

Appendix A: Improper Payments Information Act of 2002

As discussed in Part 1 “Management Discussion and Analysis,” the Department conducted a review of the improper payments relating to the Military Retirement and Military Health Benefits programs per the Office of Management and Budget (OMB) guidance. Results of the review follow.

1. Describe your agency’s risk assessment(s), performed subsequent to compiling your full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11.

The Department reviewed all of its programs and activities and determined that nine programs/activities were susceptible to erroneous payments. Risk assessments were performed for each of the nine programs/activities identified by the Department as being susceptible to erroneous payments. The risk assessments addressed the strength of the internal controls in place to prevent improper payments (such as prepayment reviews), system weaknesses identified internally or by outside audit activities, voluntary returns of overpayments by vendors, etc. None of the programs/activities identified were found to be susceptible to high risk. Two of these programs were previously identified in Section 57 of OMB Circular A-11. These are Military Retirement and Military Health Benefits.

2. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

The statistical sampling process used for the two programs that were previously identified in Section 57 of OMB Circular A-11 are outlined below:

Military Retirement. Using the fiscal year (FY) 2003 file size and the estimated rate of erroneous payments as a baseline, Military Retired and Annuitant Pay is conducting a random sample, which will yield an annual estimate with a probability level of 95% and a sample precision of plus or minus 2.5%. The size of the random sample will vary monthly depending on the number of retiree death transactions recorded. Once the number of accounts is known, a random sample of the monthly population is determined. The randomly selected accounts are then audited to determine if the account was overpaid once the member’s death was reported

to us. The audit provides an average amount of overpayment per account as well as the average number of accounts overpaid per month. The rate overpaid is multiplied by the population overpaid to arrive at an estimated monthly amount overpaid, which is then annualized. Improper payments found through other sources, situation reports, internal tracking and other required audits, are added to this figure to determine the final annual estimation of improper payments for the program.

Military Health Benefits. To determine the statistically valid estimate of the annual amount of erroneous payments, the Department uses the following sampling methodology to pull TRICARE Encounter Data records for the Annual Target Health Care Cost audits of the Managed Care Support Services contracts.

For each contract option period, a statistically valid sample of claims with care end dates within the specified option period is selected for payment error auditing. Variable sampling, using stratified sampling with optimum allocation, is used to calculate the sample size for the payment errors. The sample size is determined with a 90% confidence level and 1% precision.

Twelve sample strata are used with claims ranging from \$100 to less than \$100,000. Another stratum consists of all claims \$100,000 and over. Claims with a cost less than \$100 are not sampled. Claims with a cost of greater than \$100 but less than \$100,000 are broken down into 12 strata. A formula is applied to calculate the sample size for each stratum. A finite population correction is then applied to each stratum sample size with the final sample size calculated by summing all the corrected stratum sample sizes. Finite population correction is first applied on each stratum, before the summation of sample sizes of all strata. A minimum sample size of 30 is forced into each stratum. If the stratum universe count is less than 30, all the claims in that stratum are audited. The audit process for payment samples projects universe value based on the audit results. The samples are separately projected to the universe of claims for each quarter. The results of these projections are then combined into the following categories: Total number of claims in the universe, government payment estimation, correct government payment, error amount and the estimated error percent in the universe of claims. The percent of overpayments is applied to all the payments to determine the amount of allowable cost. The percent

Appendix A: Improper Payments Information Act of 2002

will be recovered based on total overpayments--not net of underpayments. In other words, there is "zero tolerance" for errors.

3. *Explain the corrective actions your agency plans to implement to reduce the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.*

Military Retirement. With the large population size served, the complexity of entitlements, and volume of transactions, the Military Retired and Annuitant Pay programs are at risk of making improper payments. While the total elimination of improper payments is virtually impossible, the Department has implemented and continues to explore methods to minimize these amounts. In this regard, Military Retired and Annuitant Pay, in coordination with the Social Security Administration, is implementing a death match process, which should significantly reduce the amount of improper payments. This process allows Military Retired and Annuitant Pay to receive death notice information through an automated system match on military retirees. The death notification process, in many cases, will prevent the payment system from generating an improper payment. Other initiatives, such as improved quality control measures, system enhancements and the automation of manual processes, are also underway to further streamline the processing and maintenance of Retired Pay accounts.

Military Health Benefits. The Medical Health Benefits program currently audits statistically valid samples that over the years have consistently produced an error rate of less than the 2 percent standard contained in the TRICARE contracts—an amount less than the 2.5 percent threshold allowed by the Improper Payments Information Act as implemented by the Office of Management and Budget. The TRICARE Management Agency audits payments, extrapolates the results of the payments to the universe and disallows the full amount of the extrapolated total representing a statistical projection of overpayments.

The cause(s) of errors in health care claims processing is related to both improperly submitted claims by the provider community, as well as a minimal degree of human error that can be expected with handling a large volume of claims within the tight time parameters established through the Prompt

Payment Act. Minimizing the error rate is accomplished through statistically valid samples with financial penalties assessed to the contractor making the disbursement on behalf of the Department. The construct of the managed care contracts effectively reduces improper payments to zero.

Appendix A: Improper Payments Information Act of 2002

4. The following table summarizes the Department's improper payment reduction outlook for each of these programs from FY 2004 through FY 2007.

Improper Payment (IP) Reduction Outlook FY 2004 – FY 2007

Program	FY 04 Outlays	FY 04 IP %	FY 04 IP \$	FY 05 IP %	FY 06 IP %	FY 07 IP %
Military Retirement (Note 1)	\$35.8 billion	.0952%	\$34.1 million	.0922%	.0892%	.0862%
Military Health Benefits (Note 2)	\$4.6 billion	2.16%	\$100.1 million	2.0%	2.0%	2.0%

Footnotes:

Note 1. Military retired and annuitant pay is projecting a decrease in the percentage of improper payments for the upcoming fiscal years.

Note 2. The FY 2004 data which reports a 2.16 percent payment error rate is subject to change as additional information is received. The 2.16 percent is not the final figure. Once all the audits have completed the administrative process by September 2005,

historically the final overall percentage has been below the contractual requirement that the payment error rate shall not exceed 2 percent. Last year's DoD Performance and Accountability Report listed the preliminary error rate for FY 2003 as 1.36 percent (the most current percent available at the time the report was required). The final payment error rate for fee-for-service claims was 0.85 percent--well below the 2 percent threshold and considerably lower than the 1.36 percent originally reported.

Appendix A: Improper Payments Information Act of 2002

5. *Discuss your agency's Recovery Auditing effort, if applicable, including the amount of recoveries expected, the actions taken to recover them, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences.*

Since the start of the program in FY 1996, the Department has collected over \$17.8 million. Of this amount, \$6.3 million was recovered in FY 2004 alone. Similar recoveries are expected in FY 2005. The increase in recoveries is related to the ability of the Department to electronically provide all of the disbursing information requested by the recovery auditing vendor. Prior to that time, the vendor was limited to finding this information manually. Most of the recoveries occurred on disbursements made by the Defense Logistics Agency. The Naval Supply Systems Command accounted for approximately \$500,000. The Defense Information Systems Agency, Naval Air Systems Command, and the Defense Commissary Agency have issued contracts for recovery auditing services. As there were no significant findings by the recovery auditing vendor at Defense Commissary Agency, the option year of the contract was not exercised.

Recovery auditing claims follow the same collection procedures as other overpayments. Once an overpayment is identified, a demand letter is sent to the vendor. If reimbursement is not received within 35 days, offsetting procedures are initiated on future invoices. If no additional invoices are received, the claim is sent to Defense Finance and Accounting Service Debt Management Office.

The Defense Finance and Accounting Service Internal Review Office is responsible for the Department's post-payment audit function. Within 180 days of payment, the Internal Review Office reviews disbursements to identify overpayments and recommend corrective actions to minimize future overpayments.

6. *Describe the steps the agency has taken and plans to take (including time line) to ensure that agency managers (including the agency head) are*

held accountable for reducing and recovering improper payments.

Certifying Officer Legislation currently in effect holds certifying and disbursing officers accountable for government funds. Pecuniary liability attaches automatically when there is a fiscal irregularity, i.e. (a) a physical loss of cash, vouchers, negotiable instruments, or supporting documents or (b) an erroneous payment. Pecuniary liability for accountable officials attaches if a commander/director determines that an erroneous payment was the result of the accountable official's negligence. For certifying officers and disbursing officers, there is a presumption of negligence and those individuals bear the burden of proof in establishing the absence of negligence; i.e., they must produce evidence to establish that there was no contributing fault or negligence on their part. A presumption of negligence does not apply to accountable officials. Efforts to recover from the recipient must be undertaken in accordance with the debt collection procedures prescribed in Volume 5, Chapters 29 and 30 of the Department of Defense Financial Management Regulation.

In addition, the Department is establishing performance metrics to track and reduce erroneous payments. These metrics will include all programs/activities that the Department has identified as having a risk of erroneous payments.

7. *Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.*

The Department maintains the infrastructure needed to monitor erroneous payments for the Military Retirement and Military Health Benefits programs:

Military Retirement. At the current time Military retired and annuitant pay has the information and infrastructure needed to reduce improper payments.

Military Health Benefits. The TRICARE Management Agency has a national claims database that captures fee-for-service claims for care rendered and paid for by TRICARE. Derived from data forwarded by TRICARE Managed Care Support Contractors in a specific format that is run against a specific set of quality control edits, the database

Appendix A: Improper Payments Information Act of 2002

maintains information on covered beneficiaries and the care each receives. The extensive data requirement contributes to data integrity and the fiscal soundness of a single audit trail and allows for close oversight of the claims paid by TRICARE. In addition, TRICARE Management Agency has had performance standards in place for a number of years and contractors have continually met or exceeded them. Contractors already have a financial incentive to pay claims correctly and to stay below 2 percent, given that the agency will not fund unallowable costs (overpayments) submitted by its contractors making the disbursements.

8. A description of any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments.

Military Retirement. Two barriers impede the agency's ability to take corrective actions in reducing improper payments, the Federal Acquisition Regulation and the Retired and Annuitant Pay service contract. On January 28, 2002, the servicing of Retired and Annuitant Pay came under the purview of a private contractor, ACS Government Services, later taken over by Lockheed Martin Government Services. Although most functions remain unchanged from when the government performed these functions, there are now contractual limits to the government's involvement in the day-to-day operations of Retired and Annuitant Pay. The Continuing Government Activities office was formed to oversee the Retired and Annuitant Pay contract, to ensure the contractual requirements are followed, however, the government can no longer direct how the work is accomplished. In order to bring about an operational change, both the government and the contractor must come to an agreement as to how to effectuate a change and who will fund a change. Any deviation from the current contract requires a contract modification, which is detailed in the Federal Acquisition Regulation.

Military Health Benefits. There are currently no statutory or regulatory barriers that limit the Department's corrective actions for this program. In addition, as previously mentioned erroneous payments are continually less than the 2 percent error rate for this program.