Improper Payments Information Act Reporting Details

Part 3: Other Accompanying Information
Statistical Sampling Process

(1) Military Health Benefits. TRICARE is a triple option health benefit plan available for Active Duty family members, retirees and their family members, and family members of deceased service members. To determine an estimate of the annual amount of improper payments, the Department of Defense uses a statistically valid method of sampling for the managed care support services contracts.

The Department samples data records for review for claims processed by the managed care support contractors and the Medicare dual eligible contractor. Claims with a cost of less than $100 are not sampled (except for Medicare dual eligibility claims). One sample category includes all claims $100 thousand and more. Claims with a cost of greater than $100 but less than $100 thousand are divided into 12 sample categories. A formula is applied to calculate the sample size for each category. If the sample category universe count is less than 30, all the claims in that category are audited. The percentage of overpayments from the sample is applied to all of the payments to determine the improper payment amounts.

(2) Military Pay. The Department uses stratified random sampling methods to select military pay accounts for each Component to review to produce annual estimates of improper payments. These methods provide a 95% probability (plus or minus 2.5% sampling precision). Monthly samples of 150 accounts (1,800 annually) are reviewed for each of the 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).

(3) Civilian Pay. The Department uses stratified random sampling methods to review civilian pay accounts for each Component and some Defense Agencies to produce annual estimates of improper payments. These methods provide a 95% probability (plus or minus 2.5% sampling precision). Monthly samples of 150 accounts (1,800 annually) are reviewed for each of the Components (Army, Air Force, Navy, Marine Corps, and Defense Agencies).

(4) Military Retirement. The Department conducts monthly random reviews of both the confirmed deceased accounts and the overall population of retired and annuitant pay accounts. A monthly random sample of 135 accounts (1,620 annually) from an average monthly population of approximately 3,400 confirmed deceased retiree accounts is reviewed. Monthly random samples of 500 accounts (6,000 annually) also are reviewed from the retiree and annuitant pay files. All sampling plans are designed to produce annual estimates of improper payments with 95% probability (plus or minus 2.5% sampling precision).

(5) Travel Pay. The Department uses simple random sampling methods to review trip records settled and paid through the Defense Travel System (DTS) for each Service Component and the Defense Agencies. These sampling plans are designed to produce annual estimates of improper payments at the Component level with 95% probability (plus or minus 2.5% sampling precision). Approximately 4,000 accounts are sampled monthly (almost 48,000 annually) for review from DTS trip records. Due to a lag in review time, the sampled disbursements were paid for some travel completed in FY 2006 and did not include some travel completed in late FY 2007.
The Department of the Air Force uses the Reserve Travel System (RTS) for travel payments not processed through DTS. Each Air Force base computes and audits its own vouchers, but a central RTS Program Management Office has access to all voucher data. The Air Force conducted a centralized post-audit on a random sample of FY 2007 vouchers. Results of the FY 2006 audit of RTS vouchers were used to calculate the necessary FY 2007 sample size for a 90% confidence interval. A random number generator extracted the sample of 186 vouchers from the central RTS database.

The U. S. Army Corps of Engineers performs a post-audit review of all temporary duty and permanent change of station travel vouchers greater than or equal to $2,500. A systematic sample of temporary duty travel vouchers less than $2,500 also is selected for review. These reviews are designed to produce annual estimates of improper payments, with probability of 95% and sample precision plus or minus 2%.

**Military Health Benefits: TRICARE Controls**

The Department has had contracts with payment performance standards for processing military health benefit claims for many years. The policy of the Department is zero tolerance in the respect that any overpayment found in the audit process is projected to the audit universe and the managed care support contractor is liable. This contractual design provides a built-in incentive for contractors to continually perfect their claims processing system, up to the point where financial costs outweigh the benefits. Quarterly performance audits also are conducted wherein the contractor is required to meet a 2% performance standard. If that standard is exceeded for the quarter, a monetary performance withhold is assessed.

On a quarterly basis, the Department audits statistically valid samples. Over the years, these audits consistently have produced an error rate of less than the 2% performance standard contained in TRICARE contracts. Errors in health care claims processing potentially can be related to improperly submitted claims by the provider community, as well as a minimal degree of human error expected with handling a large volume of claims under the tight time parameters established by the Prompt Payment regulations and the claims processing timeliness performance standard. The FY 2007 improper payment rate for the military health benefits is projected to be $156 million or 2.0%.

Numerous prepayment and post-payment controls are built into the military health benefits' claims processing system to minimize improper payments. Every TRICARE claim is adjudicated against this system of checks and balances. The managed care support contractors are required to utilize specialized software containing specific auditing logic designed to ensure appropriate coding on professional service claims and eliminate overpayments. The software does not set coverage/benefit policy; it merely audits claims for appropriate code combinations. For calendar year 2006, the prepayment automated software used by managed care contractors accounted for approximately $268 million in cost avoidance for the TRICARE program.

Another control is the prepayment review required under the TRICARE contracts. The contractors use this strategy to prevent payment for questionable billing practices. Prepayment
review allows for a closer examination of the services rendered and may require the provider to submit medical documentation to support the services billed. In calendar year 2006, prepayment review resulted in a cost savings of $10.1 million.

In calendar year 2006, fraud judgments for TRICARE, based on intervention by Department of Justice, were ordered for $36.7 million. In addition, the Department of Defense requires each contractor to have a fraudulent claims investigation or anti-fraud unit to identify and investigate any pattern of suspicious or potential fraudulent billings. Recoupment from cases identified, combined with proactive case work by TRICARE, has resulted in another $5.3 million being identified for administrative recoupment. These judgments and recoveries are benefit dollars returned to the program.

Notes to Accompany Improper Payment Reduction Outlook Table

Note 1: The final payment error rate for FY 2006 is 0.96%, which is less than the contract performance standard of 2% used in the FY 2006 Performance and Accountability Report’s calculation. The error rate for FY 2007 and beyond is a conservative estimate based on the 2% contract performance standard.

Note 2: The FY 2006 outlays for military health benefits include all benefit dollars subject to the audit process. Fee-for-service claims are considered susceptible to improper payments as payment is made based upon an individual claim submitted by a provider or beneficiary certifying services were provided as billed. Administrative or change order costs are not included, as those costs do not fall into the definition of areas susceptible to improper payments.

Note 3: The FY 2006 outlays for military health benefits do not include:
   (1) The Designated Providers (U.S. Family Health Plan) contracts, through which a set amount is paid for each patient’s care on a per member per month basis ($723 million). The contractor is 100% responsible for improper payments; there is no shared risk with the Government. Government liability is limited to the amount paid to the contractor regardless of the cost of health care services.
   (2) Pharmacy claims ($4.5 billion). The Department is developing an audit process.
   (3) The Women, Infants, and Children (WIC) Overseas Program ($10.6 million).

Note 4: There are currently two dental programs. The TRICARE Retiree Dental Program, funded 100% by subscribers, has no Government liability. The TRICARE Dental Program for Active Duty family members is a premium-based indemnity dental insurance coverage plan with patient cost-sharing. An independent audit process is underway.

Note 5: The low estimate for FY 2006 military pay improper payments was attributed primarily to few randomly sampled accounts having confirmed high dollar value erroneous payments. The FY 2007 improper payments include $78.3 million of select Active Duty in-service collections for initial improper payments from a special review not performed in prior years. Military personnel budgeted outlays and annual percentage changes for FY 2008, FY 2009, and FY 2010 were applied to the base FY 2007 net pay figure to estimate outyear net pay.
Note 6: To correct an over-estimation reported in last year's Performance and Accountability Report due to a calculation input error, the FY 2006 improper payment civilian pay error estimate has been adjusted from $62.8 million to $16.7 million. This error was recently identified in a review of prior year data.

Note 7: The FY 2007 improper payments include $67.5 million of select in-service civilian collections for initial improper payments from a special review not performed in prior years. Outyear net pay projections assume an annual 3.5% cost-of-living increase.

Note 8: Travel pay for FY 2006 was restated – primarily to include amounts outside the Defense Travel System (the only improper payment data available by the FY 2006 reporting deadline). However, the $5.2 billion in reported outlays also includes $1.7 billion of the travel pay universe that was not subject to a random review in FY 2006 (identified errors from these populations were added to total errors, but could not be included in the projected error rate).

Note 9: The total FY 2007 travel pay universe was approximately $5.8 billion. Due to a lag in review time, this universe includes some travel completed in FY 2006 and does not include some travel completed in late FY 2007. Additionally, the improper payment calculation excludes $1.4 billion of the travel pay universe not subject to a random review in FY 2007 (identified errors from these populations were added to total errors, but could not be included in the projected error rate). The Department is developing procedures to sample, test, and report the remainder of the travel pay universe in FY 2008. Finally, travel pay data for Army Korea was not available for FY 2007 reporting; however, this office’s FY 2006 travel payments totaled under $13 million. Because of the unknowns related to this incomplete review, the Department is currently estimating a flat improper payment rate reduction of 1.0% for travel pay for the outyears. Projections will be revised in FY 2008, as necessary, to account for results of the remaining population reviews.

General Notes:
- Military retirement, military pay, and civilian pay outlays are reported as net amounts (e.g., net of Federal and state withholdings). To estimate net outlays for future years, the percentage of net to gross for FY 2007 was multiplied by the gross outlays reported in the FY 2008 President’s Budget submission. Gross outlays are reported for other programs.
- Program payment amounts exclude intragovernmental payments, which totaled approximately $85 billion in FY 2006.
- Overpayment and underpayment estimates, where known, are broken out by program as follows (amounts in millions):

<table>
<thead>
<tr>
<th>Program</th>
<th>FY 2006</th>
<th>FY 2007</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Over-payments</td>
<td>Under-payments</td>
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<td>Military Health Benefits</td>
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Special Reviews

Iraqi Contract Reviews

The Office of Management and Budget requested that the Department of Defense (DoD) identify Iraq improper payment indicators. In support of this request, additional reviews have been conducted on payments for Iraq by the Defense Finance and Accounting Service (DFAS) and the U.S. Army Corps of Engineers (USACE).

The DFAS performed quarterly random reviews during FY 2007 of Iraq reconstruction payments processed by its contract payment activity in Columbus, Ohio. A total of 750 payments (value of $225.5 million) were randomly reviewed from a population of 3,873 payments valued in excess of $1.1 billion. In addition, all individual payments of $10 million or greater (32 payments totaling $451.7 million) were reviewed. Results revealed only one payment error, for a projected erroneous payment estimate of under $1 thousand.

The USACE also began conducting reviews specific to Iraq in FY 2007. Each month, a systematic sample of Iraqi payment vouchers greater than or equal to $500 thousand is selected for audit. Some of the steps in the audit process include: (1) verifying compliance with Prompt Payment regulations; (2) reviewing the Corps of Engineers Financial Management System receiving report information to ensure the payment was made only for goods/services received; (3) reviewing vendor invoice and payment supporting documentation from the field to verify the correct vendor was paid the correct amount based on the contract information in the system; (4) ensuring the vendor is not on the contractor indebtedness listing; and (5) reviewing appropriation expense coding for validity. No improper payments were identified in the FY 2007 reviews.

The Department has also taken other steps in ongoing efforts to accomplish the mission and ensure DoD makes efficient use of its resources in support of the warfighter. The DoD Office of the Inspector General (OIG) expanded its coverage of the Global War on Terror (GWOT) operations and presence in Southwest Asia. Field offices in Qatar, Iraq, and Afghanistan, enhance the OIG’s ability to audit, inspect, and investigate DoD operations in support of the GWOT. In addition, OIG increased its coverage of GWOT-related contracting, programs, and operations by assigning 225 personnel to ongoing projects and is leveraging known contract databases maintained by other Defense Components to assemble and monitor the universe of GWOT contracts in Southwest Asia.

The DoD OIG has an ongoing audit to determine whether internal controls over out-of-country payments supporting GWOT provided reasonable assurance that payments were properly supported and recorded. In addition, the DoD OIG is working with DFAS to address accountability issues pertaining to funds management in a wartime environment.

The DoD Panel on Contracting Integrity was established to review the Department’s progress in eliminating areas of vulnerability in the defense contracting system that allow fraud, waste, and
abuse. In addition, the Special Inspector General for Iraq Reconstruction is working closely with several criminal investigative services to target fraud, bribery, kickbacks, and other corruption involving contracting.

**Military Pay and Civilian Pay In-Service Collection Reviews**

At the recommendation of the DoD Inspector General, DFAS initiated a review of in-service collections to determine if these collections were attributed to an initial improper payment.

The DFAS obtained listings of Active Duty military members with a collection action (negative balance) in one or more of six select pay entitlement fields. Random samples of accounts were selected from each of the Service Component collections listing for one month. Each account was reviewed to determine if the collection action was due to an initial improper payment. Then each collection (improper payment) was evaluated to determine if the improper payment could have been avoided (timely or accurate reporting or processing) or was unavoidable (primarily due to the military pay structure of paying members during the current pay period. Findings confirmed all collections reviewed were attributed to initial improper payments and over 78% of these could have been avoided through better communication of pay entitlements. Active Duty military collection statistics were obtained through system extracts and summarized by month, Service, and category for all of FY 2007. A similar review is in progress for the military Reserve/Guard Components.

As with military pay, a random review of civilian pay collections was performed for one month. Findings also confirmed all collections reviewed were attributed to improper payments and the majority (more than 85%) could have been avoided through timely and accurate timekeeping, personnel change notifications, and submissions of supporting documentation from employees. Civilian pay collection statistics were obtained through system extracts and summarized by month, Component, and category for all of FY 2007.

As a result of these reviews, the Department plans to continue monitoring and tracking military and civilian pay collections through automated extracts. Corrective actions will be taken based on findings of the reviews.