster-Related Appropriations

2.0 PAYMENT INTEGRITY PROGRAMS (1402)

2.1 Programs (140201)

2.1.1. The DoD Payment Integrity program estimates and reports improper payments for the following eight programs:
2.1.1. Military Health Benefits: Payments disbursed by the Defense Health Agency (DHA) to private sector contractors for delivery of health care services to TRICARE-eligible beneficiaries.

2.1.1.2. Military Pay: Payments disbursed by the Defense Finance and Accounting Service (DFAS) to Active, Reserve, and National Guard Military Service members for salary, benefits, and other compensation entitlements.

2.1.1.3. Civilian Pay: Payments disbursed by DFAS to civilian employees and civil service Mariners for salary, benefits, and other compensation entitlements.

2.1.1.4. Military Retirement: Payments disbursed by DFAS to military retirees and their surviving spouses and other family members for pension and/or disability entitlements.

2.1.1.5. Travel Pay: Payments disbursed 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 transportation-related expenses.

2.1.1.6. Commercial Pay: Payments disbursed 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.

2.1.1.7. United States Army Corps of Engineers (USACE) Travel Pay: Payments disbursed by USACE to Active Duty Military Service members and civilian employees for temporary and permanent travel and transportation-related expenses. It also includes Disaster Relief Funding payments made by USACE.

2.1.1.8. USACE Commercial Pay: Payments disbursed by USACE to vendors and contractors for goods and services. It also includes Disaster Relief Funding payments made by USACE.

2.1.2. DoD Components will sample, conduct post payment reviews, estimate the amount of improper payments using statistically valid sampling methodologies, and report improper payments to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) for reporting in the consolidated DoD agency financial report (AFR), as follows:

2.1.2.1. DFAS reports for the Components on the Military Pay, Civilian Pay, and Military Retirement programs.

2.1.2.2. DFAS reports for the Components on the Travel and Commercial Pay programs. In addition, the Army, the Navy, the Air Force, and the Marine Corps also report on the Travel and Commercial Pay programs.

2.1.2.3. DHA reports on the Military Health Benefits program.
2.1.2.4. USACE reports on the USACE Travel and USACE Commercial Pay programs.

2.1.3. DoD Components are responsible for identifying, sampling, testing, and reporting improper payments to OUSD(C) for any payments that are outside of the DFAS sampling methodologies and post payment review processes.

2.1.4. Payments Not Subject to Improper Payment Testing or Public Reporting

2.1.4.1. The PIIA does not require agencies to test payments made by a Federal agency to another Federal agency. Therefore, DoD Components are not required to test intra-governmental transactions and these payments should be excluded from all testing populations.

2.1.4.2. DoD Intelligence Agencies must follow the Office of the Director of National Intelligence, National Intelligence Program, PIIA guidelines and reporting requirements. Classified payments are excluded from public reporting.

3.0 DEFINITIONS (1403)

3.1 Improper Payment (140301)

An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the 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 (as defined in the PIIA), or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

3.2 Payment (140302)

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

3.3 Significant Improper Payments (140303)

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 percent of program outlays and $10 million of all reported program or activity payments made
during the fiscal year reported, or (2) $100 million (regardless of the improper payment percentage of total program outlays).

3.4 Root Cause (140304)

Root causes may be due to anomalies, random events, or due to process vulnerabilities and other systemic factors (e.g., failure to obtain documentation or failure to update recipient eligibility). A root cause is the origin of a problem or condition that led to the failure in a program or activity that resulted in an improper payment. Root cause analysis must identify the internal control deficiency or underlying problems and events that directly contributed to the improper payment.

3.5 High-Priority Programs (140305)

OMB identifies high-priority programs on an annual basis in accordance with the PIIA. High-priority are those programs with the highest dollar value or highest rate of improper payments, or for which there is a higher risk of improper payments. The current threshold for high-priority program determinations is $2 billion in estimated improper payments, regardless of the improper payment rate estimate.

3.6 Do Not Pay Initiative (140306)

The Do Not Pay (DNP) Initiative provides resources (i.e., databases) for agencies to review payment or award eligibility for purposes of identifying and preventing improper payments. The DNP Initiative encompasses multiple resources that are designed to help Federal agencies review payment eligibility for purposes of identifying and preventing improper payments.

3.7 High-Dollar Improper Overpayment (140307)

A high dollar overpayment is any overpayment made to an individual or to an entity that is in excess of 50 percent of the correct amount of the intended payment under the following circumstances: (1) where the total payment to an individual exceeds $25,000 as a single payment or in cumulative payments for the quarter; or (2) where the payment to an entity exceeds $100,000 as a single payment or in cumulative payments for the quarter.

4.0 COMPLIANCE WITH PIIA REQUIREMENTS (1404)

4.1 Six PIIA Statutory Requirements (140401)

4.1.1. To determine compliance under PIIA, the DoD Office of Inspector General (DoD IG), on an annual basis, will evaluate the DoD Components’ compliance with the following six requirements:

4.1.1.1. Publish a Payment Integrity section in the Other Information section of the consolidated DoD AFR for the most recent fiscal year and post the consolidated AFR and any accompanying materials required by OMB on the DoD website;
4.1.1.1. DoD Components are not required to include payment integrity information in their individual AFRs.

4.1.1.2. DoD Components must insert and include the following statement under the Payment Integrity section in their individual AFRs: “DoD reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoD Agency Financial Report. For detailed reporting on DoD payment integrity, refer to the Other Information section of the consolidated DoD AFR.”

4.1.1.2. Conduct a program specific risk assessment for each DoD program or activity that conforms with the requirements under Section 3352(a) of Title 31 U.S.C. (if required);

4.1.1.3. Publish improper payment estimates for all DoD programs and activities identified under Section 3352(a) of Title 31 U.S.C. as susceptible to significant improper payments under its risk assessment;

4.1.1.4. Publish programmatic corrective action plans (CAPs) prepared under Section 3352(d) of Title 31 U.S.C. in the consolidated DoD AFR for all DoD programs and activities determined to be susceptible to significant improper payments;

4.1.1.5. Publish, and meet, annual reduction targets established under Section 3352(d) of Title 31 U.S.C. for each DoD program assessed to be at risk and reported estimated improper payments; and

4.1.1.6. Report an improper payment rate of less than 10 percent for each DoD program and activity for which an improper payment estimate was obtained and published under Section 3352(c) of Title 31 U.S.C. in the consolidated DoD AFR.

4.1.2. DoD Components must meet all six requirements to be in compliance with PIIA.

4.2 OMB Circular No. A-123, Appendix C (140402)

DoD Components must implement the requirements in OMB Circular No. A-123, Appendix C, or its successor publication. The following paragraphs of this section provide a cursory overview of the key Appendix C requirements.

4.2.1. Programs or Activities NOT Susceptible to Significant Improper Payments. PIIA requires that all DoD programs or activities not currently reporting an annual improper payment estimate assess their risk for improper payments. If a DoD component determines that a program or activity is not susceptible to significant improper payments, the DoD component must re-assess that program’s improper payment risk at least once every three years.

4.2.2. Programs or Activities Susceptible to Significant Improper Payments. If a DoD component determines a program to be susceptible to significant improper payments, the DoD component must estimate and report improper payments for that program annually.
4.2.3. Annual Improper Payment Estimates. In accordance with PIIA, DoD programs that are determined to be susceptible to significant improper payments must produce a statistically valid estimate of the improper payments made.

4.2.4. Annual Reporting. Most improper payments reporting requirements are met through annual data requests from OMB and by reporting data in the consolidated DoD AFR. For more details on annual payment integrity reporting, see OMB Circular No. A-136.

4.2.5. High-Priority Programs. PIIA requires OMB to designate the programs with the most egregious cases of improper payments as high-priority; and requires those programs to submit semi-annual or quarterly actions to reduce improper payments, as a tool for tracking progress.

4.2.6. Preventing Improper Payments. If a DoD Component determines that a program or activity is susceptible to significant improper payments, the DoD component must identify the root causes of the improper payments and implement appropriate corrective actions to prevent and reduce improper payments.

4.2.7. Internal Control Over Payments. As DoD Components implement Appendix C, they should approach improper payments with an Enterprise Risk Management framework in mind and link agency efforts in establishing internal controls and preventing improper payments. For more information see OMB Circular No. A-123, Appendix A, “Management of Reporting and Data Integrity Risk.”

4.2.8. Payment Recapture Audits. One fundamental requirement that DoD Components must meet is to recover any Federal dollars that are a monetary loss to the Government unless legislation specifically prevents such recovery. Monetary loss to DoD represents overpayments such as duplicate payments or amounts that should not have been paid and can be recovered. PIIA requires any DoD program or activity that expends at least $1 million during the year to implement payment recapture audits, if cost effective to the agency, in order to recover improper payments. Volume 10, Chapter 22, provides additional detail on payment recapture audits. The requirement to conduct payment recapture audits is independent of whether a program is susceptible to significant improper payments.

4.2.9. Annual Inspector General Compliance Review. The PIIA contains an important component of accountability to the entire spectrum of improper payment efforts. Every year, the DoD IG reviews DoD Components’ improper payment reporting in the consolidated DoD AFR and any accompanying material such as that provided on PaymentAccuracy.gov to determine if the agency complies with PIIA and OMB guidance.

4.2.10. The DNP Initiative. The DNP Initiative supports DoD Components in identifying and preventing improper payments. The DNP Initiative encompasses multiple resources that are designed to help DoD Components review payment eligibility for purposes of identifying and preventing improper payments.
5.0 OUSD(C) ROLES/RESPONSIBILITIES (1405)

5.1 Financial Management Policy and Reporting (FMPR) Directorate Role (140501)

The Deputy Chief Financial Officer designated the FMPR Directorate as the Executive Agent (EA) for the DoD Payment Integrity program. As the EA for the DoD Payment Integrity program, the FMPR Directorate provides oversight to the DoD Components to ensure compliance with the authoritative guidance listed in paragraph 140103.

5.2 FMPR Directorate Responsibilities (140502)

5.2.1. Interpret and provide Payment Integrity related guidance to the DoD Components to ensure compliance with the authoritative guidance listed in paragraph 140103.

5.2.2. Review (not approve) the DoD Components’ statistical sampling plans and if required, submit them to OMB.

5.2.3. Compile and submit quarterly reports to OMB on DoD programs and activities reporting more than $100 million in improper payments that resulted in monetary losses and/or designated as “high-priority” by OMB.

5.2.4. Review, edit, and consolidate the DoD Components’ payment integrity data and report the consolidated results in the Payment Integrity section of the consolidated DoD AFR and to OMB.

5.2.5. Review the DoD Components’ CAPs to ensure they are complete and link planned actions and improper payments to their root causes.

5.2.6. Review the DoD Components’ CAP milestones to track and monitor progress.

5.2.7. Prepare and submit all DoD-wide reports regarding Payment Integrity.

5.2.8. Serve as the primary liaison for annual DoD IG performance audit and any Government Accountability Office (GAO) audits to ensure that all requested information is transmitted to the auditor in a timely manner, and that the auditor recommendations are implemented.

5.2.9. Provide administrative and technical support to the DoD Improper Payments Senior Accountable Officials (SAOs) Steering Committee. This committee is comprised of SAOs from the Military Services and several Defense Agencies responsible for proactive oversight of the DoD Payment Integrity program, implementing best practices, monitoring performance, and driving actions for achieving compliance with PIIA. This support includes: scheduling meetings; preparing agendas; preparing background materials; preparing minutes of the meetings; tracking action items to completion; and communicating necessary information to Committee members and stakeholders.
5.2.10. Ensure that the policy contained within the DoD Financial Management Regulation regarding Payment Integrity is current.

5.2.11. Review and compile quarterly high dollar reports and post a consolidated report to the OUSD(C) website in accordance with Executive Order (EO) 13520, “Reducing Improper Payments.”

5.2.12. Retain documentation submitted by the DoD Components. Refer to Volume 1, Chapter 9, for additional information on financial records retention.

6.0 DoD COMPONENT ROLES/RESPONSIBILITIES (1406)

6.1 DoD Components’ Role (140601)

The DoD Components ensure that their payments are valid, accurate, and complete. Additionally, the DoD Components ensure that their payments are subjected to post-payment reviews for improper payments.

6.2 DoD Components’ Responsibilities (140602)

6.2.1. Ensure all payments (with the exception of intragovernmental payments) are subject to improper payments testing either internally, or through the DFAS Enterprise Solutions and Standards, Enterprise Audit Support Office.

6.2.2. Conduct program specific risk assessments for each DoD program or activity, as applicable, to determine if the DoD program or activity is susceptible to significant improper payments.

6.2.3. Develop statistically valid sampling and estimation plans for all DoD programs determined to be susceptible to significant improper payments. In addition, implement the statistical valid sampling and estimation plans to produce statistically valid improper payment estimates for all DoD programs and activities determined to be susceptible to significant improper payments.

6.2.4. For programs or activities determined to be susceptible to significant improper payments or designated as high priority by OMB, identify the root causes of improper payments and develop cost-effective CAPs that eliminate the root causes of improper payments and prevent and reduce improper payments.

6.2.5. Measure the effectiveness and progress of each CAP by assessing the results of actions taken to eliminate the root causes of improper payments.

6.2.6. Implement a cost-effective payment recapture program to recover improper overpayments that resulted in monetary losses.
6.2.7. Report annual results of improper payments to OUSD(C), FMPR, for consolidation and reporting to OMB and in the Payment Integrity section of the consolidated DoD AFR.

6.2.8. Support the annual DoD IG performance audit and relevant GAO audits in a timely manner by furnishing all required provided-by-client documentation, providing responses to auditor’s inquiries, and implementing auditor recommendations.

6.2.9. Use the DNP Initiative resources to review payment or award eligibility for purposes of identifying and preventing improper payments.

6.2.10. Provide support for all ad hoc requests from external oversight bodies (i.e. OMB, GAO, and the Congress).

6.2.11. Identify high dollar overpayments to individuals and entities that exceed the thresholds described in paragraph 140307 and submit results on a quarterly basis to OUSD(C), FMPR, for consolidation and reporting in accordance with EO 13520.

6.2.12. Retain documentation submitted by the DoD Components. Refer to Volume 1, Chapter 9, for additional information on financial records retention.