Report No. DODIG-2012-130 September 14, 2012

Inspector General
United States Department of Defense

DFAS Controls over Duplicate Payments in One Pay Were Generally Effective, But There Were Opportunities for Improvement

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Acronyms and Abbreviations

BAM	Business Activity Monitoring
DFAS	Defense Finance and Accounting Service
DoD FMR	DoD Financial Management Regulation
IG	Inspector General
IPERA	Public Law 111-204, "Improper Payments Elimination and Recovery Act of 2010"
PIIN	Procurement Instrument Identification Number
SPIIN	Supplemental Procurement Instrument Identification Number
WAWF	Wide Area Work Flow

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

September 14, 2012

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE
(COMPTROLLER)/CHIEF FINANCIAL OFFICER, DOD
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
NAVAL INSPECTOR GENERAL

SUBJECT: DFAS Controls over Duplicate Payments in One Pay Were Generally Effective, But There Were Opportunities for Improvement (Report No. DODIG-2012-130)

We are providing this report for review and comment. Although processes for detecting and preventing improper duplicate payments in One Pay were generally effective, Defense Finance and Accounting Service processes and system controls can be improved. The lack of specific review procedures, One Pay system edit controls, and Business Activity Monitoring detection logic resulted in the Defense Finance and Accounting Service making 11 duplicate payments valued at $162,547. Additionally, the Enterprise Standards and Solutions Directorate did not provide specific guidance on improper payment reporting, which resulted in the Defense Finance and Accounting Service not reporting seven improper payments and an understatement on Navy and DoD improper payment reports of $682,839. We considered management comments on a draft of this report from the Defense Finance and Accounting Service when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The comments from the Director, Defense Finance and Accounting Service Cleveland, on Recommendations 2, 3.a, 3.b, and 4 were responsive and no further comments are required. The Director's comments on Recommendation 1 were not responsive. Therefore, we request additional comments on that recommendation by October 15, 2012.

Please provide comments that conform to the requirements of DoD Directive 7650.3. If possible, send a .pdf file containing your comments to audcleve@dodig.mil. Comments provided to the final report must be marked and portion-marked, as appropriate, in accordance with DoD Manual 5200.01. Copies of management comments must contain the actual signature of the authorizing official. We are unable to accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 664-5945).

Lorin T. Venable

Lorin T. Venable, CPA
Acting Assistant Inspector General
DoD Payments and Accounting Operations

Results in Brief: DFAS Controls Over Duplicate Payments in One Pay Were Generally Effective, But There Were Opportunities for Improvement

What We Did

The objective of the audit was to determine whether the Defense Finance and Accounting Service (DFAS) processes were effective at detecting and preventing improper payments processed through the One Pay system. From October 1, 2009, through March 31, 2011, DFAS made more than one million payments, valued at approximately $53 billion, through One Pay. We focused on processes for detecting and preventing duplicate payments. We statistically selected a sample of 331 unique payment records, valued at approximately $9 million, from a population that had characteristics of duplicate payments.

What We Found

Although DFAS processes for detecting and preventing improper duplicate payments in One Pay were generally effective, we observed opportunities for improvement. DFAS needs to improve processes for detecting and preventing duplicate payments made through One Pay. DFAS processes allowed duplicate payments because:

- DFAS Cleveland Accounts Payable Directorate did not have procedures to review invoices after technicians input and evaluate possible duplicates (one duplicate payment valued at $585);
- One Pay edit controls were not configured to detect duplicates unless all five critical data fields matched (10 duplicate payments valued at $161,962); and
- Business Activity Monitoring, the automated detection tool, did not identify duplicates when data in specific fields were different, input was more than 25 days apart, or the amount was $250 or less (nine duplicate payments valued at $113,096).

As a result, DFAS made 11 duplicate payments valued at $162,547. DFAS took prompt action to initiate collection on the duplicate payments identified.

In addition, DFAS Cleveland Accounts Payable did not report seven improper payments, valued at $682,839, because DFAS Enterprise Standards and Solutions Directorate did not provide specific guidance on improper payment reporting. This resulted in an understatement on Navy and DoD improper payment reports.

What We Recommend

We recommend that the DFAS develop and implement a review of manually input invoices to detect payments that are identified as possible duplicates by edit checks; revise One Pay edit controls to detect possible duplicates when less than five critical fields match; and expand logic for the automated detection tool. In addition, DFAS should issue specific guidance for reporting improper payments.

Management Comments and Our Response

Management comments were responsive for four of five recommendations. We request that the One Pay Systems Manager, DFAS, provide additional comments to Recommendation 1. Please see the recommendations table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Defense Finance and Accounting Service, One Pay Systems Manager	1	
Defense Finance and Accounting Service Cleveland, Accounts Payable Director		2
Defense Finance and Accounting Service, Program Manager, Business Activity Monitoring		3.a, 3.b
Defense Finance and Accounting Service, Director, Enterprise Solutions and Standards		4

Please provide comments by October 15, 2012.

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Introduction

Objective

The objective of the audit was to determine whether the Defense Finance and Accounting Service (DFAS) processes were effective at detecting and preventing improper payments processed through the One Pay system. See Appendix A for a discussion of the scope and methodology related to the audit objective.

Background

DFAS developed One Pay, a commercial entitlement system, to process vendor payments. DFAS sites such as Cleveland, OH; Columbus, OH; Rome, NY; and Indianapolis, IN, used One Pay to establish payment entitlements from invoice batch files, Wide Area Work Flow (WAWF) invoices, and invoices submitted by mail or fax. DFAS designed One Pay to create payment entitlements in accordance with the Prompt Pay Act, recognize and manage applicable discounts or deductions, and compute and apply interest when necessary. Invoices could be input into One Pay through manual or automated processes. DFAS Accounts Payable technicians manually input invoice data into One Pay to process Navy activities submitted by mail or fax. One Pay received and processed invoices automatically from WAWF and batch file invoices from Navy activities or vendors.

DFAS Accounts Payable personnel at multiple sites used One Pay to process vendor payments, primarily for goods and services purchased by the Department of the Navy (Navy). Between October 1, 2009, and March 31, 2011, DFAS processed approximately one million payments through One Pay, valued at approximately $53 billion. During the same time period DFAS Cleveland reported 879 improper payments, valued at approximately $17.8 million. Of those 879 improper payments, 156 were duplicate payments, valued at $4 million.

One Pay was designed to detect and prevent possible duplicate payments by performing duplicate invoice edit checks. One Pay performed a 5-way match on invoices processed manually and from WAWF and batch files. When all of the five critical fields in an invoice matched, One Pay prevented the invoice from being processed. The five critical fields were:

- Procurement Instrument Identification Number (PIIN)
- Supplemental Procurement Instrument Identification Number (SPIIN)
- Date of Invoice
- Invoice Gross Amount
- Invoice Number

DFAS Accounts Payable personnel also used the Business Activity Monitoring (BAM) tool to detect improper payments in One Pay. BAM, a payment validation tool, was configured to detect and prevent duplicate, over, under, and erroneous payments by evaluating payments based on criteria such as matching PIINs, invoice numbers, and invoice gross amounts. After BAM identified possible duplicate payments, DFAS

Accounts Payable technicians reviewed the invoices or contacted the Navy organizations to research and verify whether the payment is a duplicate.

We selected our sample of 331 unique payment records, valued at $9.2 million, from a population that demonstrated characteristics of duplicate payments. See the appendices for scope, methodology, and sampling techniques.

Improper Payments Elimination and Recovery Act of 2010

On July 22, 2010, the President signed Public Law 111-204, "Improper Payments Elimination and Recovery Act of 2010," (IPERA) to prevent the loss of billions in taxpayer dollars related to improper payments. IPERA defines improper payments as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements." This includes payment for an ineligible good or service, duplicate payments, payment for a good or service not received, and payment that does not account for credit for applicable discounts.

DoD Financial Management Regulation

DoD Regulation 7000.14-R, "DoD Financial Management Regulation (DoD FMR)," volume 4, chapter 14, "Improper Payments," December 2008, defines the term "erroneous payment" as an improper payment. The DoD FMR requires DoD Components to categorize and report improper payment data annually. Some examples of improper payment categories are payments made with insufficient documentation; errors made by the Federal Agency inputting, classifying, or processing applications or payments; and, errors due to inaccurate invoices.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," July 29, 2010, required DoD organizations to implement a comprehensive system of internal controls providing reasonable assurance programs are operating as intended and to evaluate the effectiveness of the controls. We identified the following internal control weaknesses to detect and prevent duplicate payments in One Pay: DFAS Cleveland Accounts Payable Directorate did not have a supervisory review process for manual invoices identified by One Pay as a possible duplicate, allowing a technician to change one of the five critical data fields; One Pay's automated edit check controls did not detect possible duplicate payments unless all five critical data fields matched; and BAM, a One Pay automated detection tool, did not identify possible duplicate payments when data in specific fields were different, invoices were entered more than 25 days apart, or the invoice amount was $250 or less. Additionally, DFAS Enterprise Solutions and Standards Directorate did not provide clear guidance for reporting improper payments. We will provide a copy of the report to the senior official responsible for internal controls in DFAS.

Finding. DFAS Controls Over Duplicate Payments in One Pay Were Generally Effective, But There Were Opportunities for Improvement

DFAS processes for detecting and preventing improper duplicate payments in One Pay were generally effective. However, DFAS processes and system controls for detecting and preventing duplicate payments can be improved. DFAS manual and automated processes allowed duplicate payments because:

- DFAS Cleveland Accounts Payable Directorate did not have a supervisory review process to check payment records identified by One Pay as possible duplicates and changed by a technician (1 of the 11 duplicate payments);
- One Pay's automated edit check controls did not detect possible duplicate payments unless all five critical data fields matched (10 of the 11 duplicate payments); and
- BAM, a One Pay automated detection tool, did not identify possible duplicate payments when data in specific fields were different, invoices were entered more than 25 days apart, or the invoice amount was $250 or less (9 of the 11 duplicate payments).[1]

The BAM tool detected 2 of the 11 duplicate payments; however, Navy personnel incorrectly determined the payments were not duplicates.

As a result, DFAS Cleveland and Columbus did not prevent 11 duplicate payments, valued at $162,547, from being processed through One Pay. DFAS and the Navy initiated action to collect or resolve duplicate payments identified.

Additionally, DFAS Cleveland Accounts Payable personnel did not report seven improper payments as required by DoD FMR, volume 4, chapter 14. This occurred because specific guidance for reporting selected types of improper payments was not provided by DFAS Enterprise Standards and Solutions. As a result, DFAS Cleveland understated the amount of improper payments for the Navy and the DoD by $682,839.

Detecting and Preventing Duplicate Payments

DFAS processes for detecting and preventing duplicate payments were generally effective. However, DFAS Cleveland and Columbus Accounts Payable personnel processed 11 duplicate payments, valued at $162,547, through One Pay by paying for the same goods and services more than once. This audit focused on processes and controls

[1] BAM is a separate edit check run on One Pay data. The nine payments not detected by BAM also failed one of the other controls. Therefore the results of the BAM tests are not to be combined with the results of the other two One Pay edit controls.

used to detect and prevent duplicate payments. A payment was considered a duplicate when the same invoice was paid to different vendors or the same vendor was paid multiple times for the same goods or service. Accounts Payable personnel manually input 6 of the 11 duplicate payments and received the other 5 from WAWF or batch file automated processes. Additionally, the automated improper payment detection tool, BAM, did not detect and prevent 9 of these same 11 duplicate payments. The table provides additional information on the input and BAM process for the 11 duplicate payments.

Table. Process Controls Led to Duplicate Payments

Duplicate Payment Document Control Number	Certified Invoice Amount	One Pay Duplicate Payments Input Process Type			BAM Process Controls	
		Manual	Automated WAWF	Automated Batch	Not Detected by BAM	BAM Detected and Navy Reviewed
9LK0373	$ 48,307.94			X		X
9KK6161	38,019.19			X	X	
0HF5VNA	31,800.94	X			X	
0BFW5BG	19,889.71	X			X	
0FG9FRB[1]	19,854.72		X		X	
0IFU7CG	1,283.10	X			X	
0EK0523	1,142.79			X		X
9LFHIP	711.90	X			X	
0GFPPG9	585.10	X			X	
9JF9YWX	449.97		X		X	
0LFAAAM & 0IFY7ML[2]	250.00 251.75	X			X	
Total	**$162,547.11**	**6**	**2**	**3**	**9**	**2**

[1] DFAS Columbus Accounts Payable made this duplicate payment, all other payments were made by DFAS Cleveland Accounts Payable.
[2] The same invoice was paid three times resulting in two duplicate payments.

Manual Invoice Process Controls

DFAS Cleveland Accounts Payable technicians processed six duplicate payments valued at $54,773, from invoices mailed or faxed into One Pay. The One Pay duplicate invoice check control identified possible duplicate payments when all five critical data fields matched. When a possible duplicate payment is detected with the duplicate invoice check, the technician who entered the invoice is prompted to research the original invoice and the duplicate to determine whether the second payment is valid. However, even with these processes in place, Accounts Payable personnel still manually processed six duplicate payments.

DFAS Cleveland Accounts Payable personnel processed five of the six duplicate manual payments, valued at $54,187, with different PIINs because the One Pay duplicate invoice

check was configured to detect and prevent duplicates when all five critical data fields matched. For example, Accounts Payable personnel received and processed an invoice package for manual processing, valued at $31,801. Four hours later, Accounts Payable personnel received the same invoice package and processed it again. The cover sheet indicated the invoice submitted earlier contained incorrect information including the contract number; however, the second invoice package was not submitted into the corrections queue for One Pay. The second invoice package contained the correct contract number. Technicians manually processed both invoice packages as new submissions and input the two different contract numbers as PIINs. DFAS Cleveland Accounts Payable personnel made this duplicate payment because the duplicate invoice check did not detect the second invoice with a different PIIN. The PIIN, a critical data field, is used by the duplicate invoice check to detect possible duplicates.

DFAS Cleveland Accounts Payable personnel processed one duplicate payment, valued at $585.10, because they did not have a supervisory review process to review manual invoices identified by One Pay as a possible duplicate and changed by a technician. In this instance, Accounts Payable personnel received and processed an invoice package by fax from Navy personnel for manual processing, valued at $585.10. Two weeks later, Accounts Payable personnel received the same invoice package by mail. The One Pay duplicate invoice check identified the invoice as a possible duplicate payment when the Accounts Payable technician entered the second invoice. The technician changed the first letter of the SPIIN and noted it was not a duplicate payment. The PIIN and SPIIN fields allowed entry of a variety of numbers used for processing such as contract numbers, document numbers, and delivery orders. Although One Pay's duplicate invoice check identified the second invoice as a possible duplicate, DFAS Cleveland Accounts Payable personnel did not have supervisory review procedures to prevent a duplicate payment after a technician incorrectly modified the invoice data.

> *Although One Pay's duplicate invoice check identified the second invoice as a possible duplicate, Cleveland Accounts Payable personnel did not have supervisory review procedures to prevent a duplicate payment…*

The DFAS One Pay Systems Manager should expand the duplicate invoice check criteria to flag matches on less than five critical data fields in order to detect additional duplicate payments. In addition, the DFAS Cleveland Accounts Payable Director should develop and implement a procedure for supervisors to review invoices identified by the duplicate invoice check and processed by a technician as a valid payment.

Automated Invoice Process Controls

DFAS Cleveland and Columbus Accounts Payable made five duplicate payments, valued at $107,775, input from automated processes. Accounts Payable received invoices electronically from WAWF and batch files into One Pay. Accounts Payable personnel used the One Pay duplicate invoice check control to detect and prevent possible duplicate payments. When all five critical fields matched, One Pay detected the possible duplicate payment, and further review was required. However, in five instances Cleveland and

Columbus Accounts Payable made duplicate payments: two from WAWF and three from batch files.

The two duplicate payments input from WAWF files, and valued at $20,305, occurred because the One Pay duplicate invoice check control was configured to detect possible duplicate payments only when all five of the critical data fields matched. According to Accounts Payable personnel, Navy personnel certify WAWF invoices and electronically transmit them to One Pay for payment. Once received, One Pay performs a check of the five critical data fields to detect and prevent possible duplicate payments. For example, a vendor entered, and a Navy official certified, the same invoice with two different PIINs in WAWF as two separate invoices. DFAS received these two WAWF invoices, valued at $450, into One Pay and paid both. Since the SPIINs did not match, the One Pay duplicate invoice check did not detect or prevent the possible duplicate payment.

The One Pay duplicate invoice check did not detect the three duplicate payments processed from batch files, and valued at $87,470, because it was configured to detect possible duplicate payments only when all five critical data fields were the same. For example, the same invoice, valued at $48,308, was certified, batched, and transmitted to One Pay from a Navy activity in November and December 2009. The two invoices contained all of the same critical data fields, with the exception of the invoice date. Since the invoice dates were different, the One Pay duplicate invoice check control did not detect and prevent the duplicate payment. The DFAS One Pay Systems Manager should change the One Pay duplicate invoice check to detect and flag upon input, payments that are similar, but have less than five matching critical data fields.

For example, the same invoice, valued at $48,308, was certified, batched, and transmitted to One Pay from a Navy activity in November and December 2009.

Detecting and Preventing Duplicate Payments Using Business Activity Monitoring

The automated detection tool, BAM, did not detect and prevent 9 payments, valued at $113,096, of the same 11 duplicate payments allowed by One Pay. BAM evaluated the invoice data daily and identified possible duplicate payments based on criteria such as matching PIINs, invoice numbers, and gross amounts. Accounts Payable personnel relied on BAM to identify possible duplicate payments. Once identified, Accounts Payable personnel reviewed supporting documentation for manual or WAWF payments to determine whether the payment was a duplicate. When BAM identified possible duplicate payments submitted in a batch file, technicians contacted Navy personnel to verify if the payment was a duplicate. Navy personnel responded with an email to confirm the payment was a duplicate.

BAM did not detect and prevent duplicate payments because the BAM Program Manager did not configure logic to detect duplicate payments when:

- The PIIN or SPIIN fields were different prior to October 8, 2010. On October 8, 2010, DFAS corrected the BAM logic to detect possible improper payments with different PIINs and/or SPIINs.

- Invoice input dates were more than 25 days apart; and
- The invoice gross amount was $250 or less.

BAM logic did not work effectively because it did not identify nine duplicate payments, valued at $113,096, when PIINs or SPIINs did not match and four of the nine invoices were input more than 25 days apart. For example, Accounts Payable manually input an invoice package valued at $19,855. Three months later, the same invoice was input into One Pay from WAWF. The submissions contained different PIINs. BAM did not detect this invoice as a possible duplicate because the PIINs did not match and the invoices were entered 90 days apart. Even though the BAM Program Manager improved the detection logic in BAM, the logic should be modified to detect invoices input into One Pay more than 25 days apart.

In addition, DFAS made one duplicate payment, valued at $250, because the BAM detection logic was configured to only identify possible duplicates greater than $250.

DFAS technicians entered the invoice three times using different variations of the contract number in the PIIN field.

DFAS Accounts Payable processed the same $250 invoice three times. DFAS technicians entered the invoice three times using different variations of the contract number in the PIIN field. This allowed it to pass both the One Pay duplicate edit check and BAM logic. A technician entered the third invoice more than 25 days after the first two invoices. If DFAS had increased the invoice input date criteria to more than 25 days apart, this payment would have still occurred because it was less than or equal to $250. By decreasing the $250 invoice gross amount threshold in BAM logic, DFAS may increase the possibility of detecting and preventing additional duplicate payments.

Business Activity Monitoring Detected, But Navy Approved Duplicate Payments

BAM detected 2 possible duplicate payments, valued at $49,451, of the 11 duplicates identified. Since the two invoices were input by the automated batch process and DFAS did not have the supporting documentation, technicians could not determine if the payments were duplicates. Therefore, the technicians provided the possible duplicate payment information to Navy personnel, who determined whether or not the payments were duplicates. Navy personnel incorrectly determined the invoices submitted for payment were not duplicates; and as a result duplicate payments were made. We did not perform testing of Navy controls over payments because Navy processes were not within the scope of our audit. We did not perform work at the Navy or make recommendations for this issue. However, we contacted Navy management and made them aware of this issue.

Unreported Improper Payments

Cleveland Accounts Payable personnel did not report 1 of the 11 duplicate payments, valued at $19,890, and 6 of 32[2] previously identified improper payments, valued at $662,949. According to DoD FMR, volume 4, chapter 14, "Improper Payments," DoD Components are required to report improper payments. DFAS guidance defines an improper payment as a payment that should not have been made or was made in the incorrect amount. In addition, DFAS guidance stated improper payments should be reported whether or not the payment resulted in a bill of collection. Accounts Payable personnel processed invoices with incorrect vendor codes or PIINs through One Pay, which resulted in improper payments that met the DoD FMR definition. Technicians also did not report an improper payment when the vendor returned the improper payment without cashing the check. For example, Cleveland Accounts Payable personnel did not report one improper payment, valued at $257,451, after the payment was processed with an incorrect PIIN. Since the vendor returned the check before collection procedures started, the technician did not report it as an improper payment. DFAS guidance does not state that the improper payments should be included in or excluded from reporting. The technicians did not report the improper payments because DFAS Enterprise Solutions and Standards Directorate provided payment reporting guidance that was not specific and did not clearly demonstrate what to report as an improper payment.

By not reporting seven improper payments, DFAS, Navy, and DoD understated the amount of improper payments reported by $682,839. This did not provide DFAS, Navy, and DoD management an accurate reporting of the improper payments made through the One Pay system and did not meet the intent of IPERA or comply with DoD FMR reporting requirements. DFAS Enterprise Solutions and Standards Director should revise and reissue guidance to specifically include or define improper payments as any payment issued regardless of whether the vendor returned the funds.

Management Actions

DFAS Cleveland and Columbus and Navy personnel took prompt action to initiate collection actions on the four duplicate payments we identified and the seven identified by DFAS. The BAM Project Manager made changes to BAM logic to detect similar payments, but with different PIINs and SPIINs.

Additional Testing for Possible Duplicates

We did not test all of the 8,808 unique payment records in the population that had characteristics of a duplicate payment. There is a likelihood of more duplicates in the population of payments we did not test. The DFAS BAM Program Manager should use the updated logic in BAM to identify additional possible duplicates by processing the 8,477 unique payment records we did not evaluate through BAM.

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[2] Our sample contained 32 payments already identified by DFAS as improper payments. These included payments with incorrect vendor codes and PIINs, but not duplicate payments.

Recommendations, Management Comments, and Our Response

We recommend the:

1. **Defense Finance and Accounting Service, One Pay Systems Manager, change the One Pay duplicate invoice check to detect and flag payments upon input that are similar, but have less than five matching critical data fields.**

Management Comments

The Director, DFAS Cleveland, responding for the DFAS One Pay Systems Manager, disagreed. The Director indicated that making the recommended change in One Pay would duplicate the Same Contract and Different Contract integrity checks that BAM already performs.

Our Response

The comments provided by the Director, DFAS Cleveland, were not responsive. Although we agree that BAM is a useful tool to detect potential duplicate invoices in One Pay, BAM does not meet the intent of the recommendation. The preventive control change in One Pay as recommended is meant to be a proactive measure, early in the One Pay invoice processing cycle. The intent is to prevent potential duplicate invoices from being input and processed in One Pay, eliminating the duplicate payment before it is created instead of when it is queued for payment. Increasing proactive measures may result in efficiencies, eliminating duplicates from the BAM review and improper payment collection processes. Additionally, based on our observations, it was not apparent that BAM consistently identified and prevented improper duplicate payments prior to payment. We request that the Director, DFAS Cleveland reconsider his position on the recommendation and provide comments on the final report.

2. **Defense Finance and Accounting Service Cleveland, Accounts Payable Director, improve the accuracy and reduce the risk of duplicate payments by developing and implementing a supervisory review of manually input invoices identified as possible duplicate payments by One Pay and approved by a technician as a valid payment.**

Management Comments

The Director, DFAS Cleveland, responding for the DFAS Cleveland Accounts Payable Director, agreed. The Director, DFAS Cleveland, stated that as of July 11, 2012, "duplicate by-pass indicator" and potential duplicate report reviews have been added to daily procedures to ensure technicians did not mistakenly allow a duplicate invoice to be processed in One Pay.

Our Response

The Director, DFAS Cleveland comments are responsive and meet the intent of the recommendation. No further comments are required.

3. **Defense Finance and Accounting Service, Program Manager, Business Activity Monitoring:**
    a. **revise Business Activity Monitoring logic for detecting and preventing duplicates to beyond the "entered within 25 days" and "greater than $250" criteria.**

Management Comments

The Director, DFAS Cleveland, responding for the BAM Program Manager, agreed in principle. The Director, DFAS Cleveland, stated the BAM Program Management Office will perform various parameters testing, including those recommended, to determine whether the recommended logic change would improve both improper payment prevention and optimized resource use. The estimated completion date is December 30, 2012.

    b. **evaluate the other 8,477 unique payment records from our population of payments with characteristics of a duplicate payment using the revised Business Activity Monitoring logic.**

Management Comments

The Director, DFAS Cleveland, responding for the BAM Program Manager, agreed in principle. The Director, DFAS Cleveland, indicated that it may not be possible to rerun the recommended records using BAM, due to timing issues. However, he stated the BAM Program Management Office will try to recreate the recommended data, with an estimated completion date of December 30, 2012. The estimated completion date for evaluating the recommended payment records is February 1, 2013.

Our Response

The Director, DFAS Cleveland comments are responsive and meet the intent of the recommendations. No further comments are required.

4. **Defense Finance and Accounting Service, Director, Enterprise Solutions and Standards, revise and reissue guidance for reporting all improper payments, and include examples showing which improper payments should be reported, in accordance with DoD Financial Management Regulation, volume 4, chapter 14, "Improper Payments."**

Management Comments

The Director, DFAS Cleveland, responding for the Director, Enterprise Solutions and Standards, agreed, and indicated that DFAS will issue additional guidance, including examples, as required by DoD FMR, volume 4, chapter 14. The estimated completion date is January 31, 2013.

Our Response

The Director, DFAS Cleveland comments are responsive and meet the intent of the recommendation. No further comments are required.

Appendix A. Scope and Methodology

We conducted this performance audit from April 2011 to June 2012 in accordance with generally accepted government auditing standards. Those standards require us to plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objectives.

It took five months, from May 2011 to September 2011, to develop a population. We worked with DFAS to resolve multiple data issues. DFAS provided records for every Navy payment processed through One Pay from October 1, 2009 through March 31, 2011. Although DFAS provided the population in May 2011, they omitted the invoice date critical data field from the population. We worked with DFAS to resolve data issues including missing invoice data for April 2010, unconventional PIINs,[3] interest-only payment records,[4] and payment records valued at $0.00.[5]

We reviewed DoD and DFAS guidance for improper payments, and focused our review on possible duplicate payments and the processes for detecting and preventing duplicate payments at DFAS. We did not observe the processes in place at the Navy activities. We considered the five critical data fields DFAS used to identify possible duplicate payments:

- Procurement Instrument Identification Number (PIIN)
- Supplemental Procurement Instrument Identification Number (SPIIN)
- Date of Invoice
- Invoice Gross Amount
- Invoice Number

We developed an audit population from payment records provided in May 2011. The population contained payment records to vendors and individuals. In an effort to include records most likely to be duplicate payments, we used the five critical data fields to collect matching payment records. There were 24,911 payment records, valued at $40,745,467, which had characteristics of a duplicate payment from October 1, 2009, through March 31, 2011. We grouped the 24,911 payment records into 8,808 unique payment records by using risk factors that included at least two payments with matching critical data fields.

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[3] Unconventional PIINs are 15-position document identifiers containing partial names and numbers. For example, lcomfortablecar was used as a PIIN.

[4] Interest-only payments and interest penalty payments will contain the same five critical fields as the original payment.

[5] Payment records valued at $0.00 represent pre-notifications. A pre-notification is a test payment for $0.00 sent to the vendor's bank account as a method of verifying and validating the bank information.

We statistically selected a sample of 331 unique payment records, valued at $9,277,676, from the 8,808 unique payment records. Then we combined each of the 331 unique payment records with its possible duplicate(s), for a total of 911 payment records, valued at $22,850,626. We requested supporting documents for 911 payment records from DFAS. We reviewed the documents and compared them to the payment data to determine whether duplicate payments occurred. Upon identification, we confirmed the duplicate payments in our sample with DFAS. Based on the results, we assessed whether DFAS processes were effective at detecting and preventing duplicate payments processed through One Pay. See Appendix B for the statistical sampling plan.

Use of Computer-Processed Data

To perform this audit, we used data from One Pay, a subsystem of the Standard Accounting and Reporting System. We evaluated the reliability of One Pay data by:

- reviewing existing information about the system and its data;
- interviewing agency officials knowledgeable about the data; and
- reviewing related DoD IG and DFAS Internal Review reports.

In addition, we performed electronic testing of the data to identify obvious errors in accuracy and completeness. To determine whether DFAS processes were effective at detecting and preventing duplicate payments for 331 selected unique payment records, we compared the sample data to invoices, vouchers, contracts, and requisition forms. We determined no differences existed between system data and the supporting documents. As a result, the data were sufficiently reliable (accurate, competent, and complete) for the purposes of this report.

Use of Technical Assistance

The DoD IG Quantitative Methods and Analysis Division assisted with the audit. See Appendices A and B for detailed information about the work performed by the Quantitative Methods and Analysis Division.

Prior Coverage

During the last five years, the Government Accountability Office (GAO) and the DoD IG have issued five reports discussing improper payments. Unrestricted GAO reports can be accessed over the Internet at http://www.gao.gov. Unrestricted DoD IG reports can be accessed at http://www.dodig.mil/audit/reports.

GAO

GAO Report No. GAO-09-442 "Improper Payments: Significant Improvements Needed in DoD's Efforts to Address Improper Payment and Recovery Audit Requirements," July 2009

DoD IG

Report No. DODIG-2012-065 "DoD Compliance With the Requirements of the Improper Payments Elimination and Recovery Act," March 2012

Report No. D-2011-050 "DoD Needs to Improve High Dollar Overpayment Review and Reporting," March 2011

Report No. D-2008-096 "Identification and Reporting of Improper Payments by the Defense Logistics Agency," May 2008

Report No. D2008-043 "Identification and Reporting of Improper Payments - Refunds from DoD Contractors," January 2008

Appendix B. Statistical Sample

Population. Upon our request, DFAS provided 1,094,181 Navy payment records processed through One Pay. DFAS processed the payments to vendors and individuals from October 1, 2009, through March 31, 2011. We identified data unrelated to our objectives and removed 5,652 pre-notification records and 97 interest-only payment records from the original dataset. The revised population contained 1,088,432 payment records.

We considered the five critical data fields used by DFAS to choose our risk factors for testing. The One Pay duplicate invoice check used five critical data fields to flag possible duplicate payment records: (1) Document Number, also known as the Procurement Instrument Identification Number (PIIN); (2) Invoice Number; (3) Supplemental Procurement Instrument Identification Number (SPIIN); (4) Invoice Date; and (5) Invoice Gross Amount. When all five critical data fields on the invoice entered by DFAS into One Pay, matched an invoice already in the system, One Pay disallowed invoice entry. The DFAS technician reviewed the information and verified whether a duplicate payment existed.

We chose four risk factors to identify a population of possible duplicate payments. We selected the same critical data fields as DFAS for risk factors 5 and 3a and additionally selected risk factors 4 and 3b, to determine whether the controls detected and prevented duplicate payments. We then identified payment records with the following risk factors. Specifically:

> Risk Factor 5: We matched the payment records with the same critical data fields (Document Number, Invoice Number, SPIIN, Invoice Date, and Invoice Gross Amount). The population contained 405 risk factor 5 records.
>
> Risk Factor 4: Once we removed the 405 risk factor 5 payment records from the population, we identified 201 risk factor 4 records by matching the records with the same Document Number, Invoice Number, Invoice Gross Amount, and Invoice Date.
>
> Risk Factor 3a: Once we removed the risk factors 5 and 4 payment records, we identified 13,019 risk factor 3a records by matching the records with the same Document Number, Invoice Number, and Invoice Gross Amount.
>
> Risk Factor 3b: Once we removed the risk factors 5, 4, and 3a payment records, we identified 11,598 risk factor 3b records by matching the records with same Invoice Number, Invoice Gross Amount, and Invoice Date.

Once we identified our population based on the risk factors, we compared payment records to improper payments reported by DFAS from October 1, 2009, through August 31, 2011. We identified and removed 312 payment records (248 records from risk factor 5, no records from risk factor 4, 18 records from risk factor 3a, and 46 records from risk factor 3b) from the population because DFAS previously reported them as improper payments. Once we removed these records, the population of possible duplicate payments contained 24,911 payment records. We grouped the 24,911 payments by the number of risk factors that matched for a total of 8,808 unique payment records. Table 1 shows the number of payments records, number of unique payments, and value by risk factor.

Table 1. Population Size

Risk Factors	Number of Payment Records	Number of Unique Payment Records	Value (millions)
5	157	76	$2.9
4	201	93	1.6
3a	13,001	4,400	15.8
3b	11,552	4,199	20.4
Total	**24,911**	**8,808**	**$40.7**

Sample Plan. We stratified the 8,808 unique payment records by risk factor and dollar value. Using what-if analyses and professional judgment, we designed a 90 percent confidence level sampling plan that yielded a sample size of 331 unique payment records. Using the random number generator in Excel and the Statistical Analysis System, we randomly selected (without replacement) transactions within each stratum. Table 2 shows the sampling selection per strata.

Table 2. Population Size

Risk Factors	Strata	Sample Size	Stratum Population Size
5	GTE[1] 5,000	29	29
	LT[2] 5,000	20	47
4	GTE 10,000	14	14
	LT 10,000	20	79
3a	GTE 40,000	15	15
	GTE 10,000 to LT 40,000	34	66
	GTE 1,000 to LT 10,000	40	295
	LT 1,000	40	4,064
3b	GTE 40,000	19	19
	GTE 10,000 to LT 40,000	30	74
	GTE 1,000 to LT 10,000	30	585
	LT 1,000	40	3,521
Total		**331**	**8,808**

[1] Greater than or equal to (GTE).
[2] Less than (LT).

Results. Through a review of the 331 unique payment records contained in the sample, we identified 11 duplicate payments, valued at $162,547.

Glossary

Business Activity Monitoring (BAM): A pre-payment validation tool that identifies possible improper payments before disbursement. BAM focuses on detecting and preventing repeat, over, under, and erroneous payments in One Pay. It identifies improper payments as early in the DFAS payment process as possible, to assist in the identification and/or help avoid an improper payment. BAM evaluates criteria and identifies possible improper payments for further research by appropriate personnel for corrective action.

Critical Data Fields: One Pay performs a duplicate invoice edit check on the following five critical data fields:

1. Procurement Instrument Identification Number (PIIN)
2. Supplemental Procurement Instrument Identification Number (SPIIN)
3. Date of Invoice
4. Invoice Gross Amount
5. Invoice Number

The One Pay Invoice Processing module provides efficient ways of correcting erroneous data or deleting invoices any time prior to disbursement. To help detect duplicate payments, One Pay performs an additional check on three of the five critical fields for manually processed invoices. If the Invoice Number, PIIN, and Gross Amount match to an invoice previously entered, the technician verifies the invoice they are entering is not a duplicate of the previous entry.

Improper Payment: According to P.L. 111-204 IPERA of 2010, any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except where authorized by law), and any payment that does not account for credit for applicable discounts. According to DoD FMR, volume 4, chapter 14, all erroneous payments are improper payments.

Invoice Package: Supporting documents required to process payments and may include a contract, receiving report, invoice, and payment voucher (DoD FMR, volume 10, chapter 8).

One Pay: A subsystem of the Standard Accounting and Reporting System, and online commercial entitlement system operating together with the Standard Accounting and Reporting System database environment. One Pay accepts invoice input from both Electronic Data Interchange and remote site batch systems. The system provides invoice tracking, online inquiry, status reports, and check issue reporting.

Procurement Instrument Identification Number (PIIN): A 15-position number assigned to contracts, and related instruments. For example, a contract document number is used as a PIIN. The PIIN is also one of the five critical fields in One Pay.

Supplemental Procurement Instrument Identification Number (SPIIN): A 5-digit number used with the PIIN to identify calls or orders under contracts or basic ordering agreements. The SPIIN is also one of the five critical fields in One Pay.

Wide Area Work Flow (WAWF): Vendors and Navy activities submit invoices electronically to WAWF. WAWF transactions are completely electronic and automated.

Defense Finance and Accounting Service Comments

DEFENSE FINANCE AND ACCOUNTING SERVICE
1240 EAST NINTH STREET
CLEVELAND OHIO 44199

AUG - 8 2012

DFAS-JBK/CL

MEMORANDUM FOR DIRECTOR, OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (ATTN: [redacted]

SUBJECT: Office of the Inspector General Draft Report, "DFAS Controls Over Duplicate Payments in One Pay Were Generally Effective, But There Were Opportunities for Improvement," dated July 9, 2012, Project No. D2011-D000DE-0214.000

The Defense Finance and Accounting Service (DFAS) is providing comments on Recommendations 1, 2, 3.a, 3.b, and 4 of the subject draft audit report in Attachment 1.

The point of contact is [redacted] can be reached at [redacted] or at [redacted]

Thomas J. Murphy
Director, DFAS Cleveland

Attachment:
As stated

cc:
DFAS-HIP/IN

www.dfas.mil
Your Financial Partner @ Work

DFAS Comments to DoD IG Draft Report, "DFAS Controls Over Duplicate Payments in One Pay Were Generally Effective, But There Were Opportunities for Improvement," Dated July 9, 2012, Project No. D2011-D000DE-0214.000.

Recommendation 1. We recommend the Defense Finance and Accounting Service, One Pay Systems Manager, change the One Pay duplicate invoice check to detect and flag payments upon input that are similar, but have less than five matching critical data fields.

Management Comments. Non-Concur. DFAS Information & Technology (I&T) has coordinated with the Director of Accounts Payable and we jointly agree that the recommended change should not be developed because it simply duplicates functionality already available in the Business Activity Monitoring (BAM) system. The most significant integrity checks in BAM for One Pay duplicates are the Invoice Duplicate Same Contract (IDSC) and the Invoice Duplicate Different Contract (IDDC) integrity checks. These checks have fewer combinations of data fields that must match in order to detect a potential improper payment than the 5-way match in One Pay.

IDSC generates an exception if two invoices have the same contract number, gross amount and other factors. For instance, this logic will flag an exception when two invoices have the same contract number, invoice date, invoice gross amount and invoice number. Another selection criterion within IDSC that will create an exception is when both invoices have identical gross amounts, contract numbers, CAGE codes, invoice numbers, but different invoice dates. There are nine other selection criterions within IDSC that will generate an exception. The different selection criterion allows DFAS to flag potential erroneous payments in a variety of situations.

IDDC is setup to create an exception when two invoices on different contracts have the same gross amount and share other similarities. Currently IDDC has 3 different indicators that will cause an exception to generate when all factors are met. The first is when both invoices have identical currency gross amounts, invoice numbers, material acceptance dates, and CAGE Codes, and the gross amount is greater than $250. The second is when two invoices on different contracts have the same PIIN, invoice number and gross amount, but have different SPIINs. The other situation is when both invoices have identical amounts, invoice numbers, invoice dates, and CAGE codes, and the gross amount is over $250.

Recommendation 2. We recommend the Defense Finance and Accounting Service Cleveland, Accounts Payable Director, improve the accuracy and reduce the risk of duplicate payments by developing and implementing a supervisory review of manually input invoices identified as possible duplicate payments by One Pay and approved by a technician as a valid payment.

Management Comments. Concur. DFAS Cleveland Accounts Payable (A/P) Audit Testing identified a deficiency in reviewing potential duplicate payment overrides. A/P has initiated two reviews, in concert with this deficiency being identified, to ensure the duplicate payments are reviewed, when they are presented for payment. These reviews are being done by the Audit/Certification Team, as well as the employees that are performing the BAM reviews.

We have added the "duplicate by-pass indicator" to the audit/review/certification team daily review. They are re-reviewing what the technician previously identified as not being a duplicate/erroneous payment. We are doing this to validate it is in fact not a duplicate and/or erroneous payment.

As an added level of review the DFAS Cleveland Accounts Payable BAM team is doing a review of the daily IDA 188 - Potential/Possible duplicate reports for further validation/review of invoices that may have been processed. The report identifies those invoices that the technician has previously identified as not duplicate. The criterion that is used by BAM is established by the BAM PMO, in concert with suggestions by AP.

Completion Date. July 11, 2012. This recommendation is considered closed.

Recommendation 3.a. We recommend the Defense Finance and Accounting Service, Program Manager, Business Activity Monitoring; revise Business Activity Monitoring logic for detecting and preventing duplicates to beyond the "entered within 25 days" and "greater than $250" criteria.

Management Comments. Concur in principal. Each time, new logic is introduced or existing logic is modified the BAM Program Management Office (PMO) and a group of DFAS Vendor Pay Subject Matter Experts conduct validation testing. During that testing numerous parameters are tested, such as the two identified in this recommendation, to determine the optimum settings. Optimum settings produce the most true positive exceptions, with the least false positive exceptions, so that resource utilization is maximized.

The BAM PMO will conduct testing of various settings as recommended and use those results to determine if a logic change would affect better Improper Payments prevention and better resource utilization.

Estimated Completion Date. December 30, 2012.

Recommendation 3.b. We recommend the Defense Finance and Accounting Service, Program Manager, Business Activity Monitoring; evaluate the other 8,477 unique payment records from our population of payments with characteristics of a duplicate payment using the revised Business Activity Monitoring logic.

DFAS Comments to DoD IG Draft Report, "DFAS Controls Over Duplicate Payments in One Pay Were Generally Effective, But There Were Opportunities for Improvement," Dated July 9, 2012, Project No. D2011-D000DE-0214.000.

Management Comments. Concur in principal. Due to the date parameter changes specified in the recommendation and their relation to timing of a transaction, it may not be possible to systematically rerun the population provided by the audit team and obtain "timely" results. The BAM PMO will attempt to reconstruct the timeframe and use the recommended data set, but this may result in a manual review of all 8,477 transactions to determine if they would trigger the new parameters.

Estimated Completion Date. February 1, 2013
BAM PMO efforts to be completed by December 30, 2012.

Recommendation 4. We recommend the Defense Finance and Accounting Service, Director, Enterprise Solutions and Standards, revise and reissue guidance for reporting all improper payments, and include examples showing which improper payments should be reported, in accordance with DoD Financial Management Regulation, volume 4, chapter 14, "Improper Payments."

Management Comments. Concur. DFAS will issue additional guidance for reporting all improper payments to include examples as required in DoD Financial Management Regulation, volume 4, chapter 14, "Improper Payments."

Estimated Completion Date. January 31, 2013.

Inspector General
Department of Defense