

OTHER INFORMATION

THE OTHER INFORMATION SECTION CONTAINS REPORTS OF FINANCIAL AND NON-FINANCIAL INFORMATION REQUIRED BY VARIOUS LAWS AND REGULATIONS TO BE INCLUDED IN THE AGENCY FINANCIAL REPORT

MANAGEMENT CHALLENGES	223	CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION	282
SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES	230	BIENNIAL REVIEW OF USER FEES	284
PAYMENT INTEGRITY	253	GRANT PROGRAMS	285
REAL PROPERTY	281		



LEADING WITH EXCELLENCE

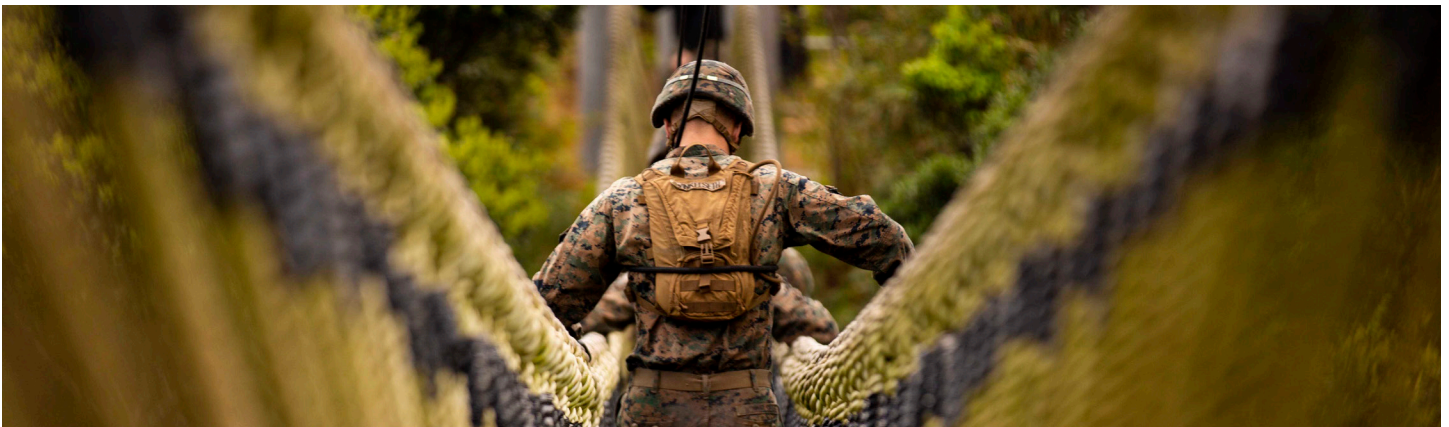
Air Force Chief Master Sgt. Loretta Washington didn't get to where she is today by going easy on anyone — least of all herself.

Washington, the superintendent of the 355th Medical Support Squadron, became a chief master sergeant earlier this year — a rank that is the pinnacle of the enlisted force, attainable by only the top 1%. It takes hard work, superior performance and many years for any airman; for Washington, it's been a long journey in more ways than one.

[CLICK HERE FOR A LINK TO THE COMPLETE STORY](#)

MANAGEMENT CHALLENGES

In accordance with the **Reports Consolidation Act of 2000**, the DoD Office of the Inspector General (**DoD OIG**) prepares an annual statement that summarizes what they considers to be the most serious management and performance challenges facing the Department.



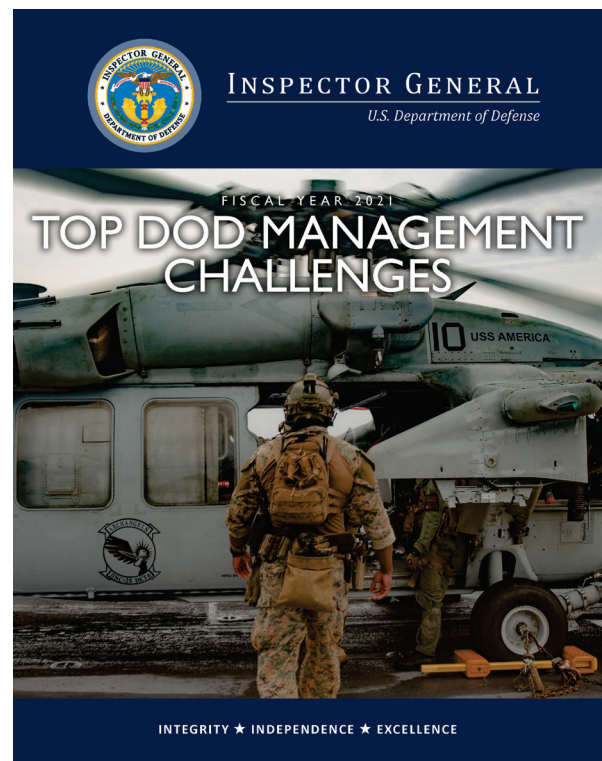
U.S. Marines cross a rope bridge during the endurance course at the Jungle Warfare Training Center in Okinawa, Japan, March 20.

PHOTO CREDIT: Marine Corps Lance Cpl. Jackson Dukes

This statement is included in a larger DoD OIG report that provides additional background and descriptive information about each challenge and provides an assessment of the Department's progress in addressing the challenges.

The DoD OIG uses the Management Challenges report as a research and planning tool to identify areas of risk in DoD operations. As the report is forward-looking and outlines the most significant management and performance challenges facing the Department now and in the future, it is labeled as FY 2021 rather than FY 2020 to reflect its forward-looking orientation.

The DoD IG's statement and executive summary of the most serious management and performance challenges facing the Department are included on the following pages. The complete DoD IG report on FY 2021 Top DoD Management Challenges as well as similar reports from previous years are available at the **DoD OIG website**.





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



October 15, 2020

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

The DoD Office of Inspector General (OIG) independently identifies these challenges based on a variety of factors, including our independent research, assessment, and judgment; previous oversight work completed by the DoD OIG and other oversight organizations; congressional hearings and legislation; input from DoD officials; and issues highlighted by the media that are adversely affecting the DoD’s ability to accomplish its mission.

While some of the challenges remain from prior years, the DoD OIG identified three new challenges this year. The new challenges are related to building and sustaining the DoD’s technological dominance; non-traditional threats such as pandemics and extreme weather events; and transforming data into information. The remaining challenges have been identified in prior years, and the DoD has been working to resolve or mitigate the challenge areas. We also discuss the recent actions taken by the DoD to address these challenges; cite planned, ongoing, and completed oversight work related to the challenges; and assess the DoD’s progress in each challenge area.

This document is forward-looking. The DoD OIG uses this document in its internal oversight planning process, seeking to ensure the DoD OIG’s projects address the most significant performance and management challenges. These challenges are not listed in order of importance or by magnitude. All are critically important challenges facing the DoD.

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

A handwritten signature in black ink that reads "Sean W O'Donnell".

Sean O'Donnell
Acting Inspector General

Executive Summary

The DoD OIG annually identifies the top management and performance challenges impacting the DoD, based upon solicitation of the DoD's input, reviewing congressional hearings and legislation, assessing oversight work by the U.S. Government Accountability Office and the DoD oversight community, and considering issues raised by media coverage. The DoD OIG also considers the DoD's progress in addressing these challenges. This report provides Congress and the DoD's civilian and military leaders an independent assessment of the management and performance challenges confronting the DoD.

FY 2021 TOP DOD MANAGEMENT CHALLENGES

The FY 2021 Top DoD Management Challenges are:

1. Maintaining the Advantage While Balancing Great Power Competition and Countering Global Terrorism
2. Building and Sustaining the DoD's Technological Dominance
3. Strengthening Resiliency to Non-Traditional Threats
4. Assuring Space Dominance, Nuclear Deterrence, and Ballistic Missile Defense
5. Enhancing Cyberspace Operations and Capabilities and Securing the DoD's Information Systems, Network, and Data
6. Transforming Data Into a Strategic Asset
7. Ensuring Health and Safety of Military Personnel, Retirees, and Their Families
8. Strengthening and Securing the DoD Supply Chain and Defense Industrial Base
9. Improving Financial Management and Budgeting
10. Promoting Ethical Conduct and Decision Making

The challenges are not listed in order of priority, importance, or magnitude. Each challenge is critical to ensuring the DoD meets its mission to provide combat-ready forces to defend the United States.



EXECUTIVE SUMMARY

NEW DOD MANAGEMENT CHALLENGES

This year, the DoD OIG combined and refocused the two challenges from the FY 2020 Management Challenges on countering global terrorism and countering China, Russia, Iran, and North Korea. The DoD OIG added three new challenges focusing on sustaining the DoD's technological dominance through emerging technologies, strengthening the U.S. military's resiliency to non-traditional threats, and transforming data into information.

The first challenge, "Maintaining the Advantage While Balancing Great Power Competition and Countering Global Terrorism," highlights the DoD's challenge of reorienting its priorities and attention to countering China, Russia, Iran, and North Korea after nearly 20 years of focusing on combatting global terrorist organizations. These revisionist powers (China and Russia) and rogue nations (Iran and North Korea) pose different threats than terrorist organizations and require distinct strategies, capabilities, and operations. Maintaining the U.S. military's advantage while balancing great power competition and countering global terrorism requires the DoD to focus on enhancing interagency collaboration and rebuilding military capabilities that may have atrophied the past 20 years.

The second challenge, "Building and Sustaining the DoD's Technological Dominance," focuses on emerging technologies that the DoD and U.S. adversaries are pursuing. Emerging technologies, such as hypersonic weapons, microelectronics, artificial intelligence, 5G communications, and biotechnologies, present both significant opportunities and challenges because each could revolutionize the conduct of war. Autonomous intelligent machines and applications can rapidly accelerate the speed of decision making and action in time-critical

operations, improve understanding of the battlespace, and enable new missions that were previously impossible. Rapidly developing, procuring, and deploying these new, innovative technologies will be critical for the DoD to secure and maintain its competitive advantage over adversaries and competitors pursuing the same technologies.

The third challenge, "Strengthening Resiliency to Non-Traditional Threats," recognizes the growing issues involving non-traditional threats, such as pandemics, extreme weather events, and the national security implications of a changing environment. Non-traditional threats impact the U.S. military's infrastructure, readiness, and personnel. Rising sea levels; extreme weather such as flooding, wildfires, or hurricanes; and a melting Arctic will require the DoD to consider the security, readiness, and financial implications of these non-traditional threats. The DoD must also identify how to mitigate the risks and costs to U.S. national security interests, military installations, and personnel.

The sixth challenge, "Transforming Data Into a Strategic Asset," highlights the importance of data and information as a strategic asset. The DoD is awash in data and faces challenges turning data into valuable information for decision makers at all levels within the Department. The DoD has thousands of operational systems, data centers, and servers, millions of computers and devices, and hundreds of thousands of commercial mobile devices. Furthermore, new data is generated in massive volumes and speed in today's world of interconnected devices, with an estimated 2.5 quintillion (or 2.5 billion billion) bytes of data created every day. Collecting, storing, protecting, and analyzing the data is essential for DoD leaders to have the vital information they need to make decisions.

ENDURING DOD MANAGEMENT CHALLENGES

The DoD faces enduring challenges that do not significantly change each year. Several challenges from the FY 2020 Top DoD Management Challenges are enduring, but the OIG merged several challenges. Although several topics within the merged challenges—such as fraud, acquisition reforms, or payments for health care services with limited or no cost controls—are not discussed in this year’s challenges, the DoD OIG’s oversight and investigative work continues in these areas.

The fourth management challenge, “Assuring Space Dominance, Nuclear Deterrence, and Ballistic Missile Defense,” highlights the DoD’s challenges of investing in new capabilities in these areas while also sustaining legacy systems to protect U.S. national security interests. Near-peer competitors and rogue nations are investing in their own capabilities to protect their own interests and deter or defeat U.S. capabilities in space, nuclear deterrence, and missile defense. The DoD must balance establishing a new service, the U.S. Space Force, and transitioning personnel, authorities, and programs, while also protecting U.S. space assets and dominance. All three legs of the U.S. nuclear triad are rapidly approaching the end of their planned service lives, forcing the DoD to modernize aging systems without sacrificing existing capabilities. Finally, adversaries and rogue nations continue to develop their own missile capabilities, requiring the DoD to modernize its ballistic missile defense to meet current and emerging threats while balancing combatant commands’ missile defense requirements. Investing in and modernizing the U.S. Space Force, the nuclear triad, and missile defense are critical challenges for the DoD to effectively counter the threats posed by adversaries and rogue nations.

The fifth challenge, “Enhancing Cyberspace Operations and Capabilities and Securing the DoD’s Information Systems, Network, and Data,” focuses on the critical role of cyberspace in supporting DoD business and military operations. The DoD continues to face sophisticated and evolving cyber attacks. DoD adversaries are constantly attempting to exploit cybersecurity vulnerabilities to gain unauthorized access to systems and networks and use sensitive and classified information to collect intelligence, target DoD critical infrastructures, manipulate information, and conduct cyber attacks. The DoD must continue to deploy and use cutting-edge technology to maintain its military and tactical advantage.

The seventh management challenge, “Ensuring Health and Safety of Military Personnel, Retirees, and Their Families,” highlights one of the Secretary of Defense’s top priorities. The DoD OIG merged two FY 2020 management challenges related to the welfare and well-being of service members and their families and military health care. The DoD is responsible for the mental and physical well-being of service members. To adequately treat, protect, and provide for its personnel, the DoD must carefully implement Military Health System reform and ensure that electronic health records are properly deployed and protected. In addition, behavioral health issues such as substance abuse and suicide prevention are key health and safety challenges for the DoD. Finally, environmental health and military housing have also been serious concerns for the DoD in protecting its personnel.

The eighth management challenge, “Strengthening and Securing the DoD Supply Chain and Defense Industrial Base,” addresses the enduring challenges of sustaining weapons and systems. The supply chain is how the DoD provides the Military Services with the

EXECUTIVE SUMMARY

supplies they need at the right place and time. The Defense Industrial Base provides the DoD with supplies ranging from meals ready-to-eat to tanks and missiles. The enduring challenges within the supply chain and Defense Industrial Base include limited sources of supply in the United States. A limited number of suppliers can lead to decreased readiness, sustainment, and security; reliance on foreign suppliers; delays in repairing equipment and systems; and potentially higher prices paid due to a lack of competition. However, changes in contract and acquisition policy and the use of alternative methods of manufacturing over the past few years have aimed to mitigate these enduring challenges. This challenge incorporates two FY 2020 management challenges, which focused on acquisition and contract management and on supply chain management and security.

The ninth management challenge, “Improving Financial Management and Budgeting,” addresses the longstanding financial management challenges that continue to impair the DoD’s ability to provide reliable, timely, and useful financial and managerial information to support reported financial statement balances. Additionally, the lack of reliable financial information impacts the DoD’s operating, budgeting, and management decision making. One of the DoD’s strategic objectives is to “improve the quality of budgetary and financial information that is most valuable in managing the DoD.” Maintaining and using reliable, consistent, and timely enterprise data to support leadership decision making is of paramount importance.



U.S. Marines with 3rd Reconnaissance Battalion, 3rd Marine Division, patrol through water during a Marine Corps Combat Diving Supervisors Course on Camp Schwab, Okinawa, Japan, May 20, 2020. (U.S. Marine Corps photo)

EXECUTIVE SUMMARY

The tenth management challenge, “Promoting Ethical Conduct and Decision Making,” focuses on the critical issue of ethics within the DoD. The Secretary of Defense’s August 2019 memo to all military personnel and DoD employees stated that the DoD enjoys the highest trust and confidence of the American people “because we live by core values grounded in duty and honor that influence how we think and act. The decisions we make every day reaffirm our commitment to ethical conduct—doing what is right, without hesitation.” Ethics builds principled, self-disciplined teams; strengthens alliances and builds new ones; and is fundamental to business reforms. For example, the DoD has proactively issued a set of ethical principles for using artificial intelligence. However, in other areas, the DoD continues to address sexual assault in the military, sexual harassment in the DoD, and culture and accountability issues. The vigilance required to safeguard ethical conduct is rewarded by Americans’ continuing trust and confidence in the DoD.

Finally, the DoD OIG recognizes the challenge of building a 21st century workforce. Although this issue is not a standalone challenge, several management challenges acknowledge the importance of recruiting, training, and retaining a modern workforce, specifically the management challenge regarding cyberspace, data, and information, and the challenge regarding financial management and budgeting. The issues of diversity and inclusion within the DoD workforce are critical to ensuring the DoD develops and retains the best workforce to meet the challenges laid out in this document and successfully executes its mission defending the United States.

The DoD considers these 10 challenges to be the most critical issues facing the DoD. The DoD OIG will use these challenges to provide the strategic guidance and inform its work in the next fiscal year, as outlined in the DoD OIG FY 2021 Oversight Plan.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

DoD management has a fundamental responsibility to develop and maintain effective internal controls to provide assurance that its programs operate, and federal resources are used, efficiently and effectively to achieve the DoD mission.



Five members from the Space and Missile Systems Center at Los Angeles Air Force Base, California, participate in a ceremonial swearing-in event, September 15, 2020.

PHOTO CREDIT: Space Force Van Ha

As discussed in the Management's Discussion and Analysis section, managers throughout the Department are accountable for ensuring effective internal controls in their areas of responsibility. All DoD Components are required to establish and assess internal controls over financial reporting, mission-essential operations, and financial management systems.

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

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

SUMMARY OF FINANCIAL STATEMENT AUDIT

Exhibit 1 lists the 26 areas of material weaknesses in the Department's financial statement reporting as identified by the DoD OIG in the Independent Auditor's Report. The material weakness areas identified by the DoD OIG in the Independent Auditor's Report are consistent with those identified by DoD management (which are primarily identified using the assessable unit categories as defined by the DoD Risk Management and Internal Control program) with one exception: Military Housing Privatization Initiative (MHPI). The Department concurs with the DoD OIG's conclusions, with the exception of MHPI, and will focus on implementing the necessary corrective actions to address the material weaknesses noted by the DoD OIG in the Independent Auditor's Report.

MILITARY HOUSING PRIVATIZATION INITIATIVE

The Department does not concur with the DoD OIG's conclusions with respect to MHPI. Management acknowledges the existence of deficiencies in the recording and disclosure of MHPI financial activities; however, does not determine the scope of financial activities to be quantitatively material to the Department-wide consolidated statements. The Department is continuing efforts to properly record and disclose the financial activities of the MHPI program in accordance with the requirements of Generally Accepted Accounting Principles (GAAP). We will work with standard setting bodies, and the OIG, to resolve the differences.



Soldiers from the United Kingdom's 28th Squadron stack along a wall in preparation for breaching a simulated enemy compound during Noble Partner 20 on Vaziani Training Area, Georgia Sept. 13, 2020.

PHOTO CREDIT: Army Spc. Isaiah Matthews

EXHIBIT 1: SUMMARY OF FINANCIAL STATEMENT AUDIT***Audit Opinion: Disclaimer
Restatement: No***

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Management Systems and Information Technology ¹	1			(1)	0
Legacy Systems ²	0	1			1
Configuration Management and Security Management ²	0	1			1
Access Controls ²	0	1			1
Segregation Duties ²	0	1			1
Universe of Transactions ²	1				1
Fund Balance with Treasury	1				1
Suspense Accounts ³	1				1
Inventory and Related Property	1				1
Operating Materials & Supplies	1				1
General Property, Plant, and Equipment	1				1
Real Property	1				1
Government Property in Possession of Contractors ⁴	1				1
Joint Strike Fighter Program	1				1
Military Housing Privatization Initiative	1				1
Accounts Payable ⁵	1				1
Environmental and Disposal Liabilities	1				1
Legal Contingencies ⁶	1		(1)		0
Beginning Balances ⁷	1				1
Unsupported Accounting Adjustments ⁷	1				1
Intradepartmental Eliminations and Intragovernmental Transactions ⁸	1				1
Gross Costs ⁷	1				1
Earned Revenue ⁷	1				1
Reconciliation of Net Cost of Operations to Outlays ⁶	1		(1)		0
Budgetary Resources ³	1				1
Service Providers ⁷	1				1
Entity Level Controls	1				1
DoD-wide Oversight and Monitoring ⁹	1				1
Component Level Oversight and Monitoring ⁹	1				1
Total Material Weaknesses	25	4	(2)	(1)	26

EXHIBIT 1: FOOTNOTES

- 1 The Financial Management Systems and Information Technology material weakness reported by the DoD OIG in FY 2019 was disaggregated, and is reported as four separate material weaknesses in FY 2020: Legacy Systems, Configuration Management and Security Management, Access Controls, and Segregation of Duties.
- 2 The Legacy Systems, Configuration Management and Security Management, Access Controls, Segregation of Duties and Universe of Transactions material weaknesses identified by the DoD OIG are included within the FISCAM material weaknesses identified by DoD management in Exhibit 6.
- 3 The Suspense Accounts and Budgetary Resources material weaknesses identified by the DoD OIG are included within the Fund Balance with Treasury material weaknesses identified by DoD management in Exhibit 2.
- 4 The Government Property in Possession of Contractors material weakness identified by the DoD OIG is included within the Accountability and Management of Property Furnished to Contractors for the Performance of a Contract material weakness identified by DoD management in Exhibit 2.
- 5 The Accounts Payable material weakness identified by the DoD OIG is included within the Health Care Liabilities and Contract/Vendor Pay material weaknesses identified by DoD management in Exhibit 2.
- 6 The Legal Contingencies and Reconciliation of Net Cost of Operations to Outlays material weaknesses identified by the DoD OIG in FY 2019 were downgraded to significant deficiencies in FY 2020 as a result of corrective actions implemented.
- 7 The Beginning Balances, Unsupported Accounting Adjustments, Gross Costs, Earned Revenue, and Service Providers material weaknesses identified by the DoD OIG are included within the Financial Reporting Compilation material weakness identified by DoD management in Exhibit 2.
- 8 The Intradepartmental Eliminations and Intragovernmental Transactions material weaknesses identified by the DoD OIG are included within the Reimbursable Work Orders material weakness identified by DoD management in Exhibit 2.
- 9 The DoD-wide Oversight and Monitoring and Component Level Oversight and Monitoring material weaknesses identified by the DoD OIG are included within the Entity Level Controls material weakness identified by DoD management in Exhibit 2.



Then Senior Master Sgt. Michael Rozneck, learns he earned the rank of chief master sergeant March 4, 2020, at Schriever Air Force Base, Colorado.

PHOTO CREDIT: Air Force Dennis Rogers

SUMMARY OF MANAGEMENT ASSURANCES

FMFIA SECTION 2, EFFECTIVENESS OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

Exhibit 2 lists the FY 2020 material weaknesses in internal controls over financial reporting, captured by end-to-end process and assessable unit, and reports the changes from the material weaknesses disclosed in the DoD Agency Financial Report (AFR) for FY 2019.

EXHIBIT 2. FY 2020 EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA §2)

Statement of Assurance: No Assurance							
End-to-End Process	Area of Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	Entity Level Controls	1					1
Budget-to-Report	Fund Balance with Treasury (FBWT) ¹	3			(1)		2
	Financial Reporting Compilation	6					6
Hire-to-Retire	Health Care Liabilities	1					1
	Military Pay ²	3				(3)	0
Procure-to-Pay	Contract/Vendor Pay	8					8
	Reimbursable Work Orders	3					3
Acquire-to-Retire	Equipment Assets	2					2
	Joint Strike Fighter Program	0	1				1
	Real Property Assets ¹	2			(1)		1
	Environmental Liabilities	1					1
	Accountability and Management of Property Furnished to Contractors for the Performance of a Contract	1					1
	Internal Use Software (IUS)	1					1
Plan-to-Stock	Inventory	4					4
	Operating Materials & Supplies (OM&S) ¹	5			(1)		4
Total Material Weakness		41	1	0	(3)	(3)	36

EXHIBIT 2: FOOTNOTES

¹ In FY 2020, two material weaknesses that were separately reported in FY 2019 were consolidated into a single reportable material weakness.

² In FY 2020, the Military Pay material weaknesses reported in FY 2019 were reassessed to no longer meet materiality and risk thresholds for designation as Agency-wide material weaknesses.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS

ENTITY LEVEL CONTROLS

Department-wide; Identified FY 2019; Correction Target FY 2021

Material Weaknesses

- Multiple DoD Components do not have sufficient Entity Level Controls (ELCs) to establish an internal control system that will produce reliable financial reporting. The lack of sufficient controls at the Component level increases the risk of material misstatement on both the Components' financial statements and Agency-wide financial statements.

Corrective Actions

- Use the revised ELC template developed by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) to capture the controls in place for monitoring ELCs. Conduct Component-level annual evaluations of ELCs to analyze high-risk areas and develop mitigation and corrective action efforts.



Marine Corps Cpl. Stephanie Mata looks for simulated improvised explosive devices during a field exercise at Camp Villere in Slidell, La., March 12, 2020.

PHOTO CREDIT: Marine Corps Lance Cpl. Leslie Alcaraz

FUND BALANCE WITH TREASURY

Department-wide; Identified FY 2005; Correction Target FY 2022 (**see note**)

Material Weaknesses

- Ineffective processes and controls to support the reconciliation of transactions posted to the Department's FBwT accounts with the Department of the Treasury's records, timely research and resolve FBwT differences, and provide sufficient and accurate documentation to support FBwT transactions and reconciling items.
- Ineffective controls to properly attribute suspense account transactions to the appropriate DoD Component and research and resolve suspense account transactions in accordance with Treasury Financial Manual requirements.

Corrective Actions

- Track and reconcile collection/disbursement activity from the core financial systems and associated feeder systems to the Department's general ledgers and to Treasury accounts and expedite transition to Treasury Direct Disbursing.
- Develop an auditable FBwT reconciliation process, to include processes and controls to timely retrieve supporting documentation and resolve reconciling differences that include suspense account balances. Ensuring disbursing officers' accountability differences are accurate, immaterial, documented, and resolved in a timely manner.
- Support Budgetary and Proprietary FBwT Beginning Balances by performing aging analysis and apply reconciliation backwards to at least FY 2013.
- Achieve unmodified opinions on Statement on Standards for Attestation Engagements (SSAE) 18 examinations of service provider Controls over Fund Balance with Treasury – Transaction Distribution, which includes Defense Cash Accountability Systems.
- Continue to retire and replace legacy systems and processes; expedite transition to Treasury Direct Disbursing and daily reporting.
- Continue the development of viable FBwT reconciliation tools.

Note: The Correction Target date was adjusted from FY 2023 to FY 2022. Significant progress was recognized in the reconciliation of unreconciled transactions, which will result in an accelerated remediation of the noted Material Weaknesses.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

FINANCIAL REPORTING COMPILATION

Department-wide; Identified FY 2005; Correction Target FY 2028 (see note)

Material Weaknesses

- Inability to provide historical data to support completeness and accuracy of beginning balances on the financial statements or reconcile beginning balances to closing balances at the end of the previous reporting period.
- Ineffective controls to provide reasonable assurance that accounting adjustments were valid, complete, and accurately recorded in its accounting and general ledger systems.
- Inadequate procedures and controls for recording gross cost and earned revenue on the Statement of Net Cost, or providing gross and net cost information related to program or organizational outputs and outcomes.
- Unable to adequately research and resolve variances between budgetary and proprietary data throughout the reporting period and inability to provide details required to resolve this reconciling difference.
- The Budgetary Resources balances presented on the DoD Components' Statement of Budgetary Resources may not be complete, accurate, or supported.
- Service Providers have not designed or implemented reliable controls that provide the required assurance to their DoD Component customers, which decreases the reliability and accuracy of the DoD Component-level financial statements used to compile the Agency-wide financial statements.

Corrective Actions

- Continue implementing and improving processes related to the use of the Statement of Federal Financial Accounting Standards (SFFAS) 48 and SFFAS 50 "deemed cost" methodologies to establish opening balances for Inventory & Related Property and General Property Plant & Equipment. Develop and implement internal controls to provide assurance that adequate supporting documentation is developed and maintained to substantiate related financial statement balances and line items.
- Retire and replace legacy, non-Generally Accepted Accounting Principles (GAAP) compliant financial systems; perform reconciliations from feeder systems to the general ledgers; and analyze posting logic

Corrective Actions (Continued)

- within accounting systems to validate that account balances, budgetary to proprietary relationships, and transactions meet United States Standard General Ledger requirements.
- Perform risk assessment procedures over financial reporting controls of cost and revenue recognition, to include management review and validation of accrual estimation methodologies. Work with stakeholders to define and assign costs to major programs.
- Establish guidelines for reconciliation of net cost to net outlays and develop methodologies and training to identify and correct the root causes of the budgetary to proprietary and tie-point account relationship differences.
- Develop an approach to review budget execution business processes and associated financial reporting risks. Implement policies, procedures, and internal controls to support the maintenance and timely retrieval of supporting documentation, and substantiate that reported balances comply with applicable laws, standards, and regulations. Develop an approach for performing reconciliations and retaining data for sensitive activities.
- Design and implement monitoring and oversight controls over service providers' financial reporting processes. Work with service providers to conduct risk assessments of internal controls intended to verify proper definition of process ownership and compliance with internal control guidance and accounting standards. Require relevant service providers to post corrections in a timely manner.

Note: The Correction Target date was adjusted from FY 2024 to FY 2028. The change in Correction Target is due to additional time required for financial system implementations across numerous Components.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

HEALTH CARE LIABILITIES

Department-wide; Identified FY 2003; Correction Target FY 2025

Material Weaknesses

- The Military Treatment Facilities (MTFs) do not have compliant, transaction-based accounting systems that apply common and consistent business rules in a manner envisioned by the Department's planned Standard Financial Information Structure. There is insufficient evidence that adequate controls exist and have been implemented to ensure the timeliness and accuracy of medical coding processes at MTFs. The MTF-level data is based on budget execution processes, rather than accrual-based accounting. There is insufficient evidence that appropriate and consistent cutoff of accounting activity occurs at the MTF level.

Corrective Actions

- Complete the implementation of new Enterprise Resource Planning core financial systems for each Military Service to record accrual-based, patient-level cost accounting data.
- Deploy a new billing solution, deploy an automated coding solution, and develop processes to facilitate the creation of itemized bills for all patients receiving direct care within the Military Health System. This new "Electronic Health Record" will assist with the accurate reporting of health care activities and support the establishment of an audit trail.



Navy Cmdr. Mary Gracia checks the ears of five-year-old Gabriella at the Naval Branch Health Clinic Mayport, Fla., September 18, 2020.

PHOTO CREDIT: Jacob Sippel, Navy

CONTRACT/VENDOR PAY

Department-wide; Identified FY 2003; Correction Target FY 2025

Material Weaknesses

- Lack of standard data structure governing purchase request format prevents traceability and use of electronic transactions from initiation of funding through contract execution.
- Funding may not be accurately recorded or available in the relevant accounting system at the time of contract award.
- Lack of standard processes for recording contract obligations electronically in financial systems.
- Insufficient policies governing the recording of accruals related to contracts.
- Inability to reconcile contract data to financial data. Unable to reconcile buyer and seller intragovernmental and intergovernmental transactions.
- Improper payments may result from incorrect payment request type or from assignment of contracts to entitlement systems that do not have procedures for the financing payments or payment of cost vouchers on cost type contracts.
- Current systems environment does not enable match of award to accounting data for public transparency, (e.g., Digital Accountability and Transparency Act (DATA Act)).
- Lack of timely contract closeout and de-obligation of funds limits the Department's access to capital.

Corrective Actions

- Publish a DoD Instruction setting policies, procedures, and data standards for purchase requests.
- Implement an automated pre-award funds validation standard operating procedure to confirm funds have been accurately recorded and are available prior to award, and that accounting systems can accurately record proposed contract award structure.
- Implement the use of applicable measures for all accounting and entitlement systems to track progress toward recording contract obligation compliance with standard procedures.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

CONTRACT/VENDOR PAY (CONTINUED)

Corrective Actions (Continued)

- Expand the use of accrual recording based on Wide Area Workflow acceptance data to additional accounting systems. Implement standard operating procedures for electronic receipt, acceptance, and processing of requests for payment.
- Develop policies, procedures, and data standards for electronic intergovernmental/intragovernmental transactions. Pilot capability to obtain contract source data that can be accurately matched to recorded accounting data for public posting.
- Establish entitlement system assignment rules based on payment type; research additional causes of payment problems to identify corrective actions and opportunities for process improvements.
- Designed and implementing standard processes and controls to ensure contract data can be accurately matched to recorded accounting data for public posting (i.e. DATA Act).
- Developing department-wide contract closeout standard operating procedures to ensure financial systems are in balance and de-obligations of funds occur to return available funds back to programs in a timely manner.

REIMBURSABLE WORK ORDERS

Department-wide; Identified FY 2011; Correction Target FY 2026 (**see note**)

Material Weaknesses

- Lack of evidence of performance, acknowledgement of receipt of intragovernmental goods and services, and validity of open obligations.
- Inability to verify the timely and accurate collection of disbursements and validate recorded reimbursable agreements meet the time, purpose, and amount criteria.
- Ineffective process to collect, exchange, and reconcile buyer and seller intragovernmental transactions.

Corrective Actions

- Continue to perform Component-level gap analyses on key processes, develop and enter General Terms and Conditions (GT&Cs) agreements in the Department of the Treasury's G-Invoicing system, participate in G-Invoicing training, and develop functionalities in accordance with Federal and DoD data standards.
- Design and implement accounting interfaces in alignment with Treasury's G-Invoicing release mandated timeline.
 - Timeline for processing new orders: Period of Performance beginning October 1, 2022 and beyond
 - Timeline for existing orders: Period of Performance extending beyond Sept. 30, 2023
- Develop and document authorization procedures and controls over obligations. Develop compensating controls to ensure obligations are properly authorized in instances where system authorizations cannot be relied upon.

Note: The Correction Target date was adjusted from FY 2022 to FY 2026. The change in Correction Target date is due to the updated timeline for implementing G-Invoicing as mandated for all federal agencies. The extended timeline for FY 2026 incorporates the full implementation of all Reimbursable Buy/Sell transactions that are not part of the current requirements of the G-invoicing solution, such as Interfund Billings.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

EQUIPMENT ASSETS

Department-wide; Identified FY 2006; Correction Target FY 2022

Material Weaknesses

- Processes and controls to account for the quantity and value of military and general equipment are not effective.
- Insufficient internal controls and supporting documentation requirements to ensure timely recording, relief, and accuracy of Construction in Progress (CIP).

Corrective Actions

- Continue to promote usage of alternative inventory methods to meet equipment inventory requirements while minimizing the burden of physical site visits.
- Continue to convene quarterly General Equipment (GE) Working Group meetings to highlight policy and guidance gaps impacting the valuation of GE, report on quarterly progress in establishing accountable records, and share lessons learned.
- Leverage Component-led property accountability workshops to promote sound accountability practices and provide opportunities for collaboration across Components.
- Develop standard data elements and reporting metrics to standardize equipment accountability.

JOINT STRIKE FIGHTER PROGRAM

Department-wide; Identified FY 2019; Correction Target FY 2022

Material Weaknesses

- Joint Strike Fighter (JSF) program property are not accounted for, managed, or recorded in an accountable property system of record (APSR). As a result, JSF property is not properly reflected in the DoD financial statements. Additionally, the Department relies on contractor records to value JSF property. These contractor records indicate that the JSF program contains over 3.45 million pieces of property valued at \$2.1 billion.

Corrective Actions

- Complete an initial trial balance by recording all JSF property within an APSR via manual process journal vouchers.

REAL PROPERTY ASSETS

Department-wide; Identified FY 2000; Correction Target FY 2025 (**see note**)

Material Weaknesses

- Real property processes, controls and supporting documentation do not substantiate that all assets are:
 - Properly valued,
 - Supported by documentation that is available and substantiates rights and obligations,
 - Recorded timely and accurately (including relief and reporting of CIP and real property improvements), and
 - Appropriately presented and consistently reported in the financial statements.

Corrective Actions

- Implement a lifecycle process for regular reconciliation of CIP and the financial statements.
- Deploy new APSR and confirm adequate APSR-level data and documentation is available to support valuation of real property assets, including CIP.
- Ensure adequate documentation is available to support rights and obligations for financial statement reporting for owned real property and real property use agreements, outlining roles and responsibilities of Installation Hosts owners and tenant organizations.
- Validate data used in the calculation of Plant Replacement Value for alternative valuation of real property assets in accordance with SFFAS 50.

Note: The Correction Target date was adjusted from FY 2021 to FY 2025. The change in Correction Target is due to the delay in the full deployment of a new APSR for one of the key contributing Components.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

ENVIRONMENTAL LIABILITIES

Department-wide; Identified FY 2019; Correction Target FY 2025 (see note)

Material Weaknesses

- The Department is unable to develop accurate estimates and account for Environmental Liabilities (EL) in accordance with generally accepted accounting procedures due to the following issues:
 - The Department-wide Real Property material weakness does not allow a full and accurate accounting of real property asset-driven EL outside of the Defense Environmental Restoration Program.
 - Existence and Completeness issues with the General Equipment inventories does not allow a full and accurate accounting of equipment asset-driven EL.
 - Insufficient formal policy, procedures, and supporting documentation exist for developing and supporting cost estimates.

Corrective Actions

- Continue to convene the Environmental and Disposal Liability (E&DL) Working Groups to highlight policy and guidance gaps impacting the valuation of E&DL, report on quarterly progress, and share lessons learned.
- Identify policy gaps and develop DoD-wide E&DL Calculation Methodology and Model.
- Track progress of Real Property and General Equipment physical inventories to ensure that E&DL is also being reported appropriately
- Develop and monitor reporting metrics toward completion. Report progress through working groups, Property Functional Councils, and the FIAR Governance Board

Note: The Correction Target date was adjusted from FY 2021 to FY 2025. The change in Correction Target is due to the delay in the implementation and adoption of a Environmental Liabilities calculation model.

ACCOUNTABILITY & MANAGEMENT OF PROPERTY FURNISHED TO CONTRACTORS FOR THE PERFORMANCE OF A CONTRACT

Department-wide; Identified FY 2011; Correction Target FY 2026 (see note)

Material Weaknesses

- Government property in the possession of contractors cannot be identified in the Department's property and financial systems. As a result, the Department's financial and accountability records are incomplete.

Corrective Actions

- Develop and implement policy supporting reporting and accountability of Government Furnished Property (GFP)
- Develop and implement automated solutions for reporting GFP
- Review metrics such as GFP contract clause compliance, assertion packages, and APSR compliance with DoD policy using electronic transactions for each Component and provide analysis of progress towards accountability.
- Continue to hold GFP Working Group meetings

Note: The Correction Target date was adjusted from FY 2021 to FY 2026. The change in Correction Target is due to delays in the implementation and adoption of automated GFP reporting solutions.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

INTERNAL USE SOFTWARE

Department-wide; Identified FY 2015; Correction Target FY 2024 (see note)

Material Weaknesses

- The Department has not properly addressed the management and financial reporting of Internal Use Software (IUS), which is required by Statement of Federal Financial Accounting Standards (SFFAS) 10 and must be addressed through updated guidance in the Financial Management Regulation (FMR).

Corrective Actions

- Continue to identify and establish accountability over existing IUS and identify new acquisitions to ensure capital IUS costs are captured and reported appropriately in accordance with GAAP.
- Develop and implement processes and system changes to APSRs to properly capture and sustain proper accountability and accounting of IUS.
- Continue to deploy the Defense Property Accountability System as the APSR solution for IUS.
- Evaluate Department-wide compliance for IUS APSR requirements to drive IUS APSR requirement and policy changes.
- Continue to convene the IUS working group to highlight policy and guidance gaps impacting the accountability and accounting of IUS, report on progress in establishing IUS accountable records and implementing sustainable processes for IUS, and share lessons learned.
- Validate corrective actions in conjunction with the DoD Chief Information Officer (CIO) through results of stand-alone audits, Agency-wide audit, Component Statements of Assurance, and information presented by Components at IUS working group.
- Continue to promote use of SFFAS 50 allowances for opening balance of IUS.
- Evaluate planned changes from the Federal Accounting Standards Advisory Board (FASAB) on accounting for software, software licenses, and other intangible assets for potential accountability and accounting policy changes.

Note: The Correction Target date was adjusted from FY 2023 to FY 2024. The change in the Correction Target is due to a delay in implementing corrective actions.

INVENTORY

Department-wide; Identified FY 2005; Correction Target FY 2026 (see note)

Material Weaknesses

- Inadequate policies and procedures over timely reconciliation of subsidiary ledgers and proper application of inventory costing methodologies.
- Lack of internal controls to support management's assertion of existence and completeness of Inventory; prevent users from posting transactions that exceed their approved thresholds, to review and follow-up of inventory and to review interface transmission errors; and ensure transactions are recorded in the proper period for existence, completeness, and valuation.
- Insufficient evidential matter to support inventory transactions, inventory held by third parties, and the complete and accurate identification and correction of erroneous transactions.
- Insufficient documentation to ensure updated business process control measures completely reflect all sub-processes within inventory.

Corrective Actions

- Implement revised policy on comingled assets; address process and system deficiencies associated with reconciliations and valuation methodologies.
- Use the Risk Management and Internal Control Program to guide the development and update of internal controls related to inventory accrual, existence, completeness, and valuation of inventory. Implement policy changes to support long-term courses of action to mitigate inventory weaknesses.
- Issue policy on asset physical accountability requiring internal controls and annual physical inventories. Design and improve reports, management oversight, and procedures to improve effectiveness of management controls.
- Review, improve, and implement enhanced controls in the inventory processes and perform follow up testing for compliance and effectiveness.

Note: The Correction Target date was adjusted from FY 2023 to FY 2026. The change in Correction Target is due to delays in the implementation of required policies.

EXHIBIT 3. INTERNAL CONTROL OVER FINANCIAL REPORTING – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

OPERATING MATERIALS & SUPPLIES (OM&S)

Department-wide; Identified FY 2005; Correction Target FY 2027 (see note)

Material Weaknesses

- The Department does not report OM&S in the Inventory & Related Property line on the Balance Sheet in accordance with SFFAS 3 or SFFAS 48.
- The Department has not performed an annual assessment of OM&S acquired by Components for the purposes of determining appropriate accounting treatment under SFFAS 3, to include existence and completeness.
- Inadequate processes and controls for accurately recording munitions inventories.
- DoD Components do not have sufficient controls and procedures addressing OM&S assets in the possession of third parties, to include service providers and contractors.

Corrective Actions

- Implement an appropriate valuation method for OM&S. Develop and implement procedures to document the process to determine when a decline in value should be considered temporary or permanent. Review all posting logic, re-evaluate existing policies, and develop and implement controls to ensure property account posting logic and will establish a methodology to support valuation of OM&S.
- Issue DoD policy require inventory of OM&S. Conduct inventories in accordance with existing policies and supplement existing policies upon finalization of the DoD policy for inventories. Develop Component-level risk control matrices based on inventory controls gap analyses to implement changes to the inventory process. Report metrics on physical inventories of OM&S, inventory adjustments, and OM&S in the possession of third parties for use in governance meetings.
- Develop solutions for a new Munition Control System that accurately handles physical custody and control issues, properly performs the correct accounting for all munitions, and facilitates the implementation of internal controls to provide improved management oversight. Modernize current systems to better manage and perform munitions control prior to the implementation of the new Munition Control System solutions.
- Continue efforts to validate existence, completeness, accuracy, and ownership of all assets; monitor interfaces of the different systems; and design, develop, and implement better reconciliation processes to address OM&S held by service providers and contractors. All Contractor Inventory Control Point programs will be identified and controls developed to maintain OM&S along with policies and procedures for oversight. Require future contracts which provide OM&S to third parties to perform existence and completeness reporting, controls, and testing.

Note: The Correction Target date was adjusted from FY 2024 to FY 2027. The change in Correction Target is due to delays in the implementation dates for key contributing Components.

FMFIA SECTION 2, EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS

Exhibit 4 lists the FY 2020 material weaknesses in the internal controls over operations, captured by operational area, and reports the changes from the material weaknesses disclosed in the DoD AFR for FY 2019.

EXHIBIT 4. FY 2020 EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA §2)

Statement of Assurance: Modified Assurance						
Assessable Unit	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Acquisition	3					3
Comptroller and/or Resource Management	1					1
Communication	1					1
Contract Administration	1					1
Information Technology	3					3
Force Readiness	1					1
Manufacturing, Maintenance, and Repair	1					1
Personnel and/or Organizational Management	5					5
Support Services	2					2
Supply Operations	2					2
Total Material Weakness	20	0	0	0	0	20



Several ships break away from formation during Exercise Valiant Shield in the Philippine Sea, September 25, 2020.

PHOTO CREDIT: Navy Seaman Apprentice Oswald Felix Jr.

EXHIBIT 5. INTERNAL CONTROL OVER OPERATIONS – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS

ACQUISITION

Department-wide; Identified FY 2011; Correction Target Reassessed Annually (**see note**)

Material Weaknesses

- Many DoD acquisition programs fall short of cost, schedule, and performance expectations resulting in unanticipated cost overruns, reduced buying power, and/or in some cases resulting in a delay or reduction in the capability ultimately delivered to the warfighter.
- Lack of sufficient program management capabilities, as mandated by the DoD 5000 series of issuances.
 - Acquisition lifestyle oversight, policies, regulations and organizational structure is non-compliant.
 - Lack of effective process to support mission by identifying, assessing, and providing oversight of development and procurement solutions.
 - Inadequate documentation and filing of acquisition records.
- Non-compliance with the Clinger-Cohen Act, 10 USC §2222, DoDI 5000.74, and DoDI 5000.75; insufficient management and oversight of IT services and Defense Business Systems; Inadequate use of existing controls for generating, monitoring, and closing contracts.

Corrective Actions

- Implement DoD 5000 series policy mandates and guidance to properly align acquisition with the DoD Mission and needs, which reduces risk and impacts to cost, schedule, and performance.
- Continue to improve implementation of Better Buying Power 3.0 and clarify/update DoD Instruction 5000.02.
- Develop and implement a Procedural Instruction for Acquisition Approval and Governance. Create supporting tools to aid and inform decisions, reduce the staff effort to review acquisition programs, and improve the monitoring and forecasting of potential issues or risk areas.
- Conduct Systems Reviews, Capability Portfolio Reviews, Configuration Steering Boards, and Cost Reviews to identify process inefficiencies and improve the acquisition management process.
- Develop additional procedures to establish oversight controls for programs, including procedures to report cost, schedule, and performance variances, and to address reported variances.

Corrective Actions (Continued)

- Establish a system of tracking to report acquisition program performance and highlight variances.
- Publish updated Investment Management Guidance with business capability review instructions and schedule.
- Publish the Defense Business Operations Management Strategic Plan addressing investment management, portfolio management, business architecture, and information technology modernization strategies.
- Establish portfolios, develop capability strategies for each portfolio, and conduct portfolio reviews following implementation.
- Identify and pursue initial optimization opportunities for review by the Defense Enterprise Business Operations Senior Steering Group, Defense Business Council, and Reform Management Group.
- Complete review of the Defense Acquisition Workforce Improvement Act (DAWIA) acquisition certification required positions to ensure the acquisition workforce is sufficiently trained in implementing Clinger-Cohen Act, 10 USC §2222, DoDI 5000.74, and DoDI 5000.75 requirements. Establish a training plan and staff DAWIA positions with certified employees.

Note: The Correction Target date was adjusted from FY 2021 to Reassessed Annually. The change in Correction Target is based on the fact that the scope of the remediation efforts increased and management is continuing to evaluate progress and the projected completion timeframe.

EXHIBIT 5. INTERNAL CONTROL OVER OPERATIONS – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

COMPROLLER AND/OR RESOURCE MANAGEMENT

Department-wide; Identified FY 2013; Correction Target FY 2021

Material Weaknesses

- Ineffective internal controls and management oversight for processes such as management of improper payments, use of Internal Use Software, and property furnished to contractors.

Corrective Actions

- Brief leadership; appoint and train staff; develop risk profiles; conduct initial, quarterly, and annual validation and assessment; and automate processes as appropriate.

COMMUNICATIONS

Department of the Air Force; Identified FY 2018; Correction Target FY 2023

Material Weaknesses

- The Department of the Air Force has identified a systemic issue in communication of security information between installations and appropriate external entities.

Corrective Actions

- Identify digital fingerprinting hardware and software solutions to improve archiving, enhance ability to reference/verify fingerprinting, and facilitate transfer of fingerprints between U.S. law enforcement agencies.
- Identify best practices used by U.S. law enforcement entities.
- Replace the Security Forces Management Information System.
- Identify and implement a long-term software solution for case management.
- Further document the criminal data oversight and reporting processes and procedures for the Department of Air Force Criminal Justice Information Cell (DAF-CJIC) system.

CONTRACT ADMINISTRATION

Department-wide; Identified FY 2009; Correction Target Reassessed Annually

Material Weaknesses

- The Department does not properly strategically manage Services Acquisition, define outcomes, and capture data to facilitate strategic management of the acquisition function. The Department continues to face challenges meeting fiscal year competition goals and needs to capitalize on available incentives and address improvements in the definition of contract requirements. The acquisition workforce is not appropriately sized, trained, and equipped to meet the Department's needs.

Corrective Actions

- Continue to track and monitor training requirements for the Acquisition workforce, including new training for Mid / High Level Requirements and Contracting Professionals.
- Publish a revised DoDI 5000.74, "Acquisition of Services" as required by the National Defense Authorization Act (NDAA) for FY 2017, section 803.
- Continue to implement the "Guidance on Using Incentive and Other Contract Types" codified at Defense Federal Acquisition Regulation Supplement and Procedures, Guidance, and Information section 216.104 when selecting and negotiating a contract type.
- Reduce contract closeouts by 20% and ensure there are no more than 350 over-age fixed price contract closeouts.
- Perform monthly contract audits and reconciliations; review and support rate settlement work; validate contractor estimates for deobligations; and review to determine if future billings or deobligations are warranted.

EXHIBIT 5. INTERNAL CONTROL OVER OPERATIONS – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

INFORMATION TECHNOLOGY

Department-wide; Identified FY 2010; Correction Target Reassessed Annually

Material Weaknesses

- DoD financial and business management systems and processes do not provide reliable, timely, and accurate information.
- The Department experiences systemic shortfalls in implementing cybersecurity measures to safeguard the data protection environment. Gaps in cybersecurity access controls (including privileged user authentication, public key infrastructure, and device hardening / encryption) contribute to data protection vulnerabilities. Issues exist in policy compliance with cybersecurity measures, oversight, and accountability.
- The Department experiences:
 - Numerous weaknesses in IT governance (especially in the areas of security management, access controls, segregation of duties, and inconsistent IT policies, procedures, and practices across the Department);
 - Lack of clear, concise IT security requirements for developed-in-house and acquired systems;
 - Inability to produce detailed user listings to support periodic recertification of privileged and non-privileged user accounts;
 - Inability to produce application-level audit logs related to account management and configuration management; and
 - Lack of periodic review and update of system-level policy documentation.
- Additionally, the Department did not assess network components for cybersecurity vulnerabilities prior to connection and throughout the component life cycle.

Corrective Actions

- Expand review and analysis of proposed information technology (IT) systems. Update the DoD Instruction (DoDI) 5000.75 and increase Investment Review Board oversight.
- Establish processes to ensure stakeholder participation in the Cybersecurity Scorecard meetings and alignment of service scorecard metrics to audit findings.
- Revise current user system access policy, to include clear guidance on requirements for privileged user access

Corrective Actions (Continued)

authorization and credential revocation, user access and control training certification, user monitoring, and Public Key Infrastructure-based authentication/credentials

- Revise current acquisition and IT purchase contracts and policy to require the adoption of established user access controls and encryption/hardening standards.
- Reinforce data encryption controls; perform periodic scans for personally identifiable information (PII) and report all findings to designated privacy managers; reinstitute annual PII training; and perform Air Force Privacy Office workload studies and associated manning adjustments as necessary.
- Revise current policy on shared file and drive protection, to include requirements for encryption use and stringent password protection that meets the minimum password requirements specified in DoDI 8520.03 for stronger authentication.
- Develop, communicate, and implement entity-level IT security policy, procedures, and practices focusing in the areas of security management, access controls, and segregation of duties.
- Develop and provide training to users and privileged users regarding the consistent implementation of new IT security policy, procedures, and practices for Defense Health Program Component systems.
- Continuously monitor implementation of entity-level IT policies, procedures, and practices locally and holistically.
- Designate employees to manage accountable property; establish and implement cyclical inventory schedule.
- Integrate software acquisition, license media management, and limited asset resources into a single focus point managing software lifecycle.
- Automate acquisition, discovery, tracking, fielding, retirement, and involved audit processes to the greatest extent possible.
- Research and acquire, or design and implement an access control system or record.
- Update the Enterprise Configuration Monitoring Strategy to include investigating, identifying, and disseminating the best use of monitoring tools and techniques for the network component level.
- Clearly identify lines of demarcation between acquisition and provisioning.
- Deploy and test access control systems where appropriate.

EXHIBIT 5. INTERNAL CONTROL OVER OPERATIONS – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

FORCE READINESS

Department-wide; Identified FY 2016; Correction Target Reassessed Annually

Material Weaknesses

- Independent and internal reviews of the Department's nuclear enterprise identified problems and recommendations needed for a safe, reliable, and credible nuclear deterrent. These included internal control related items such as a need for increased managerial oversight, an improved self-assessment program, increased oversight capability, and useful nuclear inspection reports.

Corrective Actions

- Develop corrective action plans that align with the recommendations from the independent reviews. Classified corrective action plans are maintained by the applicable entities within the U.S. Strategic Nuclear Forces and are based on annual Congressional funding. Remediation of this corrective action will involve incremental improvements over a multi-year horizon.

MANUFACTURING, MAINTENANCE, AND REPAIR

Department of the Navy; Identified FY 2016; Correction Target FY 2022 (**see note**)

Material Weaknesses

- Multiple internal audits and studies identified a wide range of control issues that cumulatively create material weaknesses in ship depot maintenance. Policies for defining, costing, and executing maintenance require improvement to correctly predict both cost and duration of depot maintenance.

Corrective Actions

- Identify obstacles to execution performance.
- Identify variances between Execution Year Guidance to the President's Budget and developed mitigations.
- Integrate depot maintenance into routine internal evaluations by the Risk Management Internal Control program.
- Establish processes and controls to correct over-execution of Depot Maintenance through improved planning of availabilities, more accurate planning and programming of funding, and improved oversight of availability execution.
- Develop and implement policies for planning and executing depot maintenance while correctly identifying true costs and duration.
- Establish the President's Budget as the baseline for execution year variance tracking.

Note: The Correction Target date was adjusted from FY 2020 to FY 2022. The change in Correction Target is due to the identification of additional issues during the course of the remediation process which required supplemental actions.

EXHIBIT 5. INTERNAL CONTROL OVER OPERATIONS – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

PERSONNEL AND/OR ORGANIZATIONAL MANAGEMENT

Department-wide; Identified FY 2017; Correction Target FY 2023

Material Weaknesses

- Average civilian time-to-hire in the Department increased by 40% (from 70 to 106 days) between FY 2013 and FY 2017.
- The Department does not systematically collect data on hiring manager satisfaction with process or with quality of candidates for civilian positions.
- The Department manages its civilian workforce under 66 personnel systems, over 60 pay systems, and scores of special Human Resource (HR) authorities and flexibilities. This has caused excessive complexity and variability in HR processes.
- DoD HR specialists and managers lack training and tools to sufficiently manage the complex civilian federal hiring process.
- The Department has multiple civilian personnel HR service providers operating within and across components but no systems to define, collect, monitor, or analyze their performance or cost data, nor to monitor and control the types of services provided.

Corrective Actions

- The Department required all components to develop and execute data-based Action Plans to reduce time to hire. The Department's initial goal is to reduce average time to hire from 106 to 85 days or less. A Department-level functional workgroup was established and is working towards reaching target goals..
- The Department will start collecting hiring quality and satisfaction data; after determining baseline measures, the Department will establish future quality / satisfaction goals consistent with results achieved by other large federal agencies. Management has designed and launched a survey to be administered periodically in order to determine hiring managers' satisfaction levels.
- Continue undertaking procedures to simplify, streamline, and standardize HR processes and provide better, more cost-effective HR services. Pursue legislative relief where necessary to reduce complexity and increase efficiency of HR processes.
- Continue to leverage the DoD HR Functional Community to define and assess HR competencies, establish learning standards, and develop career paths.
- Execute the HR Service Delivery project to define, monitor, and evaluate key performance and efficiency measures for Defense Agency and Field Agency HR Service providers; identify and remedy instances of fragmentation, overlap, and duplication; and address inefficiencies and implement reforms.
- Transition to a single Software-as-a-Service/Cloud civilian human capital management system initially for core HR transactions, and eventually for integrated talent management (i.e., performance management, learning, compensation, awards, workforce and succession planning).

EXHIBIT 5. INTERNAL CONTROL OVER OPERATIONS – MATERIAL WEAKNESSES AND CORRECTIVE ACTIONS (CONTINUED)

SUPPORT SERVICES

Department-wide; Identified FY 2017; Correction Target FY 2023 (see note)

Material Weaknesses

- The Department does not have sufficient Component/Assessable Unit (AU) internal audit or review of operations:
 - Lack of evidence showing sufficient leadership involvement regarding internal audit or review results.
 - The Department has received numerous Government Accountability Office and DoD Office of the Inspector General (DoD OIG) findings.
 - DoD OIG report (DoDIG 2016-031) indicates 37% of DoD internal audit organizations have deficiencies or fail in effectively monitoring Component/AU activities, and several Components / AUs do not have an internal audit or review function.
 - Systemic deficiencies (such as lack of Component internal audit coverage and lack of resourcing) exist across the internal audit and review services.
- Business Transformation: The Department spends billions of dollars each year to maintain key business functions intended to support the warfighter. Lack of support for transformation. The Department continues to confront decades-old management weaknesses related to its business functions that support these forces.

Corrective Actions

- Generate requirements for internal audit/review of operations performance and law, regulation, and policy compliance and document in DoD instruction.
- Strengthen organizational capabilities in support of DoD management objectives, focusing on end-to-end management and monitoring of reform initiatives and implementation activities.
- Update DoDI 5010.40 to reflect the most current Government Accountability Office Standards for Internal Control in the Federal Government (“Green Book”) and OMB Circular A-123.
- Initiate expanded Department-wide continuous process improvement (CPI) training, develop CPI experts, and promote continuous and visible leadership support for transformation.

Note: The Correction Target date was adjusted from FY 2021 to Reassessed Annually. This change is based on the fact that the scope of the remediation efforts increased and management is continuing to evaluate progress and the projected completion timeframe.

SUPPLY OPERATIONS

Department-wide; Identified FY 2011; Correction Target Reassessed Annually

Material Weaknesses

- Insufficient asset visibility causes the Department to unnecessarily order supplies it already has. Lack of supply condition knowledge inhibits the reorder replacement for damaged supplies.
- Reductions in the number of suppliers from which the DoD can purchase raw materials and finished goods affects the Department’s ability to obtain necessary supplies in a timely manner and of sufficient quality. The Department needs to continue to focus on strengthening the security and effectiveness of its supply chain.

Corrective Actions

- Improve collection and analysis of supplier threat assessments, implement methods to mitigate risks such as improved hardware and software testing, and enhance processes for approving product and vendor lists.
- Conduct an evaluation of whether DoD Components are conducting appropriate risk assessments, implementing risk mitigation strategies, and using continuous monitoring procedures
- Continue implementing the strategies and initiatives outlined in the “Better Buying Power 3.0.”
- Increase internal (management) and external (public) transparency in the procurement process (e.g., by improving descriptions of procurement activities).
- Implement best practices in cost and contract management, with a focus on strategically sourcing.
- Continue use of reverse engineering where applicable and appropriate
- Repair existing parts economically and efficiently where applicable and appropriate.
- Identify and remove fraudulent suppliers currently in the supply chain, through activities such as improving supplier vetting procedures and strengthening data analytics on past and current performance metrics.
- Address limited distribution networks and transportation capabilities to transport supplies to the right place at the right time, safely, and securely to include reviews of supplier capability in transiting materials to anticipated locales in an effective manner (particular to the involved supplies).

FMFIA SECTION 4, CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS

Exhibit 6 lists the FY 2020 instances of non-conformance with federal financial management systems requirements, and reports the changes from the non-conformances disclosed in the DoD AFR for FY 2019.

EXHIBIT 6: FY 2020 CONFORMANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA §4)

Statement of Assurance: No Assurance						
Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Business System Modernization	1					1
FISCAM ¹	1					1
FFMIA Compliance	1					1
Total Non-Conformances	3	0	0	0	0	3

EXHIBIT 6: FOOTNOTES

¹ In FY 2020, the non-conformance titled “General and Application Controls” in FY 2019 was renamed to “FISCAM.”

FFMIA SECTION 803(A), IMPLEMENTATION OF FEDERAL FINANCIAL MANAGEMENT IMPROVEMENTS

Exhibit 7 lists the FY 2020 instances of non-compliance with Section 803(a) of the FFMIA, which requires each federal agency to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level.

EXHIBIT 7. FY 2020 COMPLIANCE WITH SECTION 803(A) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENTS ACT (FFMIA)

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

EXHIBIT 8. COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS CORRECTIVE ACTION PLANS

BUSINESS SYSTEM MODERNIZATION

Department-wide; Identified FY 2001; Correction Target FY 2028

Material Weaknesses

- Delays in achieving business system modernization targets has resulted in degraded DoD business process operations to include efficiency, effectiveness, and non-compliance with certain laws and regulations (e.g., FFMA). In addition, the number of applications, hosting locations, and interfaces, as well as other variations in technology create a complex environment where it is difficult to maintain effective IT General and Application controls (including information security).

Corrective Actions

- Develop and implement a business system rationalization plan that will identify the systems to be retired, resulting in a reduced number of systems that impact financial reporting. This includes a validation of the migration plans for legacy financial management (FM) systems and identification of the core accounting systems for the Department.
- Evaluate the defense business systems environment at the enterprise level to include capturing associated systems/feeder systems.
- Develop guidance on FM system controls and build an integrated system view of the FM systems environment and by working with stakeholders to document objectives, dependencies, and milestones.
- Leverage the Notification of Findings and Recommendations (NFR) database and other Advana applications to monitor progress.
- Leverage existing working groups and governance bodies, such as the Defense Business Council, to influence business system investment decisions. To support this, the Department initiated plans to improve system inventory and mechanisms to capture costs to complete transition. These plans include updating authoritative databases to capture budget earmarked for audit remediation and consolidating the system inventory repositories for a single authoritative source.

FISCAM

Department-wide; Identified FY 2001; Correction Target FY 2026

Material Weaknesses

- The DoD IT systems environment includes numerous legacy systems, core enterprise systems that support the major end-to-end processes, and Enterprise Resource Planning (ERP) systems. Most of the business legacy systems were originally designed to support functional purposes (such as human resource, property, and logistics management) rather than the development of auditable financial statement reporting. The systems environment is made up of many legacy, core, and newly implemented (feeder and general ledger) systems that lack integration and are not in line with the Federal Information System Controls Audit Manual (FISCAM) requirements with regards to entity-level technology general controls, application-level general controls and automated application controls (including security management, access, segregation of duties, configuration management, system interfaces, master data, and audit trails).

Corrective Actions

- Implement an Enterprise Identity, Credential, and Access Management solution to provide standard user identity attributes; validate user access rights to protected systems; and facilitate the provision, revocation, and management of user access rights.
- Continue to track remediation progress in the NFR database and against the timelines established in the associated Corrective Action Plans. Continue to use the IT Functional Council to track remediation status and identify common solutions to material weaknesses and department wide issues.
- Continue to analyze the current IT NFRs and prioritize addressing issues with the most significant audit and security impacts.

EXHIBIT 8. COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS CORRECTIVE ACTION PLANS (CONTINUED)

FFMIA COMPLIANCE

Department-wide; Identified FY 2001; Correction Target FY 2028

Material Weaknesses

- The Department's financial systems currently do not provide the capability to record financial transactions in compliance with:
 - Current federal financial management requirements
 - Applicable federal accounting standards
 - The Treasury USSGL at the transaction level

Corrective Actions

- Five additional Components are scheduled to migrate to DAI by FY 2024. By migrating to DAI, functional capabilities needed to generate accurate and reliable financial data and reported data in compliance with USSGL requirements fulfilled.
- Continue to deploy FFMIA-compliant ERP solutions throughout the Department. Implement System Change Requests to enable additional capabilities and standardize processes and information.
- Through FY 2020, the Department completed 24 Standard Financial Information Structure compliance assessments and deployed automated capabilities within the Advana tool to continuously assess compliance and allow transparency and take action based on results.
- Continue to focus on reducing legacy financial management systems, investing in ERP systems and target financial management systems, and evolving the roles of service providers.



Army Sgt. Ebony O'Brien handles a baby goat during a veterinary event in the village of Ali Oune, Djibouti, August 30, 2020.

PHOTO CREDIT: Air Force Staff Sgt. Dana J. Cable

PAYMENT INTEGRITY INFORMATION ACT REPORTING

The reduction of improper payments and compliance with the Payment Integrity Information Act of 2019 (PIIA) continue to be top financial management priorities for the Department.

These priorities directly align with the **President’s Management Agenda**, Cross-Agency Priority Goal 9, “**Getting Payments Right.**” The Department supports PIIA compliance through the activities of its Payment Integrity program, which is composed of 11 separate programs that collectively encompass the majority of payments made by the Department annually (see Exhibit 9).

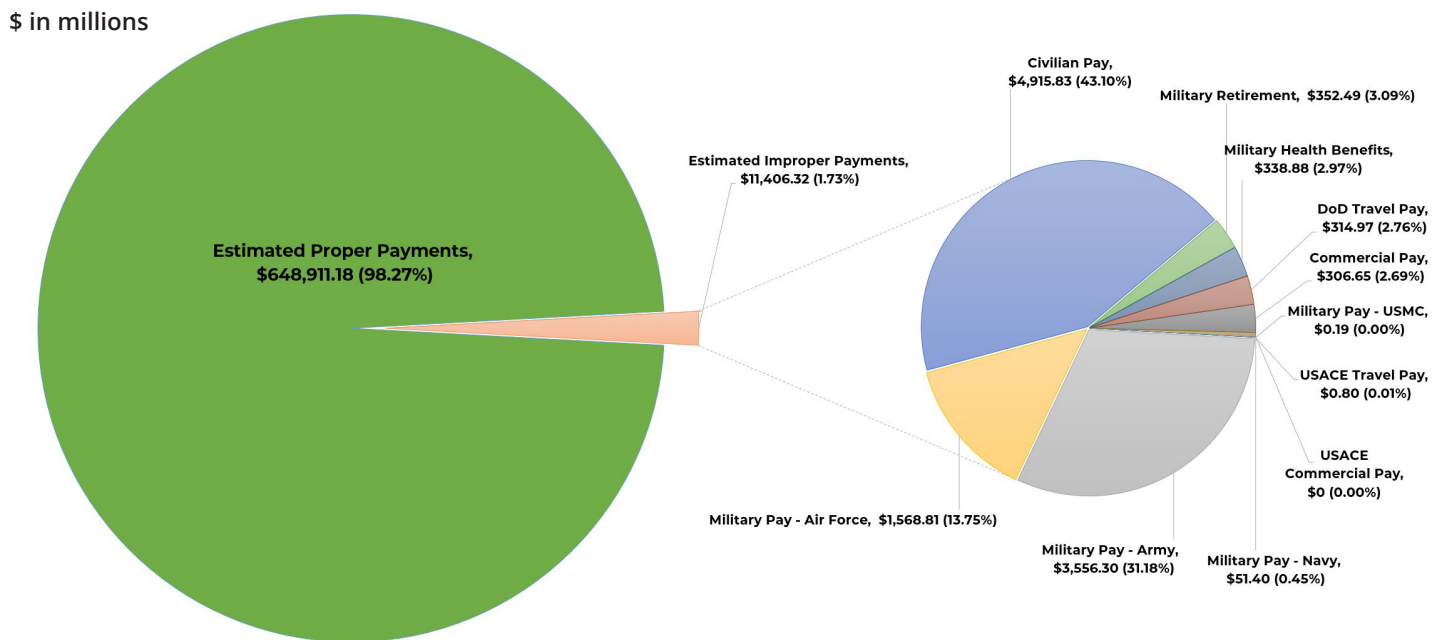
Exhibit 9: DoD Payment Integrity Programs

Civilian Pay	Payments disbursed by the Defense Finance and Accounting Service (DFAS) to civilian employees and civil service Mariners for salary, benefits, and other compensation entitlements.
Commercial Pay	Payments disbursed by DFAS, the Army, and the Navy to vendors and contractors for goods and services. It also includes Disaster Relief and Coronavirus Aid, Relief, and Economic Security (CARES) Act funding payments made by the Military Services and DoD Components.
DoD Travel Pay	Payments disbursed by DFAS, the Army, the Navy, the Air Force, and the Marine Corps to Active, Reserve, and National Guard Military Service members and civilian employees for temporary and permanent travel and transportation-related expenses. It also includes CARES Act funding payments made by the Military Services and DoD Components.
Military Health Benefits	Payments disbursed by the Defense Health Agency (DHA) to private sector contractors for delivery of health care services to TRICARE eligible beneficiaries. It also includes CARES Act funding payments to support health and medical resources priorities.
Military Pay - Army	Payments disbursed by DFAS for the Army to Active, Reserve, and National Guard Military Service members for salary, benefits, and other compensation entitlements.
Military Pay - Navy	Payments disbursed by DFAS for the Navy to Active and Reserve Military Service members for salary, benefits, and other compensation entitlements.
Military Pay - Air Force	Payments disbursed by DFAS for the Air Force to Active, Reserve, and National Guard Military Service members for salary, benefits, and other compensation entitlements. In FY 2021, payroll payments disbursed in support of U.S. Space Force will be included in this program.
Military Pay - Marine Corps	Payments disbursed by DFAS for the Marine Corps for Active and Reserve Military Service members for salary, benefits, and other compensation entitlements.
Military Retirement	Payments disbursed by DFAS to military retirees and their surviving spouses and other family members for pension and/or disability entitlements.
USACE Commercial Pay	Payments disbursed by the U.S. Army Corps of Engineers (USACE) to vendors and contractors for goods and services. It also includes Disaster Relief and CARES Act Funding payments made by USACE.
USACE Travel Pay	Payments disbursed by USACE to Active Duty Military Service members and civilian employees for temporary and permanent travel and transportation-related expenses. It also includes Disaster Relief and CARES Act funding payments made by USACE.

In accordance with the Office of Management and Budget (OMB) memorandum, **“Risk-Based Financial Audits and Reporting Activities in Response to COVID-19”**, the Department applied the OMB Circular No. A-123, **Appendix C** requirements (i.e., improper payments testing) to new Coronavirus Disease 2019 (COVID-19) response funding provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Families First Coronavirus Response Act. The memorandum permitted Payment Integrity programs that received COVID-19 related funding that were already reporting an annual improper payment estimate to incorporate the new funding into their normal sampling process. As such, the Department took measures to ensure that the financial systems used to account for COVID-19 response funding were included in the relevant program sampling plans (i.e., Commercial Pay, Military Health Benefits, DoD Travel Pay, USACE Commercial Pay, and USACE Travel Pay).

In FY 2020, the Department reported improper payment estimates below the PIIA statutory threshold of 10% for all programs, reduced Military Pay improper payments by \$2.27 billion, and performed more extensive payment reviews in the Civilian Pay program. Additionally, the Navy and the Marine Corps each reported estimated improper payments of less than one percent in both the Military Pay and Civilian Pay programs. Overall, the Department identified \$660.32 billion in payments¹ subject to testing under PIIA and estimated an overall improper payments rate of 1.73%. Given the large dollar amount of DoD payments, this percentage represented approximately \$11.41 billion in improper payments and approximately \$648.91 billion (98.27%) in properly paid payments (see Exhibit 10).

Exhibit 10: FY 2020 Estimated Improper Payments by Program

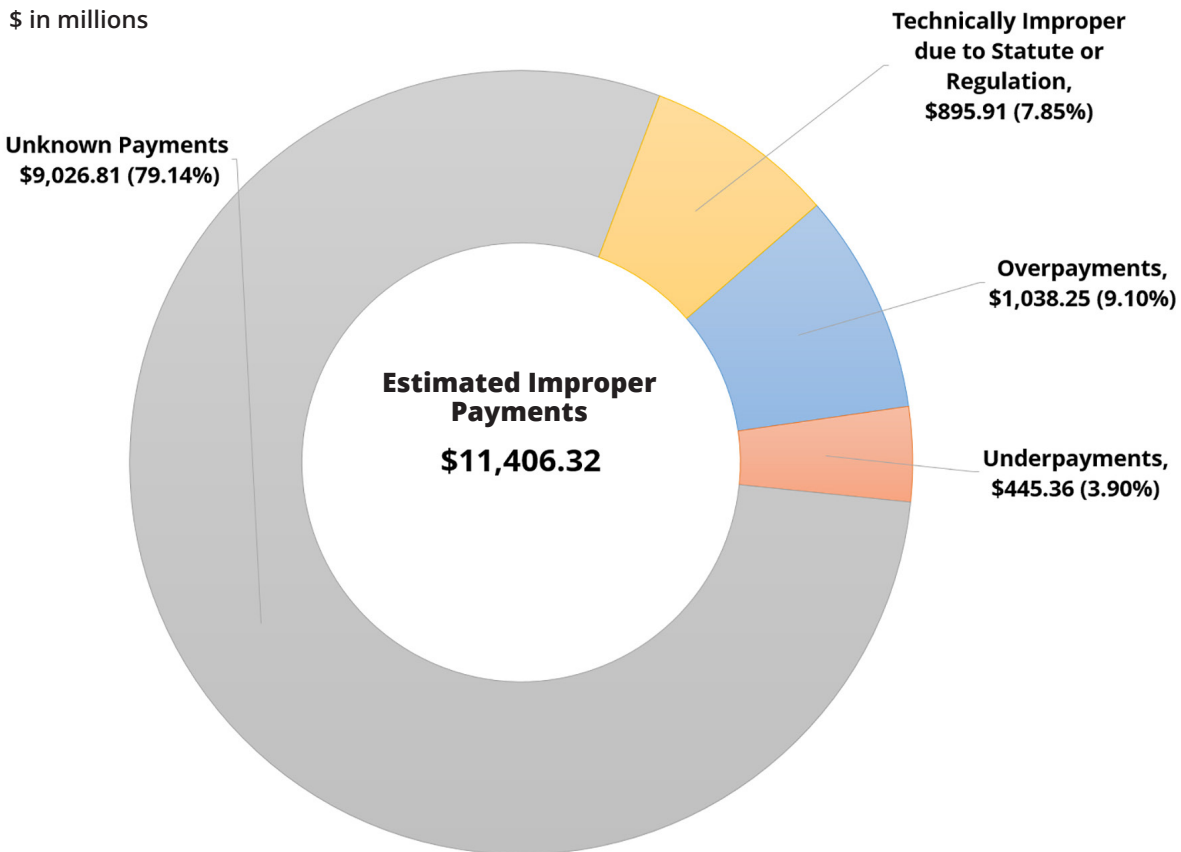


1 The Independent Auditor’s Report on the DoD FY 2020 and FY 2019 Basic Financial Statements issued by the Office of Inspector General identified a material weakness related to the Universe of Transactions, and past improper payment audits identified similar weaknesses attributable to the Department’s inability to perform reconciliations to provide reasonable assurance over the completeness and accuracy of populations of payments from which statistical samples are selected. Once the Department is able to validate the completeness of the universe of transactions underlying its financial statements, the Payment Integrity program will be able to demonstrate completeness and accuracy of sampled populations.

The \$11.41 billion in estimated improper payments was a \$2.73 billion increase from FY 2019. This increase was attributed primarily to the Department implementing a more thorough review of key supporting documentation for payments in the Civilian Pay program. The improved reviews in this program resulted in a significant increase in the identification of improper payments. In FY 2020, the Department’s estimated improper payments were reported in four separate categories in accordance with OMB guidance (see Exhibit 11):

- An Overpayment is a payment in excess of what is due. When an overpayment occurs, the improper amount is the difference between the amount due and the amount of the overpayment.
- An Underpayment is a payment that is less than what is due. When an underpayment occurs, the improper amount is the difference between the amount due and the amount of the underpayment.
- A Technically Improper Payment Due to Statute or Regulation is a payment made to the right recipient for the right amount, but the payment process failed to follow applicable regulations and/or statutes.
- An Unknown payment is a payment that could be either proper or improper, but the Department is unable to discern whether the payment was proper or improper as a result of insufficient or lack of documentation.

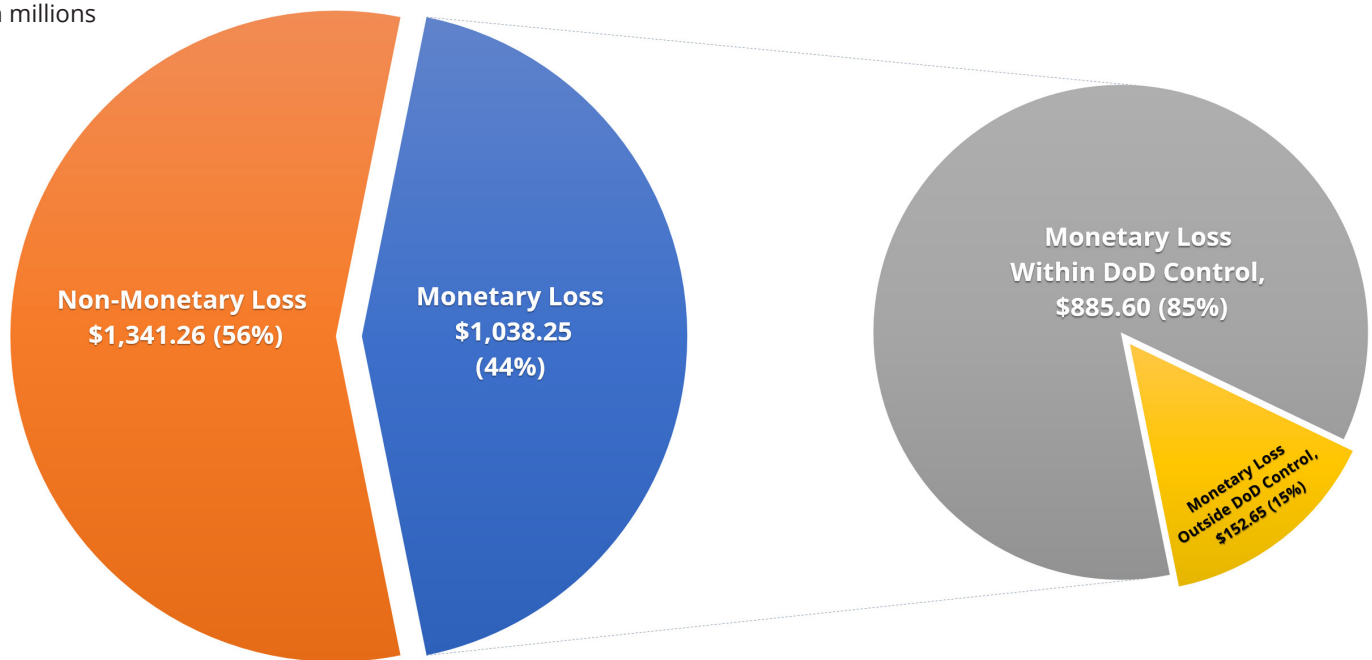
Exhibit 11: FY 2020 Estimated Improper Payments by Category



The \$1.04 billion in overpayments represent monetary losses (amounts that should not have been paid by the Department and in theory should/could be recovered). This amount was further classified into two subcategories – those within DoD control of \$885.60 million and those outside DoD control of \$152.65 million (see Exhibit 12).

Exhibit 12: FY 2020 Estimated Improper Payments by Classification

\$ in millions



The \$1.34 billion estimated total non-monetary loss represents underpayments and amounts paid to the proper recipients and for the appropriate amounts, but did not follow applicable regulations and statutes. Unknown payments (\$9.03 billion) are not reported as monetary or non-monetary losses.

Please refer to the OMB website, [paymentaccuracy.gov](https://www.paymentaccuracy.gov), for the following payment integrity information not included in this section:

- PIIA Compliance
- Accountability
- Internal Controls and Human Capital
- Agency Information Systems and Other Infrastructure
- Risk Assessments
- Do Not Pay Initiative

PAYMENT REPORTING

Exhibit 13 reports estimated FY 2020 proper payments (PP), improper payments (IP), improper payments by category, and testing period for each program. The data does not include intra-governmental or classified payments.

Exhibit 13: FY 2020 Estimated Improper Payments by Program and Category

(\$ in millions)

Program Name	FY 2020 Outlays Amount (\$)	FY 2020 PP Amount (\$)	FY 2020 PP Rate (%)	FY 2020 IP Amount (\$)	FY 2020 IP Rate (%)	FY 2020 Overpayments Amount (\$)	FY 2020 Overpayments Rate (%)	FY 2020 Underpayments Amount (\$)	FY 2020 Underpayments Rate (%)	FY 2020 Unknown Payments Amount (\$)	FY 2020 Unknown Payments Rate (%)	FY 2020 Technically Improper due to Statute or Reg Amount (\$)	FY 2020 Technically Improper due to Statute or Reg (%)	Month and Year Start Date for Data	Month and Year End Date for Data
Military Health Benefits ¹	\$23,190.07	\$22,851.19	98.54%	\$338.88	1.46%	\$152.65	0.66%	\$169.18	0.73%	\$17.05	0.07%	-	-	Aug-2018	Oct-2019
Military Pay - Army ²	43,707.45	40,151.15	91.86%	3,556.30	8.14%	205.58	0.47%	61.63	0.14%	2,827.47	6.47%	461.62	1.06%	Oct-2018	Sep-2019
Military Pay - Navy ^{2,3}	25,014.68	24,963.27	99.79%	51.40	0.21%	23.56	0.09%	0.35	0.00%	27.50	0.11%	-	-	Oct-2018	Sep-2019
Military Pay - Air Force ²	27,808.65	26,239.84	94.36%	1,568.81	5.64%	109.27	0.39%	38.87	0.14%	1,170.85	4.21%	249.80	0.90%	Oct-2018	Sep-2019
Military Pay - Marine Corps ²	11,245.97	11,245.78	100.00%	0.19	0.00%	0.19	0.00%	-	-	-	-	-	-	Oct-2018	Sep-2019
Civilian Pay ⁴	61,996.62	57,080.79	92.07%	4,915.83	7.93%	4.64	0.01%	-	-	4,911.19	7.92%	-	-	Oct-2018	Sep-2019
Military Retirement	72,966.70	72,614.22	99.52%	352.49	0.48%	186.08	0.26%	162.33	0.22%	4.08	0.01%	-	-	Aug-2019	Jul-2020
DoD Travel Pay	7,380.79	7,065.82	95.73%	314.97	4.27%	49.72	0.67%	12.10	0.16%	68.67	0.93%	184.48	2.50%	Jul-2019	Jun-2020
Commercial Pay ^{5,6,7}	363,267.03	362,960.38	99.92%	306.65	0.08%	305.77	0.08%	0.88	0.00%	-	-	-	-	Jul-2019	Jun-2020
USACE Travel Pay	190.82	190.01	99.58%	0.80	0.42%	0.78	0.41%	0.02	0.01%	-	-	-	-	Jul-2019	Jun-2020
USACE Commercial Pay	23,548.71	23,548.71	100.00%	-	-	-	-	-	-	-	-	-	-	Jul-2019	Jun-2020
TOTAL	\$660,317.50	\$648,911.18	98.27%	\$11,406.32	1.73%	\$1,038.25	0.16%	\$445.36	0.07%	\$9,026.81	1.37%	\$895.91	0.14%		

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

EXHIBIT 13 FOOTNOTES:

- 1 The sample populations for the Military Health Benefits program are comprised of seven sub-programs. Of these, four sub-programs represent 85% of the total outlays and fall within the period October 2018 to September 2019; one sub-program represents 13% of the total outlays and falls within the period of November 2018 and October 2019, and two sub-programs represent 2% of the total outlays and fall within the period of August 2018 and August 2019. DHA's staggered sampling time frames are the result of the various TRICARE purchased care contract option year start work dates that are defined to represent external independent contractor quarterly or semi-annual sampling time frames.
- 2 In FY 2020, the Department divided the Military Pay program into four separate programs (i.e., Army, Navy, Air Force, and Marine Corps). The combined Military Pay estimated IP rate decreased by 2.45% from 7.25% in FY 2019 to 4.80% in FY 2020, and the combined estimated IP amount decreased by \$2,273.57 million from \$7,450.26 million in FY 2019 to \$5,176.69 million in FY 2020.
- 3 The Military Pay – Navy estimated IP rate was reduced to 0.21% through forward-leaning partnerships, supportive leadership, and effective corrective actions. Specifically, key commands within the Department of the Navy (DON), such as the Bureau of Naval Personnel and Navy's Reserve Forces Command, worked throughout the DON and with DFAS to identify key supporting documentation (KSD) early in the review process, establish a clear understanding of what constituted KSD, and obtained reports noting deficiencies earlier for correction.
- 4 As a direct result of the new sampling plan and testing methodology, the Civilian Pay estimated IP rate increased by 7.78% from 0.14% in FY 2019 to 7.93% in FY 2020, and the estimated IP amount increased by \$4,819.14 million from \$96.69 million in FY 2019 to \$4,915.83 million in FY 2020.
- 5 The Commercial Pay program reports Army Outside the Continental United States office disbursements for a 12-month sampling timeframe of August 2019 to July 2020.
- 6 The Commercial Pay program includes payments for the "transportation of things" and payments made for government purchase cards. Title 31, United States Code, section 3726 (**31 U.S.C. §3726**) gives the General Services Administration (**GSA**) the authority and responsibility to audit and settle all federal payments for transportation of things. The GSA **Transportation Audits Division** conducts post-payment audits on all transportation payments (and supporting documentation) provided by the Department. GSA reviews DoD transportation payments for overcharges only. GSA finances their post-payment audit contract and audit-related functions with overpayments collected from the transportation payments previously paid by the Department and other federal agencies. GSA reported a Total Value of Notice of Overcharges (NOCs) of \$14.02 million related to DoD transportation payments for the 12-month period of July 2019 to June 2020. The GSA reported NOCs were included in the FY 2020 Commercial Pay IP estimate.
- 7 The Commercial Pay program is reported as the DFAS Commercial Pay program on paymentaccuracy.gov.

Exhibit 14 reports FY 2020 estimated improper payments by classification for each program.

Exhibit 14: FY 2020 Estimated Improper Payments by Program and Classification
(\$ in millions)

Program Name	FY 2020 IP Amount (\$)	FY 2020 Monetary Loss Amount (\$)	FY 2020 Monetary Loss Rate (%)	FY 2020 Non-Monetary Loss Amount (\$)	FY 2020 Non-Monetary Loss Rate (%)	FY 2020 Unknown Payments Amount (\$)	FY 2020 Unknown Payments Rate (%)
Military Health Benefits	\$338.88	\$152.65	45.05%	\$169.18	49.92%	\$17.05	5.03%
Military Pay - Army	3,556.30	205.58	5.78%	523.25	14.71%	2,827.47	79.51%
Military Pay - Navy	51.40	23.56	45.83%	0.35	0.68%	27.50	53.49%
Military Pay - Air Force	1,568.81	109.27	6.97%	288.68	18.40%	1,170.85	74.63%
Military Pay - Marine Corps	0.19	0.19	100.00%	-	-	-	-
Civilian Pay	4,915.83	4.64	0.09%	-	-	4,911.19	99.91%
Military Retirement	352.49	186.08	52.79%	162.33	46.05%	4.08	1.16%
DoD Travel Pay	314.97	49.72	15.79%	196.58	62.41%	68.67	21.80%
Commercial Pay	306.65	305.77	99.71%	0.88	0.29%	-	-
USACE Travel Pay	0.80	0.78	96.94%	0.02	3.06%	-	-
USACE Commercial Pay	-	-	-	-	-	-	-
TOTAL	<u>\$11,406.32</u>	<u>\$1,038.25</u>		<u>\$1,341.26</u>		<u>\$9,026.81</u>	

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

Exhibit 15 reports the FY 2021 estimated outlays, improper payment amounts, and OMB approved future year reduction target improper payment rates by program.

Exhibit 15: FY 2021 Estimated Improper Payment Out Year Projections by Program
(\$ in millions)

Program Name	FY 2021 Outlays (\$)	FY 2021 IP Amount (\$)	FY 2021 IP Rate (%)
Military Health Benefits ¹	\$24,093.98	\$348.46	1.45%
Military Pay - Army ²	45,018.67	-	-
Military Pay - Navy ²	25,765.12	-	-
Military Pay - Air Force ²	28,642.91	-	-
Military Pay - Marine Corps ²	11,583.35	-	-
Civilian Pay ³	63,856.52	-	-
Military Retirement	74,426.04	297.70	0.40%
DoD Travel Pay ⁴	7,454.60	372.73	5.00%
Commercial Pay	381,430.39	247.93	0.07%
USACE Travel Pay	214.07	0.88	0.41%
USACE Commercial Pay	25,437.03	30.52	0.12%
TOTAL	<u>\$687,922.67</u>	<u>\$1,298.23</u>	0.19%

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

EXHIBIT 15 FOOTNOTES:

1 DHA established its FY 2021 Military Health Benefits estimated IP rate of 1.45% based on IP results from the previous four fiscal years.

2 The Department was not able to estimate future year IP rates and amounts for the Military Pay - Army, Military Pay - Navy, Military Pay - Air Force, and Military Pay - Marine Corps programs. FY 2020 was the initial year for reporting separate IP amounts and rates for these programs; as a result, baselines were not yet established to generate future estimates. The Department will estimate future year IP rates and amounts for each program in the FY 2021 Agency Financial Report.

3 The Department was not able to estimate a future year IP rate and amount for the Civilian Pay program because a new sampling and testing methodology was implemented in

FY 2020. As a result, a baseline was not yet established to generate a future estimate. The Department will estimate a future year IP rate and amount for the Civilian Pay program in the FY 2022 Agency Financial Report.

4 The Department estimated its FY 2021 DoD Travel Pay IP target rate based on the average IP rates reported in the previous five fiscal years due to the high risk and impact of human error on this program. The average IP rate for FY 2016 through FY 2020 was 5.17%. As such, the Department is confident that 5.00% is an achievable target rate in FY 2021. This rate is 0.40% lower than the target rate of 5.40% that was projected for FY 2020.

Exhibit 16 reports the root causes of overpayments, underpayments, unknown payments, and technically improper payments due to noncompliance with statutes or regulations by amount and program for FY 2020.

Exhibit 16: FY 2020 Estimated Improper Payments by Program, Category, and Root Cause

(\$ in millions)

Program Name	Payment Type	Insufficient Documentation to Determine	Administrative or Process Errors Made by: Federal Agency	Administrative or Process Errors Made by: Other Party ¹	Program Design or Structural Issue	Inability to Authenticate Eligibility: Inability to Access Data	Medical Necessity	TOTAL
Military Health Benefits ²	Overpayments	-	-	\$142.92	-	\$6.55	\$3.18	\$152.65
	Underpayments	-	-	159.06	-	10.12	-	\$169.18
	Unknown Payments	17.05	-	-	-	-	-	\$17.05
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	-
Military Pay - Army ²	Overpayments	-	205.58	-	-	-	-	\$205.58
	Underpayments	-	61.63	-	-	-	-	\$61.63
	Unknown Payments	2,827.47	-	-	-	-	-	\$2,827.47
	Technically Improper due to Statute or Reg	-	-	-	461.62	-	-	\$461.62
Military Pay - Navy	Overpayments	-	23.56	-	-	-	-	\$23.56
	Underpayments	-	0.35	-	-	-	-	\$0.35
	Unknown Payments	27.50	-	-	-	-	-	\$27.50
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	-
Military Pay - Air Force ²	Overpayments	-	109.27	-	-	-	-	\$109.27
	Underpayments	-	38.87	-	-	-	-	\$38.87
	Unknown Payments	1,170.85	-	-	-	-	-	\$1,170.85
	Technically Improper due to Statute or Reg	-	-	-	249.80	-	-	\$249.80
Military Pay - Marine Corps	Overpayments	-	\$0.19	-	-	-	-	\$0.19
	Underpayments	-	-	-	-	-	-	-
	Unknown Payments	-	-	-	-	-	-	-
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	-
Civilian Pay ²	Overpayments	-	4.64	-	-	-	-	\$4.64
	Underpayments	-	-	-	-	-	-	-
	Unknown Payments	4,911.19	-	-	-	-	-	\$4,911.19
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	-
Military Retirement ²	Overpayments	-	186.08	-	-	-	-	\$186.08
	Underpayments	-	162.33	-	-	-	-	\$162.33
	Unknown Payments	4.08	-	-	-	-	-	\$4.08
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	-
DoD Travel Pay ²	Overpayments	-	49.72	-	-	-	-	\$49.72
	Underpayments	-	12.10	-	-	-	-	\$12.10
	Unknown Payments	68.67	-	-	-	-	-	\$68.67
	Technically Improper due to Statute or Reg	-	-	-	184.48	-	-	\$184.48
Commercial Pay ²	Overpayments	-	\$305.77	-	-	-	-	\$305.77
	Underpayments	-	0.88	-	-	-	-	\$0.88
	Unknown Payments	-	-	-	-	-	-	-
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	-
USACE Travel Pay	Overpayments	-	0.78	-	-	-	-	\$0.78
	Underpayments	-	0.02	-	-	-	-	\$0.02
	Unknown Payments	-	-	-	-	-	-	-
	Technically Improper due to Statute or Reg	-	-	-	-	-	-	-
USACE Commercial Pay	Overpayments	-	-	-	-	-	-	-
	Underpayments	-	-	-	-	-	-	-
	Unknown Payments	-	-	-	-	-	-	-
Total	Technically Improper due to Statute or Reg	-	-	-	-	-	-	-
		\$9,026.81	\$1,161.77	\$301.98	\$895.91	\$16.68	\$3.18	\$11,406.32

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

EXHIBIT 16 FOOTNOTES:

- 1 “Other Party” includes participating lenders, health care providers, and any other organizations administering federal dollars.
- 2 The Military Health Benefits, Military Pay – Army, Military Pay – Air Force, Civilian Pay, Military Retirement, DoD Travel Pay, and Commercial Pay programs were determined to be susceptible to significant improper payments in accordance with OMB Circular No. A 123, Appendix C.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS

When significant improper payments are identified in a program through testing, DoD Components are required to determine the root causes and develop corrective action plans (CAPs) to remediate them. The CAPs are monitored throughout the year by the DoD Components and the Office of the Under Secretary of Defense (Comptroller) (**OUSDC**) to ensure milestone dates are completed on a timely basis. The implementation and effectiveness of corrective actions are evaluated through the subsequent improper payment testing results for the program.

Based on the testing performed in the 11 programs in FY 2020, seven programs (Military Health Benefits, Military Pay – Army, Military Pay – Air Force, Civilian Pay, Military Retirement, DoD Travel Pay, and Commercial Pay) were estimated to have made improper payments in excess of \$100 million and were therefore required to develop and disclose CAPs. OUSDC worked with DoD Components to strengthen the CAPs for these programs by reinforcing the need for measurable and effective milestones to achieve desired results.

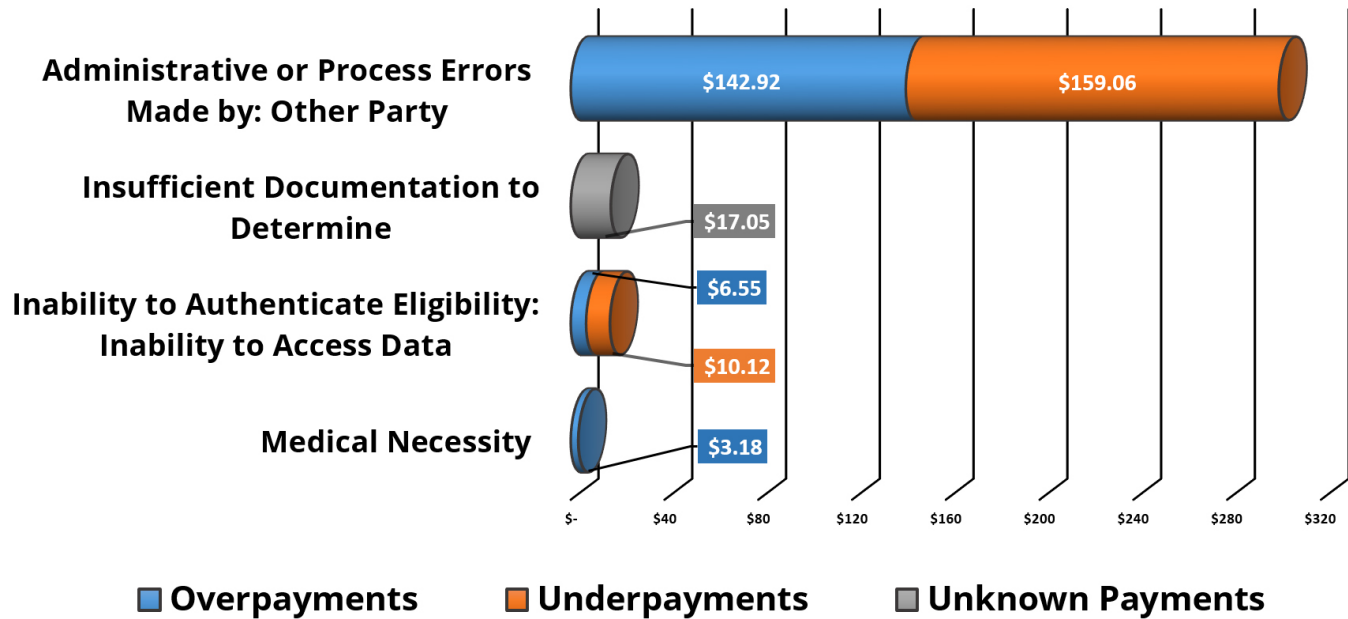
Military Health Benefits

In FY 2020, the estimated improper payments for the Military Health Benefits program were \$338.88 million (see Exhibit 17). This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 1.46% (+/- 0.54) improper payment rate and an estimated proper processing rate of 98.54%.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Exhibit 17: FY 2020 Military Health Benefits Estimated Improper Payments by Root Cause

(\$ in millions)



The majority of the improper payments identified in the Military Health Benefits program resulted from a contractor in the East Regional TRICARE managed care support contract (MCSC) making administrative or process errors when paying TRICARE claims. Specifically, the contractor processed duplicate payments for previously paid healthcare services or supplies, miscalculated hospital reimbursement rates based on the TRICARE reimbursement system(s)/methodology, and omitted provider or procedural discounts when making final payments. DHA determined that these errors occurred due to the following root causes:

- Payment systems were not updated timely with accurate beneficiary information,
- Lack of sufficient training for data entry professionals,
- Lack of sufficient/effective supervision (i.e., review) over the data entry process and reports generated, and
- Employee turnover.

In accordance with OMB Circular No. A-123, Appendix C, DHA does not deem it to be cost effective to create CAPs for the Medical Necessity, Inability to Authenticate Eligibility: Inability to Access Data, and Insufficient Documentation to Determine root cause categories due to the immaterial amounts associated with these improper payments. However, DHA private sector contractors are contractually required to perform the following actions to prevent improper payments:

- Review improper payment testing result, formulate an action plan to mitigate findings, and develop process improvements to avoid future improper payments.
- If warranted, modify claims processing systems to meet the Department’s health care policy, reimbursement, and benefit requirements.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Exhibit 18: Military Health Benefits Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
<p>Administrative or Processing Errors Made by: Other Party</p> <p>Improper payments resulted from the following administrative or process errors:</p> <ul style="list-style-type: none"> ■ Inaccurately calculating hospital reimbursement rates ■ Inaccurately calculating and/or omitting provider or procedural discounts when making final payment. 	Analyzed respective claims processing systems to ensure systems are developed to meet TRICARE policy benefit and reimbursement requirements.	Completed August 2020
	Identified and establish procedures to mitigate claims processing system gaps and deficiencies.	Completed August 2020
	Issued a requirement to the Private Care contractor and sub-contractors to develop CAPs to include defining root causes for improper payments, change/update algorithms in computerized claims processing programs, review and revise staff training programs, and increase supervision of personnel.	Completed September 2020
	Tasked the Private Care contractor with providing quarterly progress reports to demonstrate the actions taken and measure progress toward improving deficiencies identified in business processes.	Completed September 2020
	Monitor necessary system modifications are completed and claims are adjusted according to errors identified by DHA's external compliance review Contractor.	September 2021

In FY 2020, the corrective actions DHA directed to be taken by the contractor in the East Regional TRICARE MCSC directly resulted in a \$72.57 million (or 17.64%) reduction in estimated improper payments in the Military Health Benefits program. The corrective actions are ongoing and DHA anticipates completing their CAPs in FY 2021.



Members from the 11th Space Warning Squadron wait for the Induction into the U.S. Space Force Ceremony to begin at Wings Over the Rockies Air and Space Museum in Denver September 1, 2020.

PHOTO CREDIT: U.S. Air Force photo by Airman 1st Class Haley N. Blevins

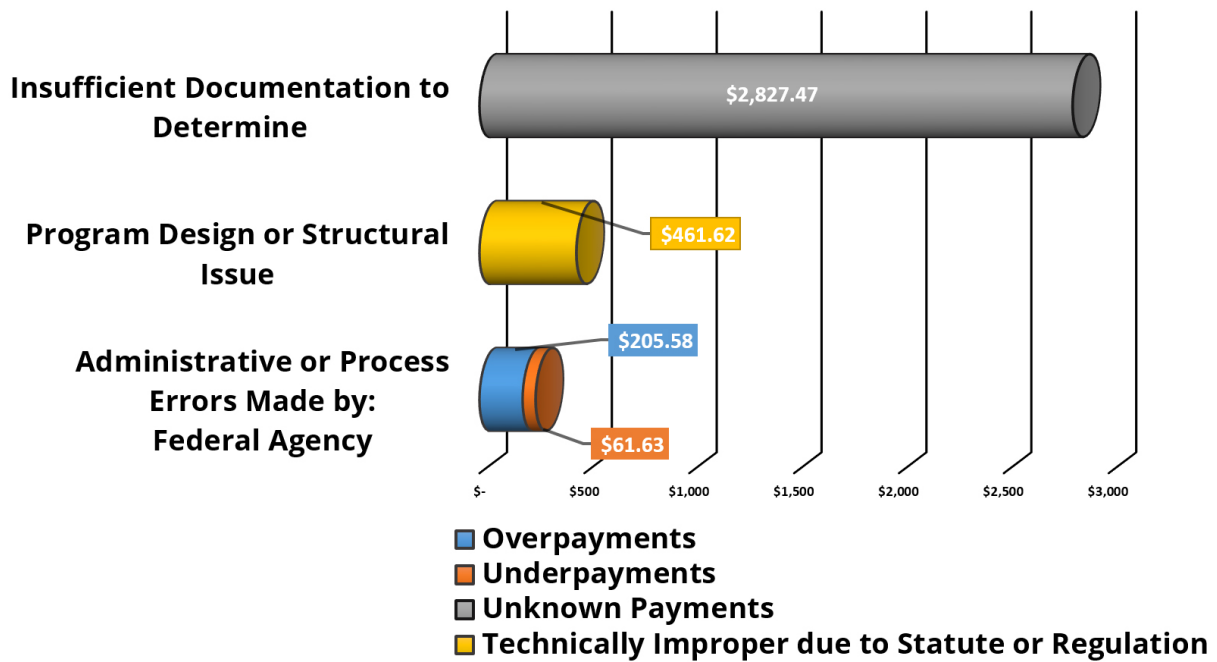
ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Military Pay - Army

In FY 2020, the estimated improper payments for the Military Pay - Army program were \$3,556.30 million (see Exhibit 19). This estimate was based on a sampling methodology with a 95% confidence level, which equated to 8.14% (+/- 1.36) improper payment rate and an estimated proper processing rate of 91.86%.

Exhibit 19: FY 2020 Military Pay - Army Estimated Improper Payments by Root Cause

(\$ in millions)



The majority of the improper payments identified for the Military Pay - Army program resulted from insufficient supporting documentation and may or may not equate to inaccurate payments or monetary losses to the Department. The Army determined that the insufficient supporting documentation errors resulted from the following root causes:

- Lack of a centralized and/or integrated pay and personnel system;
- Communication challenges within Army Commands, and between Army personnel and DFAS payment reviewers; and
- Lack of proper understanding of what represents sufficient supporting documentation for payroll payments.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Exhibit 20: Military Pay - Army Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
<p>Insufficient Documentation to Determine</p> <p>Insufficient Documentation Errors related to the following entitlements and/or allowances:</p> <ul style="list-style-type: none"> ■ Basic Allowance for Housing (BAH) ■ Overseas Housing Allowance (OHA) ■ Cost of Living Allowance (COLA) ■ Family Separation Allowance (FSA) ■ Basic Pay 	Developed CAPs to address specific root causes identified for improper payments attributable to payroll disbursements.	Completed January 2020
	Establish a robust timeline of activities to improve the distribution, reconciliation, and key supporting documentation (KSD) response process. In addition, accelerated the post payment review schedule to allow all stakeholders to adjudicate actions required to identify and report improper payments.	November 2020
	Review and validate the Army KSD Matrix to confirm there is a comprehensive listing of documents for each type of entitlement and/or allowances paid.	November 2020
	Issue guidance for substantive testing requirements for KSDs related to BAH, Basic Pay, COLA, FSA, and OHA entitlements.	November 2020
	Host a Military Pay entrance conference with all key stakeholders to discuss the post payment review objective, timelines, and supporting documentation requirements to assist with establishing clear expectations for the entire duration of the review period.	December 2020
	Develop and/or update the post payment review procedures to include an effective communication plan.	May 2021
	Develop procedures to utilize a centralized collaboration software tool/platform to disseminate samples to DoD Components, collect supporting documentation and furnish final improper payment results.	May 2021
<p>Administrative or Process Errors Made by the Department</p> <p>Improper payments resulted from the following administrative or process errors:</p> <ul style="list-style-type: none"> ■ Payroll data input errors ■ Untimely updates to payroll records and systems. 	Perform an in-depth analysis of Military Pay transactions to determine the actual root causes of payroll disbursements errors identified during the post payment review.	December 2020
	Develop CAPs to address specific root causes identified for improper payments that attributed to payroll disbursements.	December 2020
	Implement the Integrated Personnel and Pay System-Army (IPPS-A) to improve the accuracy, effectiveness, and auditability of military pay transactions. In conjunction with the phased implementation of IPPS-A, the Army has initiated a three-prong strategy for training human resources professionals on military pay.	January 2022

In FY 2020, Army corrective actions to improve the quality of supporting documentation for payroll payments directly resulted in a \$247.18 million reduction in estimated improper payments. Moreover, this reduction contributed to approximately 10.87% of the Department’s overall Military Pay reduction of \$2,273.53 million in estimated improper payments in FY 2020. In FY 2021, the Army will take additional corrective actions to improve the timeliness and quality of supporting documentation to further reduce improper payments.

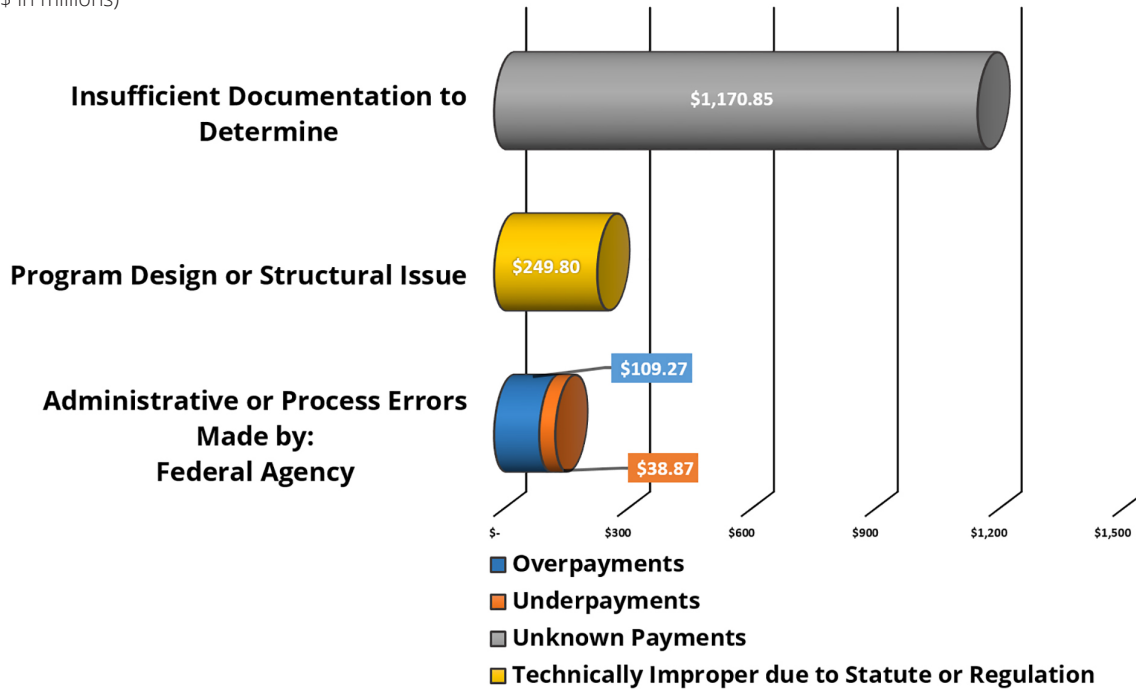
ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Military Pay - Air Force

In FY 2020, the estimated improper payments for the Military Pay - Air Force program were \$1,568.81 million (see Exhibit 21). This estimate was based on a sampling methodology with a 95% confidence level, which equated to 5.64% (+/- 1.22) improper payment rate and an estimated proper processing rate of 94.36%.

Exhibit 21: FY 2020 Military Pay - Air Force Estimated Improper Payments by Root Cause

(\$ in millions)



The majority of the improper payments identified for the Military Pay - Air Force program resulted from insufficient supporting documentation and may or may not equate to inaccurate payments or monetary losses to the Department. The Air Force determined that the insufficient supporting documentation errors resulted from the following root causes:

- Lack of a centralized and/or integrated pay and personnel system;
- Communication challenges within Air Force Commands and Centers and between Air Force personnel and DFAS payment reviewers; and
- Lack of proper understanding of what represents sufficient supporting documentation for payroll payments.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Exhibit 22: Military Pay – Air Force Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
<p>Insufficient Documentation to Determine</p> <p>Insufficient Documentation Errors related to the following entitlements and/or allowances:</p> <ul style="list-style-type: none"> ■ Basic Allowance for Housing (BAH) ■ Overseas Housing Allowance (OHA) ■ Save Pay ■ Flying Duty Pay ■ Basic Pay 	<p>Developed CAPs to address specific root causes identified for improper payments attributable to payroll disbursements.</p> <p>Establish a robust timeline of activities to improve the distribution, reconciliation, and key supporting documentation (KSD) response process. In addition, accelerated the post payment review schedule to allow all stakeholders to adjudicate actions required to identify and report improper payments.</p> <p>Develop and disseminate a data call request to identify all stakeholders who oversee and/or manage Military Pay human resource activities.</p> <p>Host a Military Pay entrance conference with all key stakeholders to discuss the post payment review objective, timelines, and supporting documentation requirements to assist with establishing clear expectations for the entire duration of the review period.</p> <p>Develop and/or update the post payment review procedures to include an effective communication plan.</p> <p>Develop procedures to utilized a centralized collaboration software tool/platform to disseminate samples to DoD Components, collect supporting documentation and furnish final improper payment results.</p>	<p>Completed January 2020</p> <p>November 2020</p> <p>November 2020</p> <p>December 2020</p> <p>May 2021</p> <p>May 2021</p>
<p>Administrative or Process Errors Made by the Department</p> <p>Improper payments resulted from the following administrative or process errors:</p> <ul style="list-style-type: none"> ■ Payroll data input errors ■ Untimely updates to payroll records and systems. 	<p>Perform an in-depth analysis of Military Pay transactions to determine the actual root causes of payroll disbursements errors identified during the post payment review.</p> <p>Develop CAPs to address specific root causes identified for improper payments that attributed to payroll disbursements.</p> <p>Implement the Air Force Integrated Personnel and Pay system (AF-IPPS), a single Total Force military personnel and pay system, enabling financial auditability and long-term sustainment.</p>	<p>December 2020</p> <p>December 2020</p> <p>January 2021</p>

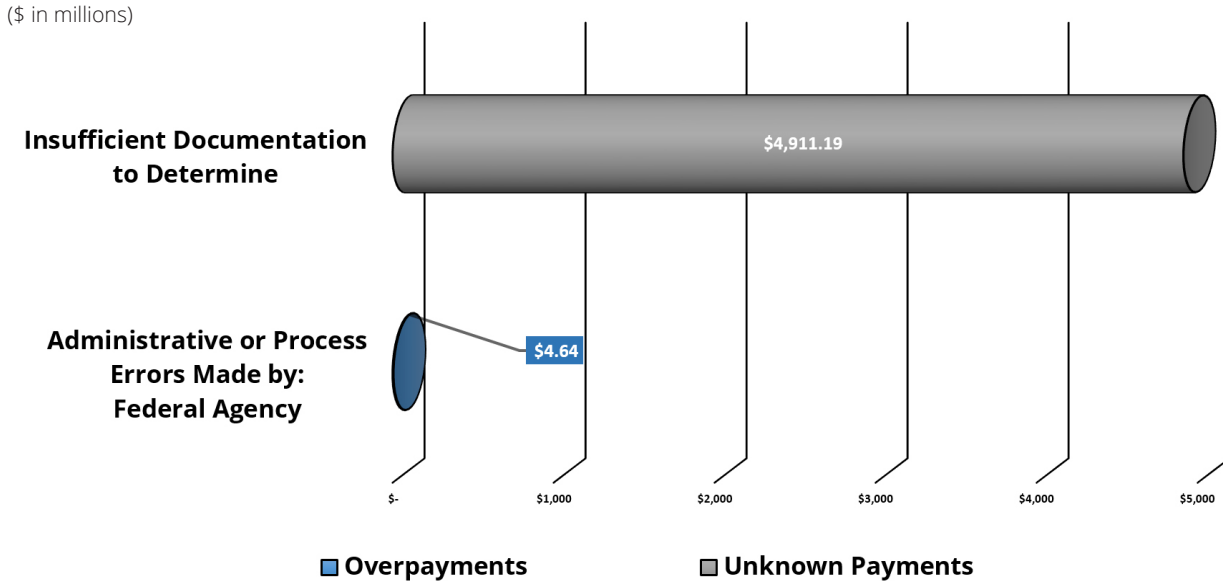
In FY 2020, Air Force corrective actions to improve the quality of their supporting documentation for payroll payments directly resulted in a \$1,866.56 million reduction in estimated improper payments. Moreover, this reduction contributed to approximately 82.10% of the Department’s overall Military Pay reduction of \$2,273.53 million in estimated improper payments in FY 2020. In FY 2021, the Air Force will take additional corrective actions to improve the timeliness and quality of supporting documentation to further reduce improper payments.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Civilian Pay

In FY 2020, the estimated improper payments for the Civilian Pay program were \$4,915.83 million (see Exhibit 23). This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 7.93% (+/- 1.50) improper payment rate and an estimated proper processing rate of 92.07%.

Exhibit 23: FY 2020 Civilian Pay Estimated Improper Payments by Root Cause



In FY 2020, the Department implemented a new sampling and testing methodology for this program which, for the first time, included verification of civilian employees’ basic pay and benefits (or entitlements) against the following supporting documentation:

- Standard Form 50 (SF-50), Notification of Personnel Action; and/or
- SF-1190, Foreign Allowances Application, Grant and Report.

As a result of the Department performing more thorough reviews of civilian payroll payments, improper payments resulting from insufficient supporting documentation that were not detected through previous testing methodologies were identified in FY 2020. Improper payments resulting from insufficient supporting documentation may or may not equate to inaccurate payments or monetary losses to the Department.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

The Department determined that the root cause of the insufficient supporting documentation errors resulted primarily from internal communication challenges experienced during the implementation of the new testing methodology:

- Late identification and verification of Component Human Resources Offices contributed to the delayed distribution of payment samples and, in turn, the late delivery of supporting documentation.
- The Department did not provide sufficient training and/or guidance to the Components on the requirements for supporting documentation.
- Insufficient supporting documentation provided for payment samples identified by DFAS reviewers were not communicated timely to the Components for correction.

Exhibit 24: Civilian Pay Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
<p>Insufficient Documentation to Determine</p> <p>Insufficient Documentation errors included:</p> <ul style="list-style-type: none"> ■ Untimely distribution of samples ■ Lack of and/or inadequate supporting documentation provided 	Updated the DFAS post payment review standard operating procedures and implemented a new sampling plan and testing methodology to include an extensive review of key supporting documentation (KSD) for entitlements paid to civilian employees to verify the accuracy and eligibility of pay allowances.	Completed June 2020
	Establish a robust timeline of activities to improve the distribution, reconciliation, and KSD response process. In addition, accelerated the post payment review schedule to allow all stakeholders to adjudicate actions required to identify and report improper payments.	November 2020
	Identify Human Resource Offices points of contact for all DoD Components.	November 2020
	Host a Civilian Pay entrance conference with all key stakeholders to discuss the post payment review objectives, timelines, and supporting documentation requirements to assist with establishing clear expectations for the entire duration of the review period.	December 2020
	Develop and furnish monthly reports on the status of post payment reviews to include improper payment results (to-date) with corresponding error type, number of samples reviewed, number of samples not received, missing and/or incomplete documentation stats, etc. In addition, present the status to the Senior Accountable Official Committee on a quarterly basis.	May 2021
	Develop and/or update the post payment review procedures to include an effective communication plan.	May 2021
	Develop procedures to utilize a centralized collaboration software tool/platform to disseminate samples to DoD Components, collect supporting documentation and furnish final improper payment results.	May 2021

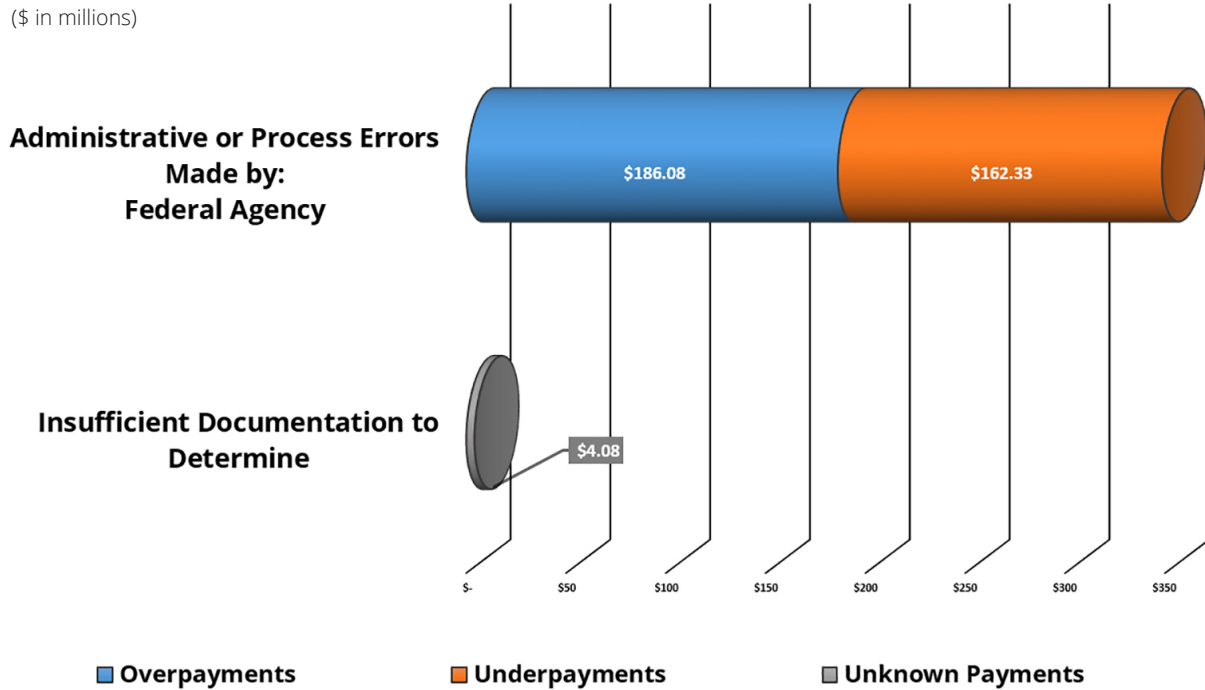
In FY 2020, the Department’s more thorough sampling and testing methodology for the Civilian Pay program directly resulted in a \$4,819.14 million increase in estimated improper payments. The improved level of review, however, enabled the Components to more adequately assess the risk of improper payments, identify the primary entitlement drivers of improper payments, and develop corrective actions to improve communication and the timeliness/quality of the supporting documentation to further reduce their Civilian Pay improper payments in FY 2021. Moreover, the Civilian Pay improper payments for the Navy and the Marine Corps were estimated to be less than one percent as a result of effective actions taken throughout FY 2020 to identify key supporting documentation early in the review process, establish a clear understanding of what constituted sufficient supporting documentation, and obtain reports noting deficiencies earlier for correction.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Military Retirement

In FY 2020, the estimated improper payments for the Military Retirement program were \$352.49 million (see Exhibit 25). This estimate was based on a sampling methodology with a 95% confidence level, equating to a 0.48% (+/- 0.26) improper payment rate and an estimated proper processing rate of 99.52%.

Exhibit 25: FY 2020 Military Retirement Estimated Improper Payments by Root Cause



The majority of the improper payments identified for the Military Retirement program resulted from the following types of administrative or process errors identified during retired and annuitant pay account reviews:

- Errors in processing/applying procedures and policy changes for cost refunds,
- Incorrect survivor benefit payments, and
- Manual computation errors.

Specifically, the errors were identified in the new annuitant, new retired, and changed annuitant accounts. In addition, the late notification of a retiree or annuitant’s death resulted in administrative overpayments to deceased retirees. DFAS determined that administrative or process errors resulted from the following root causes:

- Insufficient training related to complex retiree and annuitant accounts, and
- Lack of policies and procedures for establishing new retiree and annuitant accounts following completed system updates.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Exhibit 26: Military Retirement Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
<p>Administrative or Process Errors Made by the Department</p> <p>Errors for retired and annuitant pay (new annuitants, new retirees, and changed annuitant account) included:</p> <ul style="list-style-type: none"> ▪ Payments made despite insufficient documentation ▪ Errors in following processing procedures and applying policy changes for Department of Veterans Affairs waiver awards ▪ Untimely application of Dependency and Indemnity Compensation offsets ▪ Systematic computation errors ▪ Manual computation error 	<p>Automated the cost refund system to eliminate manual entries for new, changed and unchanged accounts. The System Change Requests reduced the amount of manual processing, eliminate over 50 excel workbooks currently in use and increase timeliness of processing transactions to establish survivor benefit plan elections accurately at the start of retired pay.</p>	<p>Completed June 2020</p>
	<p>Update policies based on the automation process to establish current and future annuity accounts. In addition, establish a training plan to identify all stakeholders affected by the new policy and/or procedures.</p>	<p>December 2020</p>
	<p>Conduct focused based training specifically for the complex cases related to Survivor Benefit Program and Annuity and assess results of training on a recurring basis.</p>	<p>October 2021</p>
	<p>Monitor, on a minimum monthly basis, employees' performance for processing transactions in accordance to established performance standards.</p>	<p>October 2021</p>

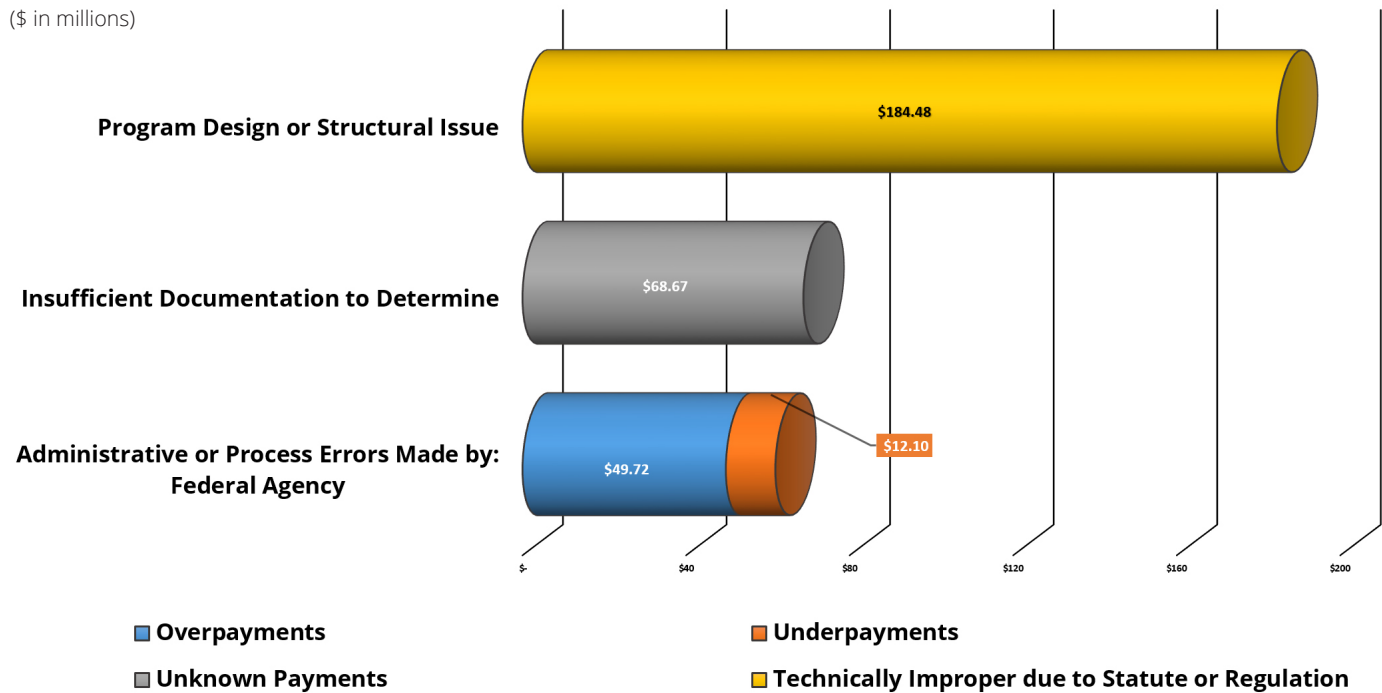
In FY 2020, the Department's corrective actions resulted in major system updates that improved the accuracy of retirement payments by eliminating manual entries required to establish and update retiree and annuitant accounts. The system change requests implemented to automate manual processes significantly reduced the annuitant backlogs (from 20,000 cases in FY 2019 to less than 1,000 in FY 2020) and increased the timeliness of processing transactions. However, since the system updates were not fully implemented until Quarter 3, FY 2020, they had a nominal impact on reducing improper payments, decreasing improper payments only during Quarter 4, FY 2020. In FY 2021, the Department expects to realize further reductions in improper payments as a result of the system updates.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

DoD Travel Pay

In FY 2020, the estimated improper payments for the DoD Travel Pay program were \$314.97 million (see Exhibit 27). This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 4.27% (+/- 0.34) improper payment rate and an estimated proper processing rate of 95.73%.

Exhibit 27: FY 2020 DoD Travel Pay Estimated Improper Payments by Root Cause



The improper payments identified in the Travel Pay program primarily resulted from travel vouchers paid with no receipts or invalid and/or incorrect receipts for expenses. Specifically, travel expenses for which receipts are required (such as airfare, lodging, and rental cars) were not provided by travelers, and approving or certifying officials approved vouchers with missing or invalid receipts. In accordance with the **Joint Travel Regulations**, receipts must be provided with travel vouchers for all expenses of \$75 or more. To be considered valid, a receipt must contain the name of the entity providing the good(s) or service(s), the date(s) that the good(s) or service(s) were provided or purchased, the price of the good(s) or service(s), any tax levied, the total amount due, and an indication that the total amount due was paid. Additional errors identified related to unsigned travel vouchers, meal rates paid incorrectly, and incorrect payments related to permanent change of station expenses. The Department determined that all of these errors resulted from the following root causes:

- Insufficient training for travelers and approving or certifying officials, and
- Inadequate controls in the Defense Travel System (DTS) related to voucher documentation requirements

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Exhibit 28: DoD Travel Pay Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
<p>Insufficient Documentation to Determine</p> <ul style="list-style-type: none"> Failure to attach receipts to the travel voucher, invalid or incorrect receipts, and illegible receipts. 	<p>Completed and implemented statistically valid sampling and estimation plan for three of Army's overseas Finance Offices to improve the reliability of the estimates produced.</p>	<p>Completed March 2020</p>
	<p>Completed enhancements to the Defense Travel System (DTS) to include a pre-payment "audit" feature to determine if the traveler uploaded or attached supporting documentation (i.e., a required receipt) with the claim. Activities included developing detailed user stories and acceptance criteria and establishing a user group to include representatives from DoD Components to review system functionality and system design.</p>	<p>Completed March 2020</p>
<p>Administrative or Process Errors Made by the Department And Program Design or Structural Issue</p> <ul style="list-style-type: none"> Incomplete Vouchers Failure of the traveler and/or approving official to sign and/or date the Travel Voucher prior to submission for approval in DTS. 	<p>Completed the Travel Pay improper payment remediation plans that accounted for approximately 95% of the Department's travel pay disbursements processed in the DTS.</p>	<p>Completed March 2020</p>
	<p>Implemented measurable customer service and fiduciary requirements for travel claim processing are included in performance appraisals for all analysts, supervisors, officers in charge and directors.</p>	<p>Completed July 2020</p>
	<p>Implement additional training to address missing airfare receipts and enhance pre-payment validation requirements associated with outstanding travel advances.</p>	<p>November 2020</p>
	<p>Review and update guidance, requiring Auditors that perform payment reviews in Windows Integrated Automated Travel System (WinIATS) to be appointed as Certifying Officers to ensure all vouchers were subject to pre-payment reviews and signed by an appointed Certifying Officer to reduce improper payments associated with missing Approving Official signatures.</p>	<p>December 2020</p>

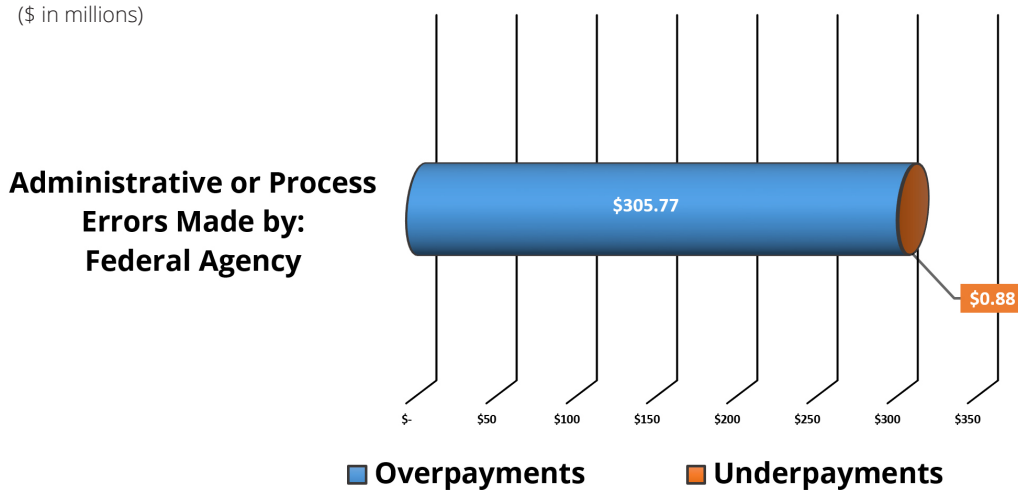
In FY 2020, the Department's corrective actions resulted in a \$51.52 million (or 0.49%) reduction in estimated travel improper payments. In addition, the system enhancements implemented within DTS are expected to further reduce the improper payment rate in FY 2021.

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

Commercial Pay

In FY 2020, the estimated improper payments for the Commercial Pay program were \$306.65 million (see Exhibit 29). This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 0.08% (+/- 0.08) improper payment rate and an estimated proper processing rate of 99.93%.

Exhibit 29: FY 2020 Commercial Pay Estimated Improper Payments by Root Cause



The improper payments identified in the Commercial Pay program primarily resulted from administrative or process errors such as processing duplicate payments and paying incorrect vendors. The Department determined that these errors resulted from the following root causes:

- Insufficient training for pay technicians, and
- Inadequate controls related to contract refunds.

Exhibit 30: Commercial Pay Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Administrative or Process Errors Made by the Department Improper payments resulted from the following administrative or process errors: <ul style="list-style-type: none"> ■ Duplicate invoice submissions, ■ Invoices with incorrect Commercial and Government Entity code 	Conduct focused training for pay technicians to increase their ability to compute and input claims accurately. This will include updating standard operating procedures on newly implemented controls.	January 2021
	Document the Short Pay process to improve existing controls and implement procedures to ensure that payments made to vendors are accurate. The newly implemented controls will include the development of a tool for enhanced visibility of the workload, which will facilitate a more efficient approach to monitoring the refunds due, thus increasing the timeliness of payments.	March 2021
	Develop a database that will furnish reports highlighting data inaccuracies in MOCAS on the front end of the payment process. This includes adding integrity checks within the Business Activity Monitoring Tool to determine if changes can be made to create exceptions to identified duplicate payments.	March 2021

ROOT CAUSES AND CORRECTIVE ACTION PLANS FOR PROGRAMS SUSCEPTIBLE TO SIGNIFICANT IMPROPER PAYMENTS (CONTINUED)

In FY 2020, the Department's corrective actions improved the testing, identification, and reporting of improper payments for the Commercial Pay program, which directly resulted in a \$287.40 million increase in estimated improper payments for this program. Specifically, the Department improved the overall accuracy and completeness of the Commercial Pay estimate by implementing audit recommendations made by the DoD OIG that support more accurate improper payment reporting from the Mechanization of Contract Administration Services system, which accounts for more than 50% of the outlays in the Commercial Pay program. The Department also started including government purchase card payments and transportation overcharges reported by the General Services Administration in the program testing populations.

PAYMENT RECAPTURE AUDIT PROGRAM REPORTING

The main objective of the Department's Payment Recapture Audit (PRA) program is to identify, recapture, and reallocate overpayments made by DoD components in support of the DoD mission while simultaneously demonstrating financial stewardship of resources.

In FY 2020, the Department reassessed its PRA program to ensure its compliance with PIIA, resolve three long-standing, open audit recommendations and to substantiate the proper stewardship and execution of the Department's financial resources. Specifically, DoD components were required by a Department memorandum to categorize and document the internal control activities and the specific tools or methods used to identify and recover overpayments. Based on the reassessment, all PIIA programs were reported as "Overpayments Recaptured through Payment Recapture Audits," with the exception the of Military Health Benefits program, which was reported as "Overpayments Recaptured Outside of Payment

Recapture Audits" since DHA uses an external contractor to perform its PRA Activities. The reporting of the Military Health Benefits program as "Overpayments Recaptured Outside of Payment Recapture Audits" will be reevaluated in FY 2021.

The Department's PRA program consists of a combination of cost-effective internal controls implemented by DoD Components, PIIA-related initiatives, and recapture activities performed by TRICARE private sector contractors. PRA activities are a synchronization of actions taken by DoD Components with additional collection activities performed by DFAS, DHA, and USACE on behalf of the Department. Moreover, the Department PRA program encompasses all 11 DoD Payment Integrity programs with the following distinctions; PRA programs use the full current Fiscal Year not the sampling periods used in the PIIA compliance audit and the PRA programs use actual identified and recoupment amounts not statistical projections.

PAYMENT RECAPTURE AUDIT PROGRAM REPORTING (CONTINUED)

Exhibit 31: FY 2020 Payment Recapture Audit Reporting

(\$ in millions)

Does This Include Funds Recaptured from a High-Priority Program (Y/N) ¹	Program or Activity	Overpayments Recaptured Through Payment Recapture Audits				Overpayments Recaptured Outside of Payment Recapture Audits	
		Amount Identified in FY 2020 (\$)	Amount Recaptured in FY 2020 (\$) ⁷	Recapture Rate in FY 2020 (%)	FY 2021 Recapture Rate Target (%)	Amount Identified in FY 2020 (\$)	Amount Recaptured in FY 2020 (\$)
N	Military Health Benefit ^{2,3}	-	-	-	-	\$13.85	\$295.86
Y	Military Pay ⁴	\$13.82	\$10.73	78%	-	-	-
Y	Civilian Pay ⁵	55.17	27.60	50%	-	-	-
N	Military Retirement ⁶	322.58	232.19	72%	-	-	-
N	DoD Travel Pay	12.74	9.68	76%	-	-	-
N	Commercial Pay	430.70	417.00	97%	-	-	-
N	USACE Travel Pay	0.22	0.20	91%	-	-	-
N	USACE Commercial Pay	6.96	6.82	98%	-	-	-
TOTAL		<u>\$842.19</u>	<u>\$704.22</u>	<u>84%</u>	<u>84%</u>	<u>\$13.85</u>	<u>\$295.86</u>

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

EXHIBIT 31 FOOTNOTES:

1 In accordance with OMB Circular No. A-123, Appendix C, the threshold for designation as a high-priority program for FY 2020 reporting is \$2 billion in estimated improper payments reported by the federal agency, regardless of the improper payment rate estimate.

2 The amounts reported for the Military Health Benefits program include recoupments for overpayments identified in payment reviews as well as refunds occurring in the course of routine claim adjustments. The Department is unable to distinguish overpayment recoupments from routine claim adjustments.

3 The Defense Health Agency modified its methodology to mitigate the risk of duplicative reporting of refunds.

4 The Military Pay program includes both in-service collections (i.e., collections from current Military Service members) and out-of-service debts (i.e., collections from individuals not currently employed by the Department) in "Amount Recaptured." In FY 2020, the Military Pay PRA results are combined due to current system limitations, but they will be reported by Military Service in FY 2021.

5 The Civilian Pay program includes only in-service collections in "Amount Recaptured."

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

7 "Amount Recaptured" includes debts that have been fully collected.

PAYMENT RECAPTURE AUDIT PROGRAM REPORTING (CONTINUED)**Exhibit 32:** FY 2020 Disposition of Funds Recaptured Through Payment Recapture Audits

(\$ in millions)

Program or Activity	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other
Military Pay	-	-	-	\$10.73	-	-	-
Civilian Pay	-	-	-	27.60	-	-	-
Military Retirement	-	-	-	232.19	-	-	-
DoD Travel Pay	-	-	-	9.68	-	-	-
Commercial Pay ¹	-	-	-	-	-	-	-
USACE Travel Pay	-	-	-	0.20	-	-	-
USACE Commercial Pay	-	-	-	6.82	-	-	-
TOTAL	\$-	\$-	\$-	\$287.22	\$-	\$-	\$-

Note: Amounts may not sum or calculate exactly due to rounding.**EXHIBIT 32 FOOTNOTES:**

1 Due to system limitations, the Department was not able to report accurate disposition of Commercial Pay recoveries.

Exhibit 33: FY 2020 Aging of Outstanding Overpayments Identified Through Payment Recaptured Audits

(\$ in millions)

Program or Activity	FY 2020 Remaining Unrecovered	Amount Outstanding (0 - 6 months)	Amount Outstanding (6 months - 1 year)	Amount Outstanding (> 1 year)	Amount determined to not be collectable	Percent determined to not be collectable
Military Pay	\$3.09	-	\$3.09	-	-	-
Civilian Pay	27.57	-	27.57	-	-	-
Military Retirement	90.39	-	90.39	-	-	-
DoD Travel Pay	3.06	\$1.09	1.97	-	-	-
Commercial Pay	13.70	2.60	3.10	\$8.00	\$0.06	0.4%
USACE Travel Pay	0.02	-	0.02	-	-	-
USACE Commercial Pay	0.14	-	0.14	-	-	-
TOTAL	\$137.97	\$3.69	\$126.28	\$8.00	\$0.06	-

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

FRAUD REDUCTION REPORT

Requirements established under the Fraud Reduction and Data Analytics Act of 2015 (**FRDAA**), which were extended by PIIA, direct federal agencies to establish financial and administrative controls to prevent, detect, and respond to fraud risk. In response to these requirements, the Department continued to execute the fraud analytics pilot and issued an inaugural Fraud Risk Management (FRM) Strategy in FY 2020, which is grounded in leading practices identified by the GAO report, "**A Framework for Managing Fraud Risks in Federal Programs.**"

In FY 2020, the Department continued to strengthen its data driven approach to enhance the FRM activities through the expansion of the data analytics pilot to include timecard data. The data analytics pilot helped derive insights into potential fraudulent transactions for research by subject matter experts across the Department. As a result of the analytics performed, the Department identified fraud indicators and developed dashboards and visualizations that included relevant key performance indicators and examples of potential types of high risk employees and vendor information. The data-driven framework leveraged for this pilot will be scaled across the DoD enterprise and expanded to incorporate additional fraud schemes for high-risk areas.

The Department analyzed the fraud risk and fraud control inputs collected from the Components to inform the inaugural FRM Strategy. The FRM Strategy summarizes the imperative and requirements for managing fraud risk in the Department; describes the governance, organization, and core responsibilities of DoD stakeholders; provides an overview of the Fraud Risk Assessment and Fraud Control Assessment processes; and illustrates a timeline of fraud risk management activities. The FRM Strategy, along with a tone-at-the-top letter issued by the **Deputy Chief Financial Officer**, demonstrates the Department's commitment to combat fraud. The Department also established the Fraud Reduction Task Force as a cross-functional tactical team represented by subject matter experts and senior leaders across the Department, responsible for the review of high priority fraud risks and the identification of Department-wide solutions, to include the use of advanced analytics.

The Department continued to leverage the Risk Management and Internal Control Program as a baseline for the oversight of

the Department's fraud control environment and to implement the FRM Strategy. In FY 2020, DoD Components continued to assess the risk of fraud as a part of their annual risk assessment process. The fraud risks reported by the Components will be used to update the Department-wide fraud risk register, to include an inventory of fraud risks across the Department. The Department identified potential fraud risks across payroll, beneficiary payments, grants, procurements, large contracts, information technology and services, asset safeguards, purchase and travel cards, and contingency and emergency programs. The Department will update the fraud risk profile that identifies the prioritized list of fraud risks across the Department to include any new risks that needs to be considered or previously reported risk that no longer requires monitoring at the Department level. The Department continued to mature its fraud control environment through the assessment of the current fraud controls with best practices outlined by GAO and OMB. In FY 2020, Components identified specific Department-wide control activities to prevent and detect fraud. The Department will leverage the control activities provided by Components to create a list of "best practices" that can be leveraged to improve the Department's fraud control environment.

The Department issued the annual guidance to communicate "lessons learned" from FY 2019 FRM activities and provided Components with actionable guidance to improve their FRM programs. Throughout the calendar year, the Department engaged with the risk and internal control community to provide effective FRM activities to include guidance on how to improve the fraud control environment across the Department. The Department developed the annual FRM webinar, conducted Fraud Reduction Task Force Office Hours to discuss the fraud analytics pilot and high risk fraud areas, and scheduled periodic RMIC Office Hours to maintain an ongoing dialogue and provide training to Components.

Looking ahead, the Department will continue to lead the coordination of FRM efforts through the annual refresh of the FRM Strategy, Statement of Assurance Execution Handbook, and regular office hours. In response to a recommendation in GAO's report, "**Defense Procurement: Ongoing DoD Fraud Risk Assessment Efforts Should Include Contract Ownership,**" the Department will continue to include an assessment of risks

FRAUD REDUCTION REPORT (CONTINUED)

related to contract ownership as part of its ongoing efforts to plan and conduct a Department-wide fraud risk assessment. The Department will continue to provide updated guidance to include leveraging leading practices, trends, identified fraud schemes, and areas of opportunity to help mature the Department-wide fraud risk management program. Inputs obtained from the annual fraud risk assessments and fraud control assessments, as well as insights gained from the data-driven fraud risk monitoring activities will continue to inform focus areas and training topics that will influence the FRM Strategy. The Department will also proactively monitor high-risk fraud areas as identified by key stakeholders including the DoD OIG, GAO, and OMB. In addition, the Department is dedicated to the mitigation of risks associated with contractor ownership and will continue to collaborate across the Department to execute fraud risk strategy and to evaluate related control activities and recommend changes to applicable laws and guidance.



Mississippi Army National Guardsmen unload supplies at Camp Shelby Joint Force Training Center near Hattiesburg, Miss., in preparation to respond to Hurricane Sally, September 15, 2020.

PHOTO CREDIT: Army Spc. Victoria Miller

REAL PROPERTY

The Federal Real Property Profile Management System (**FRPP MS**) is the federal government's centralized inventory of real property of data as submitted by each federal agency per requirements of **Executive Order 13327**.

The Department submits its real property data to the FRPP MS each year at the constructed asset level. Pursuant to the Federal Asset Sale and Transfer Act of 2016 (**FASTA**), the GSA made real property data from the FRPP MS accessible beginning on December 15, 2017 in the publicly available **Federal Real Property Public Data Set**. Language in the FASTA specifically excludes the Department's data from being reported in the public data set due to security concerns.



Vintage aircraft fly in formation over Oahu, Hawaii, as part of the 75th commemoration of the end of World War II, Sept. 1, 2020.

Photo credit: Air Force Tech. Sgt. Anthony Nelson

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The **Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015**, which amended the **Federal Civil Penalties Inflation Adjustment Act of 1990 (28 U.S.C. §2461, note)**, requires federal agencies to annually adjust the level of civil monetary penalties for inflation to improve their effectiveness and maintain their deterrent effect.

The implementation of this law helps deter violations of law; encourages corrective actions for existing violations; and helps prevent fraud, waste, and abuse within the Department. The Department's civil monetary penalty adjustments are published as final rules in the Federal Register separately for adjustments pertaining to the U.S. Army Corps of Engineers (USACE) and those related to the remainder of the Department. Exhibit 34 provides the civil monetary penalties that the Department may impose, the authority for imposing the penalty, the year enacted, the year of the latest adjustment, and the current penalty level. Additional supporting details about these penalties are available at Federal Register Volume 85, pages 13047 (**85 FR 13047**) and 35003 (**85 FR 35003**).



Army paratroopers provide supporting fire for an assault force during the night live-fire portion of Exercise Rock Klesman at Poček Training Area, Slovenia, March 3, 2020.

Photo credit: Army Staff Sgt. Jacob Sawyer

Exhibit 34. FY 2020 Civil Monetary Penalty Adjustments for Inflation

Penalty Name/Description	Statutory Authority	Year Enacted	Latest Year of Adjustment	Current Penalty (\$ amount or range)	Sub-Agency/Bureau/Unit	Location for Penalty Update Details
Unauthorized Activities Directed at or Possession of Sunken Military Craft	National Defense Authorization Act for FY 2005, 10 U.S.C §113, note	2004	2020	\$134,807.00	Department of the Navy	85 FR 13047 (March 6, 2020)
Unlawful Provision of Health Care	10 U.S.C. §1094(c)(1)	1985	2020	\$11,837.00	Defense Health Agency	85 FR 13047 (March 6, 2020)
Wrongful Disclosure - Medical Records	10 U.S.C. §1102(k)	1986	2020	\$6,999.00 (First Offense) \$46,663.00 (Subsequent Offense)	Defense Health Agency	85 FR 13047 (March 6, 2020)
Violation of the Pentagon Reservation Operation and Parking of Motor Vehicles Rules and Regulations	10 U.S.C. §2674(c)(2)	1990	2020	\$1,928.00	Deputy Chief Information Officer	85 FR 13047 (March 6, 2020)
Violation Involving False Claim	31 U.S.C. §3802(a)(1)	1986	2020	\$11,665.00	Office of Inspector General	85 FR 13047 (March 6, 2020)
Violation Involving False Statement	31 U.S.C. §3802(a)(2)	1986	2020	\$11,665.00	Office of Inspector General	85 FR 13047 (March 6, 2020)
Class I Civil Administrative Penalties for Violations of Clean Water Act Section 404 Permits	Clean Water Act , 33 U.S.C. §1319(g)(2)(A)	1987	2020	\$22,231 per violation, with a maximum of \$55,801	U.S. Army Corps of Engineers	85 FR 35003 (June 8, 2020)
Judicially Imposed Civil Penalties for Violations of Clean Water Act Section 404 Permits	Clean Water Act , 33 U.S.C. §1344(s)(4)	1987	2020	Maximum of \$55,801 per day for each violation	U.S. Army Corps of Engineers	85 FR 35003 (June 8, 2020)
Civil Administrative Penalties for Violations of Section 205(e) of the National Fishing Enhancement Act	National Fishing Enhancement Act, 33 U.S.C. §2104(e)	1984	2020	Maximum of \$24,441 per violation	U.S. Army Corps of Engineers	85 FR 35003 (June 8, 2020)
Violations of the Rivers and Harbors Appropriation Act of 1922	33 U.S.C §555	1986	2020	\$5,834 per violation	U.S. Army Corps of Engineers	85 FR 35003 (June 8, 2020)

BIENNIAL REVIEW OF USER FEES

The Department has the authority to establish the charge for a service or thing of value, in accordance with the guidelines that are defined by **31 United States Code §9701**, Fees and Charges for Government Services and Things of Value.

User fees and charges are designed to reduce the burden on taxpayers to finance the portions of activities that provide benefits to identifiable users beyond what is normally provided to the public. By charging the costs of programs or activities to identifiable beneficiaries, user fees and charges can promote economic efficiency and equity just as prices for private goods and services can do in a free and competitive private market. The Department must review their fees on a regular basis to ensure that they, Congress, and stakeholders have complete information. Reviews provide information on whether the fee rates and authorized activities are aligned with program costs and activities.

The **Chief Financial Officers Act of 1990**, and **OMB Circular No. A-25**, User Charges, require Federal agencies to review, on a biennial basis, the fees, royalties, rents, and other charges

imposed by the agency for services and items of value provided to specific recipients, beyond those received by the general public. The purpose of this review is to periodically adjust existing charges to reflect unanticipated changes in costs or market values, and to review all other agency programs to determine whether fees should be assessed for Government services or the use of Government goods or services.

The Department is continuing to review and analyze user charges, and continues to work towards developing a formalized process to report any identified findings and results.

GRANT PROGRAMS

Exhibit 35 provides data related to expired federal grant and cooperative agreement awards and balances for which closeout had not yet occurred in accordance with Title 2, Code of Federal Regulations, **section 200.344** for two or more years following the end date of the period of performance (PoP).

Exhibit 35. Unclosed Expired DoD Grant and Cooperative Agreement Awards

Category	2 – 3 years (PoP ended during FY 2018 or FY 2017)	> 3 – 5 years (PoP ended during FY 2016 or FY 2015)	> 5 years (PoP ended during FY 2014 or earlier)
Number of Grants/Cooperative Agreements with Zero Dollar Balances	1,796	988	1,583
Number of Grants/Cooperative Agreements with Undisbursed Balances	1,780	552	391
Total of Amount of Undisbursed Balances	\$352,370,405	\$95,300,074	\$39,389,884

The Department is continuing multiple efforts to improve the closeout process, including through the creation of the intra-agency DoD Grants Closeout Policy working group focused on the development of standard agency-wide policy and guidance. During FY 2020, the working group – which is composed of representatives from the Office of the Under Secretary of Defense for Research and Engineering, Military Departments, Defense Logistics Agency, Defense Contract Management Agency, and the Uniformed Services University of Health Sciences – developed a checklist to track all of the required closeout activities necessary to facilitate completion of the closeout process. Despite these efforts, the Department continues to face a number of challenges in completing the closeout of expired grants and cooperative agreement awards, including lack of adequate staffing (not enough grant officers), difficulty in obtaining timely final financial and performance reports from grantees, and the lack of a centralized system for the management and reporting of grant and cooperative agreement awards. The Department continues to actively research mitigation strategies for these and other challenges.



Marines fire an M72A7 light antitank weapon during training in Kuwait, September 3, 2020.

Photo credit: Army Sgt. Trevor Cullen