

**Statement of**

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**U.S. Department of Defense**

**before the**

**House Committee on Oversight and Government Reform,  
Subcommittee on Government Operations**

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House Committee on Oversight and Government Reform,  
Subcommittee on Government Operations**

Mr. Chairman, Ranking Member Connolly, members of the subcommittee, thank you for the opportunity to discuss the actions the Department of Defense (DoD) is taking to reduce improper payments and to achieve sustained compliance with the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012.

As the Deputy Chief Financial Officer for DoD, I am responsible to the Chief Financial Officer for the financial policy, systems compliance, and associated internal controls that govern the financial and accounting aspects of business operations across the Defense enterprise. I am proud to have served for over 40 years, taking on various roles in the Department to support our warfighters—the men and women in uniform—as they ensure our nation’s security. I am also mindful of our public stewardship responsibility. And, I am keenly aware that DoD financial management remains on the high risk list of the Government Accountability Office (GAO), and that we are the only Federal agency without a positive financial audit opinion. I assure you that this status will change and that I spend much of my time working to make that happen. Most importantly, Secretary Hagel, Deputy Secretary Work, my new boss and Chief Financial Officer Mike McCord, and other senior leaders throughout the Department are demanding those changes. Reducing improper payments is a very visible and high priority element of our overall efforts to strengthen DoD financial management – along with improving the quality of our financial information for decision-making and achieving financial auditability. In this context, I am pleased to join our interagency panel today to discuss our efforts to reduce improper payments.

## **OVERALL ASSESSMENT**

I believe DoD has a fundamentally sound and active program in place to identify, report, eliminate and, if needed, recover improper payments. Using the current definition, an improper payment is any payment that is made to the wrong person or entity, is made in the wrong amount, lacks the proper entitlement authorization, or is made without proper documentation. Currently, we estimate that less than one percent of all of our payments meet the definition of being improper. That is low compared with the government-wide rate of 3.53 percent for Fiscal Year (FY) 2013. Moreover, many of our improper payments are quickly resolved.

Despite the kind of challenges associated with complex contract payments and the size and world-wide operations of DoD, the nature and type of many of our payments involve a recurring relationship that can usually be validated internally prior to payment. Our largest challenges go beyond improper payments. They are the same ones that impact financial reporting auditability across the DoD enterprise. For example, they include the ability to reconcile and present universes of transactions so that we can conduct comprehensive sampling to provide assurance that we have quality control over all payments, while also being able to readily source documents to support those payments. As a result, many of our improvement efforts are focused on making the Department’s financial statements auditable, while also strengthening and increasing the credibility of the low improper payment numbers we report.

Our colleagues at the Office of Management and Budget (OMB) generally agree that DoD has a strong program in place to control improper payments. It is important to note that DoD improper payments are not on OMB’s list of high-priority (error) programs. In fact, OMB has identified some of the techniques we use to combat improper payments as best practices that other agencies should consider to strengthen their own programs.

Our record of minimal improper payments is particularly noteworthy given the size and complexity of the Department's business operations. Last year the Defense Finance and Accounting Service (DFAS) handled nearly 90 percent of our total payments and disbursed a total of \$579 billion. DFAS processed nearly 162 million pay transactions, 6 million travel payments, and 10.3 million commercial invoices. It also handled 270 million General Ledger account transactions and nearly \$700 billion in military retirement and health benefits funds. We are a highly complex organization. Despite the volume and complexity of our activities, DFAS has worked hard and successfully to keep the incidence of improper payments in check.

Of course, there is always room for improvement. We constantly strive to reduce our improper payment rates where we can cost-effectively do so. Our overall financial improvement and audit readiness effort – known as the FIAR Plan – will continue to provide increased confidence and credibility in the numbers we report. These efforts, plus our collaboration with OMB, GAO, and Congress help to sustain this focus. As a result, we are contributing to government-wide improvements in financial management.

## **ASSESSMENT BY CATEGORY**

Let me discuss five broad categories of payments that we use as reporting elements. I include our approach to controlling improper payments for each of them and, where appropriate, I will cite the improvements that we plan.

### **Commercial Payments**

For commercial payments we make heavy use of prepayment screening, both automated and manual, to prevent improper payments. Our total commercial payment outlay at the end of Fiscal Year 2013 was \$352.6 billion, yet our improper commercial pay rate was only 0.03 percent.

Several key controls help to keep our commercial improper payments low. For example, we rely on a pre-payment review tool called Business Activity Monitoring, or BAM. Introduced in 2008, BAM is an automated prepayment mechanism that uses business logic to flag, for human review, payments that may be improper. For instance, BAM flags similar payments for review if they involve matching dollar amounts within the same time frame. This helps us avoid duplicate payments. Likewise, it flags an invoice number if it is very close to that of a recently processed invoice. Over these past six years, when coupled with diligent work by DFAS technicians and logic upgrades keyed to new and recurring problem areas, BAM has prevented more than \$8.2 billion in improper payments--money that can be used as intended and directed toward priority missions.

Similarly, following a GAO recommendation from its 2013 program assessment, our major improvement effort over the past two years has been the implementation of post-payment stratified statistical sampling. With it, we have enhanced our initial statistical sampling methodology, first devised in 2012, to provide a more rigorous and tiered approach based on dollar value. This technique will help to pinpoint areas of concern, solve recurring issues, and provide more accurate sampling statistics. We are confident that once fully implemented, these results will confirm a very low rate of improper payments for our commercial pay program. You should see this confirmation in our next Agency Financial Report which will be issued in

November. And, as with all efforts related to financial improvement, we integrate activities wherever possible with ongoing FIAR efforts to become audit ready. This is how we are ensuring that our efforts to reduce improper payments contribute to a culture of improved financial management stewardship

### **Civilian and Military Payroll**

Statistical sampling is also used by DFAS to review the military Services' and defense components' payrolls to estimate, identify, and report improper payments. Errors that are identified are turned over to the relevant organizations for corrective action. For military and civilian pay, we find that post-payment statistical sampling provides an effective supplement to, and validation of, existing prepayment reviews. Likewise, pre-pay audits and a focus on improved documentation have helped us to minimize under and over payments. As FY 2013 ended, our civilian pay outlay was \$57 billion, with only 0.17 percent of it being improper. This speaks to the value of key controls and measures that we have installed in our civilian pay program.

Similarly, almost \$100 billion in FY 2013 military pay outlays occurred, yet improper payments to our Service members did not exceed 0.29 percent, despite the dynamic nature of military operations that can drive changes in pay and allowances. A common root cause of improper civilian and military pay is the untimely submission of personnel status changes to the payroll systems. Automation that facilitates these changes in an integrated and timely fashion, as well as supports a strong process and controls-oriented partnership with the personnel community, continues to be an important solution. Suffice it to say, many military and civilian pay errors are quickly identified and fixed during the subsequent pay period. Current efforts to ensure that personnel documentation is readily available for review will also help to address this very important payment category.

### **Travel Payments**

Our Travel Pay is an area that has consistently missed annual goals and is receiving increased visibility and emphasis. Poor training for approving officials is leading to a lack of documentation. This is a known risk area for us. Consequently, our FY 2013 travel improper payment rate was 6.5 percent, while our goal was half that rate. We subject our travel payments to monthly statistical sampling to identify, minimize, and correct improper payments. We have also begun using automated file matching among our travel systems to prevent duplicate payments. The vast majority of temporary duty travel payments are made within the centralized Defense Travel System. This has provided the opportunity to employ a data mining software tool that provides a payment recapture audit looking for potential improper payments. It automatically establishes the debt and contacts both the traveler and approving official to get a problem fixed as soon as possible.

As with payroll disbursements, component financial managers are notified of the need for corrective action on a quarterly basis. Corrective action includes any necessary recovery of overpayments or additional payouts for underpayments. We have found that most improper travel payments made using our centralized travel system are due to traveler input errors that are missed by the approving officials. Components that make travel payments through systems other than the Defense Travel System follow similar procedures and report their results.

## **Retired and Annuitant Pay**

In FY 2013, Retirement and Annuitant pay totaled \$56.6 billion, with improper payment errors accounting for only 0.035 percent of the payments made, or \$19.9 million. Of that amount, 96 percent was recovered within 60 days. To achieve this, we use post-payment statistical sampling for retiree and annuitant pay, with specific emphasis on recapturing payments to deceased retirees when death notifications have not been made in a timely manner. In addition to random statistical samplings of retiree and annuitant pay records, an automated search is conducted each month to identify and recapture any payments made to deceased individuals for retired and annuitant benefits. Periodic special reviews are undertaken in potential high risk areas such as Combat-Related Special Compensation, Concurrent Receipt of Disability Payment, and new retiree and annuitant accounts.

## **Payments by Other Organizations**

The payment categories that I have just discussed are the largest ones in DoD and are handled primarily by DFAS. Other payment operations occur in multiple organizations across the Department. Many of these organizations have implemented what we believe to be a strong program to estimate, identify, report, eliminate, and recover improper payments.

Two noteworthy examples are the U.S. Army Corps of Engineers (USACE) and the Defense Health Agency (DHA). The Corps conducts statistical sampling for all of its commercial payments and a 100 percent review of all travel payments over \$2,500, as well as a statistical sampling of those below \$2,500. It normally recaptures 99 to 100 percent of all overpayments. It also has conducted an internal recovery audit program using its Oracle data mining tool and has done so for the past several years.

At DHA, home of vital military health benefits programs, stringent contract performance standards are employed that involve stratified statistical sampling based on dollar amounts and payment types. The contractor actually making the payments is incentivized by contract terms to minimize any improper payments and penalized when performance standards are not met. In addition, the comprehensive annual post-payment audit by an external independent contractor established an improper payment rate of 0.32 percent, as cited in our FY 2013 Agency Financial Report.

## **RECENT AUDIT RESULTS**

We welcome the feedback provided by our oversight organizations, both internal to DoD and the GAO. Each of them, to include military service audit organizations, has helped to identify areas for improvement that collectively will strengthen financial management and address long standing weaknesses. As mentioned earlier, many of the issues or challenges highlighted in relevant audit reports are the same as those that impact our financial reporting capabilities. We concur with those issues and recognize that, until solved, they limit the confidence you have in our efforts to reduce improper payments. All oversight organizations acknowledged both our understanding and recent progress in addressing these weaknesses.

The 2013 GAO report is a comprehensive one that emphasizes several areas for improvement. GAO recognized the progress we had made since its earlier 2009 report. It also provided 10 recommendations to which the Department either fully or partially concurred. Three

have already been implemented: One, DFAS Commercial Pay has modified its statistical sampling methodology to include stratification by invoice dollar amount; two, required process and sampling documentation has been maintained; and three, DFAS, USACE and DHA have completed risk assessments for their respective payments. Many of the remaining recommendations are associated with broader financial improvement efforts that we link to our statute-driven, September 30, 2014, goal related to the audit readiness of our budget execution. In addition, we are updating our internal regulations to be compliant with IPERIA and will be issuing them concurrent with the issuance of OMB's final implementing guidance.

The DoD Office of Inspector General (IG) also conducts an annual review of our compliance with the Improper Payments Elimination and Recovery Act. DoD was considered compliant in FY 2011. The DoD IG also acknowledged that we were aware of and making progress on broader issues concerning documentation that would support our reporting process. One area of non-compliance for the past two years, as recognized earlier, concerns our inability to achieve established goals for reductions in travel improper payments. As required by the statute, Travel Pay is currently under a closely monitored remediation plan to address these deficiencies.

## CONCLUSION

I have discussed our specific approaches to control improper payments and how we are complying with the IPERIA. More generally, we have a fundamentally sound improper payment program at DoD that minimizes the incidents of improper payments to very small levels. Our more comprehensive efforts to improve financial information and meet financial reporting audit standards will improve the efficiency of our improper payment efforts and reinforce confidence in the completeness and credibility of our reporting. It will further improve our attempts to minimize improper payments, while also establishing an infrastructure that allows us to do more efficient and in-depth analysis of source documentation where appropriate. We also actively participate in those government-wide efforts to improve financial management. For example, and relating specifically to improper payments, our earlier experience with pre-payment checks contributed to initial transaction testing conducted by OMB and Treasury for the Do Not Pay (DNP) List Portal. Likewise, we are also collaborating with Treasury on debt collection improvement, representative of our goal to leverage Treasury capabilities wherever possible, in order to improve our capabilities, obtain efficiencies and reduce duplication.

Less than two weeks ago, Bob Hale, the DoD's longest serving Chief Financial Officer left office for a well-deserved retirement. He has left a legacy that assigned a high priority to improved long term financial management. Our current CFO, Under Secretary Mike McCord, is committed to these same goals, improving the quality of our financial information, and achieving financial auditability. I assure you that our efforts will continue to comply fully with the IPERIA. Elimination of improper payments constitutes an important part of our financial management stewardship.

I welcome your questions.

## *Office of the Under Secretary of Defense (Comptroller)*

**MARK E. EASTON**

***Deputy Chief Financial Officer***



Mr. Easton assumed his current position as the Deputy Chief Financial Officer (DCFO), Office of the Under Secretary of Defense (Comptroller) in May 2009. Mr. Easton is the principal advisor to the Department of Defense (DoD) Comptroller/Chief Financial Officer (CFO) and senior staff on all issues involving the amended CFO Act of 1990 and related financial management reforms. He is responsible at the executive level for ensuring DoD budget and financial execution in support of national security objectives, particularly as it relates to finance/accounting policy and systems, management control systems, and general business transformation programs. Further, he ensures DoD complies with legislative and executive financial management mandates leading to the effective and efficient use of DoD resources.

Prior to becoming the Department's DCFO, he served five years as the Deputy Assistant Secretary of the Navy and Director for Financial Operations, within the Office of the Assistant Secretary of the Navy, Financial Management and Comptroller. In this position, he was responsible for Department of the Navy financial improvement initiatives that involve systems and processes employed by the 9,000 Navy-Marine Corps financial managers. He was appointed as a member of the Senior Executive Service in January 2003, serving initially as Director, Defense Finance and Accounting Service Cleveland and the Senior Navy Client Executive for DFAS.

He retired as a Captain in September 2002, following a 29-year career in the Navy Supply Corps, serving in assignments both afloat and ashore. At Sea, he served as the Supply Officer in the Battleship, USS New Jersey. Ashore he was the Commander of DFAS Pacific, providing support for all four military services from locations in Hawaii and Japan. Prior to this assignment he served as the Executive Assistant and Naval Aide to the Assistant Secretary of the Navy, Financial Management and Comptroller.

A native of Kansas City, Mo., he holds a Bachelors of Science in Economics from Miami University (Ohio) and a Master of Business Administration from the University of Michigan. He has completed the Executive Development Program at the Northwestern University Kellogg Graduate School of Business and is a graduate of the National Defense University's Industrial College of the Armed Forces. He is a Certified Defense Financial Manager.

Mr. Easton has received various personal awards, including the Defense Superior Service Medal and two Navy Civilian Superior Service Awards.