



February 2018

# MILITARY RECRUITING

Army National Guard  
Has Implemented  
Internal Controls for  
Soldier Incentives but  
Needs to Better Plan  
to Maintain the  
Integrity of Those  
Controls

# GAO Highlights

Highlights of [GAO-18-283](#), a report to congressional committees

## Why GAO Did This Study

ARNG provides trained and equipped units ready to defend life and property in the 54 states, territories, and the District of Columbia. In 2011, the Army Audit Agency reported weaknesses in internal controls over soldier incentive payments in the California ARNG that led to some improper payments. DOD initially took actions to recoup some of these payments, but the National Defense Authorization Act for Fiscal Year 2017 allowed for the waiver or other forgiveness of debt.

The National Defense Authorization Act for Fiscal Year 2017 included a provision for GAO to assess policies and procedures for minimizing and waiving the recoupment of improper payments. This report (1) evaluates the extent to which ARNG has implemented and planned to adjust the internal controls for its Selected Reserve Incentive Program to prevent improper payments and (2) describes which DOD organizations have the authority to waive ARNG incentive debts and steps taken to improve waiver documentation. GAO conducted site visits to six states based on the value of their incentive programs, reviewed documentation used to manage incentive programs, examined incentive debt waiver cases, and interviewed DOD officials.

## What GAO Recommends

GAO recommends that ARNG develop and implement a plan that identifies, analyzes, and responds to significant changes that could affect internal controls for its Selected Reserve Incentive Program. ARNG concurred with the recommendation and has identified planned actions to address the recommendation.

View [GAO-18-283](#). For more information, contact Joseph Kirschbaum at (202) 512-9971 or [kirschbaumj@gao.gov](mailto:kirschbaumj@gao.gov).

February 2018

## MILITARY RECRUITING

### Army National Guard Has Implemented Internal Controls for Soldier Incentives but Needs to Better Plan to Maintain the Integrity of Those Controls

## What GAO Found

In response to the over \$22 million in improper payments the California Army National Guard (ARNG) made in cash bonuses and other soldier incentives from 2004 through 2010, ARNG officials implemented some internal controls to prevent future improper incentive payments. These internal controls include automated and manual checks of soldier incentive contracts to verify soldiers' eligibility for incentive payments. For example, ARNG implemented automated rules in its Guard Incentive Management System—an online system that tracks incentive contracts—to monitor a soldier's eligibility for an incentive by comparing the data received from multiple personnel systems against the soldier's contract. If any issues are found, the Guard Incentive Management System will flag the incentive case for review by state ARNG officials and will stop future payments until the issue is resolved.

While these internal controls have improved accountability over soldier incentive payments, ARNG is still in the process of completing further actions. For example, in April 2017, ARNG issued the fiscal year 2017 Selected Reserve Incentive Program policy. However, ARNG did not incorporate changes as a result of this policy into the Guard Incentive Management System to ensure that the automated checks captured these policy changes—including one that affects approximately 8,000 soldier incentive contracts, according to ARNG officials. ARNG officials told us that they had not updated the Guard Incentive Management System with this policy because of technical challenges resulting from a transition in vendors for the Reserve Component Manpower System—an information system that houses the Guard Incentive Management System. ARNG officials also told us that they plan to update the Guard Incentive Management System to include the 2017 policy in February 2018.

GAO also found that ARNG had not developed and implemented a plan for future significant changes that could affect its internal controls over soldier incentive payments. These changes include, for example, the end of the current vendor contract in 2020 to support the Reserve Component Manpower System and the Army National Guard's migration to the Integrated Personnel and Pay System – Army that is scheduled to occur in 2018. *Standards for Internal Control in the Federal Government* states that management should identify, analyze, and respond to significant changes that could affect an internal control system. Specifically, because conditions affecting an organization and its environment continually change, management needs to anticipate and plan for significant changes by using a forward-looking process to prepare for those changes. Without taking action to plan for such changes, ARNG puts itself at risk of making improper payments in the future.

The Defense Finance and Accounting Service and the Defense Office of Hearings and Appeals review and adjudicate requests for waivers of incentive debt. DOD has taken two steps to improve the availability of documentation needed to adjudicate waiver cases. First, DOD has clarified the policy in its Financial Management Regulation on the documentation soldiers are required to provide. Second, officials review documentation in the Guard Incentive Management System before validating an incentive payment, which may reduce delays associated with missing documentation when processing waiver requests.

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## Abbreviations

ARNG	Army National Guard
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
DOHA	Defense Office of Hearings and Appeals
NGB	National Guard Bureau

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February 16, 2018

The Honorable John S. McCain  
Chairman  
The Honorable Jack Reed  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable Mac Thornberry  
Chairman  
The Honorable Adam Smith  
Ranking Member  
Committee on Armed Services  
House of Representatives

The Army National Guard (ARNG) provides trained and equipped units ready to defend life and property in the United States, including serving key roles in responding to natural disasters and protecting the homeland. Additionally, ARNG assists in bolstering the nation's active-duty military forces in times of need. ARNG is authorized to have an end strength of 343,500 in fiscal year 2018. In order to recruit and retain personnel to reach this end strength, ARNG contracts with current and prospective soldiers to provide enlistment, re-enlistment, and other financial incentives for specified terms of service in certain occupational specialties.<sup>1</sup> In order to receive these incentives, soldiers must fulfill the obligations specified in their contracts.<sup>2</sup> In fiscal year 2016, ARNG disbursed more than \$185 million to soldiers for these incentives.

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<sup>1</sup>According to regulation, incentive payments serve as extraordinary measures to assist ARNG in meeting and sustaining manpower requirements. Payments are used to provide recruiting and retention incentives to assist in filling critical skill shortages and in support of deploying units and priority units. These payments include cash bonuses and student loan repayments, among others. National Guard Regulation 600-7, *Selected Reserve Incentive Programs* (Aug. 12, 2014).

<sup>2</sup>When a soldier does not fulfill the obligations specified in the incentive contract, the soldier is no longer eligible to receive an incentive payment, and the contract may be terminated with recoupment. According to regulation, the soldier is entitled to a prorated incentive amount based on the number of months served satisfactorily prior to the date the incentive is terminated. The soldier may be required to pay funds back to the government or may be entitled to a payment. National Guard Regulation 600-7, *Selected Reserve Incentive Programs* (Aug. 12, 2014).

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Following a 2011 report by the Army Audit Agency detailing weaknesses in internal controls over incentive payments—including fraud—in the California ARNG, the National Guard Bureau (NGB) conducted a review of all payments to California ARNG soldiers under its Selected Reserve Incentive Program, which provides cash bonuses and other payments, during fiscal years 2004 through 2010.<sup>3</sup> California ARNG officials had identified more than \$22 million in improper incentive payments during that time period.<sup>4</sup> While the Department of Defense (DOD) initially took actions to recoup some of these payments, subsequent guidance from the Office of the Secretary of Defense in October 2016 and the National Defense Authorization Act for Fiscal Year 2017 allowed for the waiver or other forgiveness of debt for most of the affected California ARNG soldiers.<sup>5</sup>

The National Defense Authorization Act for Fiscal Year 2017 included a provision for us to assess policies and procedures for identifying and minimizing improper payments and requests to waive the recoupment of improper payments. This report (1) evaluates the extent to which ARNG has implemented and planned to adjust the internal controls for its Selected Reserve Incentive Program to prevent improper payments and (2) describes which DOD organizations have the authority to waive ARNG soldiers' incentive debt and any steps DOD has taken to improve the availability of documentation to adjudicate waiver cases.

For objective one, we reviewed applicable DOD guidance on the use of incentive programs and compared this guidance with our observations of how this guidance was implemented in six selected states.<sup>6</sup> We selected

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<sup>3</sup>NGB is a joint function within DOD that, among other things, participates with staffs from the Department of the Army and the Department of the Air Force in the formulation, development, and coordination of all programs, policies, concepts, and plans pertaining to or affecting the National Guard, the Army National Guard of the United States, and the Air National Guard of the United States.

<sup>4</sup>An improper payment is 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. 31 USC § 3321 (note)

<sup>5</sup>Pub. L. No. 114-328 § 671(c) (2016); Secretary of Defense Press Release, *Statement from Secretary of Defense Ash Carter on California National Guard Bonus Payments*, Release No. NR-379-16 (Oct. 26, 2016).

<sup>6</sup>DOD Instruction 1205.21, *Reserve Component Incentive Programs Procedures* (Sep. 20, 1999) and National Guard Regulation 600-7, *Selected Reserve Incentive Programs* (Aug. 12, 2014).

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a nonprobability sample of six states based on the value of the incentives their respective programs awarded in fiscal year 2016 and the number of soldier contracts ARNG was considering for termination (termination being a necessary step before beginning recoupments). The six states we selected were California, Delaware, Illinois, Nebraska, Nevada, and Virginia. We conducted site visits to each of our six selected states to catalogue their procedures related to incentive payments. Specifically, we conducted interviews with state incentive managers to discuss their procedures for managing incentive payments, and we observed incentive managers performing these procedures in information systems such as the Guard Incentive Management System, among others. We also discussed challenges they experienced using these systems. Although the findings from our site visits to these six selected states are not generalizable to all states and territories, they provide important insights into how the incentive process is managed across a range of states.

Because ARNG serves as the focal point for processing all incentive cases, we also conducted interviews with ARNG officials to discuss their roles in managing incentive payments, and we observed their use of the Guard Incentive Management System. We discussed challenges they experienced using the system. Based on these discussions, we performed additional work to identify the steps that NGB was taking to address these challenges. This work included reviewing documents associated with the Reserve Component Manpower System and its associated modules, such as the Guard Incentive Management System; interviewing vendors that were awarded the contracts to manage the Reserve Component Manpower System; and interviewing NGB officials to discuss their roles in managing contracts associated with the Reserve Component Manpower System and the ARNG Incentive Support Team. We compared our observations against federal internal control standards related to risk assessment.<sup>7</sup>

For objective two, we reviewed applicable DOD guidance on the roles and responsibilities of the organizations that participate in the process—the Defense Finance and Accounting Service and the Defense Office of

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<sup>7</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

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Hearings and Appeals.<sup>8</sup> We interviewed officials at these organizations to better understand the source of delays in adjudicating waivers, which they identified as a lack of documentation. Based on these interviews, we collected and examined ARNG Selected Reserve Incentive Program recoupment waiver cases that were adjudicated by the Defense Office of Hearings and Appeals in calendar years 2014 through 2016 to identify the frequency with which documentation was missing. During site visits to our selected states, we also interviewed ARNG officials to determine the processes designated for generating and maintaining documentation.

We conducted this performance audit from January 2017 to February 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to 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.

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## Background

ARNG is one of two reserve components of the Department of the Army; it has units located in each of the 54 states, territories, and the District of Columbia. The Secretary of the Army is responsible for creating overarching policy and guidance for all of the components of the Army, including ARNG. The Chief of NGB, among other responsibilities, acts as the official channel of communication between the Department of the Army and the 54 states, territories, and the District of Columbia in which ARNG has personnel assigned and is responsible for ensuring that ARNG personnel are accessible, capable, and trained to protect the homeland and to provide combat resources to the Army.

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## The Selected Reserve Incentive Program

During fiscal years 2010 through 2016, ARNG disbursed more than \$1.8 billion in financial incentives to bolster its recruiting and retention efforts. The ARNG program, called the Selected Reserve Incentive Program, includes cash bonuses and other payments. The ARNG regulation for Selected Reserve Incentive Programs includes over a dozen sub-categories of cash bonuses, such as those for newly enlisted soldiers,

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<sup>8</sup>DOD Directive 1340.22, *Waiver of Debts Resulting from Erroneous Payments of Pay and Allowances* (Jan. 8, 2005) (Certified Current as of May 31, 2007) and DOD Instruction 1340.23, *Waiver Procedures for Debts Resulting from Erroneous Pay and Allowances* (Feb. 14, 2006).



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active duty soldiers who join ARNG, and soldiers who re-enlist or extend with ARNG. In addition to cash bonuses, ARNG makes incentive payments as part of the Student Loan Repayment Program. Under this type of incentive, ARNG disburses incentive payments directly to a third party lender.

The Director of ARNG is responsible for determining the overall policy for the Selected Reserve Incentive Program and issued the regulation that governs incentive procedures and eligibility criteria for soldiers entering into an incentive agreement. On a periodic basis, ARNG updates the policy for a specific fiscal year through a policy or an education and incentive operational message. These updates, which are intended to help ARNG meet its readiness requirements, can provide instructions on the value and frequency of incentives, as well as directing the targeting of incentives to address a particular skill or unit need. The updates can also direct changes to eligibility requirements in order to enable a soldier to receive an incentive.

Each of the 54 states, territories, and the District of Columbia has a state incentive manager in ARNG who provides oversight for authorization, verification, validation, establishment, monitoring, and termination of all incentive payments, including recoupment of incentives. State incentive managers work with recruiting and retention personnel to assist in the use of bonuses. For example, state incentive managers can ensure that the contracts used by recruiting and retention personnel comply with ARNG policy. Additionally, each ARNG unit has personnel who track information on soldier performance, such as attendance, physical fitness, and training. To manage these activities, ARNG uses the Reserve Component Manpower System—an information system that houses manpower readiness data and includes approximately 40 subsystems.

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## Improper Payments in the California ARNG

A 2008 California National Guard audit revealed that Selected Reserve Incentive Program incentives, including student loan repayments, were being improperly paid to numerous California ARNG soldiers and that some of these cases were results of fraud.<sup>9</sup> In subsequent audits of California ARNG, 17,485 soldiers were identified as having received a bonus or student loan repayment in the period of 2004 through 2010 that was potentially improper and subject to recoupment. By the end of 2016,

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<sup>9</sup>In 2011, a criminal investigation resulted in the conviction of the state incentive manager.

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several follow-on reviews had identified improper incentive payments to more than 1,400 soldiers.

These investigations and audits determined that ARNG lacked internal controls over its incentive process. For example, the state incentive manager could authorize and approve an incentive and then forward the payment request to the state's U.S. Property and Fiscal Office, the office responsible for authorizing payment. To improve the process, in 2010 ARNG established a contract for an Incentive Support Team to, among other things, review soldier incentives. In 2011, ARNG developed a module within the Reserve Component Manpower System called the Guard Incentive Management System. The Guard Incentive Management System was designed to aid in managing the incentive process across all states by providing an online system to track, monitor, and prioritize all incentive cases. The Guard Incentive Management System was also intended to increase oversight through automated notifications and reporting features and to add a budget control mechanism for NGB and the states, among other things. In 2012, ARNG began a phased implementation of the Guard Incentive Management System in each state and territory. ARNG subsequently expanded the Guard Incentive Management System to include the Student Loan Repayment Program.

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## Process Before NGB Establishes a Debt

NGB goes through a process before it establishes and collects on a debt.<sup>10</sup> State incentive managers are responsible for ensuring that soldiers receiving incentive payments are satisfying contractual requirements. If the state incentive manager determines that the soldier has violated the contract tied to the incentive payment, the state incentive manager sends a certified letter to the soldier that (1) states the reason the payment may potentially be determined to be improper and (2) lists the steps that the soldier can take to adjudicate the issue. ARNG officials informed us that, if the soldier does not respond to the letter within 45 days, a debt is established in Defense Finance and Accounting Service systems. In response, the soldier may provide documents to address the issue or, should documents already exist, may request that NGB make an exception to policy—a determination by NGB that the circumstances of a soldier's case merit allowing the soldier to retain the incentive payment. Incentive managers in some states told us that they will assist soldiers in

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<sup>10</sup>A debt is established when the government agency to which it is owed determines that there is a debt and identifies the exact amount of the debt.

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requesting an exception to policy and will sometimes request these exceptions on their behalf in the case of events—such as a reorganization of a state’s ARNG units—that could result in a large number of soldiers not meeting the terms of their incentive contracts. If these steps do not resolve the issue, the soldier can seek recourse through the Army Board for the Correction of Military Records.<sup>11</sup> Once these options are exhausted, the debt is established in Defense Finance and Accounting Service systems.

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## ARNG Has Implemented Internal Controls to Prevent Improper Payments but Has Not Planned for Future Significant Changes That Could Affect Its Internal Controls

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### ARNG Has Implemented Internal Controls to Prevent Improper Incentive Payments

ARNG has implemented internal controls, including automated and manual reviews, to prevent improper incentive payments, and it also reviews its incentive programs on a periodic basis. First, ARNG has implemented the Guard Incentive Management System and expanded its use over time to oversee its incentive contracts through automation. In 2012, ARNG began using the Guard Incentive Management System to manage the life cycles of contracts between ARNG and soldiers for incentives and education entitlements, including those for the Selected Reserve Incentive Program. When a soldier signs a contract with a recruiter or retention officer, the Guard Incentive Management System alerts the state incentive manager that an incentive is ready for review. ARNG has also implemented automated rules in the Guard Incentive

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<sup>11</sup>The Army Board for the Correction of Military Records is the highest level of administrative review within the Army with a mission to correct errors from Army military records. According to regulation, it considers individual applications that are brought before it and, where appropriate, directs correction of military records to remove an error. Army Regulation 15-185, *Army Board for Correction of Military Records* (Mar. 31, 2006).

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Management System—known as monitor rules—that continuously monitor a soldier’s eligibility for an incentive. The system does this by comparing the data it receives from multiple personnel systems against the soldier’s contract. If any issues are found, the Guard Incentive Management System will flag the incentive case for review by the state incentive manager and will stop future payments until the issue is resolved. In California, for example, we observed an incentive manager reviewing a case that had been flagged for violating a monitor rule because the soldier was no longer in the unit stipulated in the incentive contract. The incentive manager told us that the soldier was informed of the situation and that corrective action would be required before any additional payments could be made. If a soldier is deemed ineligible or loses eligibility at any time during this process, the state incentive manager will stop payments and review the case to determine whether the contract needs to be terminated.

State incentive managers are also required to verify certain eligibility criteria and personnel documents manually in the Guard Incentive Management System. State incentive managers use checklists to review a soldier’s incentive contract and unit orders to determine eligibility. The Selected Reserve Incentive Program requires that incentive contracts of more than three years be paid out in installments.<sup>12</sup> State incentive managers or their designees are required to manually review each incentive contract before making an anniversary payment. During our site visits, we observed state incentive managers using the Guard Incentive Management System to review whether a soldier was eligible to receive a payment. For example, in Nebraska we observed an incentive manager using the Guard Incentive Management System to verify a soldier’s contract period, unit assignment, and physical fitness test scores, among other items, to confirm the soldier’s eligibility to receive a payment. In Illinois, we observed an incentive manager using the Guard Incentive Management System to verify a soldier’s identity, unit transfer orders, and an eligible student loan before approving a student loan repayment for further review at the national level. We also observed an incentive

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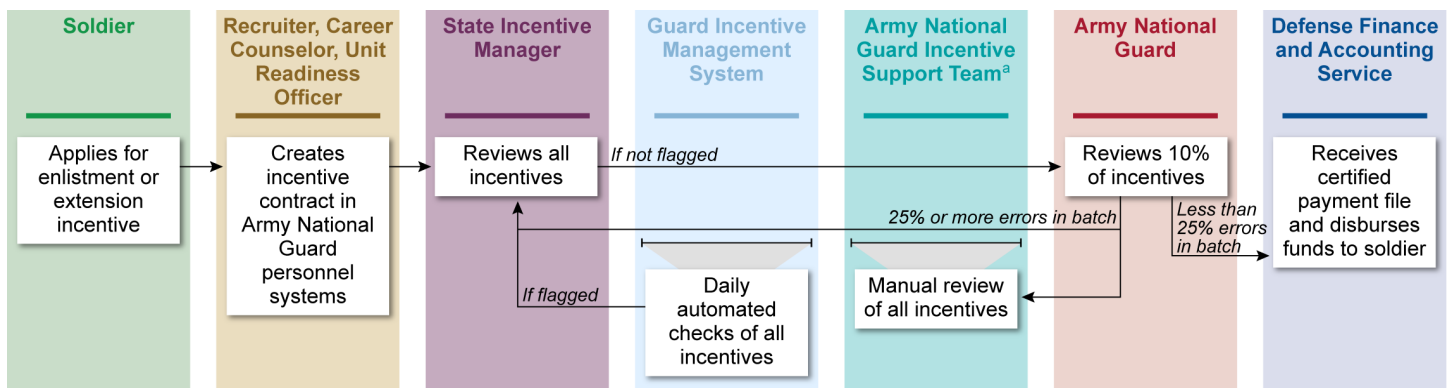
<sup>12</sup>For example, if a person with no prior military experience signs a contract to enlist in ARNG for 6 years, the policy dictates that the soldier would receive 50 percent of the bonus after completing training and reporting to the assigned unit. The remaining 50 percent of the bonus would be disbursed in two payments: 25 percent on the third anniversary of enlistment and 25 percent on the fifth anniversary. In contrast, student loan repayment incentives are paid annually upon verification of a soldier’s eligible student loan and continuing compliance with the terms of the incentive contract. The amount of the annual loan repayment is 15 percent or \$500, whichever is greater.

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manager in Illinois reviewing a soldier's incentive contract, which was being terminated because the soldier had failed to attend required drills. ARNG personnel in each of the states we visited told us that the Guard Incentive Management System provides a strong barrier against soldiers receiving improper payments. The Guard Incentive Management System also tracks and records each user's actions on each incentive case to provide an audit trail, which we observed in multiple states.

In addition to reviews conducted at the state level, ARNG conducts another review of incentive payments using the Guard Incentive Management System. Once a contract has been reviewed at the state level, state incentive managers forward it to the ARNG Incentive Support Team for another review. The ARNG Incentive Support Team has provided assistance to all 54 states, territories, and the District of Columbia, by conducting reviews of 100 percent of incentive payments and terminations, among other things. After the ARNG Incentive Support Team's review, ARNG officials perform a final review of an incentive payment before it is certified. Specifically, ARNG officials review a random sample of 10 percent of contracts from a batch of incentive payments that the Guard Incentive Management System generates. ARNG officials told us that if 25 percent or more of this 10 percent sample is rejected because it contains errors, all of the contracts in the batch are returned to the ARNG Incentive Support Team or their respective states for additional review. If less than 25 percent are rejected, the individual contracts with errors are returned to the ARNG Incentive Support Team or their respective states for additional review. The remainder of the batch passes ARNG review, and the Guard Incentive Management System generates payment files electronically and transfers them to the Defense Finance and Accounting Service, which disburses funds to the soldiers, as shown in figure 1.

**Figure 1: Overview of the Army National Guard Incentive Management Process**



Source: GAO analysis of Department of Defense data. | GAO-18-283

<sup>a</sup>The percentage of reviews of incentives by the Army National Guard Incentive Support Team and the Army National Guard has fluctuated over time, as discussed in this report.

Second, ARNG conducts periodic reviews of its incentive program. Specifically, National Guard Regulation 600-7, Selected Reserve Incentive Program—issued in August 2014—classifies incentive programs as a high-risk function that should be evaluated every year to mitigate risks, and that management controls must be evaluated at least once every five years. Each of the six states we visited had either conducted an internal review of its incentive program since 2016 or told us that it had plans to conduct one within the next year. For example, ARNG officials in Nevada had evaluated and certified the internal controls of their incentive program in 2017, and ARNG officials in Delaware told us that they plan to request an external evaluation of their incentive program in 2018.

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**ARNG Has Taken Steps to Address Some Weaknesses Affecting Its Internal Controls but Has Not Planned for Future Significant Changes**

ARNG took steps to address some identified weaknesses to its internal controls for managing soldier incentive contracts, but has not developed and implemented a plan for future significant changes that could affect its internal controls. For example, in October 2015, a previous contract to support the ARNG Incentive Support Team expired, and performance of the follow-on contract was delayed for approximately two years—until September 2017—by actions related to two GAO bid protests.<sup>13</sup> From October 2015 to January 2016, ARNG used a 3-month bridge contract with the previous contractor to provide support and enable the ARNG Incentive Support Team to continue to perform 100 percent reviews. However, in January 2016, the ARNG Incentive Support Team stopped conducting 100 percent reviews of incentive contracts. At that time, according to ARNG officials, ARNG increased their review of incentive contracts from 10 percent to 30 percent to help mitigate the loss of the 100 percent review that the ARNG Incentive Support Team had previously provided. On September 30, 2017, the current contract for the ARNG Incentive Support Team was awarded and according to ARNG officials, the ARNG Incentive Support Team reinstated 100 percent reviews of soldier incentive contracts on December 8, 2017. ARNG also adjusted their review of soldier incentive contracts from 30 percent back to 10 percent.

As another example, in April 2017, ARNG issued the fiscal year 2017 Selected Reserve Incentive Program policy. Among other things, the policy changed the eligibility requirement for receiving an incentive payment based on soldier performance on the Army Physical Fitness Test. Under the previous policy, soldiers who failed two consecutive fitness tests would be ineligible to receive an incentive. The fiscal year 2017 policy changed this requirement to two failures during the lifetime of a soldier's incentive contract, which could be up to six years. According to ARNG officials, approximately 8,000 incentive contracts are affected by this requirement. NGB requires the vendor managing the Reserve Component Manpower System, which includes the Guard Incentive Management System, to update the system with any policy changes. However, ARNG officials told us that they had not updated the Guard

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<sup>13</sup>According to the NGB contracting officer, a new vendor was awarded the contract in October 2015, and a competing contractor filed a bid protest. NGB determined it would take corrective action, which took about eight months, and re-awarded the contract in August 2016, and there was a second bid protest. NGB again decided to take corrective actions, which took until September 2017.

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Incentive Management System with the fiscal year 2017 policy. Therefore, the system's automated reviews are unable to check for this eligibility requirement.

Additionally, according to ARNG officials, ARNG did not publish official guidance regarding this discrepancy. Instead, ARNG informally discussed with state incentive managers that the fiscal year 2018 policy, once issued, would eliminate this requirement. ARNG officials told us that a separate transition of vendors for the Reserve Component Manpower System that began in 2016 had delayed their ability to update the Guard Incentive Management System with the fiscal year 2017 policy. ARNG had not anticipated that the vendor would be unable to update the Guard Incentive Management System as a result of technical challenges following the transition. ARNG officials also told us that they are currently developing the fiscal year 2018 policy and would update the Guard Incentive Management System with this policy when it is ready. On December 6, 2017, we provided our observations to ARNG on the inability of the Guard Incentive Management System to perform automated monitoring on these 8,000 incentive contracts. According to ARNG officials, on December 7, 2017, they submitted a formal change request to the vendor to incorporate this rule in the Guard Incentive Management System, and they expect the rule to be incorporated in February 2018.

ARNG has also taken steps to address unforeseen technical issues that have affected its incentive program. For example, ARNG officials told us that they have implemented several recommendations that were made as part of the Army's administrative investigation of the transition in vendors managing the Reserve Component Manpower System, of which the Guard Incentive Management System is a component.<sup>14</sup> The investigation determined that ARNG was not positioned to provide sufficient technical oversight of the transition, and in September 2016, the investigation's report recommended that ARNG, among other things, assign a highly skilled Information Technology subject matter expert to provide oversight of all government and contractor activities related to the Reserve Component Manpower System. ARNG officials also told us they had since assigned this expert and had implemented other recommendations from the investigation, but were not tracking progress on those

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<sup>14</sup>The Department of the Army issued a memorandum in September 2016 outlining the findings from an administrative investigation on the vendor transition for the Reserve Component Manpower System.



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recommendations. Additionally, ARNG officials told us that, as of October 2017, they were in the process of revising their performance work statement for the current vendor. These revisions may include, among other things, providing other types of technical support and reducing the amount of time that the system would be unavailable to ARNG and others. Finally, ARNG officials told us that they plan to use an existing Information Technology steering committee to provide oversight for the Reserve Component Manpower System; however, these same officials told us that the steering committee had not met from May 2017 through October 2017.

While ARNG has taken steps to remedy some technical issues and weaknesses in its internal controls, it has not demonstrated that it has learned from its past experiences by planning for significant changes to its incentive program that could affect its internal controls, such as its information systems not functioning correctly or data related to incentive contracts not being readily updated or available for an extended period of time. These changes include, for example, the next vendor transition for the Reserve Component Manpower System, which is expected to be re-competed in 2020. Additionally, as ARNG continues deployment of the Integrated Personnel and Pay System – Army in 2018, it is anticipated that aspects of the Reserve Component Manpower System will change.<sup>15</sup> *Standards for Internal Control in the Federal Government* states that management should identify, analyze, and respond to significant changes that could affect the entity's internal control system. Because conditions affecting the entity and its environment continually change, management can anticipate and plan for significant changes by using a forward-looking process to prepare for change. Planning for significant changes—including those cited earlier—requires time and coordination in advance of the changes occurring. However, ARNG officials have been unable to demonstrate their planning efforts to identify, analyze, and respond to any significant changes to ARNG's internal controls that may arise if, for example, the contract is awarded to a new vendor or as the Reserve Component Manpower System fully interfaces with the Integrated Personnel and Pay System – Army. Without taking action to plan for potentially significant changes to its internal controls for the Reserve Component Manpower System, ARNG is at risk of not being prepared for

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<sup>15</sup>Integrated Personnel and Pay System – Army is a human resources system the Army is piloting that will integrate personnel, pay, and talent management capabilities for the Army components, including ARNG.

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these changes that could contribute to the potential for making improper payments.

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## DOD Components Have the Authority to Waive Soldier Incentive Debt, and DOD Has Improved the Availability of Documentation to Adjudicate Waiver Cases

### Two DOD Components Have the Authority to Waive ARNG Soldier Incentive Debts for Military Pay and Allowances

The Defense Finance and Accounting Service (DFAS) and the Defense Office of Hearings and Appeals (DOHA) have the authority to waive erroneous incentive debts for ARNG soldiers.<sup>16</sup> DFAS is a DOD component that maintains records of soldiers' debts and has the authority to waive established debts of \$10,000 or less. DOHA, another DOD component, adjudicates waivers for debts of more than \$10,000.<sup>17</sup> For established debts, DFAS will notify the soldier that a debt exists and will be collected. In response, the soldier can submit a request to DFAS to waive the debt. DFAS has the statutory authority to waive debts incurred as a result of erroneous payments of up to \$10,000 to members of the armed services, including ARNG soldiers. If DFAS denies all or part of the waiver request, it informs the waiver applicant of the right to file an appeal of the denial to DOHA within 30 days. Soldiers can file for a waiver of indebtedness from DFAS for a period of up to 5 years from the date an erroneous payment is discovered. DFAS may not consider waiver applications that it receives after that 5-year period.

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<sup>16</sup>According to DOHA officials, DOHA considers decisions made by the Comptroller General of the United States as precedent when considering the waiver of erroneous incentive debts.

<sup>17</sup>DOHA is a component of the Defense Legal Services Agency.

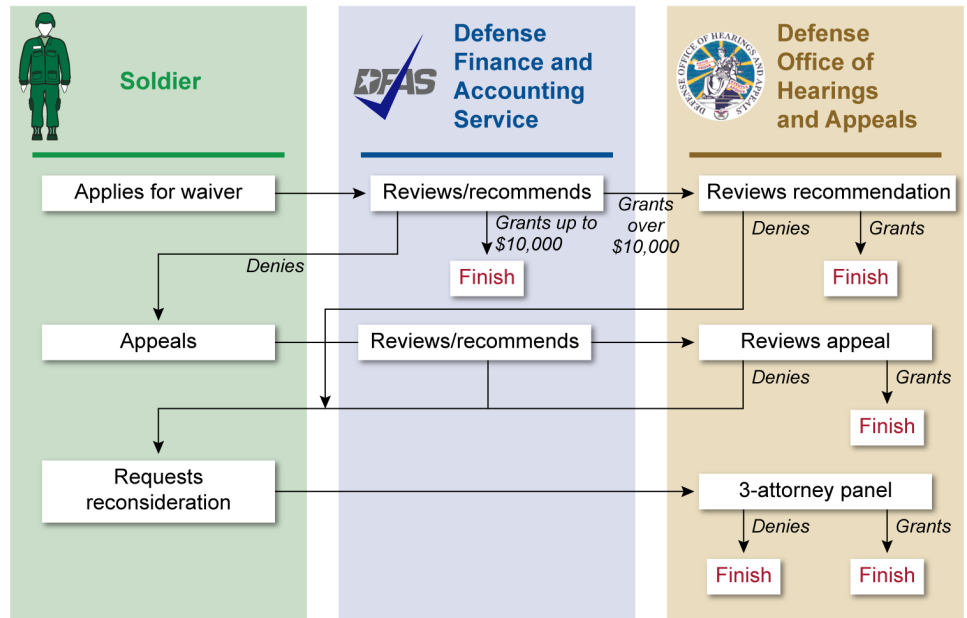
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DOHA has the authority to review waiver cases forwarded by DFAS and to adjudicate appeals from soldiers whose waiver applications have been denied. According to DOHA officials, they review only cases in which (1) the payment has been identified as erroneous, (2) a collection action has been started, and (3) the soldier has been given rights under the Fair Debt Collection Practices Act.<sup>18</sup> DOHA officials told us that they do not have authority over the establishment or collection of a debt or the authority to conduct a hearing for a soldier contesting the validity of a debt. However, DOHA officials told us that they will verify the correctness of the debt before adjudicating a waiver case and may request information from DFAS—such as documentation—including enlistment contracts, payment vouchers, and leave and earnings statements. Additionally, DOHA officials told us that they do not have the authority to adjudicate debts for payments made under the Student Loan Repayment Program—one type of payment under the Selected Reserve Incentive Program—because of their determination that their authority to waive debts for erroneously paid “pay and allowances” as defined in 32 U.S.C. § 716 and 10 U.S.C. § 2774(a) does not apply to payments to lenders for educational expenses. Those cases are reviewed and adjudicated at the discretion of the Secretary of the Army. If DOHA denies a soldier’s waiver application, the soldier may request that DOHA reconsider its decision, which DOHA officials told us is accomplished by an appeals panel of three DOHA attorneys. The decision of this panel is final and ends the waiver of indebtedness adjudication process, as depicted in figure 2.

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<sup>18</sup>The Fair Debt Collection Practices Act, 15 U.S.C. §1692e, prohibits the use of false, deceptive or misleading means by debt collectors.

**Figure 2: Waiver of Indebtedness Adjudication Process**



Source: GAO analysis of Department of Defense data. | GAO-18-283

## DOD Has Improved the Availability of Documentation to Adjudicate Waiver Cases

DOD has improved the availability of the documentation that is used to adjudicate waiver cases for soldiers' debts. DOHA officials told us that adjudication was sometimes delayed because case files lacked documentation.<sup>19</sup> As part of our review of DOHA waiver case files, we found several examples of ARNG cases involving Selected Reserve Incentive Program debts that had been adjudicated between January 2014 and December 2016, in which DOHA adjudicators had to acquire missing information, including documentation, from external sources before adjudicating the case. For example, in one case from Alabama that was adjudicated in 2014, it was 83 days before DOHA officials received the documentation they needed. DOHA officials told us this information included the soldier's bonus agreement, leave and earnings statements, and transfer orders. In another case from California that was adjudicated in 2016, it took adjudicators 74 days to obtain additional

<sup>19</sup>DOHA originally had a role in reviewing cases from California. On October 26, 2016, the Secretary of Defense ordered the suspension of all efforts to recoup debts from the California cases and directed the Office of the Under Secretary of Defense for Personnel and Readiness to establish, no later than January 1, 2017, a streamlined process to ensure the fair, equitable, and rapid resolution of these cases.

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information. DOHA officials told us this information included payment vouchers.

DOD's use of the Guard Incentive Management System has facilitated the availability of documentation needed to adjudicate waiver cases. For example, the system stores incentive payment and eligibility documentation, which may help to reduce delays in the adjudication of waivers associated with missing documentation. Before making an incentive payment, state incentive managers are required to inspect case documentation in the Guard Incentive Management System to validate the payment. During our site visits to selected states, we observed state incentive managers using the Guard Incentive Management System to review documents, such as re-enlistment contracts and unit orders. In several cases, we observed state incentive managers identifying errors in documents, and we observed their ability to correct these documents. For example, in Nebraska we observed a case in which a soldier's military occupational specialty code in the Guard Incentive Management System was not in line with what was in the incentive contract, because the unit had been reorganized. We then observed a state incentive manager confirming the soldier's transfer orders and uploading this documentation into the Guard Incentive Management System. Our observations are not generalizable across all states or for all contracts, but they suggest that documentation required to adjudicate waiver cases is now more readily available and will continue to be in the future.

DOD also updated its Financial Management Regulation to improve the availability of documentation. DOHA officials told us that DOD had updated the Financial Management Regulation in January 2016. Specifically, Volume 16, Chapter 4, Section 040403 of the DOD Financial Management Regulation instructs applicants to include in their waiver requests (1) copies of all supporting documentation, (2) copies of leave and earnings statements, (3) copies of notifications of personnel actions, and (4) any statements from the applicant in support of the waiver application. DOHA officials stated that this revision should reduce documentation-related delays during their review of future waiver submissions. Additionally, DOHA officials told us that they have taken steps to train DFAS personnel, who are responsible for reviewing waiver applications, in an effort to reduce delays.

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## Conclusions

ARNG has made progress in improving its internal controls since widespread improper payments were identified in California in 2008. By using the Guard Incentive Management System and requiring multiple

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levels of review before incentives are paid, ARNG may have reduced the likelihood of future widespread improper payments similar to what occurred in California. However, it is important for ARNG to be forward looking in preserving the integrity of its internal controls. ARNG has faced challenges during the transition between vendors managing the system that resulted in the weakening of internal controls, including those built into the Guard Incentive Management System. To its credit, ARNG has taken mitigating actions to prevent improper payments while attempting to address those issues. These challenges, and the need for mitigating actions, could have been prevented if ARNG had identified and prepared in advance for challenges potentially resulting from the vendor transition. If ARNG does not proactively identify, analyze, and plan to respond to significant changes that could affect the internal controls to its incentive program, there is an increased risk that additional weaknesses to its internal controls could emerge and result in an increased likelihood of improper payments.

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## Recommendation

We are making one recommendation to ARNG:

The Director of the Army National Guard should develop and implement a plan to identify, analyze, and address any significant changes that could affect internal controls for its Guard Incentive Management System. (Recommendation 1)

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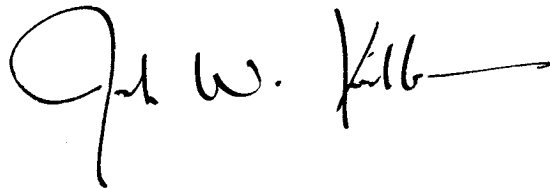
## Agency Comments and Our Evaluation

We provided a draft of this report to ARNG for comment. In its comments, reproduced in appendix I, ARNG concurred with our recommendation and stated that they initiated a project to improve internal control measures as significant changes are made to the Guard Incentive Management System to align the system with policy. ARNG also stated that the project would look at the time required to adjust incentives to effect change within the organization and achieve its strength goals. ARNG expects the project to be completed in August 2018. We believe this action would meet the intent of our recommendation.

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We are sending copies of this report to the Secretary of Defense, the Chief of the National Guard Bureau, and the Director of the Army National Guard. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9971 or [kirschbaumj@gao.gov](mailto:kirschbaumj@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 key contributions to this report are listed in appendix II.

A handwritten signature in black ink that reads "Joe W. Kirschbaum" with a long horizontal flourish extending to the right.

Joseph W. Kirschbaum  
Director, Defense Capabilities and Management

# Appendix I: Comments from the Army National Guard



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ARLINGTON, VA 22204-1373

ARNG-HRM-I

01 February 2018

Mr. Joseph Kirschbaum  
Director, Defense Capabilities and Management  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Kirschbaum:

This is the Department of Defense response to the GAO Draft Report, GAO-18-283, "MILITARY RECRUITING: Army National Guard Has Implemented Internal Controls for Soldier Incentives but Needs to Better Plan to Maintain the Integrity of Those Controls" dated January 5, 2018 (GAO Code 101408).

**Recommendation:** The GAO recommends the Director of the Army National Guard develop and implement a plan to identify, analyze, and address any significant changes that could affect internal controls for its Guard Management System (GIMS).

**DOD Response:** Concur.

The ARNG G1 has initiated a Lean Six Sigma (LSS) project to improve internal control measures as significant changes are made to GIMS to align the system with policy. This project will also look at the time required to adjust incentives to affect change within the organization and achieve its strength goals. The projected completion date of this project is August 2018. Point of contact in this office is LTC Timothy Smith at (703) 601-7651 or email [timothy.r.smith39.mil@mail.mil](mailto:timothy.r.smith39.mil@mail.mil).

  
TIMOTHY ROONEY  
COL, AG  
Chief, Personnel Programs, Resources  
and Manpower



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# Appendix II: GAO Contact and Staff Acknowledgments

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## GAO Contact

Joseph Kirschbaum, 202-512-9971 or [kirschbaumj@gao.gov](mailto:kirschbaumj@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Tina Won Sherman (Assistant Director), David Blanding Jr., Vincent Buquicchio, Wesley Collins, Joanne Landesman, Amie Lesser, Jim Melton, and Paul Seely made significant contributions to this report.

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