



United States Government Accountability Office
Washington, D.C. 20548

March 3, 2008

The Honorable Claude M. Kicklighter
Inspector General
Department of Defense

Subject: Defense Travel System: Validity of Travel Payments Statistical
Sampling in Question

Dear Mr. Kicklighter

In response to a congressional mandate to assess the reasons why the Department of Defense (DOD) is not fully in compliance with the Improper Payments Information Act of 2002 (IPIA) related to DOD travel expenditures,¹ GAO issued two reports in 2007. In May 2007, we issued an initial report that provided an overview of DOD's IPIA reporting for fiscal years 2003 through 2006 and a discussion of the reasons reported by the DOD Office of Inspector General why the department was not in compliance with IPIA for fiscal year 2006.² In December 2007, we issued our final report on our assessment of the completeness and accuracy of DOD's fiscal year 2006 IPIA disclosures related to travel expenditures, as well as DOD's planned efforts to improve and refine its processes for estimating and reporting on travel improper payments³ (see encl.). The purpose of this letter is to bring to your attention and action a matter that we discovered while preparing our final report.

This letter is based on work performed during our assessment of the completeness and accuracy of DOD's fiscal year 2006 IPIA disclosures related to travel expenditures and DOD's planned efforts to improve and refine its processes for estimating and reporting on travel improper payments. That work was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to

¹H.R. Conf. Rep. No. 109-676 at 94 (Sept. 25, 2006), accompanying the Department of Defense Appropriations Act, 2007, Pub. L. No. 109-289, 120 Stat. 1257 (Sept. 29, 2006).

²GAO, *Improper Payments Information Act of 2002: Department of Defense Travel Expenditure Reporting*, [GAO-07-767R](#) (Washington, D.C.: May 31, 2007).

³GAO, *DOD Travel Improper Payments: Fiscal Year 2006 Reporting Was Incomplete and Planned Improvement Efforts Face Challenges*, [GAO-08-16](#) (Washington, D.C.: Dec. 14, 2007).

provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Further details on the scope and methodology of our work carried out as part of that review are included in appendix I of our December 2007 report.

Specifically, during our assessment, we found the postpayment review process used by DOD to prepare estimates of the amount of improper payments for travel processed through the Defense Travel System (DTS) (1) lacked documented sampling plans, (2) incorrectly categorized certain errors found in samples, and (3) used a methodology to estimate sampling results for nine DOD agencies that was not statistically valid. As noted in footnote 19 to our final report, DOD reported in its fiscal year 2006 performance and accountability report (PAR) that its random postpayment sample reviews were originally performed to satisfy the requirements of “certifying officers legislation.” DOD did not identify the specific legislation referred to in the PAR, so we did not evaluate this assertion. However, our final report also noted that 31 U.S.C. §3521(b) authorizes heads of agencies to carry out a statistical sampling procedure, within certain parameters, to audit vouchers when the head of the agency determines that economies will result.

In general, certifying officers designated in writing by the agency are financially liable for any improper, illegal, or incorrect payment made, and each payment made must be audited (or “examined”). See DOD 7000.14-R, Department of Defense Financial Management Regulation (September 2007), vol. 5, ch. 11, para. 110203, and vol. 5, ch. 33 para. 330303 A. However, 31 U.S.C. §3521(c) provides that certifying and disbursing officers are not liable for payments that are not audited if they were made in good faith under a statistical sampling procedure. See 68 Comp. Gen. 618 (1989); see generally, GAO’s *Policy and Procedures Manual for Guidance of Federal Agencies*, title 7, §§ 6.5, 7.4, and 7.5 (Washington, D.C.: May 18, 1993). Because of the weaknesses described in our December 2007 report, we have doubts that the DTS postpayment sample reviews constitute a valid statistical sampling procedure under 31 U.S.C. §3521(b) for travel payments processed through DTS. See [GAO-08-16](#) at pages 11–15. If individual DTS travel payments are unaudited (or not “examined”), a deficient statistical sampling procedure would impede financial accountability at DOD for travel payments.

We recommend the Inspector General determine whether DOD is satisfying the requirements of “certifying officers legislation.”

Please let us know of your initial disposition of this recommendation within 60 days of receiving this letter and the final result of any inquiry you conduct. We are sending copies of this letter to interested congressional committees. We are also sending copies to the DOD Under Secretary of Defense (Comptroller) and Chief Financial Officer and the Director, Defense Finance and Accounting Service. Copies will be made available to others upon request. In addition, this letter will also be available at no charge on GAO’s web site at <http://www.gao.gov>.

If you or your staff have any questions about this letter please contact me at (202) 512-2600 or williamsm1@gao.gov. Contact points for our Offices of Congressional

Relations and Public Affairs may be found on the last page of this letter. GAO staff who contributed to this letter include Dianne Guensberg, Assistant Director; Jacquelyn Hamilton, Deputy Assistant General Counsel; and Heather Dunahoo.



McCoy Williams
Managing Director
Financial Management and Assurance

Enclosure

GAO

United States Government Accountability Office
Report to Congressional Committees

December 2007

**DOD TRAVEL
IMPROPER
PAYMENTS**

**Fiscal Year 2006
Reporting Was
Incomplete and
Planned Improvement
Efforts Face
Challenges**



GAO-08-16



Highlights of GAO-08-16, a report to congressional committees

Why GAO Did This Study

Fiscal year 2006 was the first year that the Department of Defense (DOD) reported improper payment information for its travel program under the Improper Payments Information Act of 2002 (IPIA). For fiscal year 2006, DOD reported obligations of approximately \$8.5 billion for travel. Congress mandated that GAO assess the reasons why DOD is not fully in compliance with IPIA related to travel expenditures. In May 2007, GAO issued an initial report in response to this mandate. To further respond, GAO assessed (1) the completeness and accuracy of DOD's fiscal year 2006 IPIA travel disclosure in its performance and accountability report (PAR), and (2) DOD's planned efforts to improve and refine its processes for estimating and reporting on travel improper payments. To complete this work, GAO reviewed DOD's IPIA reporting, IPIA, Office of Management and Budget's (OMB) IPIA implementing guidance, and met with cognizant DOD officials.

What GAO Recommends

GAO makes four recommendations to DOD to improve the usefulness and completeness of IPIA reporting associated with its travel program. DOD concurred with three of the recommendations and partially concurred with the remaining one. DOD referred to a recently issued policy memorandum in its response. Additional action will be needed to fully and effectively implement this policy.

To view the full product, including the scope and methodology, click on [GAO-08-16](#). For more information, contact McCoy Williams at (202) 512-9095 or williamsm1@gao.gov.

December 2007

DOD TRAVEL IMPROPER PAYMENTS

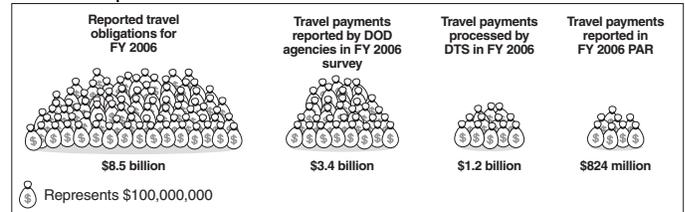
Fiscal Year 2006 Reporting Was Incomplete and Planned Improvement Efforts Face Challenges

What GAO Found

In its fiscal year 2006 PAR, DOD reported an estimate of approximately \$8 million in travel improper payments, reflecting about 1 percent of reported travel payments. While this estimate would indicate the program was not at risk of significant erroneous payments under OMB guidance, DOD's improper payment travel disclosure for fiscal year 2006 was incomplete. The DOD travel payment data used to assess the program's risk of significant improper payments only included payments processed by the Defense Travel System (DTS)—approximately 10 percent of the \$8.5 billion of DOD travel obligations reported for fiscal year 2006. Further, DOD's 2006 PAR described a travel postpayment review process that may mislead readers to believe that the reported travel improper payment estimate represents more than DTS-processed travel. The travel improper payment estimate also excluded the largest user of DTS, the Army, which would likely have increased DOD's estimate by over \$4 million. Finally, the statistical sampling methodology and process used by DOD to estimate DTS improper payments as reported for fiscal year 2006 had several weaknesses and did not result in statistically valid estimates of travel improper payments.

DOD is taking steps to more fully assess and report on its travel program for improper payments for future IPIA reporting. DOD's planned assessment is to be based on an annual Improper Payments Survey conducted by the Office of the Undersecretary of Defense (Comptroller). However, GAO's review identified several weaknesses with the survey and reported results, including limited guidance on how to estimate travel improper payments and a lack of oversight and review over implementation of the survey and its results. As shown in the figure below, there were substantial discrepancies among the travel populations reported in the PAR, improper payment survey, and fiscal year 2006 travel obligations. The exclusion of such a significant portion of travel expenditures in the survey decreases its effectiveness as an improper payments assessment tool. DOD has also established a Program Officer for Improper Payment and Recovery Auditing, an improper payment working group, and held a "Department of Defense Improper Payments Information Act Conference."

DOD Travel Populations for Fiscal Year 2006



Source: GAO analysis.

United States Government Accountability Office

Contents

Letter		1
	Results in Brief	3
	Background	4
	Fiscal Year 2006 Improper Payments Reporting and Estimate for the DOD Travel Program Were Incomplete	8
	DOD Faces Challenges in Plans to More Fully Assess Travel Improper Payments	15
	Conclusions	25
	Recommendations for Executive Action	25
	Agency Comments and Our Evaluation	26
Appendix I	Scope and Methodology	29
Appendix II	Comments from the Department of Defense	31
Appendix III	Excerpts from DOD's Fiscal Year 2006 PAR	34
Appendix IV	GAO Contact and Staff Acknowledgements	40
Tables		
	Table 1: DOD's Reported Improper Payment Estimates for Fiscal Year 2006	7
	Table 2: Improper Payments Survey Results: Travel, Fiscal Year 2006	17
Figures		
	Figure 1: Fiscal Year 2006 DTS-Processed Travel	10
	Figure 2: DOD Travel Populations for Fiscal Year 2006	22

Abbreviations

DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
DOD OIG	Department of Defense Office of Inspector General
DTS	Defense Travel System
IATS	Integrated Automated Travel System
IPIA	Improper Payments Information Act of 2002
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
PCS	permanent change of station
TDY	temporary duty

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United States Government Accountability Office
Washington, DC 20548

December 14, 2007

Congressional Committees

Fiscal year 2006 marks the third year that the Department of Defense (DOD), as well as other executive branch agencies, were required to report improper payment information under the Improper Payments Information Act of 2002 (IPIA).¹ IPIA requires executive agency heads, based on guidance from the Office of Management and Budget (OMB),² to identify programs and activities susceptible to significant improper payments,³ estimate amounts improperly paid under those programs and activities, and report on the amounts of improper payments and their actions to reduce them.

DOD obligates billions of dollars annually to fund travel. For fiscal year 2006, DOD reported obligations of approximately \$8.5 billion for travel,⁴ representing 60 percent of all travel obligations⁵ reported by the federal

¹Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002). Prior to IPIA, former section 57 of OMB Circular No. A-11 required certain agencies to submit similar information, including estimated improper payment target rates, target rates for future reductions in these payments, the types and causes of these payments, and variances from targets and goals established. In addition, these agencies were to provide a description and assessment of the current methods for measuring the rate of improper payments and the quality of data resulting from these methods. DOD began reporting improper payment information for military health benefits and military retirement in fiscal year 2003.

²Appendix C to OMB Circular No. A-123, *Requirements for Effective Measurement and Remediation of Improper Payments* (Aug. 10, 2006).

³Improper payments are defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts.

⁴DOD, *Department of Defense Budget for Fiscal Year 2008: Financial Summary Tables* (February 2007).

⁵An obligation is a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States. Payment may be made immediately or in the future. An expenditure is the actual spending of money—an outlay. We use the terms payment and expenditure interchangeably.

government that year. Over the past several years, GAO has issued numerous reports that highlighted problems with DOD travel practices that resulted in wasteful spending of millions of dollars and potentially improper travel, including weak controls over first class travel,⁶ unused airline tickets, and the accuracy of travelers' claims. The DOD Office of Inspector General (DOD OIG), first reporting on the department's overall compliance with IPIA in fiscal year 2006, identified several significant flaws.

Conference Report 109-676,⁷ accompanying the Department of Defense Appropriations Act, 2007,⁸ included a requirement for GAO to assess the reasons why DOD was not fully in compliance with IPIA related to travel expenditures and make any needed recommendations for corrective action. In May 2007, we issued an initial report⁹ that provided an overview of DOD's IPIA reporting for fiscal years 2003 through 2006 and a discussion of the reasons reported by the DOD OIG for why the department was not in compliance with IPIA for fiscal year 2006. Our objectives for this report were to assess: (1) the completeness and accuracy of DOD's fiscal year 2006 IPIA travel disclosure in its performance and accountability report (PAR), and (2) DOD's planned efforts to improve and refine its processes for estimating and reporting on travel improper payments.

To complete our first objective, we reviewed DOD's fiscal year 2006 PAR, prior GAO reports, applicable federal laws, prior DOD OIG reports, and OMB implementing guidance found in OMB Circular No. A-123, Appendix C. We also met with cognizant DOD officials. To complete our second objective, we reviewed DOD's annual improper payment survey, met with representatives from DOD components to determine how each calculated travel improper payments to be reported, and met with officials from the Office of the Under Secretary of Defense (Comptroller) (Office of the

⁶A recent GAO report shows that DOD has substantially reduced its use of premium class travel charged to government credit cards since 2004, following our DOD premium class travel report. See GAO, *Premium Class Travel: Internal Control Weaknesses Governmentwide Led to Improper and Abusive Use of Premium Class Travel*, [GAO-07-1268](#) (Washington, D.C.: Sept. 28, 2007).

⁷H.R. Conf. Rep. No. 109-676, at 94 (Sept. 25, 2006).

⁸Pub. L. No. 109-289, 120 Stat. 1257 (Sept. 29, 2006).

⁹GAO, *Improper Payments Information Act of 2002: Department of Defense Travel Expenditure Reporting*, [GAO-07-767R](#) (Washington, D.C.: May 31, 2007).

Comptroller) and other DOD components. Additional details on our scope and methodology are presented in appendix I. We conducted our review from November 2006 through September 2007 in accordance with generally accepted government auditing standards.

Results in Brief

In its fiscal year 2006 PAR, DOD reported an estimate of approximately \$8 million in travel program improper payments, which DOD reported as reflecting about 1 percent of reported travel payments for the year. While this estimate would indicate the program was not at risk of significant improper payments under OMB guidance, we found that DOD's travel improper payment disclosure for fiscal year 2006 was incomplete because it understated the full extent of travel improper payments. The DOD travel payment data used to assess the program's risk of significant improper payments only included payments processed by the Defense Travel System (DTS)—approximately 10 percent of the \$8.5 billion of DOD travel program obligations reported for fiscal year 2006. Nonetheless, DOD's 2006 PAR describes a travel postpayment review process that may mislead the reader to believe that the reported travel improper payment estimate represents more than DTS-processed travel. Further, the travel improper payment estimate excluded the largest user of DTS, the Army, which would likely have increased DOD's estimate by over \$4 million. Finally, the statistical sampling methodology and process used by DOD to estimate DTS improper payments for IPIA reporting as reported for fiscal year 2006 had several weaknesses and did not result in statistically valid estimates of travel improper payments.

DOD is taking steps to more fully assess and report on its travel program for improper payments for future IPIA reporting. DOD's planned assessment is to be based on an annual Improper Payments Survey conducted by the Office of the Comptroller. However, our review identified several weaknesses with the survey and reported results, including limited guidance on how to estimate travel improper payments and a lack of oversight and review by the Office of the Comptroller over implementation of the survey and its results. For example, we noted four components reported nearly \$17 million in travel payments with no associated improper payments for these payments. While it is possible there may not be any improper payments in a population, the review process was inadequate to provide a basis for reporting no improper payments on \$17 million in travel payments. DOD has also established a Program Officer for Improper Payment and Recovery Auditing and an improper payment working group, and held a "Department of Defense Improper Payments Information Act Conference."

We make four recommendations to the Secretary of Defense for the Office of the Comptroller to improve the usefulness and completeness of IPIA reporting for the DOD travel program.

We provided a draft of this report to DOD for comment. In its response, DOD concurred with three of our recommendations and partially concurred with the fourth. For this recommendation, DOD agreed with the intent of the recommendation but expressed concern over the level of detailed guidance called for. DOD referred to a policy memorandum issued on November 27, 2007, in its response. This document consists of a cover memorandum, excerpts from Appendix C of OMB Circular No. A-123, and DOD improper payment component contact information. We continue to believe that additional guidance is needed. DOD must take action to ensure that policy guidance is fully and effectively implemented in order to improve the usefulness and completeness of its IPIA reporting for the travel program. DOD's comments, along with our evaluation, are discussed in the Agency Comments and Our Evaluation section of this report. The comments are also reprinted in their entirety in appendix II. DOD also provided technical comments, and we made revisions as appropriate.

Background

During fiscal year 2006, DOD reported obligations of over \$685 billion, the second largest amount reported by an executive branch entity. Of this, travel obligations were \$8.46 billion for fiscal year 2006. Travel includes expenses such as air fare, lodging, per diem, and local transportation. Travel conducted by DOD represents an estimated 60 percent of total travel obligations for the entire federal government. Travel is one of six programs for which IPIA information is reported in DOD's PAR.

Improper Payments Information Act of 2002 and OMB Implementing Guidance

IPIA was enacted in November 2002 with the major objective of enhancing the accuracy and integrity of federal payments. Guidance for reporting under IPIA is provided in Appendix C of OMB Circular No. A-123 and requires agencies to:

- Review all programs and activities and identify those that are susceptible to significant improper payments.
- Obtain a statistically valid estimate of the annual amount of improper payments in those programs and activities.
- Report estimates of the annual amount of improper payments in programs and activities and, for estimates exceeding \$10 million, implement a plan to reduce improper payments.

In addition, this guidance instructs agencies to institute a systematic method of reviewing all programs and identifying those which they believe to be susceptible to significant improper payments. The guidance defines “significant erroneous payments”¹⁰ as annual improper payments exceeding both 2.5 percent of program payments and \$10 million.¹¹ It further explains that agencies must then estimate the gross total of both over- and underpayments for those programs identified as susceptible. These estimates shall be based on a statistically random sample of sufficient size to yield an estimate with a 90 percent confidence interval of plus or minus 2.5 percentage points.¹² The guidance also requires agencies to consult a statistician to ensure the validity of their sample design, sample size, and measurement methodology. If an agency cannot determine whether or not a payment was proper because of insufficient documentation, OMB Circular No. A-123 requires that the payment be considered an error.

According to its guidance, OMB may also determine, on a case-by-case basis, whether certain programs should be reported even if those programs do not meet established thresholds. In February 2007, OMB notified DOD that it was requiring that an improper payment error measurement be reported for travel pay in the fiscal year 2007 PAR under IPIA due to congressional interest and concern regarding this program. For all programs and activities susceptible to significant improper payments, agencies are to determine an annual estimated amount of improper payments made in those programs and activities. If the estimate of improper payments exceeds \$10 million, the agency must implement a plan to reduce the amount of such improper payments. If the improper payment estimate is less than \$10 million, agencies are still required to report the total in their annual PAR.

Travel Process at the Department of Defense

Although there are over 70 types or circumstances of travel at DOD, DOD travel is generally segregated into two broad types: temporary duty travel (TDY) and permanent change of station (PCS) travel. TDY is travel to one

¹⁰“Improper payment” and “erroneous payment” have the same meaning under Appendix C of OMB Circular No. A-123.

¹¹IPIA does not include a similar threshold for defining significant improper payments.

¹²Agencies may alternatively use a 95 percent confidence interval of plus or minus 3 percentage points around the estimate of the percentage of improper payments.

or more places away from a permanent duty station to perform duties for a period of time and, upon completion of assignment, return or proceed to a permanent duty station. PCS travel is the assignment, detail, or transfer of a member or unit to a different permanent duty station under a competent order that does not specify the duty as temporary, provide for further assignment to a new permanent duty station, or direct return to the old permanent duty station.

DOD reported that in a typical year over 3 million DOD personnel perform TDY travel and generate over 5 million travel vouchers. For fiscal year 2006, DOD reported \$8.5 billion was obligated for travel. The Institute for Defense Analyses estimates¹³ that \$7.3 billion of this amount is for TDY and the remaining \$1.2 billion is for PCS travel.

DOD has been working to upgrade its TDY travel system since 1993, when the National Performance Review recommended an overhaul of DOD's TDY travel system. Long-standing concerns about the efficiency and effectiveness of the existing travel systems resulted in the development of DTS to be a centralized, integrated system used to process TDY travel. DTS is envisioned as being DOD's standard end-to-end travel system. The Defense Finance and Accounting Service (DFAS) reported that about \$1.2 billion was processed through DTS in fiscal year 2006.

In January 2006 we reported¹⁴ on DOD's difficulties implementing DTS. DTS was originally intended to be fully implemented by April 2002, but this date was changed to September 2006—a slippage of over 4 years. The report specified two key challenges facing DTS in becoming DOD's standard travel system: (1) developing needed interfaces and (2) underutilization of DTS at sites where it has been deployed.

Extensive travel is still processed through legacy systems. One such system is the Integrated Automated Travel System (IATS), which is used by the Army and several other DOD components. IATS is a manual travel system where the traveler submits paper travel documents (e.g., travel orders, travel voucher, and receipts) for entry into IATS. Once the information is entered into IATS, it is processed and a travel

¹³Institute for Defense Analyses, *Assessment of the Potential to Improve the Cost-Effectiveness of the Defense Travel System*, IDA Paper P-4200 (March 2007).

¹⁴GAO, *DOD Business Transformation: Defense Travel System Continues to Face Implementation Challenges*, GAO-06-18 (Washington, D.C.: Jan. 18, 2006).

reimbursement is made to the traveler. Under current implementation plans, not all legacy travel systems will be eliminated due to current DTS functionality limitations. Despite difficulties implementing DTS, the Institute for Defense Analyses recently issued a report¹⁵ stating that DTS is the only end-to-end system today with the capability to support all DOD policy and business rules.

DOD Travel IPIA Reporting

Responsibility for assessing and reporting DOD's improper payments, including travel, for IPIA is the responsibility of the Office of the Comptroller. In its fiscal year 2006 PAR,¹⁶ DOD reported that its current IPIA review did not identify any programs or activities at risk of "significant improper payments" in accordance with OMB criteria. However, the department also reported that civilian, commercial, and travel pay potentially were susceptible to improper payments in excess of \$10 million and reported estimated improper payment information for these programs. Further, the department again reported on its sampling and corrective actions concerning its military retirement, military health benefits, and military pay programs. Table 1 shows the information DOD reported for estimated improper payments for six programs, including travel pay, in its fiscal year 2006 PAR.

Table 1: DOD's Reported Improper Payment Estimates for Fiscal Year 2006

Program	Estimated improper payments (in millions)	Improper payments as a percentage of total program payments
Commercial pay	\$550.0	0.2%
Military health benefits	140.0	2.0
Military pay	65.9	0.1
Civilian pay	62.8	0.1
Military retirement	48.8	0.1
Travel pay	8.0	1.0
Total	\$875.5	

Source: DOD fiscal year 2006 PAR.

¹⁵IDA Paper P-4200, March 2007.

¹⁶DOD, *Performance and Accountability Report: Fiscal Year 2006* (Nov. 15, 2006).

Further, in its 2006 PAR, DOD described the risk assessment process for each of the programs or activities that addressed the strength of the internal controls in place to prevent improper payments and reported on the results in its disclosure. DOD also described the statistical sampling and corrective action plans for these six programs. Additionally, DOD summarized the improper payment reduction outlook for the military retirement, military health benefits, and military pay programs. Finally, DOD described its improper payments auditing, accountability information, information system usage, and statutory and regulatory barriers limiting the department's corrective actions. Excerpts from DOD's fiscal year 2006 PAR related to improper payments are reprinted in appendix III of this report.

**Fiscal Year 2006
Improper Payments
Reporting and
Estimate for the DOD
Travel Program Were
Incomplete**

In its fiscal year 2006 PAR, DOD estimated approximately \$8 million in travel program improper payments, reported as reflecting about 1 percent of reported program payments. While this estimate would indicate the program was not at risk of significant improper payments under OMB guidance, we found that DOD's travel improper payments disclosures for fiscal year 2006 were incomplete as to the full extent of total travel payments made by DOD. The estimate information reported by DOD, which DOD used to assess the travel program's risk of significant improper payments, only included payments from one system, DTS, which processed an estimated 10 percent of DOD's travel. Nonetheless, DOD's 2006 PAR describes a travel postpayment review process that may mislead the reader to believe that the reported travel improper payment estimate represents more than DTS-processed travel. Further, the travel improper payment estimate excluded the largest user of DTS, the Army, which would likely have increased DOD's estimate by over \$4 million. Finally, the statistical sampling methodology and process used by DOD to estimate DTS improper payments as reported for fiscal year 2006 had several weaknesses and did not result in statistically valid estimates of travel improper payments.

**Travel Disclosure
Reported Only DTS-
Processed Travel and
Excluded Information on
Its Largest User**

In its fiscal year 2006 IPPIA disclosure for travel, DOD estimated \$8 million in improper payments for travel pay, which it reported as reflecting about 1 percent of DOD reported travel payments. Based on our review, we determined that DOD's estimate of travel improper payments was derived from approximately 10 percent of the \$8.5 billion of DOD travel obligations reported by DOD for the fiscal year—excluding a significant portion of travel payments from the PAR disclosure. Further, the DTS improper payments disclosure did not include data on the largest user of

DTS, the Army. The reporting of only DTS travel pay and the exclusion of Army travel pay processed through DTS was incomplete.

DOD's fiscal year 2006 reporting of travel improper payments based on travel processed by DTS (excluding the Army) also excluded travel processed in other systems used by several DOD components, including the following:

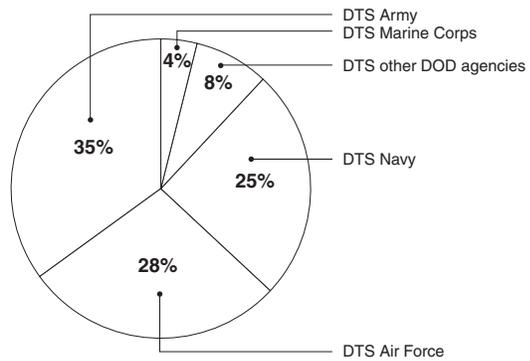
- In fiscal year 2006, the Army Corps of Engineers used IATS to process all travel. According to information provided by DOD, the Army Corps of Engineers processed over \$239 million in travel payments during fiscal year 2006.
- Air Force officials reported using the Reserve Travel System¹⁷ to process \$1.5 billion in travel pay in fiscal year 2006.
- The Army utilized IATS to process TDY, PCS, and other types of travel payments. The postpayment review of IATS-processed travel, completed by DFAS for the Army, indicated approximately \$1.4 million in improper payments for fiscal year 2006, none of which were reported in the DOD fiscal year 2006 PAR disclosure.¹⁸

DOD also did not include Army travel processed using DTS in its fiscal year 2006 PAR. The Army is the largest user of DTS—processing a reported \$437 million of travel through DTS. As shown in figure 1, the Army represented about 35 percent of the \$1.2 billion of total DTS-processed travel in fiscal year 2006. The exclusion of Army improper payment information resulted in further incomplete reporting of travel improper payments in DOD's fiscal year 2006 PAR. Based on the information provided by DOD, the addition of Army travel payments processed through DTS would have increased estimated improper payments from \$7.97 million to \$12.6 million. DOD officials told us that the results from Army DTS postpayment reviews were not included in the PAR because the results were not available in time for the reporting deadline. DOD acknowledged that the PAR disclosures regarding this exclusion could have been improved.

¹⁷The Reserve Travel System processes PCS travel, Air National Guard travel, and deployments.

¹⁸We did not perform a detailed review of the IATS postpayment review results; however, we did observe the process and obtained information on the results of the review in fiscal year 2006.

Figure 1: Fiscal Year 2006 DTS-Processed Travel



Source: GAO analysis of data provided by DOD.

Moreover, the descriptive information included in DOD's PAR did not disclose the limitation to its reported estimates. Within the statistical sampling section of the IPIA reporting in DOD's fiscal year 2006 PAR, DOD describes reviews of vouchers from IATS and a review of travel conducted by the Army Corps of Engineers, but the results of these reviews were not actually included in the fiscal year 2006 estimate of improper payments. Thus, the descriptive information may mislead readers to believe that the travel improper payment estimates are based on a larger population than is actually reported.

When we discussed the exclusion of non-DTS travel improper payments with Office of the Comptroller staff they explained that they believed the August 2006 release of updated guidance by OMB (namely Appendix C of OMB Circular No. A-123) modified which programs must be reported. In fiscal year 2006, DOD reported three new programs—one of which was travel pay. DOD officials explained that because only DTS data were readily available for reporting by the November 15 deadline, they decided that was to be the only PAR input. DOD acknowledged that the disclosure of this reporting limitation could have been improved.

DTS Improper Payments Estimates Were Not Prepared According to OMB Guidance and Were Not Statistically Valid

We also found weaknesses in the postpayment review process used to estimate improper payments for DTS-processed travel. Under OMB guidance, agencies are required to obtain a statistically valid estimate of the annual amount of improper payments. However, we found that DOD did not have documented sampling plans that detailed how the samples were planned, executed, and evaluated to derive a statistically valid improper payments estimate for DTS-processed travel. We also found that the methodology used to estimate sampling results for nine DOD agencies was not statistically valid.¹⁹

Lack of Sampling Plans

Appendix C of OMB Circular No. A-123 provides guidance on using statistical sampling to estimate improper payments. According to the guidance, improper payment estimates shall be based on a statistically valid random sample of sufficient size to yield an estimate with a 90 percent confidence interval of plus or minus 2.5 percentage points (agencies may alternatively use a 95 percent confidence interval of plus or minus 3 percentage points around the estimate of the percentage of improper payments). The guidance also requires agencies to consult a statistician to ensure the validity of their sample design, sample size, and measurement methodology.

DFAS was responsible for estimating improper payment information for over \$1.2 billion in fiscal year 2006 DTS payments. DFAS was unable to provide us with its DTS postpayment review sampling plan, and according to our discussions with DFAS and Office of the Comptroller officials, one was not prepared. At the end of our fieldwork, DOD provided us a retrospective document describing the fiscal year 2006 sampling plan. The plan described information on the sampling method, payment and account selection, treatment of missing records and errors, and summary reporting. While OMB's guidance does not require a sampling plan, our

¹⁹According to DOD's fiscal year 2006 PAR, the random postpayment sample reviews were originally performed to satisfy the requirements of "certifying officers legislation." 31 U.S.C. §3521(b) authorizes heads of agencies to carry out a statistical sampling procedure, within certain parameters, to audit vouchers when the head of the agency determines that economies will result. In general, certifying officers designated in writing by the agency are financially liable for any improper, illegal, or incorrect payment made, and each payment made must be audited. However, 31 U.S.C. §3521(c) provides that certifying and disbursing officers are not liable for payments that are not audited if they were made in good faith under a statistical sampling procedure. Because of the weaknesses we describe below, we have doubts that the DTS postpayment sample reviews constitute a valid statistical sampling procedure under 31 U.S.C. §3521(b) for payments processed through DTS. We are referring this matter to the DOD OIG for further review.

*Standards for Internal Control in the Federal Government*²⁰ identify control activities such as policies, procedures, and mechanisms that enforce management's directives and are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results. The lack of a documented sampling plan, before and during sampling, is an internal control weakness in the process used by DFAS and could result in testing activities not being completed as anticipated by management.

For example, our review of testing for fiscal year 2006 DTS payments raised questions as to the completeness of the testing prior to the projections being made that were included in the PAR. Based on our review of the DTS postpayment review results database, as of March 2007, about 41 percent of the vouchers selected for sampling of fiscal year 2006 payments did not include an annotation that the review was completed. When we discussed this with DFAS and Office of the Comptroller staff, they responded by explaining that the population of DTS trips subject to postpayment review for any given month will not represent the actual DTS trip records settled or paid for that month due to the lag between payment and postpayment review. They also stated that statistics or population projections will not be reported for any incomplete monthly sample. DFAS staff further clarified that the fiscal year 2006 reporting was not necessarily based solely on fiscal year 2006 transactions. A component's fiscal year 2006 projection could be based on activity from both fiscal years 2005 and 2006 due to the timing of postpayment review. For example, a component's fiscal year 2006 estimate could be based on postpayment review of activity from April 1, 2005, through March 31, 2006—a 12-month period overlapping 2 fiscal years.

In order to assess this explanation, we requested additional information from DFAS that would detail what audit months of data were used to project and report fiscal year 2006 travel improper payments. Office of the Comptroller officials told us that they were unable to provide further support because the database did not have the needed information. If a written sampling plan, with appropriate detail, had been developed for fiscal year 2006 DTS postpayment review, it is more likely that DFAS would have performed procedures to assure that sampling was completed prior to projection and that appropriate documentation was maintained.

²⁰GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

Incorrect Categorization of Certain Errors

In order to determine the extent of improper payments for travel processed through DTS, DFAS officials explained that the DTS postpayment review was conducted using a monthly random sample for each component and agency. In fiscal year 2006, this methodology resulted in the selection of 168 unique samples from 168 distinct populations, with each sample varying in size from 20 test items for a defense agency to nearly 500 for a large military component. DOD reported that it randomly selected vouchers from the monthly population of vouchers based on a 95 percent confidence interval with a precision of 2.5 percentage points; we did not verify whether the data from which the samples were selected were complete or the accuracy of the samples taken.

Once a sample item was selected, DFAS reviewed the selected vouchers and recorded the results of its findings in a database. The review process included a recalculation of the travel entitlement based on information submitted on the travel authorization, DTS data, and supporting documents (e.g., travel receipts, credit card information, and DOD and federal travel regulations). The reviewer considered the overall validity of a payment as well as specific items such as appropriate use of organization codes, travel dates, per diem rates, airfare rates, and correct mathematical calculation on the voucher.

If an error was found during the postpayment review process, staff recorded it in the database. Each error was classified as one of four error types (lodging, per diem, reimbursement paid incorrectly, or nonmonetary errors). Errors involving lodging, per diem, and reimbursement paid incorrectly are all monetary errors, and each error type had between 13 and 46 subclassification types reviewers used to more accurately describe the error. For example, "reimbursement paid incorrectly" errors could be classified as 1 of 46 more specific error types, such as airfare paid incorrectly, mileage paid incorrectly, and mileage over- or underpaid. DFAS used the review results and information in the database to estimate monthly improper payment amounts for each component and agency.

During our review, we noted what could be an incorrect categorization of "receipts not received" as a nonmonetary error. OMB guidance states that "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 error." While DFAS categorized this as a nonmonetary error, this type of error could potentially be a monetary

error, but was not included in the estimate of improper payments.²¹ We noted nearly 200 instances where a payment was categorized as “receipts not received”—a nonmonetary error. However, because the monetary value of the error was not provided, we were unable to determine the effect of this incorrect classification on travel improper payments reported in DOD’s fiscal year 2006 PAR. When we discussed this categorization error with DOD officials, they explained that during the review process, DFAS allows a traveler a maximum of 30 working days to submit receipts that were not available for review. During this time, the sample item is considered open and the error is categorized as nonmonetary. If after the allotted time period the receipts are not provided, the amount is considered a monetary error. DOD believes the approximately 200 cases are likely those where the examiner was awaiting receipts for final determination of their propriety. However, on the basis of our review, we noted that all of these items had a completed date annotated in the database, suggesting they were completed audits—not audits awaiting additional documentation. We requested additional documentation from DOD that would support its assessment of these vouchers. DOD did not provide any documentation but did note in a written response to us that “all items are reviewed and settled with a determination of whether or not they are improper payment errors, and improper payments are reported as such. Incorrect or incomplete documentation may relate to nonmonetary errors that are also not improper payments (such as the wrong form being used or missing elements that are DOD internal procedural requirements, but are not required by law to support the payment).”

Flawed Methodology Used to Estimate Improper Payments at DOD Agencies

DOD also utilized a flawed methodology to estimate DTS improper payments at nine DOD agencies.²² Information reported for the defense agencies in the fiscal year 2006 PAR was prepared by totaling the monthly sample results from the nine defense organizations and then estimating an improper payment amount based on this aggregate data instead of deriving a monthly estimate, and then aggregating the estimated results and related confidence intervals. As described above, monthly samples were taken by component and agency for postpayment review. Despite the segmentation

²¹DOD travel regulations require submission of receipts for lodging expenses regardless of amount and for all other expenditures of \$75 or more. These regulations implement Internal Revenue Service requirements for an “accountable plan.”

²²These 9 include 8 defense agencies and 1 unified combatant command. There are 16 defense agencies in total. Samples were also selected for a population group labeled “unknown” but from documentation provided, testing of these samples was not completed nor was an estimate of improper payments.

of the population during the testing process, the information reported by DFAS to the Office of the Comptroller has nine defense organizations reported as “other” and uses the sum of the nine organizations’ sample results to estimate an error amount. By selecting samples for each organization separately and aggregating the results from the sample to estimate the total error rate, estimates made for the organizations were incorrectly projected to the population. DFAS reports that for fiscal year 2007 it will ensure that sample statistics and population estimates for defense agencies are computed at the agency level and then summarized.

DOD Faces Challenges in Plans to More Fully Assess Travel Improper Payments

As discussed in the previous section, DOD’s process for estimating and reporting improper payments for its travel program for inclusion in its fiscal year 2006 PAR was significantly flawed. Going forward, DOD plans to use the results from its annual Improper Payments Survey, conducted by the Office of the Comptroller, to determine the extent of improper payments in several programs, including travel. The survey of fiscal year 2006 payments²³ was not prepared in time for inclusion in the fiscal year 2006 PAR, in November 2006, but has since been completed. DOD plans to use these results for its fiscal year 2007 PAR reporting. We reviewed this survey, as a component of the department’s risk assessment for improper payments in the travel program. Our review identified several weaknesses in the survey and reported results which, if uncorrected, will limit the department’s ability to fully assess improper payments in the travel program. We identified weaknesses in DOD’s guidance regarding the estimation of travel improper payments and lack of oversight and review by the Office of the Comptroller over implementation of the survey and its results. The department is also taking other steps to improve its reporting under IPIA. To address reporting issues identified in its fiscal year 2006 auditor’s report, DOD has established a Program Officer for Improper Payment and Recovery Auditing. Further, the department is establishing an improper payment working group and held a “Department of Defense Improper Payments Information Act Conference.”

²³DOD officials refer to the improper payments survey of payments made in fiscal year 2006 as the fiscal year 2007 survey, because it was prepared in fiscal year 2007. For the purposes of this report, the improper payments survey of payments made in fiscal year 2006 will be known as the fiscal year 2006 survey, because it discloses information related to fiscal year 2006 payments.

Improper Payments Survey Results Unreliable Due to Limited Guidance and Oversight by the Office of the Comptroller

DOD assesses its programs, including travel, for improper payments, based on its departmentwide annual Improper Payments Survey. The survey, distributed annually by the Office of the Comptroller, queries DOD components²⁴ to determine the extent of improper payments in several programs, including travel, across the department. We reviewed this survey as a component of the department's risk assessment for improper payments in the travel program. Our review indicated several weaknesses in the survey and reported results, including weaknesses in the guidance regarding the estimation of travel improper payments and lack of oversight and review of the survey and its results. These weaknesses, if uncorrected, will limit the department's ability to fully assess improper payments in the travel program.

Limited Guidance Provided to DOD Components to Direct IPIA Assessment

In order to more fully assess its travel program for improper payments, the Office of the Comptroller issues its annual Improper Payments Survey to DOD components. The survey requests that each component report to the Office of the Comptroller the amount of improper payments for several programs²⁵ throughout the department and to specify additional programs or activities as needed. For fiscal year 2006, the Office of the Comptroller issued guidance on completion of the IPIA survey to DOD officials. The guidance included a cover memorandum which requested that all services and agencies review and report on any program or activity payment for which the component computed the entitlement. Accompanying the memorandum were Appendix C of OMB Circular No. A-123, results of the previous year's Improper Payments Survey, and a survey template for the component to use to submit survey results. The survey for fiscal year 2006 was sent to the components in January 2007, with survey results due to the Office of the Comptroller by January 26, 2007. The completed survey was provided to us in April 2007. DOD also used the survey to report a more complete travel population to OMB. This report detailed improper payments information for \$3.4 billion in travel payments rather than the \$824 million reported in the PAR. The survey also identified \$20 million in

²⁴The memorandum issuing guidance on completion of the survey of 2006 payments was addressed to the assistant secretaries of the military departments (Financial Management and Comptrollers), the U.S. Marine Corps Assistant Deputy Commandant for Programs and Resources, the Inspector General of the Department of Defense, the directors of defense agencies, the Commander of the Army Corps of Engineers, and the directors of DOD field activities.

²⁵The programs and activities provided were based on the prior year survey and included total military pay; retired/annuitant pay and descendent pay; civilian pay; travel pay; health care; commercial pay; afloat & deployed forces; and intra- and intergovernment payments.

travel improper payments, a \$12 million increase from the \$8 million reported in DOD's fiscal year 2006 PAR. Eight entities, other than DFAS, reported information in the fiscal year 2006 IPIA survey for travel pay. A summary of the improper payment survey results for travel is shown in table 2.

Table 2: Improper Payments Survey Results: Travel, Fiscal Year 2006

Program/activity	Dollar value total of FY 2006 payments	Absolute dollar value total of improper payments in FY 2006	Improper payment percentage
Navy travel pay			
Travel pay (non-DTS) by Navy	\$50,038,158	\$564,795	1.1%
Marine Corp In-House Travel Pay (IATS)	467,678,749	1,064,000	0.2
Marine Corp Travel Pay (IATS)	144,159	0	0.0
Total Navy travel pay	517,861,066	1,628,795	0.3
Army travel pay			
Army-Korea - travel pay	12,618,749	0	0.0
Army-Europe - travel pay	3,936,946	0	0.0
Army Corps of Engineers - travel pay	239,350,696	57,279	0.02
Total Army travel pay	255,906,391	57,279	0.02
Other component travel pay			
Air Force Reserve Travel System travel	101,627,181	4,597,319	4.5
Defense Security Service PCS travel	257,436	0	0.0
Total other components travel pay	101,884,617	4,597,319	4.5
Travel pay processed by DFAS			
IATS	1,242,918,935	1,456,472	0.1
DTS Air Force	355,167,040	5,576,798	1.6
DTS Navy	312,163,900	373,029	0.1
DTS Marine Corps	49,545,238	1,301,866	2.6
DTS Army	437,230,722	4,629,209	1.1
DTS Other DOD agencies	106,733,572	722,876	0.7
Total travel pay processed by DFAS	2,503,759,407	14,060,250	0.6
Total travel pay	\$3,379,411,481	\$20,343,643	0.6%

Source: DOD survey of fiscal year 2006 payments.

Going forward, considering the complexity of DOD, extent of travel throughout the department, and information reported in the survey of fiscal year 2006 payments, the guidance issued by the Office of the Comptroller does not provide adequate information to allow components to properly report improper payment information needed for a useful assessment. Our internal control standards²⁶ identify information and communications as one of the five standards for internal control. This standard states that information should be communicated to those within the entity in a form that enables them to carry out their responsibilities. The guidance issued by the Office of the Comptroller to DOD components does not provide adequate guidance specific to DOD to allow for components to prepare reliable estimates of improper payments. For example, while OMB guidance requires that agencies obtain a statistically valid estimate of the annual amount of improper payments in a program, Office of the Comptroller guidance does not adequately address sampling methodologies to employ, or provide contact information on how to seek assistance with this matter. Further, the guidance does not offer detailed information on the steps needed to adequately implement IPIA at DOD or examples of improper payments relevant to DOD.

In addition, the guidance does not provide sufficient procedures on how to identify or assess risk factors to assist DOD components in identifying programs and activities vulnerable to improper payments, such as assessments of internal control, audit report findings, and human capital risks related to staff turnover, training, or experience. Assessing the effect of risk conditions identified during the risk assessment plays a major role in effectively determining the overall risk level of an agency's operations. Some risk conditions may affect a program or activity to a greater or lesser degree. Likewise, not all risk conditions may be relevant to each program or activity. This type of risk identification and assessment is consistent with our previous recommendation²⁷ that OMB establish risk factors in its guidance for agencies to consider, and is also consistent with our standards of internal control²⁸ and executive guide on strategies to manage

²⁶GAO/AIMD-00-21.3.1.

²⁷GAO, *Improper Payments: Agencies' Fiscal Year 2005 Reporting under the Improper Payments Information Act Remains Incomplete*, GAO-07-92 (Washington, D.C.: Nov. 14, 2006).

²⁸GAO-AIMD-00-21.3.1.

Improper Payment Estimate
Process for Non-DTS Travel Is
Decentralized

improper payments,²⁹ which provides a framework for conducting a comprehensive risk assessment.

The process each DOD component uses to estimate its travel improper payments and report to the Office of the Comptroller varies throughout the department and is largely decentralized. Further complicating the assessment for travel improper payments are the numerous systems used to process travel throughout the department. For survey reporting, DFAS (Indianapolis) is responsible for reporting all travel processed through DTS and certain payments processed through IATS for Army and some other defense agencies. The determination of all other travel pay and associated improper payments is the responsibility of the component that computed the entitlement. The Office of the Comptroller relies on each component to determine and report this information. In our review of the fiscal year 2006 Improper Payments Survey, we noted that the survey results were not always statistically valid and in some cases appear unreasonable. Improved guidance by the Office of the Comptroller will be necessary to assure that survey information is reliable and complete for IPIA reporting.

DFAS is responsible for estimating and reporting travel improper payments for travel processed for the Army by the IATS system. In fiscal year 2006, DFAS (Indianapolis) did not conduct a statistically valid sample and review of travel payments processed through IATS. Instead, officials from DFAS performed limited reviews of IATS vouchers paid to determine if any such payments were improper. For example, DFAS reviewed payments to determine if payments for the same travel activity had been paid in both DTS and IATS—essentially a duplicate payment review. This review found \$1.5 million in improper payments in fiscal year 2006, which was reported in the survey, as shown previously in table 2. Such DFAS IATS reviews cannot be used to estimate the value of improper payments to the entire IATS population.

The Air Force reports improper payment information on travel processed through the Reserve Travel System. For fiscal year 2005, the Air Force sought the guidance of the Air Force Audit Agency to determine if the Air Force had developed and used an effective methodology to estimate and report the dollar amount of improper travel payments processed through

²⁹GAO, *Strategies to Manage Improper Payments: Learning From Public and Private Sector Organizations*, GAO-02-69G (Washington, D.C.: October 2001).

the Reserve Travel System. The Air Force Audit Agency reported³⁰ that the methodology used by the Air Force to estimate Reserve Travel System improper payments did not meet IPIA requirements. As part of the audit, the Air Force Audit Agency developed and provided the Air Force with a statistically valid sampling methodology for centralized reviews that it reported would meet IPIA reporting requirements.³¹ The Air Force told us that it now follows the sampling methodology developed by the Air Force Audit Agency. As shown in table 2, utilizing this methodology, the Air Force estimated nearly \$4.6 million in travel improper payments were processed in fiscal year 2006 by the Reserve Travel System—an improper payment estimate of approximately 4.5 percent of the \$101 million in payments processed by the Reserve Travel System during this period. However, after reporting its estimated results in the survey for fiscal year 2006 payments, the Air Force revised the results of its IPIA review. In a memo dated August 8, 2007, the Air Force disclosed an underestimation of total Reserve Travel System payments, revising the reported amount to \$1.5 billion, instead of the \$101 million originally reported. Based on a centralized review, the Air Force projected its improper payments to be \$13.6 million—an error rate of 0.9 percent.³²

The Army also has a decentralized review process for non-DTS travel reimbursements for improper payments. As described above, DFAS (Indianapolis) is responsible for identifying and reporting Army IATS payments calculated and disbursed by DFAS. However, the Army also reported travel improper payments for three other programs or activities in the fiscal year 2006 improper payments survey: Army–Korea; Army–Europe; and the Army Corps of Engineers.

- Staff responsible for the improper payment review for the Korea command explained the process they follow to estimate and report improper payments, which is completed as part of the internal control process and

³⁰Air Force Audit Agency, *Improper Payments Information Act of 2002-Travel Payments*, F2007-0002-FB1000 (Nov. 20, 2006).

³¹The report recommended that the Air Force “select a statistical sample of payments for review from the Reserve Travel System database. According to OMB guidance, the sample should be of sufficient size to yield an estimate with a 90 percent confidence interval of plus or minus 2.5 percent around the erroneous payment estimate.”

³²The Air Force also reported that the reviews were still ongoing as of August 8, 2007, and they were awaiting documentation for 42 vouchers (of the 463 sample items) in order to complete the audit. However, the Air Force did not believe these outstanding items would significantly change the final report.

includes an annual inspection. In fiscal year 2006, this review included a reinspection of every voucher for a 1-month period. This review discovered few improper payments. The future plans for improper payment reviews were unknown when we spoke to the Army-Korea staff due to ongoing DTS implementation there. In the fiscal year 2006 survey, Army-Korea reported no improper payments and over \$12.6 million in travel payments.

- The improper payment review for Army-Europe is even more decentralized, with finance officers throughout the region preparing improper payment information independently. From our discussion with Army-Europe staff, there is no formal process for reviewing and reporting improper payment information throughout the region beyond the IPIA guidance provided by the Office of the Comptroller. In the fiscal year 2006 survey, Army-Europe reported no improper payments and over \$3.9 million in payments.
- During fiscal year 2006, the Army Corps of Engineers processed all of its travel using IATS. The Army Corps of Engineers finance center is responsible for compiling and reporting travel improper payments. Officials from the Army Corps of Engineers finance center reported that all TDY and PCS vouchers greater than or equal to \$2,500 were subject to postaudit review, and a sample of every 366th TDY voucher less than \$2,500 was also reviewed by finance center staff. The sampling plan was designed to have a 95 percent confidence level plus or minus 2 percent. A DFAS statistician attested to the validity of the sampling methodology used by the Army Corps of Engineers. In the fiscal year 2006 survey, the Army Corps of Engineers reported \$57,279 in travel improper payments.

Limited Oversight by Office of the Comptroller Contributes to Unreliable Assessment

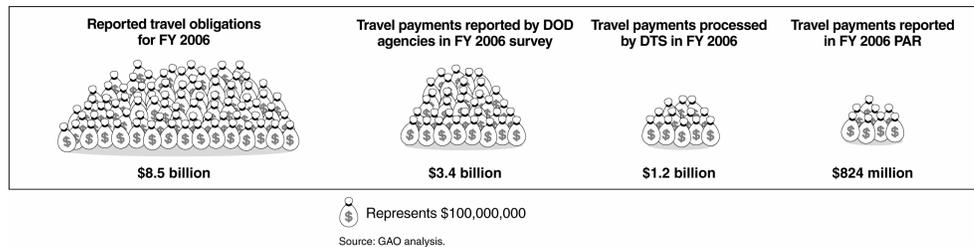
Our review indicated weaknesses in the survey and reported results for travel were caused, in part, by limited oversight and review by the Office of the Comptroller of the survey and its results. These weaknesses include a survey that does not consider the entire population of travel payments for fiscal year 2006 and information reported that appears unreliable. Without improved oversight by Office of the Comptroller, the department's future reporting under IPIA could be compromised.

Our internal control standards³³ include monitoring as one of the five standards for internal control. The standards provide that internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations and includes regular management and supervisory activities, comparisons, and reconciliations. During our

³³GAO/AIMD-00-21.3.1.

review of the fiscal year 2006 improper payments survey, we noted several weaknesses that indicate a lack of appropriate monitoring or oversight by the Office of the Comptroller. The most notable weakness we found in the survey is the population of travel payments from which improper payments were estimated. As shown in figure 2, in fiscal year 2006, \$8.5 billion was obligated for travel by DOD as reported in the DOD budget for fiscal year 2008. The improper payments survey for this same time period reported a total travel expenditure population of \$3.4 billion—a difference of \$5.1 billion. The survey results were more complete than the PAR reporting, which reported on approximately \$824 million in travel payments. The exclusion of such a significant portion of travel payments in the survey decreases its effectiveness as an improper payments assessment tool and indicates inadequate monitoring of the survey process by the Office of the Comptroller. A strong internal control environment, particularly monitoring, should have included regular reconciliations and comparisons that would have brought this discrepancy to management's attention in a timely manner.

Figure 2: DOD Travel Populations for Fiscal Year 2006



The Office of the Comptroller did not clearly define DOD's travel population before collecting the improper payment information for its fiscal year 2006 improper payment survey. Because DOD did not clearly define the full population of travel payments, the full extent of travel improper payments at the department is unknown. Further, until DOD establishes guidance with sufficiently detailed procedures on how to define its population for travel IPIA reporting, future annual reporting is unlikely to be comparable across fiscal years, which could prevent users of IPIA information from determining progress made in reducing improper payments.

When we met with Office of the Comptroller officials in March 2007, we discussed the importance of a complete travel payment population. At that time, Office of the Comptroller officials said they were not aware that the travel payment population was a potential problem. However, after discussion they agreed to reconcile the difference between the budget obligation amounts (\$8.5 billion) and the payment amounts reported in the fiscal year 2006 improper payments survey (\$3.4 billion). In September 2007, the Office of the Comptroller provided reconciliation information for approximately \$1.9 billion in travel payments and described the following factors that may have contributed to the remaining variance:

- classified program expenditures that are not included in IPIA reporting,
- timing differences between obligations and expenditures, and
- reviews and reporting based on audit month rather than actual reporting period (e.g., audit and reporting year may run from August through July while the fiscal year is October through September).

As reported in the PAR, DOD travel improper payments appear immaterial and the fiscal year 2006 reported travel payment population was substantially less than other programs reported on by DOD. While this might decrease the focus given to the travel program, we do not consider the information reliable and if, for example, the total population of \$8.5 billion was reported on, with an improper error rate of 1 percent as estimated by DOD, travel improper payments would be approximately \$85 million. This is a substantial amount of improper payments and would exceed the improper payment estimates for all but two programs as reported in fiscal year 2006—military health benefits and commercial pay.

In addition to the incomplete travel payment population, we noted weaknesses in the oversight and review of some data reported in the improper payments survey. Four program/activities (Marine Corp Travel Pay (IATS), Army–Korea, Army–Europe, and the Defense Security Service PCS travel) reported no improper payments on \$17 million in associated travel payments. We did not review vouchers to determine if any improper payments existed in this population but based on the description of the improper payments review we obtained from Army–Korea and Army–Europe, we do not believe the review process used provided a reliable basis for IPIA reporting for those components. For example, Army–Korea’s review only considered a review of payments during a 1-month period, instead of a statistically valid sample of payments for the fiscal year. Additionally, one entity reporting under Army–Europe reported that because they preaudit their travel vouchers they have very few improper payments. Another official told us that Army–Europe does little

to identify and report travel improper payments. Army-Europe staff told us they were not trained in the proper method for reporting improper payment information. While it is possible there may not be any improper payments in a population, the review process was inadequate to provide a basis for reporting no improper payments on \$17 million in travel payments. When we discussed these concerns, Office of the Comptroller staff informed us that they are doing further analysis to determine the accuracy and completeness of the information. Further, the staff told us that they use variance analysis to determine if the information submitted is reasonable based on previously reported information.

**Office of the Comptroller
Taking Steps to Improve
Reporting of Travel
Improper Payments**

While there are serious challenges facing the Office of the Comptroller in the assessment and reporting of travel improper payments, the office is taking steps to improve its oversight of the IPIA estimating and reporting process. Recently, the Office of the Comptroller established a Project Officer for Improper Payments and Recovery Auditing. Additionally, the DOD Project Officer has established a working group, comprised of representatives from numerous components, intended to further improve DOD's compliance with IPIA reporting.

To introduce DOD component participants to improper payment issues, including identifying and reporting improper payments, establishing and achieving reduction targets, and recovery auditing, the Office of the Comptroller held the "Department of Defense Improper Payments Information Act Conference." The conference, held in May 2007, included presentations by officials from OMB, DFAS, Navy, DOD OIG, and Office of the Comptroller. Additionally, there was a 3-hour session dedicated to statistical analysis, with presentations by OMB and DFAS on statistical methodologies. Such conferences or other training activities, if held on a regular basis, could serve to better train DOD staff responsible for improper payment reporting and help assure that information provided to the Office of the Comptroller for reporting is reliable and prepared in accordance with OMB and DOD guidance.

Further, the Office of the Comptroller provided us with a draft of the "Recommended Post Payment Sampling Plan for Defense Travel System, WinIATS & PCS Travel Claims," for fiscal year 2008. This sampling plan details the sampling method, selection process, treatment of missing records, information on completing the target sample, reporting errors, and summary reporting. If implemented effectively, this methodology should result in simple random sampling of DTS payments by component and the sampling of DOD agencies in aggregate. The plan is estimated to

reduce the number of DTS sample items from approximately 43,600 in fiscal year 2007 to 17,600 in fiscal year 2008—a 26,000 decrease in tested sample items for the year, largely from a reduction in sampling of DOD agencies. This decrease should allow DFAS to perform more timely postpayment reviews because the number of sample items to be reviewed would be less.

Conclusions

Although DOD has made some progress in implementing the requirements of IPIA for its travel program, challenges remain in ensuring that the complete population of all appropriate travel payments has been identified and reviewed to reliably determine its susceptibility to significant improper payments. As DOD continues to improve its IPIA efforts in the travel program, the agency should be better able to identify and report improper payments. This is not a simple task and will not be easily accomplished, particularly in light of the decentralized nature of DOD's travel program. For example, although DTS is intended to centralize travel processes at DOD, that goal has not yet been achieved, and an estimated 90 percent of DOD's travel payments for fiscal year 2006 were computed outside of DTS. Improved guidance and oversight by the Office of the Comptroller will be key to ensuring that complete and reliable estimates of improper payments are reported. With the ongoing imbalance between revenues and outlays across the federal government, and the Congress's and the American public's increasing demands for accountability over taxpayer funds, improving DOD's ability to identify, reduce, and recover travel improper payments is even more critical.

Recommendations for Executive Action

In order to improve the usefulness and completeness of IPIA reporting for DOD's travel program, we recommend that the Secretary of Defense direct the DOD Comptroller to take the following four actions:

- Establish and implement policies and procedures to reliably identify the complete population of DOD travel payments.
- Establish and implement policies and procedures to report a valid improper payment estimate for the population.
- Develop and implement guidance for the preparation of improper payment estimates, to include (1) how to compute a statistically valid estimate of improper payments, and (2) the consideration of risk factors associated with vulnerability to improper payments.
- Establish and implement policies and procedures specifying actions to oversee the data collection process for travel improper payments to be included in the annual PAR, including, at a minimum: (1) periodic reviews

of processes used by components to prepare improper payment estimates, and (2) reviews of information reported in the improper payment survey to assure that the population being reported is complete, and the improper payment estimate data reported are reliable and complete.

Agency Comments and Our Evaluation

DOD provided written comments on a draft of this report, which are reprinted in appendix II. In its written response, DOD concurred with three of the recommendations and partially concurred with the fourth. DOD partially agreed with our recommendation that the department develop and implement guidance for the preparation of improper payments estimates, including how to compute a statistically valid estimate of improper payments and the consideration of risk factors associated with vulnerability to improper payments. Although it concurred with the intent of our recommendation, DOD stated that OMB's Circular No. A-123, Appendix C, provided guidance for statistical sampling and for identifying risk factors and that the decentralized nature of the DOD components and the varying systems used for travel pay computations make a detailed universal approach impractical. We agree that DOD is a decentralized organization, with a wide breadth of activities and components. Indeed, this is the primary reason for our recommendation that DOD develop and implement additional guidance for use by its components. OMB's guidance provides a broad framework for use by agencies across the federal government. However, individual agencies are responsible for implementing OMB's guidance with policies and procedures that meet the specific needs of their operations. Therefore, we continue to recommend that DOD issue guidance to provide potential sampling methodologies, contact information on how to seek assistance with this matter, information on the steps needed to adequately implement IPIA at the component level, and examples of improper payments relevant to DOD. This guidance should be developed in a form that enables DOD staff across the broad range of DOD activities and components to carry out their responsibilities.

Further, DOD commented that it had completed action on all recommendations. Specifically, DOD stated that a policy memorandum issued by the Deputy Chief Financial Officer, dated November 27, 2007, addressed all needed actions. This document consists of a cover memorandum, excerpts from Appendix C of OMB Circular No. A-123, and DOD improper payment component contact information. As part of our standard recommendation follow-up process, we will consider this policy memorandum as well as DOD's progress in implementing it throughout the department. It is important that DOD takes action to ensure that such

policy guidance is fully and effectively implemented if DOD is to improve the usefulness and completeness of its IPIA report for the travel program.

DOD also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to other interested congressional committees and to affected federal agencies. Copies of this report will be made available to others upon request. In addition, this report is available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions regarding this report, please contact me at (202) 512-9095 or at williams1@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.



McCoy Williams
Director, Financial Management and Assurance

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Appendix I: Scope and Methodology

To assess the completeness and accuracy of the Department of Defense's (DOD) fiscal year 2006 Improper Payments Information Act of 2002 (IPIA) disclosure for travel improper payments, we reviewed the IPIA disclosures in its performance and accountability reports (PAR) for fiscal years 2003, 2004, 2005, and 2006. We also contacted representatives from DOD Office of Inspector General to discuss their assessment of DOD's compliance with IPIA for fiscal year 2006. We met with representatives from the Office of the Under Secretary of Defense (Comptroller) (Office of the Comptroller) to discuss their preparation of IPIA disclosure information included in the DOD PAR. We met with and obtained supporting documentation from the Defense Finance and Accounting Service (DFAS) officials responsible for estimating and reporting improper payment information for travel processed by the Defense Travel System (DTS). We observed the processing of Army travel through the Integrated Automated Travel System (IATS) and the postpayment review process for both Army IATS-processed travel and DTS-processed travel. We analyzed information provided by DFAS officials related to travel postpayment review to determine if it was complete and reliable for reporting purposes. We also reviewed associated improper payment reporting information. Additionally, we reviewed applicable laws, Office of Management and Budget guidance, DOD procedural directives, DOD memos, and other guidance used by DOD to guide IPIA reporting to determine what legislation and guidance was in place.

To assess DOD's planned efforts to improve and refine its processes for estimating and reporting on travel improper payments we met with staff from the Office of the Comptroller. We obtained information from representatives from Army-Korea, Army-Europe, the Army Corps of Engineers, Air Force, and Navy to determine how each component reviewed travel payments processed through its respective legacy systems for improper payments and the reporting of that information to the Office of the Comptroller. We reviewed the Improper Payments Survey for fiscal year 2006 payments and met with officials from the Defense Travel Management Office and the Project Management Office for the Defense Travel System. We attended the "Department of Defense Improper Payments Information Act Conference."

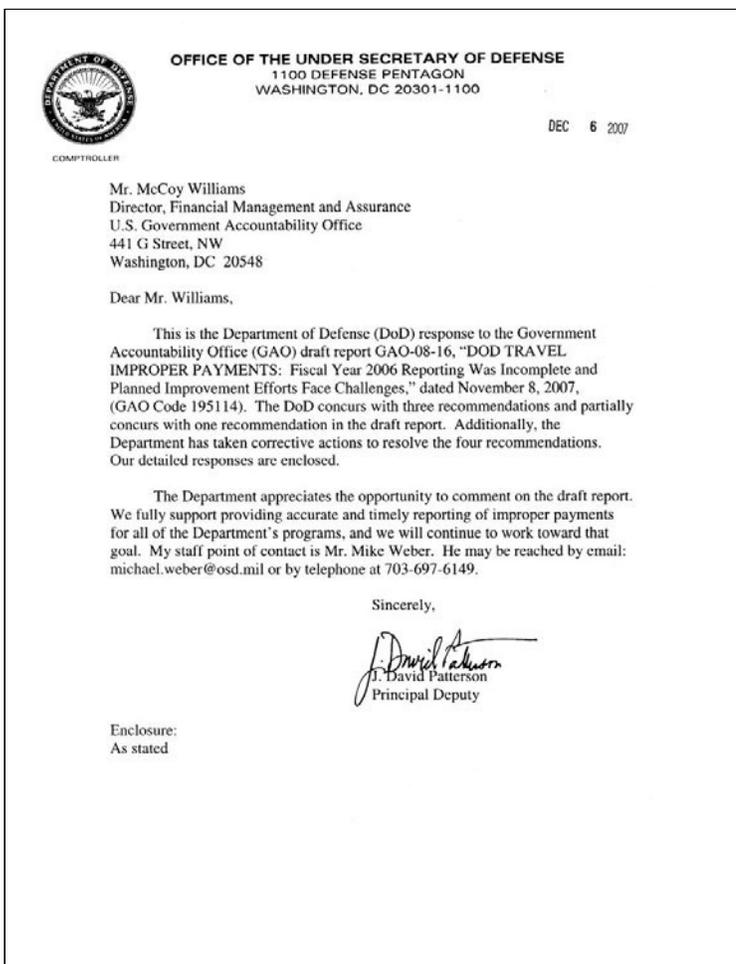
We did not independently verify the reliability of all information provided. However, we did compare it with other supporting documents, when available, to determine data consistency and reasonableness. Based on our analysis, we believe the information we obtained is sufficiently reliable for its use in this report.

Appendix I: Scope and Methodology

We conducted this performance audit from November 2006 through September 2007 in accordance with generally accepted government auditing standards.

We provided a draft of this report to DOD for comment. DOD provided written comments, which are presented in the Agency Comments and Our Evaluation section of this report and are reprinted in appendix II. DOD also provided technical comments, and we made revisions as appropriate.

Appendix II: Comments from the Department of Defense



Appendix II: Comments from the Department of Defense

GAO DRAFT REPORT DATED NOVEMBER 8, 2007
GAO-08-16 (GAO CODE 195114)

"DOD TRAVEL IMPROPER PAYMENTS: FISCAL YEAR 2006
REPORTING WAS INCOMPLETE AND PLANNED
IMPROVEMENT EFFORTS FACE CHALLENGES"

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATIONS

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the DoD Comptroller to establish and implement policies and procedures to reliably identify the complete population of DoD travel payments. (Page 37/GAO Draft Report)

DOD RESPONSE: Concur. The Office of the Under Secretary of Defense (Comptroller) (OUSDC) has taken corrective action to provide for complete reporting. The annual Improper Payments Survey for FY 2007 was performed and reviewed prior to finalizing the Agency Financial Report (AFR). The Department of the Air Force also completed a review of the Reserve Travel System, allowing this data to be included in the FY 2007 AFR. Finally, a Deputy Chief Financial Officer (DCFO) policy memorandum, dated November 27, 2007, provided Components with additional guidance and directed them to submit their FY 2008 travel pay sampling plans, including their risk assessment analysis, for OUSDC review. **Action is complete.**

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the DoD Comptroller to establish and implement policies and procedures to report a valid improper payment estimate for the population. (Page 37/GAO Draft Report)

DOD RESPONSE: Concur. A DCFO policy memorandum, dated November 27, 2007, provided Components with additional guidance and directed them to submit their FY 2008 travel pay sampling plans, including their risk assessment analysis, for OUSDC review. Additionally, the Defense Finance and Accounting Service developed a sampling plan that includes testing data from the Army Integrated Automated Travel System beginning in FY 2008. **Action is complete.**

Enclosure
Page 1 of 2

Appendix II: Comments from the Department of Defense

RECOMMENDATION 3: The GAO recommends that the Secretary of Defense direct the DoD Comptroller to develop and implement guidance for the preparation of improper payment estimates, to include: (1) how to compute a statistically valid estimate of improper payment, and (2) the consideration of risk factors associated with vulnerability to improper payments. (Page 37/GAO Draft Report)

DOD RESPONSE: Partially concur. We agree with the intent of the recommendation; however, the Office of Management and Budget's Circular A-123, Appendix C, provides guidance for statistical sampling and for identifying risk factors. The decentralized nature of the DoD Components and the varying systems used for travel pay computations makes a detailed universal approach impractical. Additionally, larger Components have professional staff available to assist with implementing this requirement. Therefore, the DCFO issued a policy memorandum, dated November 27, 2007, providing Components with additional guidance and directing them to submit their FY 2008 travel pay sampling plans, including their risk assessment analysis, for OUSD(C) review. **Action is complete.**

RECOMMENDATION 4: The GAO recommends that the Secretary of Defense direct the DoD Comptroller to establish and implement policies and procedures specifying actions to oversee the data collection process for travel improper payments to be included in the annual Performance and Accountability Report, including, at a minimum: (1) periodic reviews of processes used by Components to prepare improper payment estimates, and (2) reviews of information reported in the improper payment survey to assure that the population being reported is complete, and the improper payment estimate data reported are reliable and complete. (Page 38/GAO Draft Report)

DOD RESPONSE: Concur. A DCFO policy memorandum, dated November 27, 2007, provided Components with additional guidance and directed them to submit their FY 2008 travel pay sampling plans, including their risk assessment analysis, for OUSD(C) review. Additionally, OUSD(C) will continue reviewing the annual survey results, supporting the improper payments reported for travel in the AFR data, for completeness and accuracy. **Action is complete.**

Enclosure
Page 2 of 2

Appendix III: Excerpts from DOD's Fiscal Year 2006 PAR



Department of Defense Performance and Accountability Report FY 2006
Section 1: Management's Discussion and Analysis

solutions, the plan addresses known major deficiencies and captures work done or to be done by large Components in assessing their weaknesses and developing plans to overcome those weaknesses. The Department will continue to maximize resources by aligning its Appendix A efforts with the FIAR plan.

Training and Education

Management understands that training and education are crucial to the successful execution of the internal management control program and the conduct of adequate assessments. The Department conducted training for 21 of the 34 Components at locally-sponsored training workshops. In addition, the Department conducted a Department-wide conference attended by more than 200 representatives from all 34 Components.

To increase the education of managers and employees on the importance of internal management controls and effective assessment techniques, the Department is conducting a Department-wide survey of Department-sponsored schools to assess the extent to which training is already available for internal management controls. The results of the survey will be an indicator of how much additional course work for the internal management controls is needed at the Department of Defense schools.

Systems

The Federal Financial Management Improvement Act requires federal agencies to conform to the U.S. Government Standard General Ledger, comply with all applicable federal accounting standards, establish financial management systems that meet government-wide standards and requirements, and support full disclosure of federal financial data, including the costs of federal programs and activities.

The Department's Inspector General and the audit agencies within the Military Services have reported on the Department's failure to comply with the Act's requirements. The Department's inability to comply materially with the Act primarily results from structural problems related to legacy accounting systems that do not accurately account for both budgetary and proprietary activities. Quite simply, the Department does not have the systems and accounting structures in place to enable compliance.

To remedy these challenges, the Department of Defense has placed an unprecedented emphasis on reforming its financial management systems and accounting processes. Primarily through the Business Enterprise Architecture and the Enterprise Transition Plan, the Department is identifying the business capabilities and standards at the Department-wide level that will support compliance. The Standard Financial Information Structure and U.S. Standard General Ledger initiatives discussed earlier in this section are major steps toward achieving compliance with the Federal Financial Management Improvement Act.

Improper Payments Information Act Reporting

The Improper Payments Information Act of 2002, as implemented by the Office of Management and Budget, requires federal agencies to review all programs and activities annually and identify those that may be susceptible to significant erroneous payments.

The Department of Defense reports its progress in reducing erroneous payments to both the President and the Congress. The Department's FY 2006 review did not identify any programs or activities at risk for "significant erroneous payments" in accordance with the Office of Management and Budget's criteria (i.e., programs with erroneous payments exceeding both \$10 million and 2.5 percent of program payments). During this review, however, the Department noted that civilian, commercial, and travel pay potentially were susceptible to erroneous payments in excess of \$10 million. For FY 2006, the Department reports

Appendix III: Excerpts from DOD's Fiscal Year 2006 PAR



Department of Defense Performance and Accountability Report FY 2006
Section 1: Management's Discussion and Analysis

on three high risk programs: military health benefits, military retirement, and military pay.

In accordance with guidance, the Department calculated statistically-valid estimates of erroneous payments and is implementing plans to reduce them within each of the six programs. Current estimates for FY 2006 improper payments are presented in the table below.

FY 2006 Estimated Improper Payments
Dollars in Millions

Program	Estimated \$	Estimated %
Military Retirement	\$48.8	0.1%
Travel Pay	\$8.0	1.0%
Military Health Benefits	\$140.0	2.0%
Military Pay	\$65.9	0.1%
Civilian Pay	\$62.8	0.1%
Commercial Pay	\$550.0	0.2%

While the Department's overall improper payment percentage is quite low for the over \$750 billion it pays each year to individuals, contractors, agencies, and other entities, the Department has numerous pre- and post-payment controls in place to minimize and eliminate improper payments. For further reporting details about these controls and the Department's Improper Payments Information Act reporting results, see Section 4: Other Accompanying Information.

Other Management Information, Initiatives, and Issues

President's Management Agenda

The President's Management Agenda has been inculcated throughout the Department and has made significant progress since implementation. Further information is available at <http://www.results.gov>. The President's Management Agenda identifies the following five government-wide initiatives:

- Electronic Government (e-Gov)
- Strategic Management of Human Capital
- Competitive Sourcing
- Improved Financial Performance
- Budget and Performance Integration

In addition, the President's Management Agenda includes the following four program initiatives that apply to the Department:

- Eliminating Improper Payments
- Real Property Management
- Coordination of Department of Veterans Affairs and Department of Defense Programs and Systems
- Privatization of Military Housing

As of September 30, 2006, the Department's grades were mixed:

Department Scorecard Results
(September 30, 2006)

Government-Wide Initiatives	Status Score	Progress Score
Electronic Government (e-Gov)	●	●
Strategic Management of Human Capital	○	●
Competitive Sourcing	○↑	○↑
Improved Financial Performance	●	○↑
Budget & Performance Integration	●	●

Program Initiatives		
Eliminating Improper Payments Initiative	○	●
Real Property Management Initiative	○↑	○↓
Coordination of VA and DoD Programs and Systems	○	○
Privatization of Military Housing *	●	●

● - SUCCESS ○ - MIXED RESULTS ● - FAILURE

Note: ↑ Changes in score since FY2005
 * = Results as of June 30, 2006

17

Appendix III: Excerpts from DOD's Fiscal Year 2006 PAR



Department of Defense Performance and Accountability Report FY 2006
Section 4: Other Accompanying Information

However, the Department must be vigilant in ensuring that the strategy for logistics transformation is continuously reevaluated and that new initiatives and systems are adequately funded and effectively implemented.

Government Accountability Office High-Risk Areas

Since 1990, the Government Accountability Office has periodically reported on government operations that it has designated as high risk. Its audits and evaluations identify federal programs and operations that, in some cases, are high risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement. In its latest report, the Government Accountability Office designated 26 high-risk areas. Eight involved Department of Defense programs and operations; five involved the Department as well as other federal agencies. The Department-related high-risk areas are listed below.

Department of Defense:

- Approach to Business Transformation
- Business Systems Modernization
- Personnel Security Clearance Program
- Support Infrastructure Management
- Financial Management
- Supply Chain Management (formerly Inventory Management)
- Weapon Systems Acquisition
- Contract Management

Department of Defense and Other Federal Agencies:

- Strategic Human Capital Management
- Managing Federal Real Property
- Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures
- Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security
- Management of Interagency Contracting

Management's Response to Auditor Challenges

In general, the Department concurs with the concerns identified by the Inspector General in his Summary of Management and Performance Challenges and the issues presented in the Government Accountability Office's High Risk List. The Department is taking progressive steps to evaluate weaknesses across the Department in systems, processes and internal controls. The Department established comprehensive plans, presented throughout this report, that describe the steps necessary to improve these areas of concern within the Department. Without question, the path forward to implement solutions will be challenging, expensive, and require much time. However, the Department has made a good start and has made substantial progress in many areas. The support of the Congress and the Department's many stakeholders, as well as the efforts of individuals and organizations across the entire Department, have contributed to the development of these plans and the progress made in implementing solutions.

Improper Payments Information Act Reporting Details

As discussed in Section 1: Management's Discussion and Analysis, the Department conducted a review of the improper payments per the Office of Management and Budget guidance.

Risk Assessment

The Department reviewed all of its programs and activities and determined that six programs/activities were susceptible to improper payments: Military Retirement, Travel Pay, Military Health Benefits, Military Pay, Civilian Pay, and Commercial Pay. These programs represent approximately 86 percent of the Department's total payments. The Department of Defense performed risk assessments for each of these programs/activities that addressed the strength

Appendix III: Excerpts from DOD's Fiscal Year 2006 PAR

Department of Defense Performance and Accountability Report FY 2006
Section 4: Other Accompanying Information



of the internal controls in place to prevent improper payments (such as prepayment reviews), system weaknesses identified internally or by outside audit activities, voluntary returns of overpayments by vendors, etc. The subsequent paragraphs summarize the process and results of these assessment surveys. There are two other types of payment programs/activities that the Department did not conduct surveys for and as a result are not discussed below, intragovernmental payments (approximately \$75 billion in fiscal year (FY) 2005) and payments for afloat and deployed forces (approximately \$600 thousand in FY 2005). The Department is developing a program to cover these remaining program/activity payments.

Statistical Sampling

Military Retirement. During FY 2006, the Department continued the process, implemented in FY 2004, of monthly random reviews of confirmed deceased retiree accounts, in addition to monthly random reviews from the overall population of retired and annuitant pay accounts. Both of these sampling plans are designed to produce annual estimates of improper payments, with probability of 95 percent and sample precision of plus or minus 2.5 percent.

A monthly sample of accounts is selected from the population of confirmed deceased accounts. Each account is audited to determine if the member was overpaid after the member's death. Statistics collected from the review include the number of accounts reviewed, number with overpayments, dollar amount of the overpayment, amount of correct pay (what the payment should have been), and the dollar amount collected back from the member's account/estate within the first 60 days after notification. These sample statistics are projected to the population of deceased retirees to then determine an improper payment rate population estimate for deceased accounts.

Population estimates from the deceased account reviews are then added to any improper payments identified through other than retired pay random or special audits, to determine an overall improper payments population estimate for retired pay.

Travel Pay. The Department performs monthly random post-payment reviews of travel records settled through the Defense Travel System and Integrated Automated Travel System. These reviews satisfy requirements of Certifying Officers Legislation and ensure payments are legal, accurate, and have supporting documentation. These random reviews are designed to produce annual estimates of improper payments, with probability of 95 percent and sample precision of plus or minus 2.5 percent, at the Military Service component level (Army, Navy, Air Force, and Marine Corps).

For travel payments made by the U. S. Army Corps of Engineers, all temporary duty and permanent change of station travel vouchers greater than or equal to \$2,500 are subject to a post audit review. A sample composed of every 366th temporary duty travel voucher less than \$2,500 is also reviewed. These reviews are designed to produce annual estimates of improper payments, with probability of 95 percent and sample precision plus or minus 2 percent.

Military Health Benefits. To determine the statistically valid estimate of the annual amount of improper payments, the Department uses the following sampling methodology to pull TRICARE (i.e., triple option health benefit plan available for military families) encounter data records for the annual target health care cost audits of the managed care support services contracts.

For each contract option period, a statistically valid sample of claims with care end dates within the specified option period is selected for payment error auditing. Variable sampling, using stratified sampling with optimum allocation, is used to calculate the sample size for the payment errors. The sample size is designed to produce annual estimates of improper payments, with probability of 90 percent and sample precision plus or minus 1 percent.

207

Appendix III: Excerpts from DOD's Fiscal Year 2006 PAR

Department of Defense Performance and Accountability Report FY 2006
Section 4: Other Accompanying Information

Corrective Action Plans

Military Retirement. The improper payments rate for the military retirement is projected to remain nearly the same from FY 2005 (\$49.3 million or .1381 percent) to FY 2006 (\$48.8 million or .137 percent). The majority of the improper payments are made to deceased retirees (approximately \$48.5 million). Random reviews from FY 2006 indicate 95 percent of the overpaid dollars to deceased retirees is recovered within the first 60 days after notification. To reduce the initial improper payment primarily caused by the delay in death notification to the paying office by family members, the Department has substantially improved its internal processing methods and is using data mining techniques with the Social Security Administration. This process allows the Department to receive death notice information through an automated system and helps prevent improper payments by the pay system.

Travel Pay. The Defense Travel System contains numerous automated prepayment flags to alert travelers and approving officials of potential inconsistencies that could result in an improper payment. In addition, results of monthly random reviews of Defense Travel System trip records are summarized and presented to applicable Service component representatives and to Defense Travel System management personnel. These reports include number, dollar value, and reasons for errors discovered among the sampled claims, as well as recommendations to prevent similar errors on future travel records. Analysis indicates most errors are attributed to traveler input or authorizing official oversight. Training of both travelers and authorizing officials is one of the primary tools the Department uses to alleviate these types of discrepancies.

In FY 2006, over 783,000 trip records, with total settlement dollar value of \$823.6 million, were processed through the Defense Travel System. As of September 30, 2006, the Department randomly selected and reviewed 30,100 settled trip records with

a value exceeding \$32.6 million. Improper payments accounted for .968 percent of the tested sample, so projected improper payments in the population of settlements could approach \$7.97 million.

Military Health Benefits. The Department has had contracts with payment performance standards for military health benefit claims processing in place for many years. Under the existing managed care support contracts, the Department has a zero tolerance for unallowable costs. If the contractor pays a claim that is not allowable, the Department will not reimburse the contractor. In addition to placing the contractors at risk for unallowable costs, this contractual design provides a built-in incentive for contractors to continually perfect their claims processing system, up to the point where financial costs outweigh the benefits.

The Department currently audits statistically valid samples that over the years have consistently produced an error rate of less than the 2 percent standard contained in the TRICARE contracts. Improperly submitted claims by the provider community, as well as a minimal degree of human error that can be expected with handling a large volume of claims within the tight time parameters established through the prompt payment regulations, cause errors in health care claims processing. Based on the FY 2006 survey, the FY 2006 improper payments rate for the military health benefits is projected to be \$140.0 million or 2.0 percent.

Numerous prepayment and post-payment controls are built into the military health benefits' claims processing system to minimize improper payments. Every TRICARE claim is adjudicated against this system of checks and balances. The managed care support contractors are required to utilize specialized software containing specific auditing logic designed to ensure appropriate coding on professional service claims and eliminate overpayments. The software does not set coverage/benefit policy; it merely audits claims for appropriate code combinations. For calendar



Appendix III: Excerpts from DOD's Fiscal Year 2006 PAR



Department of Defense Performance and Accountability Report FY 2006
Section 4: Other Accompanying Information

provisional billing rates. The Defense Contract Audit Agency also performs paid voucher reviews at major contractors and special purpose audits at contractor locations when a risk factor for improper payments is identified and neither a billing system review nor a test of paid vouchers is planned.

Accountability

Certifying officer legislation currently in effect holds certifying and disbursing officers accountable for government funds. Pecuniary liability attaches automatically when there is a fiscal irregularity, i.e., (a) a physical loss of cash, vouchers, negotiable instruments, or supporting documents, or (b) an improper payment. Pecuniary liability for accountable officials attaches if a commander/director determines an improper payment was the result of the accountable official's negligence. For certifying officers and disbursing officers, there is a presumption of negligence and those individuals bear the burden of proof in establishing the absence of negligence, i.e., they must produce evidence to establish that there was no contributing fault or negligence on their part. A presumption of negligence does not apply to accountable officials. Efforts to recover from the recipient must be undertaken in accordance with the debt collection procedures in Volume 5, Chapters 29 and 30, of the Department's Financial Management Regulation.

In addition, the Department actively monitors performance metrics to further reduce improper payments. These metrics include all programs/activities the Department has identified as having a risk of improper payments (i.e., military retired, military health benefits, and military, civilian, travel, and commercial pay areas).

Information Systems

The Department has the information and infrastructure needed to reduce improper payments for five of the six major program/activity areas. For commercial

payments, as previously mentioned, the Department is currently in the process of procuring business activity monitoring services, which will employ the latest technology to increase the efficiency and effectiveness of improper payment detection efforts. The Department will prioritize the use of this capability first toward commercial payments and then to all payment areas.

Statutory or Regulatory Barriers

There are currently no statutory or regulatory barriers limiting the Department's corrective actions for five of the six major program/activity areas.

For military retirement, two barriers impede the agency's ability to take corrective actions in reducing improper payments: the Federal Acquisition Regulation and the Retired and Annuitant Pay service contract. In January 2002, the Defense Finance and Accounting Service awarded the Retired and Annuitant Pay service operations to a government contractor. Although most functions remain 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 the Retired and Annuitant Pay contract. To ensure the contractual requirements are followed, 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. The Federal Acquisition Regulation requires any deviation from the current contract be accomplished via a contract modification.

Additional Comments

The Office of Management and Budget requested that the Department identify Iraq improper payment indicators. In support of this request, additional reviews are conducted on payments for Iraq by the

Appendix IV: GAO Contact and Staff Acknowledgements

GAO Contact

McCoy Williams, (202) 512-9095 or williams1@gao.gov

Staff Acknowledgments

In addition to the contact named above, the following individuals also made significant contribution to this report: Dianne Guensberg, Assistant Director; Sharon Byrd; Francine DelVecchio; Heather Dunahoo; and Bradley Klingsporn.

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