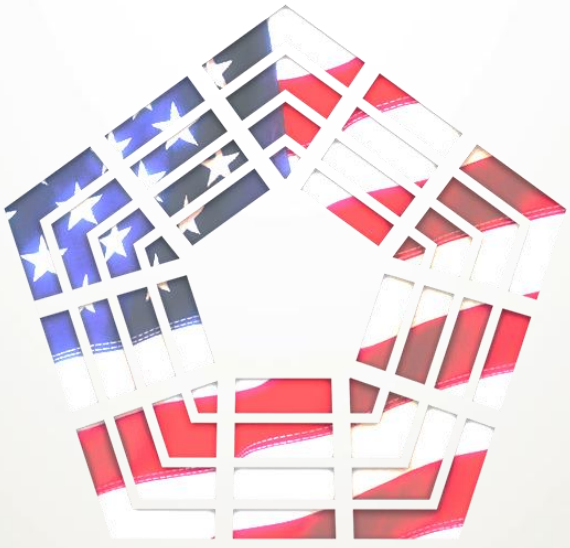
UNITED STATES DEPARTMENT OF DEFENSE

AGENCY FINANCIAL REPORT

FISCAL YEAR 2015

OTHER INFORMATION



Air traffic controllers with the 379th Expeditionary Operations Support Squadron review base-specific airspace operating instructions Sept. 2, 2015, at Al Udeid Air Base, Qatar.

Photo by Staff Sgt. Alexandre Montes

A soldier, middle, with the 1st Platoon, Lightning Troop, 3rd Squadron, 2nd Cavalry Regiment, demonstrates walk-and-shoot procedures to Lithuanian soldiers assigned to the 3rd Company, Algirdas Mechanized Infantry Battalion during Operation Atlantic Resolve 2015. The U.S. and partner nations conducted land, sea, and air exercises and maintained a rotational presence in order to reinforce NATO security commitments in Europe.

Photo by Staff Sgt. Megan Leuck

OTHER INFORMATION

MANAGERS' INTERNAL CONTROL PROGRAM

The Department's management has a fundamental responsibility to develop and maintain effective internal controls to ensure Federal programs operate and Federal resources are used efficiently and effectively to achieve desired objectives. As discussed in the Internal Controls section of this report, 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 for 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 *OMB Circular No. A-123*, and fall into one of the following categories:

1. FMFIA Section 2, Financial Reporting Material Weaknesses (see Table 2a).
2. FMFIA Section 2, Non-Financial Operations Material Weaknesses (see Table 2b).
3. FMFIA Section 4, Financial System Nonconformance Weaknesses (see Table 2c).
4. FFMIA, Compliance with Section 803(a), FFMIA (see Table 3).

Army paratroopers assault an enemy-held urban environment at a live-fire range at the National Training Center on Fort Irwin, Calif., Aug. 1, 2015. The paratroopers completed several blank and live-fire iterations during the day and at night, sharpening their proficiency at battle drills in the austere environment of the Mojave Desert.

SUMMARY OF DOD IG-IDENTIFIED MATERIAL WEAKNESSES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

Table 1 lists the DoD IG-identified 13 areas of material weakness in the Department's financial statement reporting.

Table 1. Summary of Financial Statement Audit						
Audit Opinion: Disclaimer						
Restatement: Yes						
	Areas of Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
1	Accounts Payable	1				1
2	Accounting Entries	1				1
3	Environmental Liabilities	1				1
4	Government Property in Possession of Contractors	1				1
5	Intragovernmental Eliminations	1				1
6	Operating Materials and Supplies	1				1
7	Reconciliation of Net Cost of Operations to Budget	1				1
8	Statement of Net Cost	1				1
9	Financial Management Systems	1				1
10	Fund Balance with Treasury	1				1
11	General Property, Plant & Equipment	1				1
12	Inventory	1				1
13	Accounts Receivable	1				1
	Total Material Weaknesses	**13**				**13**

SUMMARY OF MANAGEMENT ASSURANCES

1. FMFIA SECTION 2, FINANCIAL REPORTING MATERIAL WEAKNESSES. Under the oversight of the DoD Financial Improvement Audit Readiness (FIAR) Governance Board, discussed in the *FIAR Plan Status Report*, the Department's assessment of the effectiveness of its internal controls over financial reporting identified 16 areas of material weakness in FY 2015.

Table 2 lists the material weaknesses in internal controls over financial reporting, captured by end-to-end process and the assessable unit for the material weakness, and incorporates changes from the weaknesses reported in the FY 2014 Agency Financial Report.

Table 2. Effectiveness of Internal Controls over Financial Reporting (FMFIA Section 2)							
Statement of Assurance: No Assurance							
End-to-End Process	**Areas of Material Weakness**	**FY 2015 Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**FY 2015 Ending Balance**
Budget-to-Report	Fund Balance with Treasury (FBWT)	1					1
	Financial Reporting Compilation	1					1
	Intragovernmental Eliminations	1			(1)		0
Hire-to-Retire	Health Care Liabilities	1					1
	Civilian Pay	1					1
	Military Pay	1					1
Order-to-Cash	Accounts Receivable	1					1
Procure-to-Pay	Contract/Vendor Pay	1					1
	Reimbursable Work Orders (Budgetary)	1			*		1
	Transportation of Things	1					1
	Transportation of People	1					1
Acquire-to-Retire	Equipment Assets	1					1
	Real Property Assets	1					1
	Environmental Liabilities	1					1
Plan-to-Stock	Inventory	1					1
	Operating Materials & Supplies (OM&S)	1					1
	Military Standard Requisitioning and Issue Procedures (Requisitioning Procedures)	1					1
Total Financial Reporting Material Weaknesses		**17**			**(1)**		**16**

* The FY 2014 material weakness reported for Intragovernmental Eliminations has been consolidated and reported in the Reimbursable Work Orders material weakness for FY 2015.

Table 2a provides a brief description of each of the material weaknesses in financial reporting, with corrective actions and the target correction year.

Table 2a. FY 2015 Material Weaknesses in Internal Controls over Financial Reporting

	Areas of Material Weakness	Year Identified	DoD Components	Corrective Actions	Target Correction Year
1	Fund Balance with Treasury (FBWT) • Ineffective processes and controls to reconcile transactions posted to the Department's FBWT accounts with the Department of Treasury's (Treasury) records. • Collections and Disbursements are reported to Treasury but are not recorded in the Department's general ledger. • Ineffective processes to provide sufficient and accurate documentation to support FBWT transactions and reconciling items.	FY 2005	Department-wide	• 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. • Develop an auditable FBWT reconciliation process, to include implementation of internal controls that ensure reconciling differences are resolved in a timely and accurate manner. • Analyze and resolve transactions posted to budget clearing accounts ("suspense" accounts). • Analyze and resolve transactions reported on Treasury's Statement of Differences (e.g., deposits, electronic funds transfer (EFT), and check issue). • Perform aging analysis and apply reconciliations backwards to any years possible. • Implement Treasury Sub-Account Codes (point accounts) strategy. • Issue FBWT DoD Financial Manual Regulation policy update. • Implement daily Treasury reporting capabilities. • Perform Statement on Standards for Attestation Engagements (SSAE) 16, Reporting on Controls at a Service Organization, for both Defense Contract Administration Services (DCAS) and FBWT.	FY 2017

2	Financial Reporting Compilation • Ineffective processes and controls to prepare accurate financial statements supported by general ledger balances that align with Department strategic and performance plans, to include incorrect crosswalk and mapping of transactions to ensure completeness and accuracy of the financial reporting. • Inability to reconcile detail-level transactions with the general ledgers and to provide adequate supporting documentation for adjustment entries. • Accounting balances are unsupported due to inadequate financial management systems and related processes and procedures. • Inconsistency in documented processes and procedures for performing reconciliations and resolving differences and the actual processes in practice. • Lack of developed approach for performing and retaining reconciled date for sensitive activities. • Inconsistent procedures for recording Journal Vouchers and Standard Business Transactions (SBT) and retention procedures to ensure maintaining of proper supporting documentation poses a significant risk to producing accurate and complete financial statements and reports.	FY 2007	Department-wide	• Implement a Standard Financial Information Structure (SFIS) to standardize financial reporting that aligns with the Department's mission. • Implement controls that ensure adequate documentation exists to validate and support journal entries. • Obtain population of feeder system data transactions and perform reconciliations from feeder systems to the financial statements. • Implement Reconciliations for Defense Agencies. • Implement strategy for obtaining, reconciling and securely storing sensitive data. • Implement Integrated Pay and Personnel system (IPP), to include system change request requirements, implement the SFIS Standard Line of Accounting (SLOA) tools to validate financial data quality and build and implement accounting system interfaces.	FY 2017

3	Health Care Liabilities • Insufficient financial reporting and accounting for all health care costs and the lack of processes to reconcile Medical Expense and Performance Reporting System data. • Inability to obtain sufficient documentation from compliant transaction-based accounting systems to support the costs of direct care provided by DoD-managed military treatment facilities.	FY 2003	Department-wide	• Complete the implementation of new Enterprise Resource Planning (ERP) core financial systems for each Service in order to record accrual-based, patient-level cost accounting data. • Develop and implement methodology for per capita rate to address the auditor identified weakness related to direct care.	FY 2017
4	Civilian Pay • Ineffective processes and controls to record civilian pay transactions and personnel actions in a timely, complete, and accurate manner. • This includes unreliable supporting documentation for personnel actions and timekeeping, and inadequate reconciliations between Defense Civilian Pay System (DCPS) and the general ledger. • No assessment of internal controls for Reporting Entity Time & Attendance processes.	FY 2011	Department-wide	• Develop and implement controls to record personnel actions and timekeeping accurately and implement document retention policies and procedures to ensure that sufficient supporting documentation is available. • Develop and implement Complementary User Entity Controls (CUECs) identified in the DCPS SSAE16. • Develop and implement a methodology to reconcile DCPS to the general ledger. • Implement controls for general ledger posting procedures and ensure supporting documentation is reviewed, approved, validated, retained, and readily available.	FY 2017

5	Military Pay • Ineffective processes and controls to record military pay transactions and personnel actions in a timely, complete, and accurate manner. • Lack of reconciliations between Defense Joint Military Pay System (DJMS) and the general ledger (GL). • Unreliable and/or lack of supporting documentation for personnel actions. • Outdated military pay and financial management information technology systems lack modern capabilities to support required auditability framework. Current deficiencies require unsustainable manual activities to support auditability.	FY 2011	Department-wide	• Develop and implement a five year plan starting in FY 2018 for an integrated pay and personnel system (IPPS), which will be designed to determine pay and entitlements, report ad hoc financial management data, and capture and store key supporting documents. • Implement reconciliations to address the completeness of data entered into DJMS.	FY 2023
6	Accounts Receivable • Ineffective processes and controls to ensure complete and accurate recording and sufficient documentation to support accounts receivable and related accruals. • Lack of proper accounting and reporting for accounts receivable collections. Lack of controls to ensure that accounts receivable balances are supportable at the transaction level.	FY 2003	Department-wide	• Implement ERP systems to improve collections of public accounts receivables, aging of receivables, and minimize manual processes. • Implement process improvements, such as training, guidance, and policy changes. • Develop documentation in sufficient detail to address the edit checks and validations performed. • Utilize the Tri-Annual Review process to monitor the status of dormant reimbursable agreement receivables and unfilled orders. Reviews will evaluate timeliness, accuracy, and completeness for closeout when applicable.	FY 2017

7	Contract/Vendor Pay • No standard process or format governing purchase request development, linkage with contract data, and payment. • Lack of standard processes for recording obligations electronically in accounting systems. • Lack of timely contract closeout and de-obligation of funds limits Department's access to capital. • Insufficient policies governing the recording of accruals.	FY 2003	Department-wide	• Develop DoD Instruction setting policies, procedures, and data standards for purchase requests. • Revise Financial Management Regulation to require use of standard data feeds for recording contract obligations in accordance with DFARS 204.201 and implement corresponding accounting system changes. • Publish and implement procedures for pre-award validation of contract data to ensure proper recording of the subsequent obligation. • Establish traceability rules for identifying commitments in contracts. • Implement distribution of electronic closeout notifications. • Expand use of accrual recording based on Wide Area WorkFlow acceptance data to additional accounting systems.	FY 2019

A U.S. Sailor stands watch on the fantail aboard the aircraft carrier USS Theodore Roosevelt (CVN 71) in the Red Sea April 8, 2015. The Theodore Roosevelt deployed to the U.S. 5th Fleet area of responsibility in support of Combined Joint Task Force-Operation Inherent Resolve, a multinational effort to weaken and destroy Islamic State in the Levant (ISIL) operations in Iraq, Syria, the Middle East region and around the world.

Photo by Mass Communication Specialist 2nd Class Chris Liaghat

8	Reimbursable Work Orders • 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. • Components are unable to collect, exchange, and reconcile buyer and seller intragovernmental transactions, resulting in adjustments that cannot be verified or substantiated. In addition, Department procedures required that buyer-side transaction data be forced to agree with seller-side transaction data without substantiating documentation or performing proper reconciliations.	FY 2011	Department-wide	• Reporting entities to implement Invoice Processing Platform (IPP), leveraging systems controls for the entire intragovernmental business process across DoD. • Reporting entities and DFAS to implement training, guidance, and management oversight related to Tri-Annual Reviews. • Developing an intragovernmental data standard to allow seamless, systems controlled interfaces for all intragovernmental business events between buyer and seller's financial reporting systems and the Department's consolidated financial reporting system, DDRS-B and DDRS-AFS. • Implementing a validation service to validate standard line of accounting data for all intragovernmental transactions. • Reporting entities and DFAS to identify and implement standard enterprise reconciliations that provide for validation of the seller/buyer-side balances and input of supported journal vouchers for timing differences.	FY 2017
9	Transportation of Things • No effective controls are in place to prevent unauthorized use of Transportation Account Codes (TAC) or unauthorized shipments from occurring. • Lack of standardized processes and procedures for Transportation of Things (ToT) to support management evaluations, examinations, and audits.	FY 2014	Navy	• Develop controls, processes, and policy and procedures for ToT. DoD Cargo Movement Operations System (CMOS) is a long term solution to standardize systems and processes across the transportation community, scheduled for implementation by October 1, 2016. • Implement control processes that ensure supporting documentation exists and is adequately reviewed, approved, and retained.	FY 2016

10	Transportation of People • Inadequate controls over transportation of people processes. This includes inadequate segregation of duties, lack of reconciliations between Defense Travel System (DTS) and the Component general ledgers, and untimely voucher filing. • Material weaknesses were identified related to information technology access and computing processes within DTS (identified through SSAE16).	FY 2011	Department-wide	• Develop plans to address segregation of duties internal control issues within the transaction system due to overlapping permission-level assignments, as well as demonstrating effective information technology general and application controls. • Monitor open travel obligations and enforce supervisory review to ensure timely submission of travelers' vouchers. • Develop procedures to reconcile DTS to general ledgers. • Develop and implement Complementary User Entity Controls (CUECs) as identified within the DTS SSAE16.	FY 2017
11	Equipment Assets • Processes and controls to account for the quantity and value of military and general equipment are not effective.	FY 2003	Department-wide	• The Navy and Air Force have asserted to the existence and completeness (E&C) of all major military equipment. The Army has asserted to general equipment E&C. • Established the Government Furnished Property (GFP) Working Group in collaboration with OUSD(FIAR) which requires the Components to report quarterly on progress in establishing accountable records for all GFP assets, correcting policy deficiencies, and ensuring controls are in place when property is furnished on contracts. In addition, developed Contractor Acquired Property guidance for establishing accountability and valuation. • The Department has brought over 611,000 GFP assets valued at $18.1 billion to record and continues to move forward to establish the universe and apply the appropriate controls and procedures in managing GFP accountability. • Established a General Equipment Working Group to define or clarify accounting policy and guidance and assist with the Components' audit readiness obstacles. As a result, developed a	FY 2017

				streamlined risk based General Equipment Valuation approach. Developed supplemental guidance for establishing beginning balances for Construction in Progress accounting as part of full financial statement audit readiness. • Implement changes to policy and procedures to comply with Federal Standards Advisory Board Standards. • Continue efforts to ensure that assets are recorded in the appropriate Accountable Property System of Record and can be reconciled to the General Ledger (GL) to ensure assets exist and records are complete. • Apply controls and procedures to manage property accountability, including adequate documentation to support acquisition and disposal processes throughout the year. • Report quarterly on progress in establishing accountable records for all capitalized equipment, correcting policy deficiencies, and ensuring controls are in place when property is furnished or purchased through contracts.	

Members of the U.S. Marine Drum and Bugle Corps perform during a sunset parade at the Marine Corps War Memorial in Arlington, Va. Since September 1956, marching and musical units from Marine Barracks Washington, D.C., have presented sunset parades in the shadow of the 32-foot high figures of the memorial.

Photo by Lance Cpl. Christopher J. Nunn

12	Real Property Assets • Real property processes, controls and supporting documentation do not substantiate that (1) all existing assets are recorded in an accountable system of record (APSR) (2) all assets recorded in the APSR properly reflect DoD's legal interest in the asset, (3) all assets are properly valued and (4) all assets are appropriately presented and consistently reported in the financial statements. • DoD has insufficient internal controls and supporting documentation requirements to ensure timely recording, relief and accuracy of Construction in Progress (CIP) and real property.	FY 2003	Department-wide	• Validate asset listings, document processes and control environment and perform materiality analysis to establish an auditable baseline for real property, to include CIP. • Establish and implement DoD policy related to the accounting for imputed cost, contingency and enduring locations, deferred maintenance and stewardship land/heritage assets. • Implement business processes and management controls to reconcile real property records and financial records (to include CIP) to ensure existing asset inventory and financial records are accurate and complete. • Implement periodic evaluations over the quality of real property data by making comparisons with physical assets and annual reconciliations.	FY 2017
13	Environmental Liabilities • Inability to provide assurance that clean-up costs for all of its ongoing, closed, and disposal operations are identified, consistently estimated, and appropriately reported. • Unable to consistently report environmental liability disclosures and supporting documentation is not properly maintained and readily available for all environmental sites.	FY 2001	Department-wide	• Implement systems, processes, and controls to ensure the accuracy of environmental liabilities identification, valuation, documentation and reporting. • Implement new DoD strategy for achieving E&DL Audit Readiness, providing guidance on capturing the environmental liability universe, estimation and modeling practices for developing the cost estimates, documenting and supporting those estimates, and roll-forward procedures for ensuring that estimates are up to date. • Implement new DoD policies for accounting treatment and recording of environmental liabilities. • Implement business processes and controls to ensure transactions are recorded timely and accurately, and supporting documentation is retained and available.	FY 2017

14	Inventory • Insufficient policies and procedures to support inventory transactions, journal vouchers, and inventory valuation. • Lack of clear audit trails to trace transactions from source documentation to the reported total dollar values on the Inventory line item on the financial statements. • Lack of controls to provide assurance that inventory recorded in the financial statements exists and is complete. • Material-in-transit (MIT) is reported at the summary level instead of detail level.	FY 2005	Department-wide	• Develop methodology and inventory condition code reports to support monthly journal vouchers (JV) related to inventory. • Review all pre- and post-trial balance adjustments, determine reason for the adjustments, and trace to supporting documentation. • Implement methodology to value inventory in the absence of historical costs (for baseline of asset inventory). • Develop and implement processes and controls to support the valuation of inventory on a “go-forward” basis. • Modify systems to account for material in transit at the detailed level.	FY 2017
15	Operating Materials & Supplies (OM&S) • Historical cost data is not maintained as required by Generally Accepted Accounting Principles (GAAP). • Inability to perform and document annual physical inventories of OM&S and maintain clear audit trails to permit the tracing of transactions from source documentation. • Government-owned / Contractor managed inventory is not accounted for in DoD accountable property system.	FY 2005	Department-wide	• Document business and financial processes and controls to include tracking inventory values for newly acquired OM&S. • Develop interim auditable solution for Government owned/Contractor managed inventory. • Identify and document the current inventory reconciliation processes, including key controls and financial transactions. • Modify systems/processes to account for Government Furnished Material (GFM).	FY 2017

16	Military Standard Requisitioning and Issue Procedures (Requisitioning Procedures) • Insufficient documentation of business and financial processes and controls to include transactions not accurately reconciled to the financial management systems of record and ineffective reconciliation process for unliquidated obligations (ULO).	FY 2013	Navy	• Develop, document and implement business and financial processes to identify root causes, review and prioritize Federal Information System Controls Audit Manual (FISCAM) control testing, and ensure a comprehensive ULO reconciliation process. • Assess requirements and develop a strategy to integrate ULO requirements with the Tri-Annual Review.	FY 2017

A newly acquired military working dog with the 95th Military Police Detachment bites into a specially designed protection sleeve worn by a soldier during training at Joint Base Lewis-McChord, Wash., July 29, 2015.

Photo by Staff Sgt. Patricia McMurphy

2. FMFIA SECTION 2, NON-FINANCIAL OPERATIONS MATERIAL WEAKNESSES. The DoD Components use an entity-wide, risk-based, self-assessment approach to establish and assess internal controls for mission-essential operations. The material weaknesses in non-financial operational areas are categorized in separate reporting categories.

Table 2b lists the FY 2015 material weaknesses in the internal controls over non-financial operations.

	Table 2b. Effectiveness of Internal Controls over Non-Financial Operations (FMFIA Section 2)					
	Statement of Assurance: Qualified					
	Area of Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Re-assessed**	**Ending Balance**
1	Acquisition	1				1
2	Security	1				1
3	Information Technology	1				1
4	Comptroller and/or Resource Management	1				1
5	Contract Administration	1				1
6	Force Readiness	1				1
7	Personnel and/or Organizational Management	1				1
8	Property Management	1			1*	0
	• Government Furnished Property				1*	1
9	• Internal Use Software				1*	1
10	Supply Operations	1				1
	Total Non-Financial Operations Material Weaknesses	9			1*	10

* The Department re-categorized the material weaknesses for property management into the government furnished property and internal use software categories in FY 2015.

Table 2b-1 provides a brief description of each of the 10 area of material weaknesses in internal controls over non-financial operations, the associated corrective action, and the target correction year.

Table 2b-1. FY 2015 Material Weaknesses in Internal Controls over Non-Financial Operations

	Areas of Material Weakness	Year Identified	DoD Components	Corrective Actions	Target Correction Year
1	Acquisition				
	• The Department continues to experience program cost and schedule increases in its Major Defense Acquisition Program Portfolio. • Knowledge-based acquisition practices have not been consistently implemented across the acquisition portfolio.	FY 2011	Department-wide	• Continue development and implementation of Better Buying Power (BBP) initiatives designed to improve the operation of the defense acquisition system and enhance the skill of the acquisition workforce. • Issue revised acquisition policy that implements key BBP initiatives and improves system performance. • On 7 January 2015, the Department issued a major revision to DOD I 5000.02, which describes the operation of the defense acquisition system. This revision incorporates and institutionalizes the acquisition process changes, resulting from the BBP initiatives.	Reassessed annually based on incremental improvements
2	Security				
	• There are weaknesses in the Department's management and assurance of the reliability and security of information.	FY 2006	Department-wide	• Develop and implement a uniform equipment request and loan tracking system for managing and tracking information technology equipment. • Create baseline metrics and define security administration compliance for information, personnel, and industrial security programs. • Develop enhanced Ethics and Security Awareness training at all levels to ensure that personnel are trained to prevent the compromise of classified information. • Implement actions to protect classified information and PII. • Establish oversight controls to validate identified vulnerabilities are remediated.	Reassessed annually based on incremental improvements

3	Information Technology				
	• DoD financial and business management systems and processes are costly to maintain and operate, are not fully integrated, and do not provide information that is reliable, timely, and accurate. • There is lack of accountability for systems implementation, review, and oversight. • Lack of system security safe guards integrated into the design, lack of user training, and policies are not consistently validated and updated. • There is a lack of Records Management procedures included during the systems development process. This weakness results in time and money lost as the procedures are added as an afterthought.	FY 2010	Department-wide	• Complete relevant FISCAM testing, implement process standardization, and ensure compliance with information systems requirements in order to achieve FISCAM control objectives. • Hold system stakeholders accountable for follow through and validation of final products. • Develop central tracking databases for user accounts to maintain system security/safeguards as well as identifying, recording, and training proper individuals.	FY 2020
4	Comptroller and Resource Management				
	• The Department's current business processes, policies and internal controls do not provide reliable, accurate and verifiable financial statements. • The financial management workforce lacks adequate training in all financial management-related functions and the implementation of effective financial management processes, and procedures. • Funds control process weaknesses resulted in the inability to adequately track funds consistent with existing laws and regulations. The lack of adequate funds control led to several Anti-Deficiency Act violations.	FY 2011	Department-wide	• Implement established guidance to enable Components to improve their processes, systems, and controls. • Conduct competency gap analyses of current and expected future financial management workforce and develop training programs and guidance for strategic workforce planning. • Enhance systems for tracking funds, publishing guidance, and scheduling training for personnel who perform funding-related functions.	FY 2017

5	Contract Administration				
	• The Department must strategically manage Services Acquisition (SA), define outcomes, and capture data to do so. • The Department continues to face challenges meeting FY competition goals and needs to address ill-suited contract arrangements as well as utilize incentives. • The Acquisition workforce needs to be appropriately sized, trained, and equipped to meet the Department's needs.	FY 2009	Department-wide	• Establish Functional Domain Experts baseline data, specific goals for improvement and associated metrics and monitor progress against goals. • Better Buying Power (BBP) 2.0 and 3.0 initiatives to boost competition include the Service Acquisition Executives briefing progress and highlighting best practices quarterly at the Business Senior Integration Group meetings. DoD achieved a FY15 competition rate of 55.1% against the goal of 59%. • Chaired quarterly Contracting FIPT meetings (CONFIPT); coordinated on Defense Acquisition Workforce Improvement Act (DAWIA)-related certification and workforce issues and participated in a number of AT&L-led workgroups to implement BBP initiatives.	Reassessed annually based on incremental improvements
6	Force Readiness				
	• There is a lack of diversity within the Sea, Air, and Land (SEAL) Special Operations Forces which indicates a potential operational weakness. The Global War on Terrorism identified the need for an operational need for SEALs with diverse backgrounds.	FY 2011	USSOCOM	• Implement diversity outreach initiatives that will review outreach and awareness activities to ensure that the Special Operations Forces is recruiting candidates with diverse backgrounds and skills.	FY 2018

7	Personnel and/or Organizational Management				
	• The Department did not adequately manage its human capital resources and maintain the critical skills and competencies of its civilian workforce and also does not have a comprehensive Personnel Accountability System. As a result, components' ability to accomplish their mission is impacted by shortages in personnel with the right skills and competencies.	FY 2009	EUCOM AFRICOM	• Leverage information obtained from skill and competency gap assessments to ensure that personnel actions are affecting current and future civilian workforce, restructuring or resizing initiatives are done in a manner that preserves skills and knowledge, minimizes competency gaps, and avoids shortfalls in critical skills. • Implement new hire procedures on USAJobs, and streamline position validation and request for personnel action pre-hiring processes to eliminate redundant functions and reduce processing time. • Implement a Joint Personnel Accountability Reconciliation and Reporting (JPARR) system.	FY 2017
8	Government Furnished Property (GFP)				
	• In FY 2011, the Department did not have clear guidance and had not properly trained Program Office staff, contract specialists, and accountable property officers regarding policies and procedures for appropriately managing property provided to a contractor (this includes both contractor acquired property (CAP) and GFP. As a result, DoD's accountability records are incomplete. Audit reports have consistently identified a lack of accountability concerning GFP and CAP for which the DoD has title but not immediate physical control.	FY 2011	Department-wide	• Establish and implement procedures and training on property management policies, which will be embedded within contracts. • Develop measures to ensure that components follow property management policies, including the proper accountability for property provided to contractors. • Validate accountable property records and supporting documentation through existence and completeness testing. • Establish accountable records that will identify property, to include Government Furnished Property.	FY 2016

9	Internal Use Software (IUS)				
	• The Department has not properly addressed the management and financial reporting of IUS which is required by the Financial Management Regulation. IUS is part of the DoD financial statement and is subject to audit. DoD will not be able to pass audit without sufficient guidance and time for implementing said guidance.	FY 2015	Department-wide	• Finalized and issued a policy that establishes a Department-wide strategy for IUS audit readiness, streamlines the schedule and workload for establishing opening balances, and provides guidance on multiple IUS issues for which the Department needed clarity such as accounting for software enhancements, licenses, cloud computing, and bulk purchases. • Drafted a Directive Type Memorandum (DTM) to address IUS accountability and accountable property system of record requirements. • Components to begin managing and reporting IUS as required in the DTM. This includes the identification of accountable officers, the universe of IUS, and annual IUS inventory requirements.	FY 2020
10	Supply Operations				
	GAO identified Department-wide weaknesses in the areas of asset visibility, inventory management, and materiel distribution.	FY 2011	Department-wide	• Improve Supply Chain Management operations through better demand forecasting, asset visibility, and distribution processes.	Reassessed annually based on incremental improvements

3. FMFIA SECTION 4, FINANCIAL SYSTEM NONCONFORMANCE WEAKNESSES. The Department requires financial system conformance with federal requirements and reports. The Department reported one weakness that includes a wide range of pervasive problems related to financial systems.

Table 2c. Conformance with Financial Management System Requirements (FMFIA Section 4)

Statement of Assurance: Systems do not conform to financial management system requirements

Non-Conformances	Beginning Balance	New	Resolved	Reassessed	Ending Balance
1. Financial Management Systems	1				1
Total System Conformance Material Weaknesses	**1**				**1**

Table 2c-1, below, provides the description and corrective action plan for the material weakness related to internal control over financial systems.

Table 2c-1. FY 2015 Internal Control over Financial Systems Material Weakness

	Area of Material Weakness	Year Identified	DoD Components	Corrective Actions	Target Correction Year
1	• Financial Management Systems: The Department's financial systems currently do not provide the capability to record financial transactions in compliance with Federal Financial Management Improvement Act (FFMIA), current federal financial management requirements, applicable federal accounting standards, and the Treasury USSGL at the transaction level. • The Department's IT systems environment includes numerous legacy systems, core enterprise systems that support the major end-to-end processes, and nine Enterprise Resource Planning (ERP) systems. Most of the business legacy systems were designed to support functional purposes, such as human resource management, property management, and logistics management, and not originally for auditable financial statement reporting. The current systems environment is made up of many mixed (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. • Inadequate configuration and user management of newly implemented systems with lack of proper design and effectiveness of internal controls for access, segregation of duties, configuration management, system interfaces and audit trails. • The Department has not fully defined and consistently implemented the full range of business systems modernization management controls. As a	FY 2001	Department-wide	• Develop effective financial management systems processes throughout the Department, including Enterprise Resource Planning systems (ERPs) and other core financial systems, and prepare a plan to correct or replace many of the mixed (feeder and general ledger) systems. • Continue pre-deployment testing of end-to-end financial management systems in order to make necessary system improvements towards FFMIA compliance. • Continue to evaluate and track CAPs to include completion of assessments of legacy financial management and critical feeder systems and required system change requests to accommodate related control deficiency remediation activities. • Identify systems that affect internal controls over financial reporting and financial statement audit readiness, develop systems documentation, test controls and supporting documentation transactions, and remediate deficiencies and weaknesses (which may require modifications to the systems) in preparation for audit or SSAE16.	FY 2017

Table 2c-1. FY 2015 Internal Control over Financial Systems Material Weakness					
	Area of Material Weakness	Year Identified	DoD Components	Corrective Actions	Target Correction Year
	result, it may not be able to adequately ensure that its business system investments are the right solutions for addressing its business needs, as indicated by GAO 2015 High Risk report.				

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

The DoD IG and the audit agencies within the Military Services have reported on the Department's noncompliance with FFMIA. The Department's noncompliance is due to its reliance upon legacy financial management systems by the various Components. These legacy financial systems, for the most part, do not comply with the wide range of requirements for systems compliance, in accordance with FFMIA and therefore do not provide the necessary level of assurance that the core financial system data or the mixed systems information can be traced to source transactional documentation. Table 3 reflects the Department's compliance with FFMIA.

Table 3. Compliance with Federal Financial Management Improvement Act		
	Agency	Auditor
1. System Requirements	Lack of substantial compliance noted	Lack of substantial compliance noted
2. Accounting Standards	Lack of substantial compliance noted	Lack of substantial compliance noted
3. U.S. Standard General Ledger at Transaction Level	Lack of substantial compliance noted	Lack of substantial compliance noted

Members of a joint color guard present the colors during the U.S. Transportation Command assumption-of-command ceremony on Scott Air Force Base, Ill.

Photo by U.S. Air Force Master Sgt. Adrian Cadiz

IMPROPER PAYMENT AND PAYMENT RECAPTURE PROGRAMS

Newly enacted Congressional legislation has amended the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) and earlier legislation affecting improper payments[1]. Congressional legislation ensures both federal and state entities maintain strong financial management controls to better detect and prevent improper payments, and to report on these programs to the President and Congress in the annual Agency Financial Report. Newly revised guidance has changed the way in which the Department's improper payments and payment recapture programs are reported. The following subcategories are included in this section:

I. Risk Assessment
II. Statistical Sampling Process
III. Program Improper Payment Reporting
IV. Root Causes of Errors
V. Corrective Actions
VI. Internal Control over Payments
VII. Accountability
VIII. Agency Information Systems and Other Infrastructure
IX. Statutory and Regulatory Barriers
X. Payment Recapture Audit Reporting
XI. Additional Information
XII. Agency Reduction of Improper Payments with the Do Not Pay Initiative

The Department reports improper payments in the following six categories:

1. Military Health Benefits – Disbursed by Treasury for the Defense Health Agency (DHA)
2. Military Pay – Disbursed by Defense Finance and Accounting Service (DFAS)
3. Civilian Pay – Disbursed by DFAS
4. Commercial Pay (vendor and contract payments) – Disbursed by DFAS, Navy, and U.S. Army Corps of Engineers (USACE)
5. Military Retiree and Annuitant Benefit Payments – Disbursed by DFAS
6. Travel Pay – Disbursed by DFAS, Army, Navy, Air Force, and USACE

The DFAS, USACE, and DHA are the primary disbursing components within the Department. The Army, Navy, and Air Force report on travel improper payments that are not disbursed by DFAS.

[1] *Improper Payments Information Act of 2002* (IPIA), as amended by *The Improper Payments Elimination and Recovery Act of 2010* (IPERA) and *The Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA)

I. Risk Assessment

DFAS. The DFAS risk assessments for disbursements uses established criteria contained in the Office of Management and Budget (OMB) *Circular No. A-123, Appendix C.* DFAS monitors changes in programs associated with OMB-mandated criteria (for example, a large increase in annual outlays, regulatory changes, or newly-established programs) to track unfavorable trends to allow early implementation of corrective actions.

USACE. The USACE risk assessments for travel and commercial payments address the effectiveness of internal controls, such as prepayment reviews, to prevent improper payments as well as system weaknesses identified internally or externally by external audit activities. The U.S. Corps of Engineers Financial Management System (CEFMS) provides internal system standards that adhere to U.S. generally accepted accounting principles, as well as process controls that provide the safeguards to monitor and ensure that prepayment examination requirements are met. The USACE also monitors changes in programs to track trends and implement corrective actions, as necessary.

DHA. The DHA risk assessment process is managed through contracts with an external independent contractor (EIC) to provide independent, impartial review of reimbursements and claims processing procedures used by DHA's purchased-care contractors. The EIC identifies improper payments resulting from the contractors' noncompliance with The Military Health Care System (collectively referred to as TRICARE in this report) benefit and/or reimbursement policies, regulations, and contract requirements. The risk level of programs is evaluated based on results of these compliance reviews.

Navy. Navy's Office of Financial Operations (FMO) tested the commercial payment sampling process at one Navy ERP command to evaluate internal controls. The Navy risk assessment for commercial payments included an established sampling process, addresses the effectiveness of key internal controls of the commercial payment business processes such as document review of paid vouchers versus individual purchase card transactions, inadequate signature approval and sampling, record retention, and validation of approving authority signatures on key supporting documentation. The risk level of programs is evaluated based on results of compliance review results.

II. Statistical Sampling Process[2]

The primary disbursing Components use statistically valid sampling methods designed to meet or exceed OMB's requirements of 90 percent confidence level, ±2.5 percent, to estimate and project the Department's annual improper payments for each payment type. The smaller disbursing Components normally perform 100 percent postpayment reviews or a full review of payments above a precise dollar threshold, with random sampling for lower-dollar payments. All Department sampling plans were approved by OMB in FY 2013, and updated plans for DFAS Commercial Pay, DHA Military Health Benefits, and USACE Travel Pay were submitted to OMB for FY 2014. The DFAS sampling plans were unchanged for FY 2015.

[2] Refer to detail at *Under Secretary of Defense (Comptroller) > Financial Management > Reports* for Reporting Components Statistical Sampling Plans.

Military Health Benefits. The EIC compliance reviews include three sample types: a payment sample, to ensure payment accuracy by identifying underpayment and overpayments; a denied payment sample, to ensure proper claim denial; and an occurrence sample, to ensure the accuracy in reporting healthcare data, regardless of payment accuracy. Payment samples are conducted as a stratified random sample based on paid amounts; denied samples are conducted as a stratified random sample based on billed amounts; and occurrence samples are conducted as a simple random sample with no stratification.

- Payment Samples: Payment Samples for paid claims include between 4 and 12 strata, depending on the composition of the claims in the universe. Mathematical formulas are used to identify optimal strata boundary points, and sample sizes are calculated to yield an estimate with a minimum of 90 percent confidence ±2.5 percentage points. All claims with a paid amount above a $200,000 high-dollar threshold are reviewed, and claims with a paid amount below a $100 low-dollar threshold are excluded. These thresholds may vary from contract to contract.
- Denied Payment Sample: Denied payment samples are limited to claims with $0 government payment. The denied payment sample is similar in design to the payment sample, but the denied sample is stratified based on billed amount because the paid amount for a denied claim is equal to $0. All claims with a billed amount above a $500,000 high-dollar threshold are reviewed, and claims with a billed amount below a $100 low-dollar threshold are excluded. These thresholds may vary from contract to contract.
- Occurrence Samples: Occurrence samples are intended to monitor and evaluate the accuracy of TRICARE Encounter Data (TED) record coding, versus the accuracy of the payment, by the Third Party Payment Contractors (TPPCs). These records are selected using a simple random sample. A sample of up to 350 records is selected for each occurrence sample, and each record in the sample has approximately 90 data fields that are evaluated for accuracy. The results from occurrence samples are used to monitor data accuracy only and do not affect the improper payment error rates; however, TPPCs are required to correct any improper payments identified during occurrence reviews.

In addition, DHA conducts an internal statistically valid review of low-dollar claims excluded from the payment samples. Results from this internal review are combined with results from the EIC compliance reviews to arrive at an overall payment accuracy measurement for all DHA claims.

The DHA continually evaluates the accuracy and design of its sampling methodologies for all contracts and implements revisions, if warranted by the distribution of audit universes or the outcome of compliance reviews.

Military Pay. On a monthly basis, the Department statistically samples Military Pay accounts stratified by Active Duty (Army, Navy, Air Force, and Marine Corps) and Reserve Components (Army Reserve, Army National Guard, Navy Reserve, Air Force Reserve, Air National Guard, and Marine Corps Reserve). The DFAS selects the accounts for each Component to review, and DFAS produces annual estimates of improper payments.

Civilian Pay. On a monthly basis, DFAS statistically samples Civilian Pay accounts stratified by Army, Air Force, Navy/Marine Corps, and Defense Agencies. DFAS selects the accounts for each Component to review, and as a result produces the annual estimates of improper payments.

Commercial Pay

DFAS. In FY 2014, DFAS refined its statistical sampling methodology for the Commercial Pay program to incorporate Government Accountability Office (GAO) and DoD IG recommendations. DFAS assessed the risk of improper payments computed within the entitlement systems. Seven contract and vendor pay systems[3] were identified as "at risk" of making improper payments based on historical postpayment, self-identified reviews and the volume of outlays. These seven systems cover over 90 percent of the Commercial Pay program outlays.

DFAS designed its samples using the Neyman Allocation method, a sample allocation method to stratify random samples by dollar amount using financial data contained within each of the seven systems. The overall variable sample size was calculated for the combined systems to produce a point estimate with a 95 percent confidence interval and a margin of error of ±2.5 percent. Samples were then randomly selected using the Statistical Package for the Social Sciences (SPSS) statistical software from the seven systems as a whole. Each invoice within the stratum had an equal probability of selection.

The sampling framework, designed by DFAS statisticians and reviewed by its Internal Review office, addressed the GAO and DoD OIG audit recommendation. The sampling framework also was submitted to OMB, and no issues were noted.

Navy. The Navy compliance review includes contract and vendor payments computed in the Navy Enterprise Resource Planning (ERP). The standardized sampling framework was developed by the Office of Financial Operations (FMO) and approved by statisticians in the Navy's Center for Cost Analysis and OMB. FMO staff extracts data from the Navy ERP and provides payment samples to the Commands. The Commands then review these payments to ensure they are legal and proper.

USACE. The USACE compliance postpayment reviews were conducted using a statistically valid, 95 percent confidence level, ±2.5 percent, sample taken from the entire USACE Commercial Pay universe. In addition, the USACE Finance Center (UFC) used prepayment controls, postpayment contract audits, and data mining to prevent and identify improper payments in Commercial Pay.

Military Retiree and Annuitant Benefit Payments. On a monthly basis, DFAS statistically samples military retirement payments stratified by the retired and annuitant pay accounts. The review contains samples of: drilling reserve units, retiree offsets, survivor benefit plans, transfers to/from the Temporary Disability Retired List to the Permanent List, and Veterans Affairs offsets. Continuous random reviews are done for: Combat Related Special Compensation, Concurrent Receipt of Disability Payment, daily payroll accounts,

[3] Computerized Accounts Payable System for Windows (CAPS-W), Defense Agencies Initiative (DAI), Enterprise Business System (EBS), General Funds Enterprise Business System (GFEBS), Integrated Accounts Payable System (IAPS), Mechanization of Contract Administrative Services (MOCAS), and One Pay (ONEPAY).

newly established accounts, and other targeted areas.

Travel Pay

The Department. The Department's travel payments are computed, paid, and independently reported by the military services and other Defense agencies. The results incorporate the review of DFAS-disbursed travel payments as well as non-DFAS-disbursed travel payments for Army, Air Force, and Navy (see Table 4).

DFAS reports the largest portion of DoD's travel payments processed in the Defense Travel System (DTS), and Windows Integrated Automated Travel System (WinIATS) for the Department of the Army and select Defense Agencies. On a monthly basis, DFAS statistically samples DTS travel vouchers stratified by Military Service and the aggregate of the Defense Agency vouchers. In addition, DFAS also statistically samples monthly WinIATS travel vouchers, stratified by Army activity and type of payment, for both Temporary Duty Travel (TDY) and Permanent Change of Station (PCS).

DTS Root Causes. The primary reasons for DTS improper payments are voucher input errors by the traveler and/or the approving official's failure to catch the error(s) before reimbursement occurs. The errors identified in the sample include:

- Per Diem, 51 percent: Incorrectly reimbursed the traveler for lodging expenses without validating the claim with receipts, and/or reimbursed for meals at an incorrect rate.
- Reimbursable Expense, 24 percent: Incorrectly reimbursed airfare, non-travel related expenses, and/or rental car expenses due to traveler errors.
- Missing Documentation, 25 percent: Incorrectly reimbursed unsupported traveler claimed lodging, airfare or rental car expenses.

WinIATS Root Causes. The primary reasons for WinIATS improper payments are voucher input errors by the traveler and/or the approving official's failure to identify the error(s) before reimbursement occurs. The error types include:

- Per Diem (91 percent): Per diem/meals and incidental expenses and lodging paid at the incorrect rate, not at all, or when unauthorized.
- Reimbursable Expense, 2 percent: Airfare, household goods storage, and lodging tax paid incorrectly or not at all.
- Other miscellaneous, 7 percent.

USACE. The UFC processes USACE travel payments using the CEFMS and WinIATS. The payment population includes both TDY and PCS travel voucher reimbursements. All PCS and TDY vouchers over $2,500 are 100 percent reviewed for accuracy. The remaining vouchers are statistically sampled at 95 percent confidence level, ±2.5 percentage.

III. Program Improper Payment Reporting

Table 4 summarizes the Department's improper payment reduction outlook and total program outlays (prospective payments) from FY 2014 through FY 2018.

Table 4. Improper Payment Reduction Outlook ($ in millions)

Program or Activity	FY 2014 Outlays	FY 2014 IP %	FY 2014 IP	FY 2015 Outlays	FY 2015 IP %	FY 2015 IP	FY 2015 Over-payment	FY 2015 Under-payment	FY 2016 Est. Outlays	FY 2016 Est. IP %	FY 2016 Est. IP	FY 2017 Est. Outlays	FY 2017 Est. IP %	FY 2017 Est. IP	FY 2018 Est. Outlays	FY 2018 Est. IP %	FY 2018 Est. IP
Military Health Benefits [1, 2]	$21,200.0	0.87	$184.4	$19,700.0	0.80	$157.67	$138.59	$19.08	$20,100.0	1.75	$352.35	$20,200.0	1.75	$353.73	$20,400.0	1.75	$356.82
Military Pay[3]	$110,600.0	0.23	$249.8	$107,400.0	0.23	$242.90	$227.60	$15.30	$93,500.0	0.29	$271.20	$93,500.0	0.29	$271.20	$93,500.0	0.29	$271.20
Civilian Pay[3]	$55,600.0	0.14	$80.0	$56,600.0	0.10	$57.20	$57.20	$0.00	$56,500.0	0.17	$96.10	$56,500.0	0.17	$96.10	$56,500.0	0.17	$96.10
Military Retirement[3]	$56,500.0	0.03	$19.3	$59,300.0	0.04	$20.80	$20.60	$0.20	$44,100.0	0.04	$17.60	$44,100.0	0.04	$17.60	$44,100.0	0.04	$17.60
DoD Travel Pay [4,5]	$6,600.0	6.94	$458.2	$6,600.0	7.90	$521.47	$487.64	$33.83	$9,190.0	4.46	$410.27	$9,190.0	4.46	$406.07	$9,190.0	4.46	$406.07
DFAS Commercial Pay [3]	$305,000.0	0.00	$2.9	$287,800.0	0.09	$256.00	$256.00	$0.00	$384,700.0	0.03	$115.40	$384,700.0	0.03	$115.40	$384,700.0	0.03	$115.40
USACE Commercial	$18,700.0	0.00	$0.0	$18,200.0	0.00	$0.00	$0.00	$0.00	$17,800.0	0.00	$0.00	$17,400.0	0.00	$0.00	$17,000.0	0.00	$0.00
USACE Travel Pay	$150.0	0.40	$0.6	$170.0	0.02	$0.04	$0.04	$0.00	$170.0	0.01	$0.02	$170.0	0.01	$0.02	$160.0	0.01	$0.02
Navy ERP Commercial Pay [6]	$4,400.0	0.00	$0.0	$5,000.0	0.00	$0.00	$0.00	$0.00	$5,000.0	0.00	$0.00	$5,000.0	0.00	$0.00	$5,000.0	0.00	$0.00

Note 1: DHA reports 12 months in arrears; therefore its FY 2015 reporting represents FY 2014 data.

Note 2: DHA uses 1.75% as its out-year target because that is the contractual performance standard. The FY 2016-2018 outlays estimates were calculated using the OMB CPI-U Annual Averages and Percent Change Table. As DHA reports 12 months in arrears, the FY 2015 CPI-U medical percent change was used to calculate the FY 2016 outlay estimates, while the FY 2016 and 2017 medical percent changes were used to calculate the FY 2017 and 2018 outlay estimates, respectively.

Note 3: Out-year reduction targets for Mil Pay, Civ Pay, Mil Retirement, and DFAS Commercial Pay represent a continuation of the very low IP rates experienced in FY 2015. DFAS proposes flat line of FY 16-18 improper payment rates related to Military and Civilian Pay.

Note 4: DoD Travel Pay includes travel data from DFAS and the Army, Navy, and Air Force for vouchers paid outside of DTS.

Note 5: DoD Travel represents DFAS and Navy travel vouchers settled from July 2014 through June 2015; Army and Air Force follow the normal fiscal year.

Note 6: Since no improper payments were identified for FY 2015, out-year reduction targets are not applicable.

IV. Root Causes of Errors

Table 5 summarizes the Department's improper payment root causes.

Table 5. Improper Payment Root Cause Category Matrix ($ in millions)

Reason for Improper Payment		*Military Pay*		*Civilian Pay*		*Retired Pay*		*Commercial Pay*		*Travel Pay (a, b)*		USACE Commercial Pay (c, d)		DHA (Military Health Benefits) (e)	
		Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment	Over-payment	Under-payment
Program Design or Structural Issue		$0.00	$0.00	$0.00	$0.00	$20.20	$0.00	$0.00	$0.00	$16.20	$0.02	$0.00	$0.00	$0.00	$0.00
Inability to Authenticate Eligibility		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.01	$0.05	$0.00	$0.00	$1.06	$0.00
Failure to Verify:	Death Data	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Financial Data	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.04	$0.00	$0.00	$0.00	$0.00	$0.00
	Excluded Party Data	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Prisoner Data	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Other Eligibility Data	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Admini-strative or Process Errors Made by:	Federal Agency	$227.60	$15.30	$57.20	$0.00	$0.40	$0.20	$109.20	$0.00	$212.41	$33.61	$0.00	$0.00	$0.00	$0.00
	State or Local Agency	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
	Other Party	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.11	$0.02	$0.00	$0.00	$0.00	$0.00
Medical Necessity		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Insufficient Documentation to Determine		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$146.80	$0.00	$257.41	$0.00	$0.00	$0.00	$0.00	$0.00
Other Reason (a)		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$1.16	$0.00	$0.00	$0.00	$0.00	$0.00
Other Reason (b)		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.30	$0.15	$0.00	$0.00	$0.00	$0.00
Other Reason (c)		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.0355	$0.00	$0.00	$0.00
Other Reason (d)		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.0016	$0.00	$0.00
Other Reason (e)		$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$137.53	$19.075
TOTAL		**$227.60**	**$15.30**	**$57.20**	**$0.00**	**$20.60**	**$0.20**	**$256.00**	**$0.00**	**$487.64**	**$33.86**	**$0.04**	**$0.00**	**$138.59**	**$19.075**

(a) Navy overpayments are Debit Management Monitored to establish Due Process debts since the members failed to submit vouchers promptly. Once the members receive notification they submit their vouchers. In the interim, the command treats the voucher as unsubmitted vouchers and starts a collection process.
(b) Reflects the total for FY-14-Q4 Improper Payments not required by OMB to be separated by Reason for Improper Payment.
(c) USACE: Erroneous TAO Approval.
(d) USACE: Employee failure to claim.
(e) DHA Other reasons include: Incorrect pricing, government pay miscalculation, cost/share deductible, procedure code errors and payment omissions.

Military Health Benefits

The projected FY 2015 error rate for military health benefits (MHB) improper payment is 0.80 percent.

The DHA's purchased-care contracts are designed to include payment accuracy performance standards for processing MHB claims. Specifically, if improper payments exceed the payment accuracy performance standard, as stipulated in Military Health Care System policy manuals, or exceed more stringent purchased-care performance standards, the contractors are subject to financial penalties. Conversely, and if identified as a contract requirement, if the purchased-care contractor's improper payments fall below the DHA TRICARE policy requirement or unique contract performance standard(s), the purchased-care contractor may receive a financial incentive award.

Purchased-care contractor payment accuracy performance is analyzed during the EIC quarterly and semi-annual compliance reviews. In addition to these reviews, annual reviews are conducted on claims representing underwritten healthcare costs that are paid by the managed-care support contractors (MCSCs). Confirmed overpayments from annual audits are projected to the sample universe, and the MCSCs are liable for the total extrapolated error amount.

For the past several years, purchased-care contractors were held to payment accuracy performance standards with either contract financial penalties or incentives, depending on the contract type and requirement(s). This contract design encourages contractors to keep payment error rates as low as possible to avoid financial penalties, or to obtain increased contract financial incentives. Actual error rates have been consistently less than one percent. This contract design, combined with numerous pre- and post-payment controls, effectively curtails improper payments by the DHA's purchased-care contractors and ensures the Government's risk for improper payments in the MHB program is low.

In FY 2014, the formula used to calculate the DoD improper payment rate for the MHB program was changed. Specifically, the error rate was changed to calculate the error as a percent of dollars paid versus dollars billed. The errors identified in random samples were extrapolated using a weighted formula. Consequently, the FY 2014 error rate cannot be compared with previous years due to this change.

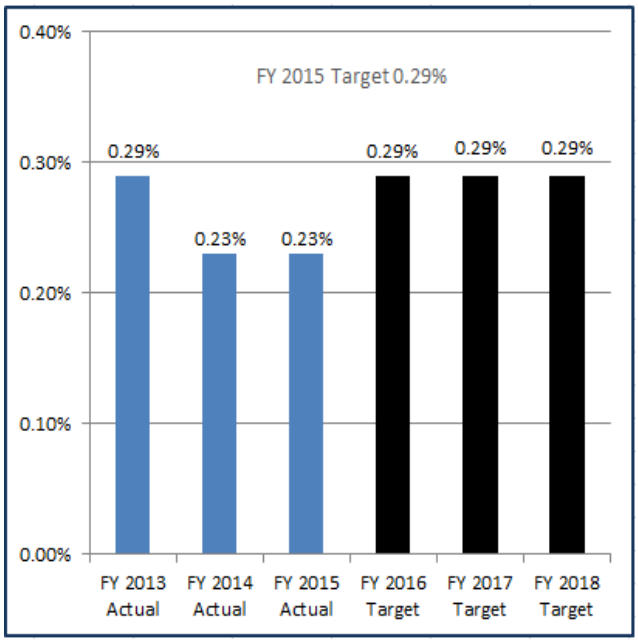
Root Causes. The primary reasons for payment errors in the MHB program for this reporting cycle are:

- Incorrect pricing of medical procedures and equipment, 31 percent.
- Lack of authorization or pre-authorization, required prior to receiving medical care, 20 percent.
- Unsupported benefit determination, 12 percent.
- All other causes combined, 37 percent.

Military Pay

The Department projects a 0.23 percent error rate in FY 2015 Military Pay for improper payment based on reviews of trend in data from October 2014 to September 2015. Overpayments, which comprise 94 percent of the Military Pay improper payments, were not found in statistical sampling, but in debts established after a member has left the Military Service and through Active Duty debt collections reported by the Military Services.

Figure 18. Improper Payment Rate – Military Pay



Root Causes. The primary reason for recurring Military Pay errors is the high turnover in military payroll clerks. This also causes a large amount of untimely or inaccurate information entered into pay systems, and administrative errors that occur during and between monthly pay periods, as many Service Members are paid multiple times per month. Entitlement changes, especially for deployed Service Members, can greatly change the amount due. Changes must be corrected in the following month's pay. Nearly 100 percent of the improper payments identified during this reporting period were recovered, or in the process of being recovered.

Military Pay improper payments typically result in incorrect entitlement allocation as described above. These entitlements are:

- Basic allowance for housing, 47 percent;
- Base pay for Active Duty and incorrect Active Duty pay for Reservists, 12 percent;
- Overseas housing allowance, 7 percent;
- Hostile fire/imminent danger pay, 5 percent;
- Family separation allowance, Active and Reserve, 5 percent; and
- Miscellaneous categories, including results from underpayments, account for 24 percent of all improper payments. Miscellaneous categories include over 25 different entitlements.

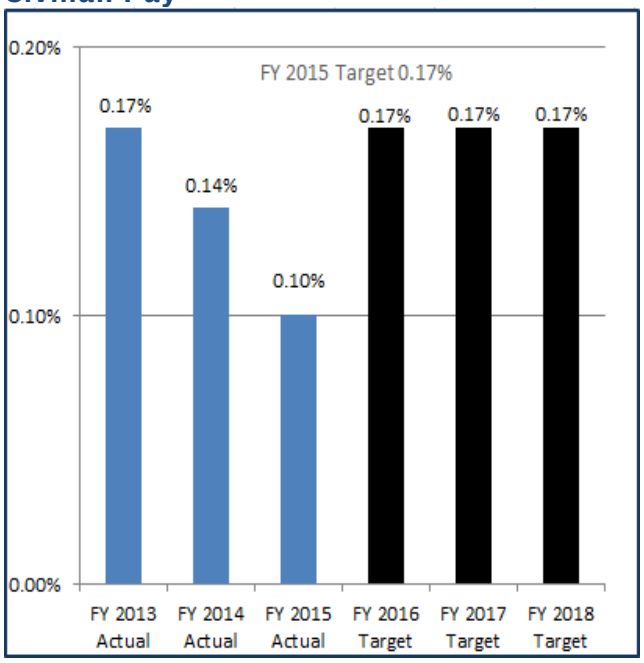
Civilian Pay

The Department projects a 0.10 percent error rate in FY 2015 for Civilian pay payments, primarily overpayments.

Root Causes. The Civilian Pay improper payments primarily were overpayments due to administrative errors caused by untimely or inaccurate entry of information into the pay systems. Improper payments identified include:

- Time and attendance, 49 percent;
- Overseas and other allowances, 31 percent; and
- Late personnel actions, 20 percent.

Figure 19. Improper Payment Rate – Civilian Pay



The Defense civilian payroll systems, like most government payroll systems, base time and attendance submissions on anticipated versus actual hours worked; therefore, the Department must correct overpayments and underpayments in a subsequent pay period.

Errors in overseas Civilian Pay accounts often occur due to payment of an entitlement that erroneously continued after the employee has returned to the United States. These improper payments often result from inaccurate personnel actions generated by human resources offices. Corrections subsequently are generated by human resource offices and transmitted to the civilian payroll system. These corrections result in pay and allowance re-computations therefore creating a collection action to offset the overpayment. The initial improper payments are discovered through agency reviews, bi-weekly exception reports, and employee or supervisor notification.

Commercial Pay

DFAS. DFAS continued the current sampling methodology, stratified by invoice dollar amount, to conduct statistically valid reviews of invoices computed in the Mechanization of Contract Administrative Services (MOCAS) contract payment system, the DFAS legacy commercial pay systems (IAPS, ONEPAY, CAPS), and the Army (GFEBS) and Defense Agency Component ERPs (DAI and EBS.) [4]

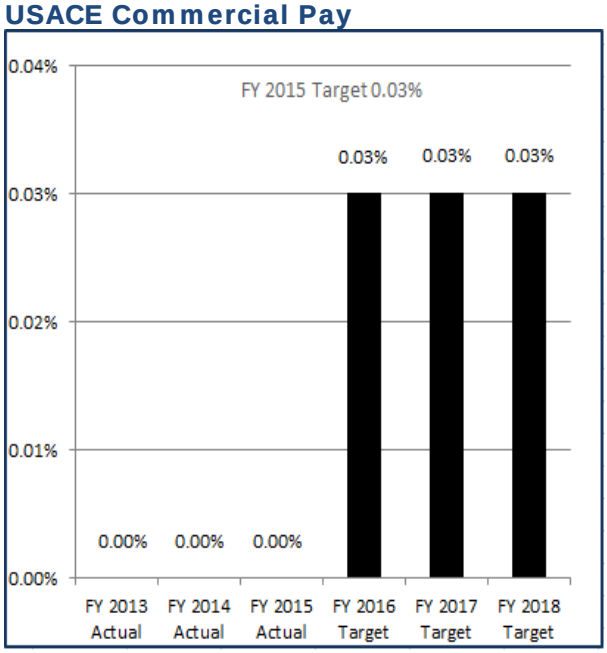
The FY 2015 estimated improper payment amount is $256.0 million, with a 95 percent confidence interval between zero and $613.8 million, and an estimated 0.10 percent error rate. DFAS performs analysis on contractor identified improper payments data for preventive controls.

Root Causes. The Commercial Pay improper payments were administrative and documentation errors caused by other system related errors. Improper payments identified from quarterly random sample reviews include:

- Administrative errors, 57 percent, resulting from invalid invoice released, erroneous interest paid, special pay instructions not input, and/or other system related errors; and
- Missing Documentation, 43 percent.

Business Activity Monitoring (BAM) Tool. Using the BAM tool, DFAS identifies and prevents improper payments in the Department's five largest commercial payment systems, which includes MOCAS, CAPS-W, IAPS, One-Pay, and EBS accounting, for 87 percent of all DoD commercial payment dollars.

Figure 20. Improper Payment Rate – USACE Commercial Pay



Since the implementation of BAM in August 2008, prepayment reviews have prevented more than $11 billion in improper payments. Continuous payment error analyses allow for the recurrent enhancement of BAM logic and improved disbursement accuracy.

This year, DFAS developed new system edits, also called integrity checks, to improve BAM's ability to identify improper payments prior to disbursement. One example of the success of these new edits and integrity checks in preventing improper payments in FY 2015 is an integrity check focused on risk management for MOCAS that will flag an invoice for review if it is being paid to a

[4] Computerized Accounts Payable System for Windows (CAPS-W), Defense Agencies Initiative (DAI), Enterprise Business System (EBS), General Funds Enterprise Business system (GFEBS), Integrated Accounts Payable System (IAPS), Mechanization of Contract Administration Services (MOCAS) and One Pay (ONEPAY).

vendor that has historically had high dollar improper payments. This new integrity check has helped to prevent over $50 million in improper payments since its implementation in January 2015.

DFAS identifies and monitors the root cause for all improper payments by researching supporting documentation and assigning an assessment (reason) code that identifies the type and cause of the improper payment. In addition, root causes of improper payments detected by BAM are reviewed and analyzed monthly. Root cause analysis is shared with the DFAS payment offices on a monthly basis and is used to identify areas for operational improvement. The information is also used to implement refinements to BAM and develop new integrity checks.

USACE. USACE projects a zero percent statistical sampling error rate for Commercial Pay for FY 2015.

Navy. The Navy ERP reported no improper payments for Commercial Pay for FY 2015.

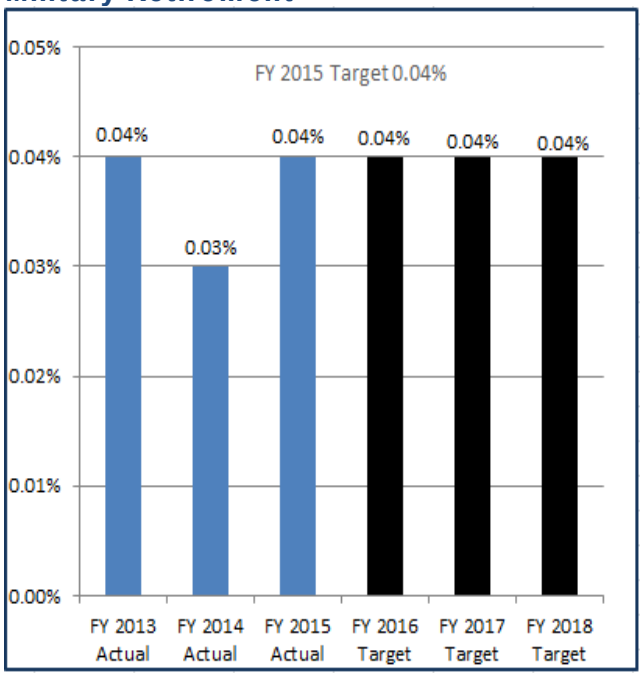
Military Retirement

The Department projects a 0.04 percent error rate for the Military Retirement Program for FY 2015. Almost the entire amount is comprised of payments made prior to DFAS receipt of notification of a deceased retiree or annuitant.

Root Causes. Eligibility for military retired pay ends on the retiree's date of death. Prompt reporting of a deceased retiree's death can help avoid possible financial hardship to the Service member's annuitant by expediting the correct calculation and processing of the monthly benefit. Family members or executors are required to return any overpayments of the deceased military retired pay.

The delay in notifying the payroll activity of the death of a Military Retiree may result in an initial unavoidable overpayment to a deceased retiree. Our review of confirmed overpayments to deceased retirees in FY 2015 disclosed that the Department recovered approximately 91 percent of the overpayments within 60 days, demonstrating the effectiveness of controls within the retired pay system once the Department is notified of a retiree's death.

Figure 21. Improper Payment Rate – Military Retirement



Travel Pay

Department. The Department projected an 8.8 percent error rate for travel improper payments for FY 2015. This represents Military DTS trip records and WinIATS Temporary Duty (TDY) and Permanent Change of Station (PCS) vouchers for both civilians and military

members, which are computed and disbursed by DFAS. In addition, the 8.8 percent error rate includes travel payments disbursed outside of DFAS by the Army, Navy, and Air Force.

Root Causes. The primary reasons for travel improper payments were administrative, documentation and program design errors caused by traveler input errors and or approving official's failure to identify the error(s) prior to payments. The errors identified in the sample include:

- Administrative errors, 48 percent, resulting from per diem expenses incorrectly reimbursed to the traveler for lodging expenses without validating the claim with receipts, and/or reimbursed for meals at an incorrect rate. Errors also result from incorrectly reimbursed airfare, non-travel related expenses, and/or rental car expenses due to traveler input errors when completing voucher in DTS.
- Missing documentation errors, 49 percent: resulting from unsupported reimbursable for claimed lodging, airfare or rental car expenses.
- Program design or structural errors, 3 percent, resulting from using the WinIATS system to process non-traditional travel vouchers for foreign students under the International Military Education and Training (IMET) program.

USACE. The Army Corps of Engineers continued to see a reduction in its Travel Pay error rate over the course of the past 12 months (refer to Table 4). The USACE continues to stress the need for refresher training for all approving officials and travelers, which dramatically impacted the error rate. Also, the USACE Finance Center (UFC) performs a 100 percent audit of all airline credits issued against travelers' individually billed travel card accounts. This ensures that all airline credits, issued as a result of flight changes, are properly recouped.

Root Causes (see also Table 5). The primary reasons travel pay errors occur are:

- Errors generated by Travelers when completing their travel vouchers.
- Improper review of travel vouchers by Approving Officials (AO).

V. Corrective Actions

Military Health Benefits

Corrective Actions. The DHA purchased-care contractors are monetarily incentivized or dis-incentivized, through payment accuracy performance standards, to reduce and/or eliminate improper payments. The fewer improper payments the contractors make, the less money is deducted from their reimbursements.

Additionally, details of the EIC compliance reviews are shared with the purchased-care contractors, DHA Program Offices, purchased-care contract Contracting Officers, and Contracting Officer Representatives to coordinate appropriate corrective action plans with the respective purchased-care contractor.

- Upon completion of an EIC compliance review, respective contractors review results, formulate an action plan to mitigate future findings and derive a process to avoid future improper payments.
- If warranted, contractor claims processing systems are modified to meet the Department's healthcare policy, reimbursement, or benefit requirements.
- If there is the potential that additional healthcare claims were processed in error, special ad hoc reports are pulled and adjustment actions are taken as appropriate.

Each purchased-care contractor has its own business process for evaluating compliance review results and conducting root cause analyses to ensure the accuracy of future claims payment and developing internal corrective action plans. If required, DHA Contracting Officers and Contracting Officer Representatives issue contractor corrective action plans to remedy and track noncompliance with TRICARE healthcare policy/regulations and purchased-care contracts.

Military Pay

Corrective Actions. The Department institutes comprehensive training programs with standard desk procedures to ensure continuity of operation as new clerks onboard. In addition, the Department, primarily through DFAS, advises the Military Services of the results of payment reviews and the associated root causes of the errors. DFAS provides the Military Service with monthly reports on the results of statistical reviews, including the reasons for and dollar value of errors and year-to-date trends, to inform their training plans.

Civilian Pay

Corrective Actions

DFAS continues to advise Components of the results of payment reviews and the associated reasons for errors that result in improper payments to civilian employees. DFAS also advises Components on best business practices to prevent future improper payments and participates in various conferences to guide personnel on how to correctly submit information to prevent improper payments.

Commercial Pay

Corrective Actions. The Department's continued to implement corrective action to prevent, identify, and reduce overpayments. Corrective actions include:

- Ongoing training for pay technicians to increase their ability to compute and input claims accurately.
- Mandatory all-hands training and awareness for MOCAS Accounts Payable personnel when the system is down for month-end. Training and awareness are tailored to address risk areas and to improve quality.
- Continued work with Contracting Officers to simplify contract terms and eliminate the need for manual calculations.
- Implementation of a new control called "First Financing Review" that requires a review of the first financing payment for every new contract as well as an attestation by the supervisor that the review was performed. The accuracy of the first financing payment on a contract is critical to ensuring all subsequent payments are properly made.
- Continued electronic commerce improvement initiatives, such as the automation of third party payments, aimed at minimizing manual intervention and improving quality.

DFAS is working to add Procedures Guidance and Instruction (PGI) data to enhance detection capability within MOCAS. The PGI is an initiative that created special payment instruction codes and fields. These new data elements present an opportunity for new integrity checks to be created within the BAM tool for MOCAS.

Another initiative to reduce improper payments includes outreach to reduce vendor billing errors caused by duplicate manual and electronic submission of invoices. In addition, the Department conducts manual reviews to ensure it meets all Certifying Officer Legislation requirements prior to certifying payment, such as ensuring proper documentation and correct payment amounts before disbursement.

Military Retirement

Corrective Actions. The Department's control processes to prevent, identify, and reduce overpayments to deceased retirees and annuitants include:

- Validating existence of retiree and/or annuitant, if living outside the United States.
- Annual certification of existence for all annuitants.
- Periodic, random certifications for retirees over a certain age.
- Validating military retiree's existence if payments are returned and/or if benefit account was suspended for several months due to bad check/correspondence address.

Early detection and data mining efforts, along with partnerships with other Federal and state entities, are used to detect improper payments. The Department takes a proactive approach to ensure the accuracy of Military Retiree payments by routinely comparing retired and annuitant payroll master file databases with the Social Security Administration's Death Master File, and periodically comparing records with the Office of Personnel Management's deceased files, Department of Veterans Affairs' database, and with individual states with sizable retiree and annuitant populations (e.g., Texas, California, and Florida). Payments for

military retirees identified as deceased are suspended pending validation of death or validation of continued eligibility. The Department's expanded definition of acceptable source documents for notice of death has allowed DFAS to initiate earlier reclamation actions, thereby enhancing faster recovery of overpaid funds. Refer to the Do Not Pay discussion, later in this section, for discussion on the Department's use of the Social Security Death Master File.

Travel Pay

DTS Corrective Actions. DFAS provides the Defense Travel Management Office (DTMO) and DoD Components with error trend reports. The DFAS postpayment review personnel give presentations at various DTS training sessions and brief Senior Service Executives on these postpayment review statistics, trends, and input errors. Any improper payments identified are forwarded to the appropriate Debt Management Monitor to establish a debt and recover the improper payment. Also, the Department has implemented a DTMO Compliance Tool, discussed in the Do No Pay discussion later in this section.

WinIATS Corrective Actions. DFAS implemented several steps to prevent improper payments, including:

- Monthly meetings with postpayment reviewers and Travel Pay operations personnel to discuss findings and preventative measures. Travel Pay examiner training programs, based on postpayment reviewers' findings and recommendations, are ongoing.
- Implementation of prepayment validations and cross checks to prevent duplicate payments.

USACE

Corrective Actions. The USACE continues to educate travelers and travel AOs through required training, including refresher training for seasoned travelers and AOs. Additionally, all AOs are required to complete fiscal law training every year to maintain their certification.

When improper payments are identified, the UFC notifies the parties involved to determine the circumstances surrounding the error and to assist them in identifying business process improvements to prevent future recurrences. These areas are also covered thoroughly in refresher training.

Navy

Corrective Actions. Navy is coordinating with DFAS to review the root causes of DTS improper payments in an effort to achieve compliance with the Department reduction and recovery goals.

VI. Internal Controls over Payments

Table 6 summarizes DoD risk assessments (1-4) within each internal control standard.

Table 6. Status of Internal Controls

Internal Control Standards	DHA *	Navy ERP Com Pay	WINIATS	USACE Com Payments	USACE Travel Payments
Control Environment	3	3	3	4	4
Risk Assessment	3	2	2	4	4
Control Activities	3	2	2	4	4
Information and Communication	3	3	2	4	4
Monitoring	3	3	3	4	4

NOTE: * DHA consists of North, South, West, TDEFIC, TOP, TPharm and ADDP.

Definitions:

1=Controls are not in place to prevent improper payments.
2=Minimal controls are in place to prevent improper payments.
3=Controls are in place to prevent improper payments, but there is room for improvement.
4=Sufficient controls are in place to prevent improper payments.

DFAS. The Managers' Internal Control Program (MICP) and the DFAS FY 2015 Statement of Assurance (SOA) provided Management's assurance for DFAS' internal controls over operations, internal controls over financial reporting and internal controls over financial systems. The low improper payment rates reflected for DoD services and agencies are indicative of the success of the internal controls to prevent improper payments.

DHA. DHA has payment accuracy performance standards requiring contractors to meet TRICARE policy or contract performance standards or be subject to financial penalty.

The current baseline for contractor performance standard is 1.75 percent. However, DHA Program Offices have developed more stringent contract performance requirements lowering the requirement to less than 1 percent. DHA monitors contractor performance by conducting EIC compliance reviews. In addition, DHA has numerous prepayment (i.e., claims auditing software, TRICARE documentation policies, duplicate claim check) and postpayment controls (i.e., EIC audits, DCAA contract audits, recovery activities, Medicare cost report and internal contractor postpayment audits) built into the military health benefits contract requirements and contractor's claims processing systems to minimize improper payments.

Navy. Navy internal controls performance standards are centralized for commercial pay (ERP) and travel pay (WinIATS). Internal controls are developed based on: adequate policies and procedures, training, program maturity, regulatory compliance and assessment of known deficiencies of Internal Controls Over Financial Systems (ICOFS).

USACE. USACE internal process controls are built into the system and are an integral part of the overall business processes. Process controls include but are not limited to: decentralization of support activities, Finance Center certification and disbursement of funds to ensure separation of duties; invoices not processed without adequate support (i.e., receiving reports) and limited disbursements prior to increase in obligation.

VII. Accountability

The Under Secretary of Defense (Comptroller)/Chief Financial Officer is the Accountable Official for the Department and is responsible for ensuring that, to the greatest extent possible, all DoD disbursements are accurate.

Certifying Officer Legislation, *10 U.S.C. 2773a,* holds Certifying and Disbursing Officers accountable for government funds. In accordance with this law, pecuniary liability attaches automatically when there is a fiscal irregularity, i.e., (1) a physical loss of cash, vouchers, negotiable instruments, or supporting documents, or (2) an improper payment. This is further captured in the *DoD Financial Management Regulation (DoD FMR), Volume 5, Chapter 3*, entitled "Certifying Officers, Accountable Officials, and Review Officials." The Department's efforts to recover overpayments from a recipient must be undertaken in accordance with the debt collection procedures outlined in the *DoD FMR, Volume 5, Chapter 28*, "Management and Collection of Individual Debt," and *DoD FMR, Volume 10, Chapter 18*, "Contractor Debt."

The DoD FMR contains other policies that specifically address Improper Payments (*DoD FMR Volume 4, Chapter 14*) and Recovery Auditing (*DoD FMR Volume 10, Chapter 22*). Beginning in Quarter 3, FY 2013, all reporting DoD Components were required to begin downloading their improper payment reports to the DFAS ePortal, as the Office of the Deputy Chief Financial Officer's Accounting & Finance Policy Directorate was designated as the Executive Agent to manage this information and its associated reporting requirements. This centralized electronic system allows the reporting Components to access improper payment information without regard to the time zone in which they are located. More importantly, it allows management to ensure all Components' submissions are timely and accurate.

Because DoD Travel currently has the highest error rate among all DoD-reported programs, initial focus will be placed here to achieve measurable progress more quickly. The Department is focused on reducing overall Travel spending; reducing improper payments and increasing recoveries is another way to reach that goal.

VIII. Agency Information Systems and Other Infrastructure

The Department has much of the information and infrastructure needed to reduce improper payments. The Department uses the BAM tool and the Do Not Pay portal to identify potential improper payments prior to disbursement.

The Department's ongoing migration from a legacy system environment to new ERP systems presents a number of challenges and opportunities to prevent and detect improper payments. This migration also can enhance the Department's ability to improve its debt collection and recovery auditing abilities. The Department is addressing these areas both from a payment integrity as well as audit readiness perspective.

DHA. The DHA has much of the information and infrastructure needed to reduce improper payments. The Department uses the TRICARE Encounter Data Set (TEDS), a financial feeder system, through which all claims are processed to the Oracle Federal Financials (OFF). The TEDS contains various edits to verify patient and provider eligibility, benefit calculations, and reimbursement methodologies determined by DHA. The claims processing systems are able to determine the appropriate reimbursement methodology based on information included in the claims such as type of service, provider record, and claim form type).

In addition, the DHA has developed a TRICARE Duplicate Claims System (DCS) to automate the resolution of duplicate claims payments. The system facilitates the identification of actual duplicate claim payments, the initiation and tracking of recoupments, and the removal of duplicate records from the TEDS database. DHA purchased care contractors are contractually required to use the DCS and resolve duplicate payments.

A CH-47 Chinook helicopter suspends a large bucket of water to douse a wildfire in Shasta County near Redding, Calif. The helicopter, part of an effort to battle more than a dozen wildfires in California, is assigned to the California National Guard's 1st Battalion, 126th Aviation Regiment.

California Army National Guard photo by Staff Sgt. Eddie Siguenza

IX. Statutory and Regulatory Barriers

The primary barriers in preventing improper payments in Military Pay are the statutory entitlements and regulatory monthly pay schedule. For DHA collections, there are contractual requirements that allow up to 270 days, instead of the standard delinquency deadline of 180 days, to be transferred to the Treasury under the Debt Collection Improvement Act of 1996.

X. Payment Recapture Audit Reporting

Table 7 shows improper payment recaptures.

Table 7. Improper Payment Recaptures with and without Audit Programs

	Overpayments Recaptured outside of Payment Recapture Audits ($ in millions)		
Program or Activity	Amount Identified	Total Amount Extrapolated (estimated throughout Total Outlays)	Amount Recaptured (Refunds throughout FY 2014) [4]
Military Pay[1]	$227.60		$182.50
Civilian Pay[1]	$57.20		$57.20
Military Retirement[2]	$20.60		$18.80
DoD Travel Pay[3]	$3.70		$0.10
DFAS Commercial Pay	$144.1		$131.30
USACE	$2.00		$2.00
DHA [4]	$2.74	$ 138.58	$560.93

Note 1: Military Pay and Civilian Pay include In-Service Collections for recovery amounts. Military Pay also includes Out-of-Service Debts. Both In-Service Collections and Out-of-Service Debts continue to be collected beyond the AFR period.
Note 2: The amounts identified and recovered are based on 100% review of Deceased Retired and Deceased Annuitant accounts.
Note 3: The amounts identified and recaptured are based on the amounts identified in the statistical reviews.
Note 4: DHA "Amount Recaptured" represents recoveries from specific overpayments identified via samples as well as dollars paid back to DHA in the course of other routine claim adjustments.

DTS Compliance Tool. In December 2012, the Department established the Travel Policy Compliance Program, mandated by the National Defense Authorization Act for Fiscal Year 2012. Managed by the Defense Travel Management Office (DTMO), the program was established to ensure travel claims do not exceed reasonable or actual expenses as well as to minimize inaccurate, unauthorized, overstated, inflated, or duplicate travel claims. The DTS Travel Policy Compliance Tool, an automated application, reviews DTS travel vouchers in near real time and identifies potential improper payments. If a potential improper payment is identified, travelers and their Approving Official are notified via e-mail to either submit a corrected claim or explain why the claim is correct. Service administrators can run reports to review all identified errors and track corrections.

The DTMO Compliance Program not only ensures travel claims are paid in accordance with regulations and assists in recouping funds, but it also mitigates budget cuts for travel, improves postpayment audits, educates travelers and administrators on travel policy, and

identifies travel trends, training needs, and opportunities for greater controls in the future.

As of September 30, 2014, all DoD Components using DTS are actively using the Compliance Tool, and all DTS vouchers are being examined using 12 areas of inquiry.

As of October 19, 2015:

- $13,418,869 in errors was identified.
- $3,294,409 in payment errors were corrected without any funds due back to the Government.
- $2,718,047 in errors were corrected and are awaiting collection.
- $1,947,449 in errors were corrected and the funds have been recovered.

The DTMO has identified over 50 additional queries and currently is working to add these queries based on availability of funds. In addition to examining DTS vouchers, the Compliance Tool Program has expanded to include additional data sources, such as Government Travel Charge Card (GTCC) data, and is now comparing amounts claimed on vouchers with amounts charged on the GTCC to identify potential overpayments. As new data sources become available, they may be used to identify additional errors.

Use of the Compliance Tool provides a mechanism to greatly facilitate DoD's collections and improve recovery rate for Travel Pay overpayments. In addition, funds recovered from prior years can be re-allocated for use in current year appropriations, in accordance with Public Law 111-204, The Improper Payments Elimination and Recovery Act of 2010.

DFAS. The Department continues to use its internal staff and procedures to identify and recover overpayments. The DFAS recovery percentages remain close to the 85th percentile, as required by OMB; therefore, it would not be cost-effective to contract with a private sector firm to perform this function, which although not paid with appropriated funds, would still cost the Department time and money in technical and other forms of contractor assistance. The DFAS has not used an external recovery audit firm, as it historically had not proven cost-effective. The use of the BAM tool on the front-end of commercial payment transactions continues to provide a successful means of both preventing improper payments and thereby reducing the need to pursue overpayment recoveries.

In compliance with IPERIA, as well as the *Debt Collection Improvement Act of 1996*, the Department uses a number of other methods to prevent, identify, and collect improper payments. For example, DFAS has implemented a Centralized Offset Program to look across the Defense components for opportunities to offset debts within the first 90 days of delinquency. Once this deadline passes, DFAS transfers the debts to the Treasury Department, no longer waiting until day 180 as allowed by statute, to utilize all debt collection tools available earlier in the debt lifecycle to increase the likelihood of collecting the debt. During FY 2015, the Centralized Offset Program requested and confirmed 784 offsets totaling approximately $11 million.

USACE. The UFC uses a data mining tool as part of its postpayment/payment recapture program. This tool searches for potential errors, such as duplicate, missing, or suspicious invoices, as well as specific types of recurring payments. There are ten scenarios built into the data mining tool, which searches 100 percent of all USACE commercial payments. The

use of a data-mining tool complements the prepayment system edits built into CEFMS. Payment safeguards include a requirement to match a receiving report with an invoice and thereby prevent use of duplicate invoice numbers for the same obligation.

DHA. The DHA uses a number of different mechanisms to prevent, identify, and collect improper payments, to include claims auditing by an EIC and internal DoD agencies for all private-sector payments. This process utilizes postpayment review techniques, performed internally and by external contractors, paid from the proceeds of recovered funds.

Contract payments comprise a large volume of transactions with high-dollar values; therefore, DHA is vigilant to ensure payment accuracy. In addition to the postpayment reviews, the DHA also utilizes various internal manual and automated prepayment initiatives to prevent overpayments and underpayments.

The DHA conducted a pilot study to evaluate its ability to identify and recover funds that are owed from private health care providers, resulting from overpayments that occurred as a result of secondary insurance payment errors. The pilot results indicated that this type of account review would be cost-effective, and a Request for Proposal initially planned to be released in FY 2015 has since been delayed and may be issued in FY 2016 or FY 2017.

The Department has no reportable data for Disposition of Funds Recaptured through Payment Recapture Audits or for Aging of Outstanding Overpayments in the Payment Recapture Audits.

XI. Additional Information

The Department is positioning itself to be fully compliant with additional elements required by the Improper Payments Elimination and Recovery Improvement Act (IPERIA) for FY 2014 reporting. As part of the effort toward auditability, each of the Defense disbursing Components is diligently reviewing and reporting on all payments that are subject to IPERIA, and ensuring the processes used are compliant with laws and regulations.

The Department continually looks for opportunities to improve its methodologies, and the postpayment review teams are far from complacent. The Department is implementing recommendations from both the DoD Inspector General's IPERIA Compliance Review for FY 2013 (DoDIG Report No. D-2014-059), and from GAO Report No. GAO-13-227 on improper payments, to guide our progress in our future improper payment efforts. In addition, we continue to implement cross-utilization of best business practices related to improved system edits, procedures, guidance and instructions.

XII. Agency Reduction of Improper Payments with the Do Not Pay Initiative

Table 8 summarizes the Department's successes attributed to the Do Not Pay Initiative.

Table 8. Results of the Do Not Pay Initiative in Preventing Improper Payments

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments (in millions)	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate (in millions)
DFAS NTDO reviews with the IPERIA specified databases *	6,835,540	$590,997.00	0	$0.00	83,862	$7,640.0
DFAS TDO reviews with the IPERIA specified databases **	113,341	$9,679.00	0	$0.00	45	$1.5
DHA Reviews with the IPERIA specified databases	795	$2,902.24	0	$0.00	795	$2,902.24
USACE Reviews with the IPERIA specified databases	571,000	$18,158.00	0	$0.00	2	$0.00

* Non Treasury Disbursing Office (NTDO) Data is based on invoice and invoice amount vs. payment.
** Treasury Disbursing Office (TDO) Data is FY 2015 through August.

The Do Not Pay (DNP) Initiative (detailed reporting in Table 8), as currently implemented, is programmed to look at the vendor, the invoice amount, and the dollar amount of the payment. Improper payments may still occur at some later point due to reasons that DNP does not detect. For example DNP cannot detect a duplicate payment, because the vendor name, invoice amount, and payment amount would still be correct; the duplicate invoices would not appear on the match list.

DFAS. DFAS sends a weekly batch file to the DNP database and receives results the next day. DFAS then researches these results to determine if the proposed payment is proper based on established business rules. To date, DFAS has not identified any potential improper payments using the DNP list.

DFAS continues to conduct comparisons against all the DNP databases with the exception of the debt check, which is a duplication of the Treasury Offset Program, and the Credit Alert System, which does not apply to Commercial Payments. In addition to the weekly non-Treasury disbursed prepayment review, a group of Treasury-disbursed payments are checked: prepayments on a weekly basis, and prepayment each time a file is sent to Treasury for disbursement. For the Treasury-disbursing process to date there were 45 potential improper payments for DFAS to review which were all deemed proper. The Death Master probable results along with all the possible results from each database, which

are name matches, make up 95 percent of the false positives received. The other 5 percent are deemed not to be improper payments due to established business rules.

USACE. The USACE matches its payment files daily in the DNP Portal to prevent any improper payments.

DHA.

Individual Payments. The DHA processes relatively few, 5 - 20, case recoupment refunds each month for small dollar amounts, $5 – $20,000. The Single Online Search service is used 100 percent of all case recoupment refunds to verify (1) a business or individual has not been placed on the List of Excluded Individuals/Entities (LEIE), and (2) an individual has not died. Any matches will be referred to the DHA Office of General Counsel.

Vendor and Contract Payments. The DHA processes approximately 200 routine payments per month for 23 unique contractor payees. The Single Online Search service is used once a month to verify a DHA contractor payee has not been placed on the Excluded Parties List System (EPLS) or the List of Excluded Individuals/Entities (LEIE). Any matches are referred to the assigned Contracting Officer. The risk, however, lies outside of DHA because DHA contractors are not required to use the Do-Not-Pay database, and there is no current mechanism in place to require the contractors to use the Do-Not-Pay databases at the prepayment phase to comply with IPERIA.

Navy ERP. Navy ERP transactions are included in the DFAS Do Not Pay Figures.

Military Retiree and Annuitant Pay – File Matching with the DMF outside DNP.

Prior to implementation of the Do Not Pay initiative, the Defense Manpower Data Center (DMDC) had a computer matching agreement with the Social Security Administration (SSA) to use its Death Master File to identify potential accounts that need to be suspended or cancelled as a result of a retiree's or annuitant's passing. As part of the end-of-month processing, DFAS produces two files (one for retirees, one for annuitants) that are sent to DMDC to match or conduct comparisons against the monthly DMF file. The results are compiled and forwarded to DFAS.

DFAS then runs its match process to suspend pay accounts (but not cancel) and to notify next of kin that this action was based on information received from SSA. This correspondence contains instructions on how to close out the account or reactivate if the death was mistakenly reported by SSA; however, this is rare.

The vast majority of these monthly benefits are paid via Electronic Funds Transfer (EFT). The disbursement system suspends payment to prevent additional benefits from being improperly paid. Any EFT payment that was mistakenly disbursed is automatically reclaimed from the bank account after the official notification of death is processed. The normal recovery rate hovers around 95 percent within 60 days of the official death confirmation.

FREEZE *AND REDUCE* THE FOOTPRINT

Since the inception of the Freeze the Footprint (FtF) initiative in FY 2012, the Department has been a leader among Federal agencies in not only *freezing* the amount of facility square feet of building space, but in fact *reducing* its overall real property footprint. The Department contributed nearly 75 percent of the total Federal government's infrastructure reduction in FY 2015. The DoD FY 2012 square footage baseline identified in the Freeze the Footprint plan was 313.5 million square feet in office and warehouse assets.

As of September 30, 2014, the Department had reduced the office and warehouse footprint to 288.4 million square feet for an overall 8 percent reduction. With the release in FY 2015 of OMB's *National Strategy for the Efficient Use of Real Property (2015-2020), Reducing the Federal Portfolio through Improved Space Utilization, Consolidation, and Disposal*; Federal agencies are encouraged to develop plans to reduce footprint rather than just freeze to the FY 2012 baseline. Based on this Reduce the Footprint (RtF) guidance, the Department is developing plans to look for even more opportunities to consolidate activities and dispose of underutilized space. Through DoD's Real Property Efficiency Plan, the Department plans to add another 5.9 million square foot reduction in office and warehouse building space to the previously mentioned FtF baseline reductions. The table below establishes the RtF reduction goals for the five year period covered by the efficiency plan.

Table 9. DoD Goals for Reduce the Footprint for the FY 2016-2020 Period

DoD Goal	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Net SF Reduction (Million SF)	0.13	1.61	1.06	1.63	1.44

Demolition of the Navy Annex in Arlington, Virginia, began in November 2012. The above picture shows sections of Wing 6 and 7.

Photo by WHS Corporate Communications Division

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

Name of Penalty	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level ($ Amount)
Unlawful Provision of Healthcare	10 U.S.C 1094(c)(1)	October 23, 1996	December 1996	$5,500.00
Wrongful Disclosure-Medical Records First Offense Subsequent Offense	10 U.S.C 1102(k)	October 23, 1996	December 1996	 $3,300.00 $22,000.00
Use of Appropriated Funds to Influence Contract Minimum Maximum	10 U.S.C 1352	October 23, 1996	December 1996	 $11,000.00 $110,000.00
Personal Property Loss Claims from the Government	31 U.S.C 3721(i)	October 23, 1996	December 1996	$1,100.00
Program Fraud Civil Remedies Act/Violation Involving False Statement	31 U.S.C. 3802(a)(2)	October 23, 1996	December 1996	$5,500.00
Permit Condition Violation, Class I (per violation amount)	31 U.S.C 1319(g)(2)	October 23, 1996	December 1996	$11,000.00
Permit Condition Violation Class I (maximum amount)	31 U.S.C 1319(g)(2)	October 23, 1996	December 1996	$27,500.00
Permit Condition Violation Class II (per day amount)	31 U.S.C 1319(g)(2)	October 23, 1996	December 1996	$11,000.00
Permit Condition Violation Class II (maximum amount)	31 U.S.C 1319(g)(2)	October 23, 1996	December 1996	$137,500.00

SCHEDULE OF SPENDING

Department of Defense Combined Schedule of Spending Agency Wide For the Years Ended September 30, 2015 and 2014	2015	2014
	Dollars in Millions	
What Money is Available to Spend?		
Total Resources	**$ 1,067,434.0**	**$ 1,084,939.2**
Less: Amount Available but Not Agreed to be Spent	(109,502.9)	(115,762.1)
Less: Amount Not Available to be Spent	(39,998.0)	(35,000.4)
Total Amounts Agreed to be Spent	**$ 917,933.1**	**$ 934,176.7**
How was the Money Spent/Issued?		
Civil Work		
Personnel Compensation and Benefits	$ 2,364.6	$ 7,213.8
Contractual Services and Supplies	9,977.1	5,268.2
Acquisitions of Assets	4,074.3	4,175.7
Grants and Fixed Charges	7.8	8.4
Other	1,273.1	1,075.4
Total Civil Works	**$ 17,696.9**	**$ 17,741.5**
Military Retirement		
Personnel Compensation and Benefits	$ 9,507.8	$ 9,294.2
Contractual Services and Supplies		
Acquisitions of Assets		
Grants and Fixed Charges	56,829.0	55,451.5
Other		
Total Military Retirement	**$ 66,336.8**	**$ 64,745.7**
Military Personnel		
Personnel Compensation and Benefits	$ 120,770.4	$ 123,769.3
Contractual Services and Supplies	7,241.5	7,280.7
Acquisitions of Assets	0.6	2,326.9
Grants and Fixed Charges	288.1	559.7
Other	16,699.8	15,669.7
Total Military Personnel	**$ 145,000.4**	**$ 149,606.3**
Operation, Readiness & Support		
Personnel Compensation and Benefits	$ 147,748.2	$ 142,119.5
Contractual Services and Supplies	313,317.6	294,418.7
Acquisitions of Assets	18,499.7	20,998.9
Grants and Fixed Charges	2,055.2	2,754.8
Other	12,705.8	42,184.5
Total Operations, Readiness & Support	**$ 494,326.5**	**$ 502,476.4**
Procurement		
Personnel Compensation and Benefits	$ (3.9)	$ (525.8)
Contractual Services and Supplies	23,696.3	26,531.8
Acquisitions of Assets	80,330.0	85,057.6
Grants and Fixed Charges	142.9	85.3
Other	3,265.5	(2,760.9)
Total Procurement	**$ 107,430.8**	**$ 108,388.0**

Research, Development, Test & Evaluation		
Personnel Compensation and Benefits	$ 4,555.4	$ 976.1
Contractual Services and Supplies	57,995.4	69,003.6
Acquisitions of Assets	5,616.8	6,846.0
Grants and Fixed Charges	1,687.4	2,161.8
Other	4,434.8	(2,505.3)
Total Research, Development, Test & Evaluation	**$ 74,289.8**	**$ 76,482.2**
Family Housing and Military Construction		
Personnel Compensation and Benefits	$ 848.4	$ 731.8
Contractual Services and Supplies	2,015.9	3,409.9
Acquisitions of Assets	7,228.4	8,268.7
Grants and Fixed Charges	24.6	60.5
Other	2,734.6	2,265.7
Total Family Housing and Military Construction	**$ 12,851.9**	**$ 14,736.6**
Total Amounts Agreed to be Spent	**$ 917,933.1**	**$ 934,176.7**

The Combined Schedule of Spending (SoS) presents an overview of the funding received by the Department and how it was spent (i.e., obligated) during the reporting period. The SoS presents total budgetary resources and fiscal year-to-date total obligations for the reporting entity. The budgetary information in the SoS is presented on a combined basis and not a consolidated basis in order to remain consistent with the information reported on the Report on Budget Execution and Budgetary Resources (SF-133) and SBR. Obligations categorized as “Other” consists of obligations that could not be identified to a specific category of spending due to accounting process and systems limitations. Obligations categorized as “Other” obligations decreased $14.8 billion, or 26 percent, from the fourth quarter of FY 2014 primarily due to continued improvements in the reporting process for the majority of the Defense Agencies’ general fund activities during FY 2015. These improvements provided access to a greater level of detail in obligation classification than was available in FY 2014. The Department is in the process of implementing the Digital Accountability and Transparency Act of 2014 (DATA Act) to enhance the accuracy and completeness of the SoS.

INSPECTOR GENERAL'S SUMMARY OF MANAGEMENT AND PERFORMANCE CHALLENGES FOR FISCAL YEAR (FY) 2015

Each year, the Department of Defense Inspector General (DoD IG) prepares a statement summarizing the most serious management and performance challenges facing the Department and provides a brief assessment of the Department's progress in addressing these challenges.

For FY 2015, the DoD IG identified challenges in the following eight categories:

- Financial Management
- Acquisition Processes and Contract Management
- Joint Warfighting and Readiness
- Cyber Security
- Health Care
- Training and Equipping Afghan, Iraqi, and New Syrian Security Forces
- The Nuclear Enterprise
- Insider Threat

Detailed discussion of the DoD IG's statement and the Department management's response follows.

U.S and South Korean marines simulate an assault on Incheon during the 65th annual Incheon Amphibious Landing Operations Commemoration Ceremony in South Korea. The event commemorated the Sept. 15, 1950, surprise amphibious landing of more than 40,000 troops led by Gen. Douglas MacArthur during the Korean War.

Photo by Petty Officer 1st Class Abraham Essenmacher

SUMMARY OF IDENTIFIED CHALLENGES

1. Financial Management	
1-1A. Achieving Financial Statement Audit Readiness	**IG Summary of Challenge**

The Department's continuing financial management challenges impair its ability to provide reliable, timely, and useful financial and managerial data to support operating, budgeting, and policy decisions. Gaps in the financial framework harm the accuracy, reliability, and timeliness of the data used by the Department's leadership. Improving and sustaining good financial management processes is critical to achieving auditable financial statements and receiving unmodified opinions.

Achieving auditable financial statements is an ongoing, difficult task. The success of the DoD Financial Improvement and Audit Readiness (FIAR) effort depends on:

1. Resolving material internal control weaknesses to ensure internal controls are designed and implemented properly, and are working effectively;
2. Evaluating and remediating controls for information technology (IT) systems that materially affect the financial statements, including Enterprise Resource Planning (ERP) systems, custom-built legacy systems, financial systems, and non-financial feeder systems;
3. Sustaining improvement in internal controls and systems to provide consistent and repeatable financial data used in decision making and reporting; and
4. Monitoring progress in achieving milestones, developing comprehensive improvement initiatives across DoD functional areas, and holding managers accountable for the timely implementation of those efforts.

Congress required the Department to validate the DoD Statement of Budgetary Resources (SBR) and the other DoD financial statements as audit ready by September 30, 2014, and September 30, 2017, respectively. However, the Department continues to struggle to implement business transformation efforts. Additional relevant mandates include:

5. Public Law 111-383, Section 881, which requires the Department to establish interim milestones to achieve audit readiness of its financial statements earlier than September 30, 2017. These interim milestones for Military Departments and Defense Components call for each major element of the SBR, such as "civilian pay, military pay, supply orders, contracts, and the funds balance with the Treasury," to achieve audit readiness;
6. Public Law 112-81, Section 1003, which requires the Department have a plan to validate the SBR as audit ready by September 30, 2014. The plan must include interim objectives and a schedule of milestones for each Military Department and for the Defense agencies. The Department must develop and implement comprehensive improvement initiatives and monitor progress according to interim milestones. The Department may need to revise these initiatives and milestones as it identifies additional deficiencies and corrective actions as a result of the iterative FIAR process;
7. Public Law 112-239, Section 1005(b)(1), which requires that plans to achieve audit readiness of the SBR "by September 30, 2014, include steps to minimize one-time fixes and manual work-arounds, be sustainable and affordable, and not delay the full auditability of financial statements"; and
8. Public Law 113-66, Section 1003(a), which requires the Secretary of Defense to ensure a full audit of the DoD financial statements is performed for FY 2018 and the

results of the audit are submitted to Congress not later than March 31, 2019.

Although the Department did not meet the 2014 deadline for full SBR audit readiness, the Department continues to make progress. Because the Department recognized it could not achieve SBR audit readiness by 2014, it implemented an incremental approach to achieving SBR audit readiness. The Department chose to address SBR audit readiness by focusing on the current year information contained in the SBRs of the General Funds. Specifically, the FY 2015 SBR audits focus on current-year appropriation activity and transactions, which the Department calls the schedule of budgetary activity (SBA).

In December 2014, the Department awarded contracts to three independent public accounting (IPA) firms. The IPAs began audits of the Military Departments' General Fund SBAs reporting FY 2015 appropriations with the DoD IG providing oversight. Additionally, the budgetary activities of several other Defense organizations are under SBA examinations or completing mock audits. The Department seeks to achieve audit readiness for the SBR by the 2017 deadline originally planned for all financial statements.

Meeting the 2017 deadline for audit ready financial statements remains a significant challenge, as the Department must also focus on the audit readiness of the remaining portions of the SBR, implementation of the ERP system, and achieving audit readiness for the full financial statements. Additionally, results of the FY 2015 SBA audits may identify additional internal control weaknesses that require corrective action, which may further delay the Department's plans for achieving audit readiness.

The Department must continue to develop and implement a comprehensive plan, including interim objectives and a schedule of milestones, to achieve audit readiness of the full SBR for both the General and Working Capital funds. In addition, the interim objectives and milestones must address each major category of DoD assets, which includes general equipment, real property, inventory, and operating material and supplies, to achieve audit readiness of the full financial statements.

1-1B. Achieving Financial Statement Audit Readiness	**IG Assessment of Progress**

Although the Department is far from reaching an unmodified opinion on its financial statements, it has made progress. The DoD senior leadership has emphasized the importance of this goal and provided resources to achieve it. The DoD IG believes this increased senior leadership emphasis drives the Department's ability to accomplish its internal milestones and progress toward full SBR audit readiness to meet the 2017 audit readiness mandates.

According to the *May 2015 FIAR Plan Status Report* (FPSR), unmodified SBA audit opinions are not expected in the initial years. However, proceeding with audits helps the Department uncover remaining challenges and exercises its audit support infrastructure. In FY 2015, the Department plans on spending approximately $619 million on audit readiness, validations, and audits for activities such as:

- Completing evaluation, discovery, and corrective actions of the Components and their service providers (e.g., Defense Finance and Accounting Service);
- Testing or verifying audit readiness after completing corrective actions and preparing management assertions;
- Supporting independent public accounting audit readiness validations and financial statement audits; and
- Additional financial and ERP systems.

Despite pervasive and longstanding DoD financial management challenges, the Army Corps of Engineers – Civil Works, and five other defense organizations received unmodified opinions on their FY 2014 financial statements, including the Defense Commissary Agency,

Defense Contract Audit Agency, the Military Retirement Fund, Defense Financial Accounting Service, and Defense Health Agency Contract Resource Management. The Medicare-Eligible Retiree Health Care Fund received a modified opinion. The Department must sustain its achievements and advance in the remaining significant areas.

The Department continues to make progress toward meeting the audit readiness goals, as the Military Services have now asserted audit readiness on the General Fund SBA. The Department modified its strategy based on the U.S. Marine Corps (USMC) audit experience. The USMC encountered many challenges during this first type of audit, which resulted in disclaimers of opinion in FY 2010 and FY 2011, and an unmodified opinion in FY 2012 that was withdrawn in FY 2015 due to information discovered during the audit of the FY 2014 SBA. A disclaimer was issued for FY 2014. The USMC, the Navy, and the Department are using USMC's experience to correct weaknesses, as well as prepare the other Military Services for their eventual SBR audits. The Marine Corps is planning for another SBA audit in FY 2015 and a full SBR audit in FY 2016. The Department remains committed to the Marine Corps' incremental approach to achieving audit readiness on the SBR.

In January 2015, with the DoD IG providing oversight, the independent public accounting firms began audits of the Military Departments' General Fund SBAs for their FY 2015 appropriations. The General Fund SBAs include financial transactions directly related to appropriations received in FY 2015 and do not include financial transactions for appropriations received in prior fiscal years. Additionally, the budgetary activities of most of the other Defense organizations are under SBA examinations or completing mock audits.

The May 2015 FPSR reported the Department has nearly 90 percent of its General Fund FY 2015 budgetary resources under audit and the remaining budgetary resources are being readied for audit. The Department has expanded its focus to include the Working Capital Funds and remaining financial statements. Additionally, the May 2015 FPSR reported the Department has expanded its audit readiness priorities from budgetary data reported on the SBR to all financial transactions reported on the balance sheet, statement of net cost, and statement of changes in net position. The Department also reported that achieving future audit readiness milestones will be a challenge for all components because of remaining financial management issues that cut across the Department.

The May 2015 FPSR recognized that the Department faces many difficult challenges to audit readiness. Some of the challenges are more easily resolved than others, but several will be difficult to address and are critical to success, including:

- Integration of service providers;
- Systems audit readiness, such as dependency on legacy and service provider systems;
- Attracting and retaining qualified personnel; and
- Audit-related impediments caused by the unique challenges of some business processes, sub-allotments, and sensitive activities which require a standard framework and process for the appropriate handling of classified and unclassified documents and data during audit.

1-1C. Achieving Financial Statement Audit Readiness	**Department Response**

The Department generally agrees with the DoD IG's assessment of the Department's status and progress in achieving financial statement audit readiness. The Department has made significant progress toward the full audit readiness and the September 30, 2017, deadline. Increased focus from senior leadership has been essential, and the Department is on track to meet its goals.

In FY 2015, the Department achieved a critical interim milestone when the Military

Departments began audits of their General Fund Schedules of Budgetary Activity (SBAs). Additionally, most of the material, other Defense organizations went under SBA examination or completed mock audits of their budgetary activities. Going under audit is an essential part of the DoD audit strategy and is consistent with the feedback received from GAO, the DoD IG, and some members of Congress.

The FY 2015 audits are proving invaluable to the Department. The process allows the Department to test its audit infrastructure and highlights dependencies between organizations. Auditor-identified deficiencies are prioritized and carefully tracked. Audits also facilitate the workforce's transition into an environment of being under annual audit.

Although limited in scope, the audits of current year budgetary funding are still huge undertakings, requiring considerable resources and triggering thousands of auditor requests. Other resources continue to be dedicated to audit readiness activities, such testing internal controls, migrating to an audit ready systems environment, and remediating remaining deficiencies. Working groups are forming to address critical path items. The Department is also working closely with standards setters, such as the Federal Accounting Standards Advisory Board (FASAB), to resolve long-standing policy issues and find a cost-effective way to prepare for an audit of DoD's full financial statements.

Over the next two years, the Department will continue to expand the scope of audits while sustaining a stronger, more disciplined environment until all full audit readiness is achieved. Lessons learned from other federal agencies suggest that the first years auditing the full financial statements will not result in a positive opinion. However, the Department is committed to resolving all issues until a positive opinion is achieved and sustained.

A Marine, left, and a sailor, right, both with Joint Task Force 505, help an earthquake victim to an ambulance at a medical triage area at Tribhuvan International Airport in Kathmandu, Nepal, May 13, 2015, after a 7.3-magnitude earthquake struck the country. The U.S. Pacific Command's Joint Task Force 505 dispatched aircraft, emergency supplies, and personnel to Nepal after a 7.8-magnitude earthquake on April 25, 2015, and subsequent aftershocks caused thousands of deaths and widespread destruction.

U.S. Marine Corps photo by Staff Sgt. Jeffrey D. Anderson

1-2A. Modernizing Financial Systems (Enterprise Resource Planning)	IG Summary of Challenge

To develop effective financial management processes throughout the Department, the Department continues to implement new financial management systems and business processes. The DoD IG believes properly planned and integrated systems with strong internal controls are critical to providing useful, timely, and complete financial management data and achieving auditability. Timely and effective implementation of the ERP systems will enable the Department to achieve its financial improvement and audit readiness goals.

The Department noted in the 2015 FPSR that the ERP systems are essential to its audit readiness efforts. However, not all ERP systems will be fully deployed for the FY 2015 SBA audits or the 2017 readiness deadlines. This will require the Department to continue to rely on legacy systems. Specifically, the May 2015 FPSR reported that the "Department is moving toward a target systems environment that significantly reduces the number of legacy systems. However, many of the legacy systems scheduled to be replaced will not be replaced by the audit readiness deadline of September 30, 2017. The Department will undergo audit in FY 2018 using both legacy systems and systems that will be part of the Department's target systems environment, including ERPs."

1-2B. Modernizing Financial Systems (Enterprise Resource Planning)	IG Assessment of Progress

The Department plans to spend about $15 billion to develop and implement ERP systems. These systems have incurred cost increases and schedule delays. The Department noted some ERP systems will not be fully deployed by the 2014 and 2017 audit readiness dates; therefore, it must continue to rely on legacy systems. Additionally, the Department plans to spend about $60 million in FY 2015, and more than $250 million over the next five years, on financial systems for activities such as designing, developing, and deploying audit-ready compliant systems as well as implementing cost-effective changes to legacy systems that will be part of the systems environment. Relying on legacy systems increases the risk that the audits of the FY 2015 SBAs may result in modified opinions and the Department will not meet the goal of full financial statement audit readiness by September 30, 2017. Reliance on legacy systems, compounded by schedule delays and poorly developed and implemented ERP systems, will diminish the savings expected from transforming operations through business system modernization. Additionally, reliance on legacy systems and the number of unique instances of each system increases the cost of audits.

Furthermore, without fully deployed ERP systems, the Department will be challenged to produce reliable financial data and auditable financial statements without resorting to additional data calls and manual workarounds to provide financial data on a recurring basis. As a result, the Department may need to rely on a combination of ERP systems and legacy business and financial systems to conduct the SBA and SBR audits.

The Department has not reengineered its business processes to the extent necessary. Instead, it has often customized commercial ERP systems to accommodate existing processes. This creates a need for system interfaces and weakens controls built into each ERP system. The ERP systems were designed to replace numerous subsidiary systems, reduce the number of interfaces, standardize data, eliminate redundant data entry, and facilitate end-to-end business processes while providing a foundation for sustainable audit readiness. However, the numerous interfaces between the ERP systems and existing systems may be overwhelming and inadequately defined. Each interface presents a risk that the system might not function as designed, and prevents the linking of all transactions in an end-to-end process. The Department needs to ensure ERP system development addresses the required business

processes and functions.

Without the effective and timely development and implementation of ERP systems and needed senior level governance, the Department will continue to struggle to improve its financial management processes; achieve long-term sustainability of those improvements; and provide accurate, timely, and meaningful financial management information for internal and external users.

Recent audits continue to find that system program managers have not configured systems to report U.S. Government Standard General Ledger financial data using the DoD Standard Financial Information Structure. Additional audits have found the Department has not sufficiently reengineered its business enterprise architecture processes nor incorporated the functionality in ERP systems. The Department has established certification requirements, and the Deputy Chief Management Officer and Deputy Chief Financial Officer have established validation and certification procedures for implementing Standard Financial Information Structure requirements and ensuring business process reengineering has taken place. However, these procedures were not stringent enough to ensure compliance.

In FY 2014, the Joint Interoperability Test Command began to verify financial management systems compliance. Specifically, Joint Interoperability Test Command began to perform compliance verifications across several areas, including DoD Chart of Accounts, U.S. Government Standard General Ledger transaction posting logic, Standard Financial Information Structure business rules, Defense Departmental Reporting System trial balance interface specifications, and Standard Line of Accounting and Standard Financial Information Structure 10.0 interfaces. Five systems were to undergo pilot testing before a more extensive program was implemented. Initial testing results indicate more needs to be done to ensure financial management systems comply with Treasury and DoD standards and policy.

1-2C. Modernizing Financial Systems (Enterprise Resource Planning)	**Department Response**

The Department is committed to supporting improvements to financial processes through the implementation of ERP systems. In support of these efforts, the Department has been working diligently to improve business processes, oversight of the development of the ERP systems, and implementation of formal business process reviews in support of auditability.

While it is true that legacy systems will continue to be employed during the development and full deployment of the ERP systems, the implementations that have already occurred throughout the Department have resulted in the ability to phase out dozens of legacy systems. Several of the Department's ERP systems have been or will be implemented to support the 2017 auditability goal. However, where we are dependent on legacy systems, the Components' Financial Improvement Plans incorporate actions necessary to ensure that accurate, reliable financial information is reported.

Modernizing DoD business systems is a key aspect of our overall effort to achieve and sustain auditability. The Department plans to achieve the audit goals with a combination of both target and legacy systems. While taking pro-active steps to align individual ERP system programs with auditability outcomes, we also are focused on delivering audit-ready processes and controls that will remain outside the ERP systems. This will allow us to develop a sustainable business environment that can be cost-effectively audited.

The ERP system programs, by their very nature, are designed to:

9. Handle detail transactions in a defined end-to-end process;
10. Enforce process and execution standardization among implementing organizations;
11. Manage consolidated business data in a single repository that allows centralized access

control; and

12. Facilitate the flow of information both within an organization and with external stakeholders.

These design principles within the ERP system directly enable capabilities essential to auditability, such as the ability to trace all transactions from source to statement; the ability to recreate a transaction; documented, repeatable processes and procedures; demonstrable compliance with laws, regulations and standards; and a control environment that is sufficient to reduce risk to an acceptable level.

Essentially, ERP system are acquired with industry best practices/"to-be" processes embedded within them. Each of the Department's ERP system programs went through significant, up-front blueprinting and gap analysis to determine which configuration or customization was necessary for the system to work within its particular business environment. The Department has focused on properly enforcing compliance with the target financial management environment, built on a backbone of the core ERP systems and aligned with the Business Enterprise Architecture's end-to-end processes. The Joint Interoperability Test Command testing of systems for compliance with standards is expanding to review over a dozen systems in both FY 2016 and FY 2017. This testing process also includes establishment of corrective action plans to resolve identified issues and for follow-up testing by the Joint Interoperability Test Command to validate corrective actions where needed.

The Department's investment management process ensures:

13. Investments are aligned to functional strategies;

14. Allow the Department to make more informed investment decisions;

15. Eliminate legacy systems that are no longer required;

16. Enhance interoperability; and

17. Help the Department transform to an environment where business applications can be rapidly deployed on a common computing infrastructure.

The investment review process also ensures each investment is an appropriate use of taxpayer dollars and aligns to the Department's business architecture and our shared goal of delivering agile, effective and efficient business solutions that support and enable our warfighters.

To implement this investment management process, the Deputy Chief Management Officer issued guidance to ensure that the Department continues to treat its business system investments with the firmness of purpose and discipline that will enable cost savings to be redirected to critical operational needs of the warfighter. The guidance, updated annually, includes an integrated business framework to align broad Departmental strategy with functional and organizational strategy, to guide system implementations. The integrated business framework utilizes Functional Strategies and Organizational Execution Plans (OEP), to help achieve the Department's target business environment.

The Financial Management (FM) Functional Strategy describes the Department's financial management business mission area's strategic vision, goals, target environment, and expected outcomes over the next five years. Key components of the FM functional strategy include: FM data standards, process/system improvements, leveraging technology to assist the Department to improve efficiency and effectiveness of FM processes.

In response to Principal Staff Assistant's (PSA) functional strategies, the Military Departments and Defense Agencies develop OEPs that describe how their business system portfolios will achieve the strategic directions and initiatives articulated in the strategy. The OEPs also provide more detailed information on how information technology investments align to the functional strategy initiatives.

1-3A. Improper Payments	IG Summary of Challenge

The Department's inadequate financial systems and controls hamper its ability to minimize improper payments. Improper payments, a longstanding problem in the Department, are often the result of unreliable data, a lack of adequate internal controls, or both. In addition, the pace of operations and volume of DoD spending creates additional risk for improper payments and hinders its ability to detect and recover those improper payments. These payments increase the likelihood of fraud. As a result, the Department lacks assurance that billions of dollars of annual payments are disbursed correctly. The Department faces difficulties in the completeness and accuracy of its improper payment reviews and the information reported. Additionally, the lack of an auditable SBR leaves the Department unable to reconcile outlays to the gross outlays reported in the SBR to ensure all required payments for reporting purposes have been captured. These areas require improvement before the Department will be able to provide complete and accurate information on its estimated amount of improper payments.

1-3B. Improper Payments	IG Assessment of Progress

Although the Department made strides to improve the identification and reporting of improper payments, and took many corrective actions to implement recommendations made by the DoD IG, more work is needed to improve controls over payments processed throughout the Department.

In May 2015, the DoD IG reported the Department complied with five of the six improper payment reporting requirements for FY 2014. Although improper payment rates for the reported payment programs were below the Office of Management and Budget established threshold, the Department did not achieve its improper payment reduction targets for one of eight payment programs with established targets. For the third consecutive year, the DoD Travel Pay Program did not meet its target rate. Failure to attain reduction targets indicates that additional corrective actions are needed to reduce improper payments. The DoD IG will perform oversight on the DoD Travel Pay Program to determine whether DoD actions to reduce improper payments in the DoD Travel Pay Program were effective.

In addition, the Department had deficiencies in the methodologies for two of the nine payment program areas that could affect the reliability of DoD's improper payments estimates. The DoD IG also recommended that the Department improve the statistical precision of improper payments estimates in seven of the DoD payment programs through the use of stratified sample designs.

DoD IG commends the Department for aggressively pursuing recovery of identified improper payments, but unless the Department continues to improve its methodology for reviewing its disbursements, it likely will not identify and accurately estimate the amount of improper payments. As a result, the Department will miss opportunities to identify causes of and implement effective corrective actions to prevent future improper payments.

1-3C. Improper Payments	Department Response

The Department appreciates DoD IG's recognition of our efforts to minimize improper payments and our aggressive pursuit to recover identified improper payments. The Department revised its sampling methodology to ensure it meets or exceeds the minimum requirements in accordance with the Financial Management Regulation to ensure compliance with Improper Payments Elimination and Recovery Act (IPERA), as amended. The Department has taken actions to develop corrective actions plans at the component level to improve the integrity of the post-payment review results, and we continue to take ownership to address the recommendations in the latest DoD IG and Government Accountability Office (GAO) reports.

While the Department continually strives to reduce improper payments, it should be noted that the payment error rates experienced in most of the Department's programs are already low. The Department is taking steps to implement and enforce existing internal controls and working with the military services and components to implement effective front-end controls to prevent improper payments. Additionally, the Department plans to pilot a modernized travel system that will address many improper payment causes.

All of these actions, coupled with the Department's progress toward achieving audit readiness, will increase public confidence in the Department's stewardship of taxpayer dollars as well as strengthen the fundamentally sound DoD improper payments program.

A sailor helps a distressed mariner get to the medical staff aboard the USS Rushmore in the Makassar Strait, June 10, 2015. The Rushmore offered assistance to distressed mariners in the waters between the Indonesian islands of Kalimantan and Sulawesi. Once on board, the mariners received food and medical attention by Marines and sailors assigned to the 15th Marine Expeditionary Unit and Essex Amphibious Ready Group.

Photo by Sgt. Emmanuel Ramos

2. Acquisition Processes and Contract Management	
2-1A. Enhancing the Acquisition Workforce	**IG Summary of Challenge**

Ensuring that the acquisition workforce is adequately sized, trained, and equipped to meet the Department's needs is an ongoing leadership challenge. The Department's leadership acknowledges the importance of employing and managing its acquisition workforce to ensure the right personnel are in the right positions at the right time.

Since 2010, the Better Buying Power (BBP) initiatives have focused on improving acquisition performance. Specifically, BBP 2.0 focused on enhancing professionalism and equipping the Department's acquisition professionals with the best tools to facilitate making solid acquisition decisions. In an effort to strengthen innovation and technical excellence, the Implementation Directive for BBP 3.0, Achieving Dominant Capabilities through Technical Excellence and Innovation, was released on April 9, 2015. BBP 3.0 strengthens the technical capability of and encourages innovation by the Department's acquisition workforce to achieve greater efficiency and productivity. Considering the fiscal pressures on the Department, it continues to invest in expanding the capacity of the acquisition workforce. The Department must improve procurement outcomes by providing essential education and training.

2-1B. Enhancing the Acquisition Workforce	**IG Assessment of Progress**

The Department continues to recognize the importance of the acquisition mission and the need for workforce planning and development strategies. The Department slightly increased the total number of acquisition personnel to 152,651 civilian and military personnel as of the second quarter of FY 2015, up from 150,465 personnel in FY 2014. As in the previous years, the Department's concerns are not only with sustaining a sufficient workforce size, but also with the training and development of those with acquisition responsibilities.

In FY 2016 budget estimates, the Department requested $84.1 million for the Defense Acquisition Workforce Development Fund. The Department intends to use the fund to improve the defense acquisition workforce through targeted hiring and initiatives to improve training, development, qualifications, and professionalism. It is critical for the Department to advance the skills of the acquisition workforce throughout their careers so the Department can achieve increased buying power and improve acquisition outcomes.

2-1C. Enhancing the Acquisition Workforce	**Department Response**

The Department concurs with the DoD IG's statements on the challenge and progress made in enhancing the acquisition workforce. DoD senior acquisition leadership is continuing its emphasis on responsibly sustaining and strengthening the capability and professionalism of the acquisition workforce. Sufficient workforce capacity and capability is critical to improving acquisition productivity, increasing buying power, and equipping the warfighter for technological dominance.

2-2A. Weapon System Acquisition	IG Summary of Challenge

The Department remains challenged in its management of Major Defense Acquisition Programs. Over the past year, the Department's Major Defense Acquisition Programs portfolio reduced from 80 programs to 78. More programs are started than can be funded and many programs must compete for funding. The Department should continue to look for a better balance between its limited resources and the capabilities needed to succeed in current and future conflicts. Failure to do so can jeopardize other acquisition programs and limit the Department's ability to execute warfighting operations effectively. Acquisition experts of various backgrounds (government and industry) continue to emphasize the need for strong accountability and leadership throughout the lifecycle of a weapon system.

2-2B. Weapon System Acquisition	IG Assessment of Progress

The BBP initiatives encompass a set of fundamental acquisition principles to achieve greater efficiencies through affordability, cost control, elimination of unproductive processes and bureaucracy, and promotion of competition. BBP 3.0 initiatives are designed to:

- Create affordable programs;
- Establish dominant capabilities while controlling lifecycle costs;
- Incentivize productivity in industry and government;
- Incentivize innovation in industry and government;
- Eliminate unproductive processes and bureaucracy;
- Promote effective competition;
- Improve tradecraft in acquisition of services; and
- Improve the professionalism of the total acquisition workforce.

The Department's revision of Instruction 5000.02 in January 2015 incorporated its BBP initiative memorandum, representing an effort to improve the acquisition process. Congress and the Department also proposed legislative and policy changes to address the inefficiencies of the current acquisition process and improve weapon systems procurements. The enactment of the Weapon Systems Acquisition Reform Act of 2009 and the Department's revision of Instruction 5000.02 represent efforts to improve this process. The Department has made progress, but still struggles with programmatic problems such as cost overruns and schedule delays of acquisition programs. The DoD IG continues to identify challenges in acquisition such as:

- Requesting waivers and deferrals from operational test requirements;
- Certifying program readiness for initial operational test and evaluation;
- Documenting the acquisition process for defining, validating, funding, and executing requirements;
- Meeting system performance requirements;
- Determining fair and reasonable prices for spare parts;
- Acquiring excess spare parts inventory; and
- Managing performance-based logistics contracts.

DoD IG has made recommendations to address these challenges and the Services have made progress in implementing them. Given the prospect of shrinking or static defense

budgets, it is important that the Department remains vigilant in its oversight role and minimize risk during the acquisition process.

2-2C. Weapon System Acquisition	Department Response

As the Inspector General notes, the Department recently issued BBP 3.0 and a revised DoD Instruction 5000.02 reflecting our commitment to continuous improvement of the defense acquisition process. Among the many initiatives captured in those policies are actions designed to: improve the accountability and quality of DoD acquisition leadership; continue our emphasis on reducing cost and establishing thoughtful business arrangements; ensure that requirements are fully supported and carefully reviewed prior to program initiation; and, address program affordability as a systematic element of acquisition decision making. All of these are critical to ensuring we make the best use of available resources so our warfighters have the capabilities they need. The revised policies also rearticulate and clarify the principles of effective acquisition decision making to ensure that we make thoughtful and well informed acquisition decisions. In addition, the Department is conducting annual acquisition system assessments to determine whether our policies are achieving stated objectives and to focus management attention on process elements that need to be improved.

Sailors perform maintenance on a rocket-build aboard the aircraft carrier Harry S. Truman (CVN 75) in the Atlantic Ocean. The Harry S. Truman Carrier Strike Group was underway participating in a Composite Training Exercise in preparation for a future deployment.

Photo by Mass Communication Specialist 2nd Class Emily M. M. Blair

2-3A. Contract Management	IG Summary of Challenge

The Department struggles to provide consistent effective oversight of its contracting efforts. The Department continues to face contracting deficiencies in these areas:

- Obtaining adequate competition in contracts;
- Defining contract requirements;
- Overseeing contract performance;
- Obtaining fair and reasonable prices; and
- Maintaining contract documentation for contract payments.

Service contracts represent more than 50 percent of the Department's contract spending. The Department faces several challenges in contract oversight and administration of service contracts. DoD IG audits continue to identify insufficient contract oversight by the Department. Insufficient oversight subjects the Department to risk overpaying for increases in contract costs and contractor performance that does not satisfy contract requirements. This leaves the Department vulnerable to increased fraud, waste, and abuse.

The Department continues to face challenges in obtaining fair and reasonable prices for parts. DoD IG audits first started identifying problems with price-based acquisition and commercial pricing in the late 1990s. However, legislative changes allowing contracting officers to request information on labor costs, material costs, and overhead rates for commercial items did not begin until 2008. More recently, the Department uses a new performance-based logistics (PBL) arrangement, which creates a new challenge in obtaining fair and reasonable prices for parts. The Services are procuring parts from the weapons systems contractors instead of other sources, such as the Defense Logistics Agency. DoD IG found that these parts often were purchased unnecessarily and at higher prices than if the Department used existing Defense Logistics Agency inventory.

2-3B. Contract Management	IG Assessment of Progress

The Department continues to strengthen contracting and has issued policy, procedures, and guidance to address current contracting challenges. The Department began the BBP effort in 2010 and continued the second phase of the initiative, BBP 2.0, in April 2013. It started the third phase of the initiative, BBP 3.0, in April 2015. BBP 3.0 has eight areas of focus, and three of those areas address the following contract management challenges:

- Promote effective competition;
- Improve tradecraft in acquisition of services; and
- Incentivize productivity in industry and Government.

When competition is applied effectively, it results in lower costs to the Government, greater innovation from industry, and added savings to the taxpayer. To promote effective competition, BBP 3.0 emphasizes competition strategies with initiatives to create and maintain competitive environments and increase small business roles and opportunities.

Because service contracts make up the majority of the Department's purchases, the BBP 3.0 initiative to improve tradecraft in the acquisition of services is critical. For the acquisition of services, the Department is focusing on improving requirements definitions for services, strengthening contract management outside the normal acquisition chain, and developing enterprise approaches for improving the effectiveness and productivity of

contracted engineering and technical services, among other initiatives.

To further its goal of incentivizing productivity in industry and government, BBP 3.0 will increase the use of incentive-type contracts, implement Service-specific superior supplier incentive programs to drive healthy competition among industry, and increase effective use of PBL arrangements. When PBL arrangements are properly structured and executed, this effort achieves improved readiness at significant savings. However, PBL success depends on the workforce having the expertise and support to properly develop and implement the PBL concept.

Implementing BBP 3.0 continues the efforts to pursue programs that are affordable by mandating that managers identify and pursue "should cost" savings opportunities, providing effective incentives to industry, emphasizing competition, reducing bureaucracy, improving acquisition of contracted services, and building professionalism.

Even with the implementation of BBP 2.0 and the initiation of BBP 3.0, the Department continues to struggle with implementing Federal Acquisition Regulation revisions on the use of cost-reimbursement contracts. Contracting activities are still challenged in:

- Obtaining approval for cost-reimbursement contracts at least one level above the contracting officer;
- Justifying cost-reimbursement contracts;
- Defining requirements for service contracts adequately;
- Conducting sufficient price analysis for commercial spare parts;
- Determining how requirements under contracts could transition to firm-fixed price in the future; and
- Providing Government resources to be available to monitor cost-reimbursement contracts.

2-3C. Contract Management	**Department Response**

Contract Management continues to be a high priority for DoD leadership. In the February 2015 GAO report, "High-Risk Series: An Update," GAO acknowledged the Department's sustained leadership commitment to addressing these challenges. As a result of that leadership commitment and the progress made, the GAO removed the appropriate use of contracting techniques and approaches from the contract management high risk area. Three segments remain in this GAO High Risk area: 1) the acquisition workforce, 2) service acquisitions, and 3) operational contract support.

The Department continues to work aggressively to resolve the issues in the DoD IG's summary of challenges and assessment by taking a number of steps to improve those identified. Key actions include:

Efforts to Improve Competition

On October 29, 2014, the Director, Defense Procurement and Acquisition Policy (DPAP) issued a memorandum entitled, "Publication of DoD Competition Reporting – 4th Quarter FY 2014," announcing the Under Secretary of Defense for Acquisition, Technology and Logistics (USD (AT&L)) plan to address competition as a recurring Business Senior Integration Group (B-SIG) agenda item. To support preparation and increase visibility and accountability, DPAP initiated publication of quarterly competition data. Subsequently, DPAP issued memoranda with competition achievement data for the first, second, and third quarters of FY 2015.

Through 2015, quarterly B-SIG meetings continued with senior leader focus and attention on competition measures to increase visibility and accountability, and also focused on

emerging tools, trends and guidance useful for the Military Departments and Defense Agencies to increase competition and overcome barriers to competition. During the June 2015 B-SIG meeting, the USD (AT&L) expressed an interest in transitioning from an annual targeted goal based on actuals to an approach that sets goals relative to a plan that can be actively managed for more meaningful and achievable results. For the FY 2016 Competition measure, the Director, DPAP is soliciting input from the Military Departments and Defense Agencies on this forward looking approach. Competition will continue to be tracked at quarterly B-SIG meetings.

On April 13, 2015, the Acting Director, DPAP signed a memorandum to the Components entitled, "Noncompetitive Contracts Awarded Based on Urgency." This addressed three recommendations in GAO Report GAO-14-304, "Federal Contracting: Noncompetitive contracts Based on Urgency Need Additional Oversight," dated March 25, 2014.

On April 20, 2015, the Defense Federal Acquisition Regulation Supplement (DFARS), Procedures, Guidance, and Information (PGI) (Case 2014-P021) incorporated the guidance and requirements of the USD (AT&L) August 2014 memorandum, "Actions to Improve Department of Defense Competition."

Improve Tradecraft in Acquisition of Services

On June 1, 2015, the Deputy Director, Services Acquisition in DPAP, as the newly designated Functional Lead (FL) for services acquisition (SA), signed an updated Acquisition of Services Functional Integrated Product Team (FIPT) Charter which includes focused goals for the next two years. These goals include improving requirements workforce tracking, defining a services acquisition qualification program, improving marketing for the SA training website, supporting training products and practical tools, and developing tracking metrics. Several of these efforts are underway. The FIPT team established criteria for identifying the non-Defense Acquisition Workforce Improvement Act (DAWIA) workforce with acquisition-related responsibilities, defined the competencies needed, and identified several training sources for the variety of skills required and present within this workforce. The FIPT is identifying gaps in training coverage to continue improvement and/or development of additional training curricula. Special training sessions are being supported with Defense Acquisition Workforce Development Fund (DAWDF) funds, including special sessions of Defense Acquisition University's ACQ 265 and COR 222 classes solely for non-DAWIA services community stakeholders.

In 2015, the Functional Domain Experts (FDEs) continued to analyze their portfolios and identify areas for active management. Their analysis includes identifying/understanding what services are contained within their portfolios; characteristics of contract spend in their portfolios, such as amount, competition rates, and contract types; vendor base characteristics; and what services may be common across Military Departments and Defense Agencies. The analysis informed the FDE development of metrics and goals for effectively managing their domains.

The PDUSD (AT&L), as the Department's Senior Services Manager directing each FDE to develop their metrics and FY 2016 goals, has met regularly with the FDEs to ensure appropriateness of these metrics and goals. Despite FDE domains containing different sets of capabilities and mission support, there are some common acquisition metrics that will be collected across the domains to include competition rates, small business rates, fragmentation (number of vendors), and types of contracts. Goals are being set in these areas against portfolio execution. Additional metrics regarding general training curriculum and student throughput are being implemented as well.

Acquisition Workforce (Contracting)

The DoD Contracting Workforce successfully completed a Contracting Competency Assessment in 2008-2009, with 86 percent participation. A reassessment of 55 percent of the contracting workforce was completed in September 2014. DPAP and the Military Components are in the early stages of analyzing the data from the assessment to determine gap areas

across the contracting workforce and at the Component and field office levels. The results will inform human capital actions/workforce planning; update/initiate training, increase/improve leadership developmental opportunities, and allow the Department to make informed and sustained investments in the workforce, to include quality-focused initiatives to strengthen the capability and readiness of the total acquisition workforce.

As the AT&L Functional Leader for the Contracting, Purchasing, and Industrial/Contract Property Management career fields, the Director, DPAP, chaired quarterly Contracting FIPT meetings (CONFIPT). In 2015, the CONFIPT coordinated on Defense Acquisition Workforce Improvement Act (DAWIA)-related certification and workforce issues and participated in a number of AT&L-led workgroups to implement BBP initiatives. The most significant is the participation and active support to the AT&L Key Leadership Position (KLP) Qualification Board working group that developed the documentation and process to implement the USD (AT&L) KLP guidance. The FIPT completed a comprehensive review of the Component KLP data and existing warrant boards or Head of Contracting Activity (HCA) equivalent processes to determine if a Joint Qualification Board was needed for the Program Lead Contracting Officer KLPs. The FIPT supported the ongoing efforts to develop and implement the Acquisition Workforce Qualification Initiative (AWQI) at the direction of the Assistant Secretary of Defense (Acquisition) (ASD (A)), and reviewed the extensive work completed by the AWQI project teams for the Contracting, Purchasing, and Property career fields. The CONFIPT effort resulted in the validation of the qualification standards for each competency element. The FIPT contributed to information briefed at the quarterly AT&L Workforce Management Workgroup meetings and Senior Steering Boards, and coordinated updates to the training assets with the Defense Acquisition University (DAU). The FIPT completed a review of the DAWIA training standards, competency models, and position category descriptions for the Contracting, Purchasing, and Property Career Fields for the annual Functional Leader certification.

DPAP continues to collaborate with DAU on the curriculum for the Contracting, Purchasing, and Industrial/Contract Property Management career fields. Efforts to improve acquisition workforce training continued in FY 2014 and 2015 with these Continuous Learning Courses (CLC) being updated as reflected in the DAU iCatalog: CLC 018, Contractual Incentives, in January 2015; CLC 023, Commercial Item Determination Executive Overview, also in January 2015; CLC 058, Introduction to Contract Pricing, in March 2015; CLC 025, Small Business Program for Contracting Officers, in April 2015; CLG 006, Certifying Officer Legislation Training for Purchase Card Payments, in May 2015; and CLC 048, Export Controls, in September 2015. Important updates in 2014 to DAU continuous learning modules include: CLC 028, Past Performance Information; CLC 055, Competition Requirements; and CLC 051, Managing Government Property in the Possession of Contractors, all completed in March 2014. CLC 065, Suspension and Debarment, was updated in June 2014.

Additionally, among the top ten DAU continuous learning modules taken as of the fourth quarter in FY 2015 are: CLG 004, DoD Government Purchase Card Refresher Training, with 36,866 student graduates; CLG 001, DoD Government Purchase Card, with 29,342 graduates; CLG 005, Purchase Card Online System, with 25,105 graduates; CLC 106, COR with a Mission Focus, at 21,877 graduates; CLC 222, Contracting Officer's Representative Online Training, with 20,568 graduates; and CLC 206, COR in a Contingency Environment, with 6,658 students completing the course. DAU, as approved by the respective Functional Leader, has also incorporated Performance-Based Logistics Training assets LOG 235 and CLL 011 into the Core Plus Guides of the Program Management, Contracting, and Engineering career fields. Other important learning assets approved by the Functional Leader for addition to the Core Plus Development Guide for Contracting are: EVM 101, Fundamentals of Earned Value Management; HBS 304, Coaching for Results; and HBS 406, Coaching. All of these learning assets contribute to the improved capability and professionalism of the acquisition workforce.

Better Buying Power Initiatives

BBP, BBP 2.0 and BBP 3.0 are part of the Department's overall commitment to reduce costs and increase value to the taxpayer and warfighter. DPAP is working hard to improve all aspects of the costing, pricing, and financing of its contracts. Many of the BBP initiatives are

currently in process and are not meant to be one-time events, but a set of continuous learning and improvement approaches. Specific DPAP contributions to support BBP initiatives and contract management include:

On March 4, 2015, the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) issued a memorandum entitled, "Appropriate Use of Lowest Priced Technically Acceptable Source Selection Process and Associated Contract Type." The memorandum outlines the acquisition circumstances when it is appropriate to use the Lowest Priced Technically Acceptable (LPTA) Source Selection Process. LPTA is appropriate when requirements are well-defined, the risk of unsuccessful performance is minimal, price is a significant factor in the selection and there is neither value, nor need to pay for higher performance. Alternatively, inappropriate usage of LPTA can lead to the Department missing out on an innovative, cost-effective solution needed to maintain our technological advantage. The memo goes on to discuss the importance of selecting the right contract type to fit the requirements, especially when buying services and specifically, professional or management support services, to enhance our mission.

On March 30, 2015, the acting Director of DPAP announced the release of DoD Instruction 5000.72, "DoD Standard for Contracting Officer's Representative Certification," which established uniform guidance for identification, development, certification and management of Contracting Officer's Representatives (CORs) within the Department.

The Department developed the Contracting Officer Representative Tracking (CORT) tool to track and maintain COR assignments. The web-based tool, hosted on the Wide Area Workflow portal, enables Military Departments and Defense Agencies to manage nomination, training, and tracking of their respective cadres of CORs and the contract(s) assigned to each COR. As of September 2015, there are 59,988 registered CORs. Of the number registered, the Army has 36,048.

On July 27-30, 2015, the Director of Defense Pricing hosted the second Pricing Collaboration event in Southbridge, Massachusetts. Attendees included contracting pricing professionals and Procurement Contracting Officers (PCO's) from the Military Departments and Defense Agencies. Agenda items included: 1) Sessions led by Army, Air Force, and Navy providing FFP-FPIF Component Program Pricing Examples plus Q&A; 2) Incentive Contracting with sessions on FPIF/CPIF/Multiple Incentives, Demonstration of the FPIF Model, and Incentive Contracting Group Exercises concluding with a presentation on Exercise JSF LRIP; 3) Case Study/Critical Thinking Exercise (JSF LRIP); 4) Commercial Item Pricing; 5) DCAA Audit of Contractor Compliance; 6) DCMA Cost and Pricing Center and ICATs; and 7) Senior Procurement Executives Panel.

On July 6, 2015, the Principal Deputy, DPAP signed a memo to the Components announcing the release of the Defense Contingency Contracting Handbook, 5th Edition. The handbook is posted on DPAP's website.

On July 31, 2015, the Director, DPAP signed a memo to the Components entitled "Proper Use of GSA Federal Schedule Contracts – A Reminder." The memorandum highlights two specific aspects of GSA Federal Schedule use that the Department can improve upon: 1) seeking discounts and 2) determining and documenting that the prices obtained are fair and reasonable for all items purchased through the Federal Supply Schedules program, including "open market items."

In addition, the Defense Contract Management Agency (DCMA) continues to establish new and refined capabilities to support BBP initiatives and assist the acquisition workforce in making better business decisions:

Commercial Item Group:

As part of the Under Secretary of Defense's Better Buying Power initiative, DCMA established an initial cadre of commercial pricing experts in early 2015 to assist PCOs in making commercial item determinations and to ensure the price reasonableness of commercial items. Select major program commercial pricing assistance was offered during 2015 with

commercial item determination and pricing support provided to: USAF Cryptologic Support Center, USAF Space and Missile Center, Robins Air Force Base (AFB), Tinker AFB, Hill AFB; Redstone Arsenal (Army); NAVAIR and NAVSUP (Navy); and DLA. With a limited staff, the Commercial Item Group identified savings of $47 million as of September 2015 and demand from PCOs for this specialized support is rapidly increasing. The capability of the Commercial Item Group will continue to grow and mature in 2016 and, when fully staffed, will consist of fifty analysts and engineers dispersed in six strategic geographic locations.

Integrated Cost Analysis Teams (ICATs):

DCMA has ten fully-staffed Integrated Cost Analysis Teams (ICATs) with dedicated business and technical pricing personnel at twelve major contractor divisions. In 2015, the ICATs proactively engaged PCOs during Request for Proposal (RFP) development on major proposals to strategize pricing requirements in partnership with program offices and DCAA. Additionally, the ICATs continue to aggressively pursue opportunities to reduce costs in the supply chain through targeted proposal analysis of second and third tier suppliers, and through coordinated assistance with the DCMA Cost and Pricing Center's mobile/surge pricing capability, commercial pricing cell capability, and augmentation from the Navy Price Fighters.

Overhead Should Cost Reviews and Forward Pricing:

As part of the Department's Affordability Initiative under BBP 3.0, the Department continued its formalized process of coordinating with Military Department Service Acquisition Executives (SAEs) on the identification of contractor locations for the conduct of overhead should cost reviews. Input is received from each SAE on beneficial contractor segments and expected price proposals of significance for the upcoming fiscal year. Based on this input, the Director of Defense Pricing selects the locations for review, notifies the affected services, and planning is initiated for the joint conduct of the reviews.

FY 2015 was the first year in which DCMA conducted targeted reviews focused on the contractor's business base and select indirect cost items – areas with the highest potential savings. The business base is a significant factor in predicting overhead rates and thereby establishing a sound "should cost" position. This streamlined approach allowed DCMA to increase the number of scheduled reviews over the prior year.

The results of the reviews are shared with SAEs, affected program/buying offices, and DCMA Administrative Contracting Officers, who utilize the results to establish Forward Pricing Rate Agreements and Recommendations (FPRA/FPRR). These agreements and recommendations support BBP goals to reduce the acquisition cycle time by providing contracting officers with negotiated rates that incorporate affordability initiatives used in pricing contract actions. DCMA is also progressing with its plan to increase the number of locations with FPRAs – working with Defense Contract Audit Agency (DCAA) and industry partners to establish processes and information requirements. This effort has resulted in an increase in the number of FPRAs at some of the largest defense contractors. The DoD Enterprise Contractor Business Analysis Repository (CBAR) includes comprehensive contractor pricing information – to include FPRAs/FPRRs to assist PCOs with contract negotiations.

CBAR supports the Department's BBP goals of controlling costs and achieving affordability by providing PCOs with real-time information that enables them to negotiate a "better deal" for the Government.

3. IG-Identified Challenge: Joint Warfighting and Readiness	
3-1A. Joint Warfighting and Readiness	**IG Summary of Challenge**

Maintaining the Department's Joint Warfighting and Readiness abilities is challenged by the fluid, multi-theater environment in which it operates. The Department's missions include:

- Drawing down DoD presence in Afghanistan while continuing to support the Afghan National Defense Security Forces (ANDSF) and counterterror operations;
- Returning to Iraq to support the battle against the Islamic State with advisors and trainers;
- Strengthening our alliances in the Pacific, as well as in other parts of the world; and
- Addressing emerging terrorism and instability within the U.S. Africa Command areas of operations.

Each of these efforts presents its own challenges that the Department must address. The existing external challenges are compounded by internal challenges relating to the budgetary environment and efforts to optimize the joint warfighting structure.

As the ANDSF formally assumed security responsibilities for all of Afghanistan on January 1, 2015, the U.S. and the Department simultaneously transitioned to Operation Freedom Sentinel (OFS), primarily focused on advising and assisting the ANDSF to further develop its ability to provide security and stability in Afghanistan. The subsequent reduction of U.S. and Coalition Forces in Afghanistan has created significant challenges in the ANDSF advise and assist mission, to include development of the Planning, Programming, Budgeting and Execution (PPBE) and anti-corruption capabilities in the Ministry of Defense (MoD) and Ministry of Interior (MoI).

Furthermore, the U.S. and Coalition advise and assist mission is challenged by the ANDSF's ongoing issues with:

- Excess officers at senior levels, complicating development of an effective planning and command and control capability;
- Maintenance and logistics planning capabilities;
- Development of counter-improvised explosive device exploitation capabilities;
- Consistent and effective leadership;
- Unity of command; and
- Lack of tactical air support.

The Afghan National Police (ANP) continues to perform traditional policing as well as counterinsurgency operations, but it suffered significant casualties, as has the Afghan National Army (ANA). The ANP still has significant issues concerning force protection, command and control, training, maintenance, medical support, force management, personnel attrition, and corruption.

The drawdown of forces from Afghanistan continues to challenge the Services as they deal with retrograde and reset of equipment. The majority of the returning equipment is in poor condition and has reached the end of its planned service life. Equipment is a critical component of readiness, and returning equipment will require repair or replacement. The retrograde/reset will be complicated by numerous ongoing and developing situations around the world.

Global conflict and crises will continue to affect the Department's rebalancing and resetting efforts:

- The limited return of forces to Iraq in constrained roles as advisors and trainers for Operation Inherent Resolve (OIR) to assist in the battle against the Islamic State creates additional challenges for the Department. This effort confirms that U.S. forces need to train for unconventional and asymmetric warfare, as well as for more conventional force-on-force training. Ongoing training and deployment requirements will continue to test both personnel and material readiness.
- The Services are rebalancing to the Asia-Pacific region while maintaining the global presence needed to protect national interests. While undergoing this strategic rebalance, the Department will need to address a wide spectrum of challenges, ranging from increased reliance on uncertain host nation infrastructure to vast areas of operational responsibility. This will require pre-positioning of personnel and equipment and the need for strengthened security partnering with select countries. This effort requires enhanced knowledge of various languages and cultural, ethnic, and religious sensitivities.
- The Department continues to coordinate with the Republic of Korea regarding our strategic alliance. The transfer of the overall combined command from U.S. forces has been scheduled several times, but continues to be delayed.
- The Department also continues to address emerging terrorism and instability challenges in U.S. Africa Command's area of operation, as demonstrated by the Department's involvement in Operation United Assistance. Growth in U.S. Africa Command's operational partnering mission raises the issue of sufficiency of its resources to address the terrorist threat, given that the Department returned some facilities in Europe.

The effects of the reduced Department budget are being felt in areas such as maintenance of existing equipment and systems, fielding and implementation of new systems, and the frequency and extent of training and exercises. The Services and the Combatant Commands must plan for future budget realities in order to minimize the effect on their ability to respond to future threats. The Services must review their existing force structures and make necessary changes or adjustments, especially when those changes or adjustments involve shifts in how the Department views future military missions.

Sequestration and possible future budget constraints continue to challenge the readiness of the Services. For example, the effect of sequestration was felt almost immediately as the Navy adjusted repair and overhaul schedules for ships and the Air Force began restricting flying hours for squadrons. The Services and the Combatant Commands will need to ensure that any current and future budget reductions do not limit our force's capability to respond to future threats.

During these times of fiscal austerity, particularly the potential to return to Budget Control Act funding levels, finding the proper balance between maintaining readiness, force structure sizing, modernization, and preparing for potential future threats will continue to challenge the Department's leadership.

In addition to external events affecting the Department's joint warfighting and readiness construct, internal factors affect readiness. The proposed drawdown of the Services, with the accompanying potential to close installations and facilities, will again require enhanced attention from the Department's senior leadership. For example, the proposed restructuring of Army aviation forces, a critical combat force multiplier, will be particularly challenging. The Department must continue to assess the capabilities and readiness of the force across the full spectrum of operations. This assessment includes significant issues, such as whether the joint force is capable of achieving the strategic objectives set forth in the *National Security Strategy*, as well as tactical issues, such as the focus on unit and individual service member readiness. A key objective of maintaining joint warfighting capability and readiness is caring for the all-volunteer force and their families. Difficulty in recruiting sufficient volunteers to meet Service targets and the lifting of gender restrictions within the force will continue to require attention.

Turmoil around the world continues, ranging from Russian aggression in Europe, Chinese maritime actions in the South China Sea, North Korean nuclear threats, externally-initiated cyber-attacks on our government, and the potential health issues that could occur on pandemic levels, among others. It is critical that the Department address these challenges to ensure our military is agile, flexible, and ready for the full range of contingencies.

3-1B. Joint Warfighting and Readiness	IG Assessment of Progress

The Afghan National Army (ANA) made significant leadership changes during this reporting period. In February 2015, to make room for the next generation of Army officers, President Ashraf Ghani directed the retirement of 47 general officers who had exceeded the mandatory retirement age. In addition, he suspended multiple general officers involved in a fuel scandal. The uncertainty over an extended period associated with these leadership changes hampered the Department's advise and assist mission, especially in the area of MoD and MoI development of PPBE capability and accountability. While the U.S. and Coalition generally viewed these actions as a positive step, the ANDSF remains burdened by an excess of officers at senior levels and needs further reduction.

In advance of the 2015 fighting season, the ANDSF continued its high operational tempo and conducted the first major offensive operation of 2015 in northern Helmand Province. This large-scale operation highlighted the ANDSF's ability to organize and execute an operation of this scope, as well as the continuing challenges the ANA faces with maintenance and logistics planning, counter-improvised explosive device (IED) exploitation capabilities, effective leadership, and unity of command. The Coalition intervened to provide tactical air support to compensate for ANDSF's limited capability. The capabilities of the ANP, while improving, face challenges in the same areas as the ANA.

Although the Department is making progress in addressing the drawdown of U.S. forces and equipment in Afghanistan, fiscal challenges will become even more important as current weapon systems reach the end of their serviceable lives and their replacements become more costly. The Department must ensure adequate oversight and management of equipment being returned or reset so that only unusable equipment is disposed, and new equipment is fielded to the intended users.

Across the globe, the Department continues to develop and enhance partnerships with countries and regions whose interests align with ours.

- The U.S. and Coalition forces conducting OIR's Build Partner Capacity/Advise and Assist mission in Iraq are progressing, within given limits and constraints. The Iraqi Army today is not the Iraqi Army that the U.S. left in 2011. Issues with assigned/present for duty strength, weak personnel recruiting, poor leadership, bureaucratic inertia, and corruption continue to affect the viability of the Iraqi forces, and the effectiveness of the U.S. and Coalition effort.
- In the Pacific, the Department continues to strengthen alliances and build partner capacity in countries across the region, including the Republic of Korea, the Philippines, Japan, Australia, Malaysia, and Indonesia.
- The Department works to strengthen security institutions across Africa to foster stability, build peacekeeping capacity, and counter transregional extremism. The U.S. military also supports interagency efforts with Latin American and Caribbean states to promote regional stability and counter transnational criminal organizations.

Ongoing efforts to redeploy military units around the globe with the consent and support of partner nations has enabled the Services to better shape and focus their force structure to provide greater flexibility in responding to evolving threats; however, worldwide commitments continue to build. All of these commitments add to an ever increasing challenge for U.S. forces' ability to deploy to multiple global threat scenarios simultaneously.

Despite the continued high operations tempo, the Department remains committed to ensuring deployed forces around the globe are trained, equipped, and ready to perform their assigned missions. However, deploying capable and ready forces for current operations continues to affect the non-deployed forces' ability to prepare for full spectrum operations.

3-1C. Joint Warfighting and Readiness	Department Response
The Department acknowledges the DoD IG's assessment.	

An airman carries the U.S. flag during the POW/MIA run at Bagram Air Field, Afghanistan, Sept. 3, 2015. During the 24-hour event, Service members kept the POW/MIA flag in constant motion in honor of American prisoners of war and those classified as missing in action. U.S. Service members were deployed to Bagram in support of Operation Freedom's Sentinel, the follow-on to Enduring Freedom and the continuing U.S. effort to train, advise, and assist Afghan security forces as well as conduct counterterrorism operations in Afghanistan.

Photo by Tech. Sgt. Joseph Swafford

4. Cyber Security	
4-1A. Executing Cyber Security Initiatives	**IG Summary of Challenge**

In February 2013, then Secretary of Defense Panetta stated, "Cyber is now at a point where the technology is there to cripple a country, to take down our power grid systems, to take down our government systems, take down our financial systems and literally paralyze the country." Current cyber events occurring both within the Federal government and in the private domain emphasize the reality of the Secretary's statement. As a result, a conclusion from the 2010 Quadrennial Defense Review (QDR) takes on special meaning. The 2010 QDR concluded, "We must therefore be constantly vigilant and prepared to react nearly instantaneously if we are to effectively limit the damage that the most sophisticated types of [cyber] attacks can inflict."

While the Department has made strides in developing strategies for opposing cyber threats and adopting new technologies to make its information technology programs more effective and efficient, executing those strategies and implementing those programs remains a significant challenge. For example, several recent DoD cyber initiatives that lag behind implementation milestones include:

- Transitioning to Internet Protocol version 6 (IPv6);
- Requiring the Defense Federal Acquisition Regulation Supplement (DFARS) clause on safeguarding unclassified DoD information on all relevant contracts;
- Adopting cloud computing; and
- Reducing the number of DoD data centers.

In June 2003, the DoD Chief Information Officer (CIO) issued a memorandum stating the Department's implementation of IPv6 was necessary because the previous internet protocol version had limitations that made it unable to meet long-term commercial and DoD requirements. Over the next five years, the Department issued transition plans, guidance, and requirements outlining the Department's transition to IPv6. In addition, the Office of Management and Budget issued Federal requirements for implementation. However, as of December 2014, the Department had not completed the Federal and DoD requirements and deliverables to effectively migrate the DoD enterprise network to IPv6. As a result, the Department is not realizing potential IPv6 benefits and the longer the Department waits, the higher the cost and the more complex the transition will become.

In June 2011, the Department proposed to amend the DFARS to add a new subpart and associated contract clauses to address requirements for safeguarding unclassified DoD information. The purpose of the DFARS rule was to implement adequate security measures to safeguard unclassified DoD information within contractor information systems from unauthorized access and disclosure. In November 2013, the Department issued the final DFARS rule and established a new DFARS clause. The new clause is mandatory for all DoD prime contracts and subcontracts. The clause imposes two obligations for contractors: safeguarding information systems and reporting the investigation of cyber incidents. However, in February 2015, the Department reported only 65 percent of new contracts included the required DFARS clause.

There are several other DoD cyber initiatives that have similar circumstances as the IPv6 and DFARS initiatives, such as cloud computing and consolidation of data centers. The Department issued cloud computing requirements in 2010 and the strategy in 2012, but has not fully implemented it in 2015. The Department issued requirements for consolidation of data centers in 2012 and still is in the process of completing consolidation.

While it is unrealistic to think the Department can be "prepared to react nearly instantaneously" as the 2010 QDR required, it is not unreasonable to expect that when

milestone requirements and guidance are issued for cybersecurity initiatives, they receive high priority for execution and implementation.

4-1B. Executing Cyber Security Initiatives	IG Assessment of Progress

Both the Federal Government and the Department appear to be moving forward to make cybersecurity a higher priority and provide the necessary resources to implement and execute cybersecurity initiatives. In December 2014, the Federal Information Technology Acquisition Reform Act (FITARA) was enacted. FITARA has been described as the most comprehensive overhaul of government IT in 18 years. According to the Federal CIO, one of the most important dimensions of the law is the added authority and responsibility for department-level CIOs. However, he also stated that, "FITARA's success also depends on an agency's ability to overcome cultural challenges that could hinder process improvement and reform efforts." Although not all measures contained in FITARA apply to the Department, it begins to raise the authority of CIOs.

In March 2015, the Department announced its CIO, who had been acting since May 2014, had officially assumed the duties of the CIO position. Along with an extensive background in DoD information technology and the provisions of FITARA, the Department's new CIO brings an added sense of urgency in implementing cybersecurity initiatives within DoD components.

The Department must continue challenging all military, civilian, and contractor employees to execute cybersecurity initiatives successfully and quickly implement cyber programs as instructed to counter all threats in the Cyber domain.

4-1C. Executing Cyber Security Initiatives	Department Response

The Department acknowledges the DoD IG's assessment.

4-2A. Cyber Mission Force	IG Summary of Challenge

Cyberspace is an inherently global domain that affects nearly every function of the DoD Joint Force. The Department is increasingly dependent upon a skilled cyber force with appropriate cyber capabilities to conduct modern military operations. In 2012, the Commander, U.S. Cyber Command recommended, and the Secretary of Defense approved, the Cyber Force model. The Cyber Force model includes developing a Service Component-built Cyber Mission Force to support U.S. Cyber Command mission. Today, the pace of threats continues to grow in scope, intensity, and sophistication. Every conflict in the world today has a cyber dimension. Actors with modest conventional military capabilities have shown considerable capacity to harass, disrupt, and distract their adversaries using cyberspace. Recent attacks, such as the breach of Office of Personnel Management systems and the hacking of Sony Pictures Entertainment, demonstrate that no industry or sector is immune to this growing threat.

According to the National Initiative for Cyber Security Education, a highly skilled cybersecurity force is required to secure, protect, and defend our nation's information systems, networks, and infrastructure. However, the Center for Strategic and International Studies report, "A Human Capital Crisis in Cybersecurity," April 2010, identified a national shortage of skilled cyberspace personnel. The 2015 Government Accountability Office High Risk Series identifies continuing concerns regarding mission-critical gaps in cybersecurity professionals and safeguarding federal computer systems and the systems that support critical infrastructure. These gaps pose a threat to the nation and to the Department's

operational readiness.

In the current environment of economic uncertainty and fiscal constraint, the Department faces significant challenges in staffing and training the cyber personnel it needs for the Cyber Mission Force. Additionally, the Department faces further challenges related to building, commanding and controlling, and equipping the Cyber Mission Force.

4-2B. Cyber Mission Force	IG Assessment of Progress

The Commander, U.S. Cyber Command noted the Department's progress during his March 4, 2015 testimony before the House Armed Services, Subcommittee on Emerging Threats and Capabilities, but also acknowledged the Department had a long road ahead in implementing the Cyber Mission Force. Two years into the Cyber Mission Force build, the Service Components field approximately 71 of the 133 teams planned. Some fielded teams are fully operational and performing offensive and defensive missions, while other teams are still filling out manning rosters and completing training and certifications

One of the DoD IG's top priorities is cybersecurity and cyberspace operations. DoD IG will continue to assess issues affecting the Cyber Mission Force and U.S. Cyber Command's ability to meet mission requirements. In 2015, the DoD IG issued a classified report concluding that the Service Components have been unable to effectively staff qualified Cyber Mission Force teams based on U.S. Cyber Command aggressive fielding schedules. Additionally, the DoD IG issued another classified report concluding, among other issues, that select Combatant Commands did not and other Combatant Commands may not have sufficient resources to staff their joint cyber centers, and U.S. Cyber Command was not providing sufficient forward-deployed support to the combatant commands. These elements are a critical component affecting DoD command and control decisions. The DoD IG is in the process of determining the adequacy of Cyber Mission Force teams' facilities, equipment, tools, and capabilities.

Although U.S. Cyber Command, Service Components, the Defense Information Systems Agency, and Combatant Commands were making progress in building and operationalizing the Cyber Mission Force, recent audits show further time-sensitive actions are still needed to staff and train the Cyber Mission Force to effectively meet mission requirements. The Deputy Secretary of Defense directed actions in the Resource Management Decisions for the FY 2016 Budget Request to better influence how the Department continues to build the Cyber Mission Force and meet other cyberspace-related tasks affecting the Joint Force. These actions demonstrate the Department's commitment to building a fully staffed and qualified Cyber Mission Force.

4-2C. Cyber Mission Force	Department Response

The Department acknowledges the DoD IG's assessment.

5. Health Care	
5-1A. Health Care Cost	**IG Summary of Challenge**

The Military Health System (MHS) must provide quality care for 9.6 million beneficiaries within fiscal constraints while facing increased user demand, legislative imperatives, and inflation. These factors make cost control difficult in the public and private sectors. Over the last decade, health care costs have grown substantially, and MHS costs have been no exception. The DoD FY 2014 appropriations for health care were $32.7 billion, which is an increase of about 80 percent since FY 2005. Appropriations have almost tripled since the FY 2001 appropriation of $12.1 billion. However, the Department's appropriations have decreased slightly by $16 million from FY 2013. Health care fraud is another challenge in containing health care costs. Health care fraud is among the top five categories of criminal investigations of the DoD IG's Defense Criminal Investigative Service (DCIS). Specifically, as of March 31, 2015, DCIS had 297 health care cases, representing 18 percent of the 1,637 open cases.

As the MHS continues to adapt to budgetary and force transformation constraints, the Department must continue to provide timely access to quality medical care per established policies and timelines and maintain the medical readiness of the force. The Department reports that growing health care costs will limit its ability to fund medical readiness requirements. These challenges include public health, suicide prevention, mental health screening and treatment, access to care, pre- and post-deployment health care, medication management, and Reserve Component health care. The Department continues to enable the recovery and transition of wounded, ill, and injured service members by using Wounded Warriors programs and the Integrated Disability Evaluation System. Due to the drawdown in Afghanistan and the introduction of Operation Inherent Resolve, the Military Services will be challenged with "rightsizing" their medical transition programs.

5-1B. Health Care Cost	**IG Assessment of Progress**

Ensuring Military Service members, their families, and all other eligible beneficiaries receive the care they need and deserve while controlling costs continues to be a challenge. The MHS is focusing on multiple areas to manage health care costs per capita, including contracting for managed-care support that provide incentives for customer satisfaction and fosters contractors as partners in support of medical readiness. The Department continues to examine how the MHS purchases health care from the private sector.

The Department identified areas that assist in managing costs, including the use of the TRICARE Mail Order Pharmacy program. The DoD IG reported in July 2013 that the TRICARE Mail Order Pharmacy Program was more cost efficient than the retail program due to the difference in the cost of the pharmaceuticals. The Defense Health Agency Pharmacy Operations Directorate implemented an aggressive communication plan to encourage the increased use of receiving prescription drugs through the mail to reduce costs.

The Defense Health Agency, Office of Program Integrity, conducts anti-fraud activities to protect benefit dollars and safeguard beneficiaries. To encourage the early identification of fraud, the Office of Program Integrity is proactive in detecting areas that may be vulnerable to fraudulent and abusive billings. In addition, the Office of Program Integrity renewed its Memorandum of Understanding with DCIS to provide investigative support. The Defense Health Agency (DHA) reported that during calendar year 2014, the Office of Program Integrity managed 354 active investigations, opened 229 new cases, responded to 430 Qui Tams from the Department of Justice, and responded to 951 leads or requests for assistance. DHA also reported that the Office of Program Integrity also coordinated investigative activities with Military Criminal Investigative Offices, as well as other federal, state, and local agencies.

The Department continues to struggle to contain costs in TRICARE programs. The Pharmacy Program has seen a dramatic rise in the receipt and payment of compound drug prescriptions. From October 2014 to March 2015, payments for compound drugs have increased from $84 million to $330 million, or 300 percent over the six-month period. In May 2015, DHA implemented new controls to attempt to curb the costs of these drugs; however, these controls are not as aggressive as other federal agency and insurance company controls. DHA officials believe that more aggressive controls are necessary. The DoD IG initiated an audit in FY 2015 to review controls over compound drugs.

The DoD IG reported in November 2014 that DHA did not have adequate controls to detect improper payments for TRICARE claims submitted by skilled nursing facilities in the North region. The audit determined that 67.4 percent of FY 2013 skilled nursing facilities claims in the TRICARE North region (valued at $13.2 million) had insufficient documentation to support the claims submitted by the skilled nursing facilities. In response to the report, a DHA official stated that the agency would increase reviews of skilled nursing claims.

DoD IG also reported in April 2014 that DHA and its overseas contractor officials did not negotiate rates in any of the 163 overseas locations, which represented $238 million in health care payments in FY 2012. In six high-dollar locations without negotiated rates or other cost containment measures, TRICARE payments increased from $21.1 million in FY 2009 to $63.8 million in FY 2012, or about 203 percent. The Department did not agree to implement cost containment measures for these locations, but did agree to implement cost containment measures, similar to rates established by the Centers for Medicare and Medicaid Services, in the U.S. territories.

In addition to controlling health care costs, the Department could improve collections for services provided at military treatment facilities. The DoD IG issued three reports from August 2014 through June 2015, which concluded that military treatment facilities did not actively pursue collections from non-DoD beneficiaries for 59 accounts valued at $9.6 million of the 75 accounts the DoD IG reviewed. Also, the military treatment facilities did not appropriately transfer funds to the U.S. Treasury for 71 delinquent accounts valued at $11.3 million of the 75 accounts the DoD IG reviewed for collection.

The MHS Quadruple Aim Concept focuses on four factors in providing quality health care to DoD beneficiaries: readiness, better health, better care, and lower cost. In March 2015, the MHS approved the following strategic focus areas for improvement: increase direct care primary care capacity, improve access, improve quality outcomes for condition-based care, and reduce patient harm. Continuing to implement the MHS Quadruple Aim Concept and concentrating on these focus areas should improve quality and reduce costs by focusing on improved care coordination and delivering care in the appropriate setting.

5-1C. Health Care Cost	**Department Response**

In 2009, the Department projected that by FY 2016 the Defense Health Program (DHP) funding requirement would be around $70 billion. The Department's actual FY 2016 DHP budget request was just under $48 billion, over $22 billion less than previously projected. This reduction was due to a combination of factors, including historically low inflation, a declining beneficiary population, and specific initiatives taken in the Military Health System (MHS) to target rising costs. Despite our recent successes in containing costs, FY 2015 has been a challenge for the MHS. Exploitation of the pharmacy benefit for compound pharmaceuticals contributed to an estimated $1.5 billion shortfall in DHP funding, and we are seeing a gradual rise in medical inflation. The MHS continues to take aggressive action to increase efficiency, combat fraud, and reduce costs. Following are examples:

Compound Pharmacy – In May 2015, the MHS implemented aggressive screening processes for compound pharmaceuticals. This reduced the monthly (including Medicare Eligible Health Care Retirement Fund, MERHCF) compound costs from a high of $545 million in April to a current average of about $10 million per month. Average claim cost was also

reduced from a high of over $6,000 to around $300. MHS is also aggressively pursuing compound pharmacies and compound prescribers that appear to be have engaged in fraudulent and abusive activities. The Defense Health Agency (DHA) Program Integrity (PI) office, along with Defense Criminal Investigative Service (DCIS) and Department of Justice (DOJ), has opened 140 compounding fraud investigations.

Enhanced Mail/MTF Pharmacy Initiative – Starting October 1, 2015, most beneficiaries in the United States will be required to refill brand name maintenance drugs through TRICARE Pharmacy Home Delivery or at a military pharmacy or pay full price. This is an expansion of the TRICARE for Life Pilot. The Department estimates this will save $88 million per year.

Improper Payments to Skilled Nursing Facilities – On June 1, 2010, we began preauthorizing skilled nursing facility care for TRICARE dual eligible beneficiaries when we became primary payer on day 101 when Medicare benefits exhausted.

TRICARE Overseas Cost Containment – In the TRICARE Overseas follow-on contract, we require the contractor to evaluate the feasibility of implementing fee schedules in Bahrain, South Korea, Turkey, Japan, and the United Kingdom. The contract deliverable is due in December 1, 2016.

Improvements to Third Party Collections – The Military Health System is in the process of deploying a commercial-grade business system to improve our capabilities in billing third party payers. The Armed Forced Billing and Collection Utilization Solution (ABACUS) is expected to be fully deployed and operational by the first quarter of FY 2016, if not sooner. We have also contracted with a commercial firm to assist us in better identifying beneficiaries who have additional health insurance.

Airmen secure a room during medical evacuation drills during a biannual tactical combat casualty care course on Ramstein Air Base, Germany. Over 20 Airmen from the 435th Contingency Response Support Squadron, 435th Security Forces Squadron, and 86th Medical Group participated in the training.

Photo by Senior Airman Nicole Sikorski

6. Training and Equipping Afghan, Iraqi, and New Syrian Security Forces	
6-1A. Afghan National Defense and Security Forces	**IG Summary of Challenge**

The Department continues to develop the Afghan National Defense Security Force's (ANDSF) capability to take ultimate responsibility for Afghanistan's security. Challenges include:

- Developing ministerial capability to plan and manage resources and human capital;
- Ensuring enabling-force capabilities (combat readiness and sustainment support elements) are fielded prior to withdrawal of Coalition capabilities;
- Measuring and reporting ANDSF operational readiness and effectiveness;
- Professionalizing the ANDSF;
- Ensuring the ANDSF logistical system can support an independent and sustainable security force; and
- Preparing for post-2016 operations.

Coalition force drawdown and retrograde have added significant challenges as ANDSF completes the transition to full Afghan government responsibility for security. The protracted 2014 Afghan election caused setbacks for the U.S. and Coalition Train, Advise, and Assist (TAA) mission. Last year's political impasse delayed the finalization of the Bilateral Support Agreement (BSA) and Status of Forces Agreement (SOFA), causing many Allies and operational partners to delay fulfilling their Resolute Support (RS) force commitments until a newly-elected government was in place, the bilateral and international agreements were signed, and the United States announced its own force commitments. The international community's uncertainty, coupled with setbacks in forming a new government cabinet, created a period of comparative stagnation in ANDSF development, with some Afghan leaders hesitant to make necessary decisions. This political uncertainty threatened to undermine the progress made by the ANDSF in the security domain. Economic growth was similarly stymied by a lack of investor confidence in the Afghan government and its prospects for the future.

At the same time, President Ghani and Chief Executive Abdullah committed to putting their country's interests above all else when they formed the national unity government. Encouragingly, both leaders have proven to be amenable to cooperation with the international community, presenting an opportunity for the United States to deepen its partnership with Afghanistan. Both leaders are supportive of women's rights and their empowerment in Afghan society, and both are committed to addressing the challenge of corruption, as demonstrated by their strong reaction to the discovery of irregularities regarding the proper award and execution of fuel contracts within the Ministry of Defense (MoD). However, after almost a year in power, the Afghan government remains in a state of flux as President Ghani and Chief Executive Abdullah determine how to distribute power and responsibilities, while key reform initiatives have been slow to be implemented.

The unity government faces many challenges both internally and externally. The forward momentum of the RS campaign was stymied by delays in forming the full new 25-member Afghan cabinet. After months of delays, the first round of negotiated candidates was finally announced on January 12, 2015, and Parliament rejected more than half of those originally proposed, including the nominee for MoD. By April 18, 2015, Parliament had approved 24 members of the cabinet; however, President Ghani and Chief Executive Abdullah continued to negotiate a new candidate for MoD as the 2015 fighting season began. On May 21, 2015, President Ghani nominated Mohammad Masoom Stanekzai to be the MoD, but the Afghan Parliament has yet to confirm the appointment. The delayed appointment has had a negative

effect on the ability of the Afghan security ministries to effectively support the ANDSF.

Security Ministries. At the security ministries, RS advisors are focusing on assisting the Afghans in building systems and processes critical to enabling the ministries to support the ANDSF. These efforts have been ongoing for several years but were a secondary focus when the International Security Assistance Force (ISAF) was conducting combat operations; now it is the main effort. Moreover, the delay in confirming a new Minister of Defense, and the suspension of a number of senior officials over MoD fuel contract irregularities, have slowed capacity building efforts over the last year within the MoD.

Although some progress was made during this reporting period, gaps in the Afghan security ministries' ability to perform key functions such as fiscal planning, programming, budgeting and procurement, and human resource management will likely persist for some time, and could impede sustainment of its forces. The most critical gaps in Afghan security institution capacity are the lack of effective systems and repeatable processes to develop defense requirements properly, procure goods and services, and manage budget execution.

The Department must continue its focus on advising and assisting the development of the resource management capabilities of the Ministry of Interior (MoI) and MoD. Budget planning and execution, training and development of human resources, increasing the ranks of civilian professionals, and leader emphasis on command and control of logistics are key areas for continued emphasis. Ensuring the capacity of the ANDSF and U.S./NATO command to maintain accountability and control over direct funding and equipment provided via the U.S. Afghan Security Forces Fund remains a key challenge. Additionally, coordination between the Afghan National Army (ANA), Afghan National Police (ANP), Afghan Air Force (AAF), and Special Operations Forces will be important to ensuring a multi-layered, long-term defense against insurgents and criminal syndicates.

Enabling Force Capabilities. The 2015 fighting season is the first in which the ANDSF have battled insurgents without the full support of U.S. and coalition combat forces, and with very limited coalition air and Intelligence, Surveillance and Reconnaissance (ISR) enablers. Completing the fielding of "enablers," or military capabilities essential to building ANDSF's capacity to accomplish its missions, is increasingly important. Fielding and integration of combat and support capabilities in the ANA and ANP will remain a priority.

Overall, the ANDSF's most critical gaps remain in aviation, intelligence, and special operations, all linked to the ANDSF's targeting capability. These gaps will endure for some time, even with the addition of key enablers. RS advisors are also working to address developmental shortfalls in the areas of logistics, medical support, and counter-IED exploitation. In general, the ANDSF are better trained and equipped than insurgent forces, and continue to demonstrate tactical proficiency as they work together across security pillars. When the ANA and ANP collaborate, they have proven that they can defeat the insurgents when challenged.

Maximizing the ability to employ, sustain, and maintain critical equipment, coupled with the identification and promotion of capable leaders, is a near-term focus for Afghan and coalition leadership to maximize ANDSF effectiveness in the 2016 fighting season and beyond. Higher operational rates and challenges, including the likelihood of high ANDSF casualties and attrition, logistics sustainment and maintenance issues, and the ANP's inability to "hold" cleared areas after the ANA offensives will continue to detract from ANDSF operational effectiveness.

Logistics remains a challenge for the ANDSF that has been exacerbated by a diminished Coalition presence in the field. Since U.S. and Coalition forces historically have ordered supplies for the ANDSF, Afghan personnel have little experience doing it themselves. Efforts are focusing on improving the Afghan MOD and MOI's ability to identify requirements. One of these efforts involves development of an upgrade to CORE IMS - the Afghan's primary logistics automation system – that will assist in projecting requirements based on actual usage. Other efforts have focused on cataloging, parts manuals, and logistics training. It is important that, with advisor support, logistics responsibilities and decision making be transitioned to the

Afghans. In many cases, reported shortages in operational units typically result from the ANDSF's underdeveloped logistics system rather than actual system-wide supply shortages. Coalition officials are working Afghan security leaders to address essential logistics functions, but progress is incremental.

Additionally, the Afghan ministries' procurement systems have not yet matured in terms of efficiency and internal controls. The fuel scandal in January 2015 brought almost all ANDSF procurement to a temporary halt. This does not, however, affect the buying of military equipment and parts, which DoD procures through the Foreign Military Sales System, using money from the Afghan National Security Forces Fund. The Afghans' procurement system has been limited to fuel, fuel, firewood, facility maintenance, and other locally produced supplies. The Afghans are being taught to effectively use the US Foreign Military Sales System to obtain needed equipment and supplies. The primary means of supporting the ANDSF has always been through the US Foreign Military Sales system. As we transition to a normalized security cooperation relationship with Afghanistan, expectation is that the Afghans will continue to use the US Foreign Military Sales system as one of the primary means of obtaining needed equipment and supplies. It is particularly critical that we expedite the development of the Afghan capability to take ownership of the development of requirements needed to support executable Foreign Military Sales cases.

Assessment of ANDSF Progress. Assessing capabilities and identifying capability gaps will become more difficult during Coalition force withdrawal. The Department's ability to determine the operational readiness and effectiveness of ANSF units is diminishing as the number of partner units and advisors continue to decrease. The challenge is to ensure sufficient skilled and qualified advisors are in key positions to continue assessing and developing ANSF leadership, command and control, logistics, and accountability capabilities, and critical units.

Professionalization. The Department must continue to support ANDSF's current efforts to professionalize the force. Command reports show recruitment and management of initial training at the enlisted and officer levels are becoming ANDSF strengths. Developing quality leadership, managing effective training at all army and police levels, providing career development opportunities, and maintaining accurate personnel and pay records have all been identified as areas requiring a sustained effort necessary to build a professional army and police force.

Post-2016 Operations. The President recently announced plans to maintain the current force of 9,800 uniformed personnel, plus civilian and contract staff, in Afghanistan through 2016 and into 2017, drawing down to 5,500 uniformed personnel, plus civilian and contractors, in 2017. Subsequently, a new Defense Security Cooperation Management Office (DSCMO) office is expected to be established using DoD funding authority versus more traditional funding authority from the Department of State. Its function will be to plan, develop, and execute a mission to replace Operation Freedom's Sentinel to oversee Afghan Security Forces Fund expenditures, and continue to build long-term Afghan capacity through 2024. Organizing the DSCMO will require careful advance planning within the Department, other agencies, and especially with the Department of State and U.S. Mission Kabul to accomplish this new mission with substantially fewer military forces. The Department will need to ensure the DCSMO is staffed appropriately with the advisory skill sets necessary to assist the ANDSF further develop its still lagging operational and institutional capabilities.

6-1B. Afghan National Defense and Security Forces	**IG Assessment of Progress**

The Coalition is monitoring the performance of ANDSF in the first fighting season against stiff Taliban resistance without the support of a Coalition combat presence in Afghanistan. The Coalition emphasis on ANDSF development has shifted from building its forces to assisting the

Afghans in professionalizing and ensuring systems are developed and in place to manage fiscal, personnel, and equipment resources accountably and sustainably.

Ministerial development is a primary emphasis, and the Coalition is increasing resource management training for MoD and MoI personnel. Ministerial advisors are delivering assessments of the security ministry departments, reporting departmental setbacks as well as successes, and planning and revising training milestones and objectives as necessary. Additional advisors are arriving to complement the ministerial and general staff advisory capacity and to accelerate progress.

The shortage of qualified army and police volunteers with sufficient education remains a challenge for ANDSF, especially as its casualty rate has increased over the past year. Nevertheless, ANDSF continues to support human capital development and training, including for literacy.

The ANDSF has taken more responsibility for its own training. Coalition reports confirm that the number of Afghan trainers has increased steadily over time, easing the burden on the Coalition Forces to provide military and civilian trainers. Reportedly, ANDSF is also managing its non-commissioned officer (NCO) and officer ranks more aggressively, for example, by taking action to meet ANP and ANA non-commissioned officer shortages by training and promoting qualified and experienced enlisted soldiers and junior NCOs.

Importantly, operational readiness and effectiveness, and self-reliance, of the ANA and ANP continue to show overall improvement. However, with the decrease in advisor teams and advisor resources at the Corps and Police Headquarters levels and below, Coalition forces have had to shift to using Afghan reporting to understand ANDSF capabilities. Challenges remain in getting reliable data from the ANDSF self-assessment tool.

Continued financial support from the international community depends upon a transparent and accountable Afghan resource management process that enables oversight by third party organizations. Resolute Support priorities include developing an advisor network to encourage leaders of the Afghan security ministries to embrace transparent and accountable processes while providing effective oversight. The absence of effective internal control processes increases the risk of poor management and the existence of corrupt practices, depriving the ANDSF of vital resources and could lead to reduction in international contributions over time. DoD has deployed a team to Afghanistan to assist the Afghans in improving the current MOD and MOI payroll systems and improve funds accountability.

In April 2015, the acting Minister of Defense signed the Ministerial Internal Controls Program (MICP), as well as an anti-corruption policy, to address this shortfall, and it is being implemented within the MoD. RS advisors assisted with developing MICP guidelines, which is leading to introduction of process maps, auditing plans, and the development of effective and sustainable control processes for items such as fuel, ammunition, salaries, and food. The new MoD Inspector General (IG), as well as the ANA General Staff IG, accepted responsibility and leadership for the implementation of MICP and adopted a leadership role in the transparency, accountability, and oversight forums, such as the Counter Corruption Working Group and the Senior High Commission Anti-Corruption Council. In addition, the Combined Security Transition Command is pressing forward on finding savings in Afghan Security Force Funds that could be used to bolster fiscal resources needed for now to sustain the ANDSF at its current level of 352,000 army and police personnel.

6-1C. Afghan National Defense and Security Forces	**Department Response**

The Department acknowledges the DoD IG's assessment.

6-2A. Iraqi and New Syrian Security Forces	IG Summary of Challenge

At the direction of the President, the United States is pursuing a strategy to degrade and ultimately defeat the Islamic State of Iraq and the Levant (ISIL). In September 2014, the President articulated an approach to accomplish this strategy that involves nine separate lines of effort: supporting effective governance in Iraq, denying ISIL safe haven, building partner capacity, enhancing intelligence collection against ISIL, disrupting ISIL's finances, exposing ISIL's true nature, disrupting the flow of foreign fighters, protecting the Homeland, and providing humanitarian support. The Department has responsibility for two lines of effort: denying safe haven and building partner capacity.

To support these two lines of effort, the Department has committed to the development of the Iraqi Army and the New Syrian Forces to fight ISIL. However, the onslaught of the ISIL advance reduced the Iraqi Army to 10 of its former 14 Divisions. While the Government of Iraq (GoI) is recruiting and training new personnel, it lacks the rapid ability to professionally train and equip the forces required to conduct counter-offensive operations, and it needs U.S. and Coalition assistance. While the trend on the battlefield has been promising in stemming ISIL gains, ISIL remains a potent force. The GoI currently lacks the military capacity to field sufficient and effective forces needed to regain much of the lost territory, protect the population and threatened critical infrastructure, and drive ISIL out of the country.

To successfully conduct counter-offensive operations with Coalition support, the GoI has initially committed to training, equipping, and fielding three Iraqi Army Divisions (nine Brigades), three Kurdish Brigades, and Tribal Forces, which could comprise eventual Iraqi National Guard brigades. The focus of DoD efforts is to work with, by, and through the GoI to build the necessary military capability to counter ISIL. The Department requested and received approximately $1.6 billion to provide assistance to military and other security forces of, or associated with, the GoI, including Kurdish and tribal security forces.

While initial plans called for spending $500 million to train Moderate Syrian Opposition fighters to become part of the New Syrian Force, the program has recently been suspended pending further evaluation and consideration of options.

6-2B. Iraqi and New Syrian Security Forces	IG Assessment of Progress

While U.S./Coalition Forces are pursuing this train, advise, and assist mission with selected Iraqi Army and Tribal Forces, the overall condition of the Iraqi Army, coupled with weak personnel recruiting, poor leadership, bureaucratic inertia, and corruption, presents challenges to building an effective GoI security force capable of carrying out the mission to defeat ISIL in Iraq.

The Department recently suspended the New Syrian Forces training program, after having trained a very small number of personnel. One particular challenge was the rigorous vetting process required by various aspects of U.S. law, which limited the number of eligible recruits.

6-2C. Iraqi and New Syrian Security Forces	Department Response

The Department acknowledges the DoD IG's assessment.

7. The Nuclear Enterprise	
7-1A. Managing the Risks between Sustainment, Modernization, and Strategic Force Reduction	**IG Summary of Challenge**
The President is committed to maintaining safe, secure, and effective nuclear forces while reducing the strategic nuclear forces in accordance with the New Strategic Arms Reduction (START) Treaty. The Department must balance the sustainment of legacy systems and the reduction of strategic forces while continuing investments to modernize essential nuclear delivery systems; warning, command, and control; and in collaboration with the Department of Energy, nuclear weapons and supporting infrastructure. Survivability, reliability, accountability, and production infrastructures become critically important with the reduction of overall numbers of nuclear weapons and delivery platforms.	
7-1B. Managing the Risks between Sustainment, Modernization, and Strategic Force Reduction	**IG Assessment of Progress**
The Department's efforts in managing the risks between sustainment, modernization, and strategic force reduction will continue to be a challenge. Sustainment of legacy systems is one of the most pervasive problems in the nuclear enterprise. The Department must focus on sustainment challenges. If not addressed, sustainment challenges will overtake any improvements or enhancements the Department intends to make in the near term. Significant uncertainties exist in today's threat environment. U.S. deterrence and assurance strategies must be adaptable to counter unpredictable strategic and regional threats. New platforms must be adaptable to deter emerging threats well into the future. For example, Ohio-class replacement ballistic missile submarines are scheduled to be deployed until the 2080s. However, fragmented leadership and advocacy has hindered the Department's ability to synthesize efforts to ensure the arrival at an adaptable force after strategic reductions. Aging infrastructure and the constraints of the Budget Control Act put both the legacy system and the replacement program at risk. Additionally, senior Air Force leaders accepted the risk of not meeting national security requirements without the knowledge of Combatant Commands or the Joint Chiefs of Staff. The lack of Service focus on aging infrastructure and risk management without the knowledge of DoD senior leadership is a trend throughout most of the DoD IG's recent nuclear enterprise reports.	
7-1C. Managing the Risks between Sustainment, Modernization, and Strategic Force Reduction	**Department Response**
Ensuring a safe, secure, and effective nuclear enterprise is the top priority of the Department, and the Department is committed to aggressively managing the risks between sustainment and modernization of the nation's nuclear forces. The constraints of the Budget Control Act place many DoD programs at risk, not just	

nuclear force programs such as Minuteman III. The Air Force has defined Ground Based Strategic Deterrent (GBSD) as the replacement to MM III and is proceeding towards Milestone A in FY 2016. The President's FY 2016 budget request includes a new GBSD Program Element with resources to continue work on guidance, propulsion, and weapon system integration. The Air Force is also preparing for launch system, command and control, and flight systems Technology Maturation and Risk Reduction activities (after Milestone A) with resources identified in FY 2017-2020, to include continuing funding beyond the Future Years Defense Program (FYDP). For the legacy Minuteman III system, the FY 2016 budget request includes investments to sustain the weapon system, with additional funding projected to ensure Minuteman III remains effective through GBSD fielding.

As part of DoD's Program and Budget Review process, senior leadership throughout the Department, to include the Air Force, jointly assesses risks for national defense requirements. The DoD oversight process remains keenly focused on nuclear enterprise risks at the Service, Combatant Command, Joint Chiefs of Staff, and Secretary of Defense levels. In addition, the President's FY 2016 budget request includes an additional $8 billion across the FYDP, compared to the FY 2015 budget, for sustainment and modernization of all nuclear forces.

The Secretary of Defense, as specified in Section 1043 of the National Defense Authorization Act for Fiscal Year 2012, annually reports to Congress sustainment issues and modernization plans for the nuclear weapons stockpile, nuclear weapons complex, nuclear weapons delivery systems, and nuclear weapons command and control systems.

7-2A. Modernizing Our Nuclear Forces to Meet Future National Security Needs	**IG Summary of Challenge**

The United States' nuclear deterrent is an amalgamation of terrestrial, aerial, and space-based sensors; assured command and control, the triad of delivery systems, nuclear weapons and supporting infrastructure; and most importantly, trained and dedicated people. The triad of delivery systems was modernized twice -- once in the early 1960s and once in the 1980s. The average warhead today is over 27 years old. Every one of the systems, including the various elements of the Nuclear Command, Control, and Communications (NC3) system, will require significant modernization or replacement in the next two decades.

7-2B. Modernizing Our Nuclear Forces to Meet Future National Security Needs	**IG Assessment of Progress**

Although the Department is far from attaining an acceptable level of risk in the nuclear enterprise, it has made progress. The DoD senior leadership has increased the emphasis on achieving this goal.

The President's FY 2016 budget begins to reduce the accumulated risk because of deferred maintenance and sustainment, but there is little to no margin for error. The Department must balance the sustainment of legacy systems with modernization to ensure national security capabilities are met. Even though the President's budget requests $142 billion to recapitalize, sustain, and modernize the nuclear enterprise over the next five years, the Department must ensure consistent focus to align acquisition schedules for new platforms and their associated weapons.

Long Range Strike Bomber (LRS-B): The LRS-B is funded and in the acquisition cycle. However, the Senate Armed Service Committee recently removed $460 million from the program. The Air Force still has not committed to ensuring the first bomber variant will be

nuclear capable, which could lead to additional investment to sustain the aging dual-capable B-52 and B-2 bombers.

Ohio Class Submarine Replacement: The current Ohio class of ballistic missile submarines (SSBN) were commissioned between 1984 and 1997, and their lifetime has been extended from 30 to 42 years -- unprecedented for a nuclear submarine. No further extension is possible and maintaining operational availability is a concern. Even though the first Ohio replacement will begin its first strategic patrol in 2031, the current SSBNs must be sustained until the last hull is decommissioned in 2040.

National Airborne Operations Center (NAOC) E-4B: Aircraft availability has not met mission needs over the last three and a half years. The cost to sustain the airframe will continually increase as commercial airlines continue to retire the 747-200 fleet and spare parts are depleted. Age-related maintenance issues have led to extended depot periods and a replacement program has yet to be identified.

Integrated Tactical Warning and Attack Assessment (ITW/AA): The ITW/AA enterprise's mission is to provide timely, accurate, and unambiguous warning of air, missile, and space attacks against North America to the U.S. President, the Prime Minister of Canada, and the Chairman of the Joint Chiefs of Staff, Combatant Commands, and other forward users. The ITW/AA is composed of Air and Space Missile Warning Missions, with sensors and forward users located worldwide, and at correlation centers at Peterson AFB, Cheyenne Mountain AFS, Offutt AFB, and Vandenberg AFB. Portions of this legacy system are unsustainable, and plans for replacement systems have been delayed.

Minuteman III/Ground Based Strategic Deterrent: The National Defense Authorization Act of 2007 directed the Air Force to sustain the Minuteman III (MMIII) ICBM until 2030. Even though the MMIII has received several generations of sustainment and modernization, the supporting infrastructure is aging to the point of becoming unsustainable. The Air Force must balance investment between the legacy system and the new GBSD, follow-on to the MMIII.

Air Launched Cruise Missile/Long Range Stand-Off (ALCM/LRSO): The LRSO effort will develop a weapon system to replace the Air Force's ALCM, operational since 1986. However, an independent cost estimate depicted higher LRSO development and integration costs than the original Resource Management Decision funding. The FY 2015 Presidential Budget Request included a decision to defer the program three years, resulting in a four-year delay due to unexecutable funds and programmatics.

Nuclear Command, Control, and Communications (NC3): The NC3 system is a large and complex system-of-systems comprised of numerous land, airborne, and space-based components used to assure connectivity between the President and nuclear forces. The NC3 system remains a primary concern for Congress. The National Defense Authorization Act of 2014 directed the establishment of the Council on Oversight of the National Leadership Command, Control, and Communications System. The Council is responsible for oversight of the command, control, and communications system for the national leadership of the United States. Specific responsibilities include oversight of performance assessments (including interoperability), vulnerability identification and mitigation, architecture development, and resource prioritization. However, most systems are controlled by separate entities to include different program offices, program element offices, and even different Major Commands.

7-2C. Modernizing Our Nuclear Forces to Meet Future National Security Needs	**Department Response**

Ensuring a safe, secure, and effective nuclear enterprise remains the top priority of the Department, and the Department remains firmly committed to modernization. The President's FY 2016 budget request includes an additional $8 billion across the FYDP, compared to the

FY 2015 budget, for sustainment and modernization of all nuclear forces.

The Air Force has defined Ground Based Strategic Deterrent (GBSD) as the replacement to MM III and is proceeding towards Milestone A in FY 2016. The President's FY 2016 budget request includes a new GBSD Program Element with resources to continue work on guidance, propulsion, and weapon system integration. The Air Force is also preparing for launch system, command and control, and flight systems Technology Maturation and Risk Reduction activities (after Milestone A) with resources identified in FY 2017-2020, to include continuing funding beyond the FYDP. For the legacy Minuteman III system, the FY 2016 budget request includes investments to sustain the weapon system, with additional funding projected to ensure Minuteman III remains effective through GBSD fielding.

The FY 2016 budget request recovers two years of the three-year Long Range Standoff (LRSO) cruise missile deferment from the 2015 budget. In addition, the Air Force is planning for Milestone-A acquisition decisions for both GBSD and LRSO in FY 2016, which will include development of Independent Cost Estimates.

Due to delays in awarding the LRS-B contract, the Senate Armed Services Committee removed $460 million from the program in FY 2016 in order to properly phase funding with program execution. The LRS-B is being built with features and components necessary for the nuclear mission to ensure the nuclear certification effort completes within two years after conventional initial operational capability in accordance with the FY 2013 National Defense Authorization Act. The LRS-B requirements for the nuclear mission have been validated by the Joint Requirements Oversight Council.

In early 2015, the Deputy Secretary directed an end-to-end review of the National Leadership Command Capability (NLCC) and Nuclear Command, Control, and Communications (NC3) enterprise. This review was led by DoD Chief Information Officer, Joint Staff, and United States Strategic Command (USSSTRATCOM) experts and provided findings and recommendations that drove near-term improvements and supported priority investment decisions.

Through the NLCC and NC3 Capability Planning Guidance (CPG), Services and Agencies are directed to fund continuing sustainment and modernization efforts, including E-4B and Integrated Tactical Warning/Attack Assessment (ITW/AA) systems.

The Council on Oversight of the National Leadership C3 System (NLC3S) 2014 annual report to Congress identified critical NLC3S sustainment and modernization programs endorsed by DoD senior leadership. The Council has ensured proper oversight and sufficient resources for Nuclear Command, Control, and Communications (NC3) modernization, and the Council is working to better integrate the activities of DoD entities to improve NC3 system capabilities.

7-3A. Lack of an Integrated End-to-End Governance Process	**IG Summary of Challenge**

Collaborative decision structures do not exist to provide strategic direction or manage cross-cutting risks across the Department's nuclear weapon enterprise. Existing forums remain isolated from one another, leading to unclear and ambiguous lines of reporting, accountability, and responsibility.

7-3B. Lack of an Integrated End-to-End Governance Process	**IG Assessment of Progress**

Despite the current challenges in the DoD nuclear enterprise, the Department is focusing

on progress and bringing senior leader focus to nuclear issues that need attention. In 2014, Secretary Hagel directed two reviews of the DoD nuclear enterprise. The reviews concluded that there is no coherent, integrated structure and synchronized set of activities characterized as a DOD nuclear enterprise. Instead, the Review found a loose federation of separate nuclear activities often embedded in and indistinguishable from support for and execution of a wide range of non-nuclear activities. The reviews also found that the forces are meeting the demands of the mission with dedication and determination. However, the Sailors, Airmen, and Marines are paying an unsustainable price with the increasing difficulty. In response to the findings, Secretary Hagel created the Nuclear Deterrent Enterprise Review Group to help maintain senior-level focus on the nuclear mission, and to integrate all the elements of the nuclear force into a coherent enterprise. The Secretary also directed the Office of the Secretary of Defense, Cost Analysis and Program Evaluation, to monitor the implementation of the review's recommendations. This notable change and sustained efforts will reduce the risk to the DoD nuclear enterprise.

Section 171 of the National Defense Authorization Act for Fiscal Year 2014 directed the Department to establish the Council on Oversight of the National Leadership Command, Control, and Communications System (the Council). Section 171 directs the Council to be responsible for oversight of the command, control, and, communications system for the national leadership of the United States, including nuclear command, control, and communications. Assessing the effect of the Council is premature, but the commitment of resources by senior leadership to identify and correct deficiencies will likely have a very positive long-term effect.

The 2010 Nuclear Posture Review and the 2013 Report on Nuclear Employment Strategy of the United States state the key objectives of U.S. nuclear weapons policy. The 2010 Strategic Concept and the 2012 Deterrence and Defense Posture Review outline U.S. and NATO nuclear capabilities for deterrence and defense. Finally, the New START Treaty verifiably reduces and limits the strategic arsenals of both the U.S. and Russia, and is consistent with the U.S. objective of maintaining strategic stability at reduced force levels. With isolated exceptions, these policies lack coordinated, implementing guidance. Further, no governance structure exists to analyze the aggregate risk and to monitor implementation for unforeseen consequences.

Collaboration among U.S. nuclear weapon stakeholders is paramount to ensure a unified effort to meet national security requirements. Although the Nuclear Weapons Council—, which serves as the focal point of DoD and National Nuclear Security Administration (NNSA) interagency activities to maintain the U.S. nuclear weapons stockpile—carries out its statutory and regulatory responsibilities in a number of ways, the Council faces challenges in doing so.

The Council does not have an up-to-date agreement that reflects the processes it uses to carry out its responsibilities. The 1997 memorandum of agreement between the Department and the Department of Energy that guides the Council's efforts has not been updated, although the Council's responsibilities were expanded in 2013, and the 1997 memorandum does not define the roles, responsibilities, structure, and functions of the two support committees that conduct the Council's day-to-day operations.

Without an updated memorandum of agreement that describes Council processes, it may be difficult for the Council to provide greater clarity to support committee members on how their work is to be conducted. Second, a key consideration when implementing collaborative mechanisms is whether all relevant participants have been included in the effort. For example, DoD and NNSA budget and program evaluation officials are not required to attend Council support committee meetings. DoD budget and program evaluation officials are invited and generally attend, but NNSA budget and program evaluation officials generally do not attend because they are invited at the discretion of NNSA support committee members. Without a requirement that all relevant participants consistently attend all support committee meetings, the Council may be limited in its ability to manage and respond to unanticipated budget questions as they arise at meetings.

7-3C. Lack of an Integrated End-to-End Governance Process	Department Response

Modernization and sustainment of safe, credible, and effective nuclear forces involves disciplined, complex, and inter-agency processes. The Department concurs with the IG's assessment, and the Department continues to explore and implement improvements to the governance process.

The Council on Oversight of the National Leadership Command, Control, and Communications (C3) System is informed by numerous cross-community subordinate working groups and integrated process teams, including groups working on crypto modernization, cyber risk assessment, low frequency/very low frequency communications, Presidential and National Voice Conferencing, and Senior Leader C3 System. These subordinate groups, working through the National Leadership Command Capability (NLCC) Senior Steering Group and the NLCC Executive Management Board, review, validate, prioritize and recommend capabilities for NLCC resourcing, architecture roadmaps, assessments, and vulnerability mitigation. The process also includes a working group that reviews Service and Agency budget submissions and, as necessary, recommends high-priority additions to their Program Objective Memorandums. This robust oversight and governance process resulted in significant NLCC and Nuclear Command, Control, and Communications (NC3) resourcing gains in the 2016 Presidential Budget Submission, as well as successfully appealing to Congressional defense committees against 2016 marks to NLCC/NC3 programs.

Based on input from the Council on Oversight of the National Leadership C3 System, as well as a recommendation from the National Leadership Command Capability (NLCC)/NC3 Enterprise Review, the Air Force is in the process of assigning a single Major Command as the overall lead for the NC3 System. Additionally, the Air Force plans to designate the NC3 System as a weapon system to consolidate program elements. The Council receives briefings and progress towards this goal is being tracked and briefed to the Council.

Lastly, the Nuclear Weapons Council (NWC) is in the process of updating its memorandum of agreement between the Department of Defense and the Department of Energy.

The coastal patrol ship USS Firebolt (PC 10) fires a Griffin missile during a test and proficiency fire in the Persian Gulf. Commander, Task Force 55 supported maritime security operations and theater security cooperation efforts in the U.S. 5th Fleet area of responsibility.

Photo by Mass Communication Specialist 1st Class Joshua Bryce Bruns

8. IG-Identified Challenge: Insider Threat	
8-1A. Security (information, physical, personnel) and Counterintelligence. Access, clearances, continuous evaluation, continuous monitoring, unauthorized disclosure, espionage.	**IG Summary of Challenge**

The past several years have seen significant damage done to the Department – and indeed, the wider US Intelligence Community and Homeland Security – by trusted DoD "insiders." Recent incidents such as Chelsea Manning's unauthorized disclosures via WikiLeaks, Edward Snowden's revelation of highly classified NSA and military information to the media, and the Fort Hood and Washington Navy Yard shootings are only the most visible, high impact instances of the destruction brought about by current or former DoD employees or contractors.

As defined in DOD Directive 5205.16, an Insider Threat is, "[t]he threat an insider will use her or his authorized access, wittingly or unwittingly, to do harm to the security of the United States. This can include damage to the United States through espionage, terrorism, unauthorized disclosure of national security information, or through the loss or degradation of departmental resources or capabilities." The threat posed by DoD insiders has been recognized at the highest levels of both the Department and the Executive Branch. In October 2011, Executive Order 13587 established the National Insider Threat Task Force, requiring Insider Threat detection and prevention programs at every federal agency that handles sensitive or classified information; specific policy guidance and minimum programmatic standards were released in November 2012 via Presidential Memorandum. Congress has acknowledged the gravity of the Insider Threat at the Department and has mandated that the Department improve information sharing protections and Insider Threat mitigation for DoD information systems (Section 922, FY 2012 NDAA).

To address the widely varied and remaining vulnerabilities, multiple DoD directives and instructions were codified since 2013, including naming the Under Secretary of Defense for Intelligence (USD(I)) as the Senior Official responsible for insider threat matters and releasing the highly anticipated DoD Insider Threat Program policy directive (DoD Directive 5205.16, September 30, 2014). As a result, even before the Snowden disclosures and Washington Navy Yard shootings, the DoD Chief Information Officer submitted a Report to Congress on Insider Threat Detection (March 29, 2013), detailing the results of extensive DoD reviews of the Department's posture, policy, and measures taken to identify and mitigate the Insider Threat. Despite the significant personnel and financial resources directed at Insider Threat across the federal government, the Executive Office of the President continues to stress the need for reform, releasing a memo via the Office of Management and Budget in July 2014 which stated that "agencies should focus on efforts to improve infrastructure permitting, and on implementing insider threat and security clearance reform."

Over the past two years, the Department has invested significant resources into evaluating and resolving Insider Threat issues. For instance, USD(I) released a memo in May 2014, directing DoD agencies to update and cross-reference personnel data in the Joint Personnel Adjudication System (JPAS)/Defense Central Index of Investigations (DCII)/Scattered Castles as recommended in DOD IG Report 2014-060. In December 2014, the USD(I) mandated that the Defense Security Service (DSS) would establish, staff, and operate the Defense Insider Threat Management and Analysis Center (DITMAC). The Center is scheduled to begin operating in FY 2016.

Despite the distribution of multiple Presidential, Congressional, and Departmental guidance and requirements – and the actions the Department has taken over the past two to three years – the Department still lags behind many other federal and IC agencies in

identifying and mitigating the Insider Threat, which leaves DoD personnel, information, and mission attainment vulnerable to insider threats. To complicate matters, the nature of an Insider Threat continues to evolve. It is unrealistic to believe that the Department can plan for every possible contingency; however, it is crucial that the Department prioritize, aggressively pursue, and monitor initiatives to improve prevention, detection, and mitigation policies and processes.

8-1B. Security (information, physical, personnel) and Counterintelligence. Access, clearances, continuous evaluation, continuous monitoring, unauthorized disclosure, espionage.	**IG Assessment of Progress**

The Department is poised to manage Insider Threat risks at the enterprise-level via establishment of the Defense Insider Threat Management and Analysis Center (DITMAC). The USD(I), as the DoD Senior Official for Insider Threat, formally assigned responsibility for establishing, manning, and operation of the DITMAC to the Defense Security Service (DSS) in mid-December 2014. The DITMAC, composed of a cross-functional team of security, counterintelligence, cybersecurity, law enforcement, human resources, adjudicative, legal, and privacy personnel will gather, integrate, analyze, and respond to hard copy or electronic information that is indicative of a potential insider threat. DoD IG will review mandatory quarterly updates from DSS to USD(I).

In mid-2014, the USD(I) also mandated that the four Defense intelligence agencies – National Reconnaissance Office, National Security Agency, National Geospatial-Intelligence Agency and Defense Intelligence Agency – initiate personnel security clearance reform. Specifically, information should be entered, indexed, and shared timely to allow for identification of potential insider threats as well as material changes for an employee or contractor's access to classified information. DOD IG will follow up with USD(I) to determine if the four agencies responded. We will also identify successes, lessons learned, and remaining obstacles to cross-referencing and indexing of insider threat information.

8-1C. Security (information, physical, personnel) and Counterintelligence. Access, clearances, continuous evaluation, continuous monitoring, unauthorized disclosure, espionage.	**Department Response**

The Department recognizes that its implementation of an enterprise-level insider threat program has not matched the pace of implementation observed in some other departments and agencies in the Executive Branch. However, the disparity noted is likely dictated by the overall scope of effort the Department must undertake. The Department has been extremely active, implementing several measures to establish a comprehensive insider threat program. These actions include: The Deputy Secretary of Defense designating the Under Secretary of Defense for Intelligence (USD(I)) as the DoD Senior Official for Insider Threat; the publication of a DoD Directive on insider threat; the publication of a DoD Instruction addressing the counterintelligence aspects of insider threat; forming a dedicated staff within the Office of the USD(I) to manage the DoD insider threat program at the enterprise level; including resource recommendations for the insider threat program into current and future program budget review cycles; creating a DoD-wide Insider Threat Working Group to address issues, find solutions, and share information; and developing a detailed implementation plan which provides program managers definitive guidance as they establish insider threat programs in 43

separate DoD Components. That plan will be signed during the first quarter of CY 2016.

Furthermore, the Department continues to make progress on the challenging task of identifying insiders on our information networks. This is accomplished through the implementation of tools and policies to detect and mitigate insider actions before they can negatively affect DoD resources. The Department is employing a risk-based approach to user activity monitoring by focusing on our most critical classified networks first. Many of the DoD Intelligence Community Components have fully implemented network monitoring and the Department is pursing commercial solutions to provide this monitoring to all Geographic Component Commands. Additionally, the Department has made insider threat a separate line of effort in the latest DoD Cyber Strategy emphasizing its importance in how we defend our information. The Department has also assigned a senior executive as the DoD Liaison Officer to the National Insider Threat Task Force to further enhance the partnership between the two organizations.

The Department has also integrated insider threat as a key focus area in multiple working groups, lessons-learned forums, training initiatives, and a variety of web-based information portals. This emphasis and exposure will generate interest in the inherent threat and promote discussion on future solutions. In a related effort, the DoD Mission Assurance Coordination Board will enhance its oversight of steps taken by Components to improve the monitoring of recommendations implemented from the 2009 Fort Hood and the 2013 Washington Navy Yard shootings.

On December 12, 2014, the USD(I) directed the Director, Defense Security Service (DSS), to incubate the DITMAC. The DITMAC's specified responsibilities include an enterprise-level management capability enabling OSD-level oversight of DoD Components' insider threat responsibilities while ensuring Department-wide awareness for specific threshold-level insider threat events. DITMAC operations, metrics, and case studies will inform, support, and enable the (USD (I))'s management and oversight of the Department's insider threat program. The DITMAC is projected to reach initial operational capability in October 2015 and full operational capability in the first quarter of FY 2019. In accordance with DoD Directive 5205.16, "The DoD Insider Threat Program," DoD Component insider threat programs will also establish and maintain a multi-disciplinary threat management capability to conduct and integrate the monitoring, analysis, reporting, and response to insider threats. The Component threat management elements will implement reporting channels with the DITMAC to facilitate the prompt exchange of information arising from the analysis process. These linkages will further ensure that the Department quickly reviews critical data regarding an adjudicative matter or security incident and takes swift action if warranted. The DITMAC role and responsibilities have been codified in a DoD Instruction that is undergoing coordination within the Department.

Separately, the Department has taken steps to implement a system of continuous evaluation for DoD personnel who have access to classified information. This effort will use automated records checks of authoritative commercial and government data sources to note issues of personnel security concern and supplement existing security processes to more quickly identify and prioritize information of adjudicative relevance and adverse events that occur between periodic reinvestigations. Currently, the Department is conducting pilots to validate the evaluation process and refine it to enhance performance. When fully endorsed by the Office of Personnel Management (OPM) and the Office of the Director of National Intelligence, our continuous evaluation system will relieve DoD and OPM of conducting personnel security investigations for individuals seeking Secret-level security clearances and generate immense savings for the Department.

The success of these efforts is dependent on having a general workforce that is trained to recognize behaviors of concern and a highly trained team of insider threat personnel who can quickly analyze data and respond appropriately. To meet this demand, the Department has developed insider threat training for both audiences. The DSS has developed course offerings that address insider threat awareness, reporting responsibilities, and procedures unique to staff working in analysis centers. In fact, the National Insider Threat Task Force has certified

the DSS curriculum and directed all departments and agencies of the Executive Branch to use the DSS insider threat courses to train their personnel.

Although the pace and scope of future actions are affected by available resources, the Department's resolve to institutionalize an effective insider threat program has not wavered. The goals stated in National and Departmental policies remain the impetus for the measures stated here and the Department is committed to their achievement.

U.S. Navy officers attending the Information Professional Basic Course listen to the commander of Information Dominance Corps Reserve Command and reserve deputy commander of Navy Information Dominance Forces talk about career opportunities in the Information Dominance Corps at Center for Information Dominance Unit Corry Station in Pensacola, Fla.

Photo by Carla M. McCarthy