

FISCAL YEAR 2008 AGENCY FINANCIAL REPORT



Section 3: Other Accompanying Information

Detailed Improper Payments Information Act

Department of Defense

November 17, 2008

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 and the Medicare dual eligibility contract.

The Department samples data records for review for claims processed by the managed care support contractors and the Medicare dual eligible contractor quarterly. There are two kinds of payment samples, one for non-denied claims and one for denied claims. For the managed care support services contracts, the non-denied payment sample will be drawn from all records with government payments of \$100 to \$100,000. In addition, all records with a government payment of \$100,000 and greater will be audited. The denied payment sample will be drawn from all records with a billed amount of \$100 to \$100,000. All records with billed amounts of \$100,000 and greater will be audited. The non-denied and denied payment samples will be stratified at multiple levels within the \$100 to \$100,000 range.

For the Medicare dual eligible contract, the non-denied payment sample will be drawn from all records with government payments of \$1 to \$25,000. All records with a government payment of \$25,000 and over will be audited. The denied payment sample will be drawn from all records with a billed amount of \$1 to \$500,000. All records with billed amounts of \$500,000 and greater will be audited. The non-denied sample will be stratified at multiple levels within the \$1 to \$25,000 range and the denied payment sample will be stratified at multiple levels within the \$1 to \$500,000 range.

(2) Military Pay.

The Department uses simple 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 125 accounts (1,500 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 simple random sampling methods to review civilian pay accounts for each Component and the sum of 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 125 accounts (1,500 annually) are reviewed for each of the Components (Army, Air Force, Navy/Marine Corps, and Defense Agencies).

DFAS processes the largest portion of the Department's civilian payments. However, both the Navy and Army process civilian payments independently for civilian mariners and local national payrolls in foreign countries.

(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.

DFAS reports the largest portion of the Department's travel payments made by Defense Travel System (DTS) and WinIATS for the Department of the Army. The Department's total travel payment population includes travel payments computed, paid, and reported independently by the Departments of the Military Services and other Defense agencies. The AFR Improper Payment Reduction Outlook table represents the combined results for Travel Pay.

The Department uses simple random sampling methods to review trip records settled and paid through DTS for each Service Component and the Defense Agencies and for WinIATS TDY and PCS vouchers computed and paid by DFAS for the Army. These sampling plans are designed to produce quarterly estimates of improper payments at the Component level with 95% probability (plus or minus 2.5% sampling precision).

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 uses the results of the previous year's audit of RTS vouchers to calculate the necessary sample size for the current year with a 90% confidence interval. A random number generator extracts the number of sample 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 annual 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 Act regulations and the claims processing timeliness performance standard. The FY 2007 improper payment rate for military health benefits was estimated to be \$156 million or 2.0%. The actual performance was significantly less: 0.93% or \$88.6 million.

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.

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 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 are additional benefit dollars returned to the program.

NOTES TO IMPROPER PAYMENT REDUCTION OUTLOOK TABLE

Notes to accompany the Agency Financial Report Section 3: Improper Payment Reduction Outlook Table, Figure 3-3 are provided below. Figure 3-3 is included for reference.

Note 1 (Military Health Benefits): The final payment error rate for FY 2007 is 0.93%, which is less than the contract performance standard of 2% used in the FY 2007 AFR calculation. The error rate for FY 2008 and beyond is a conservative estimate based on the

2% contract performance standard.

Note 2 (Military Health Benefits): The FY 2007 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 (Military Health Benefits): The FY 2007 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 (\$824 million). The contractor is 100% responsible for improper payments; there is no shared risk with the Government. Defense Contract Audit Agency conducts reconciliations to validate correct capitated payments for the enrolled population. Government liability is limited to the amount paid to

Figure 3-3. Improper Payment (IP) Reduction Outlook

Program	FY 2007			FY 2008			FY 2009 Estimated			FY 2010 Estimated			FY 2011 Estimated		
	Outlays (\$ B)	IP (%)	IP (\$ M)	Outlays (\$ B)	IP (%)	IP (\$ M)	Outlays (\$ B)	IP (%)	IP (\$ M)	Outlays (\$ B)	IP (%)	IP (\$ M)	Outlays (\$ B)	IP (%)	IP (\$ M)
Military Health Benefits	\$ 9.5	0.93	\$88.6	\$ 8.9	2.00	\$178.0	\$10.8	2.00	\$ 216	\$ 10.5	2.00	\$ 211	\$ 10.8	2.00	\$ 216
Military Pay	\$72.9	0.57	\$416.4	\$ 72.1	0.60	\$434.6	\$68.4	0.53	\$ 362.5	\$ 69.7	0.52	\$362.4	\$ 71	0.51	\$ 362.1
Civilian Pay	\$29.6	0.25	\$ 74.6	\$ 26.4	0.28	\$ 73.9	\$31.3	0.24	\$ 73	\$ 32.3	0.23	\$ 72.3	\$ 32.3	0.22	\$ 72.2
Military Retirement	\$37.1	0.13	\$48.7	\$ 35.6	0.12	\$ 44.0	\$41.3	0.12	\$ 51.4	\$ 42.9	0.12	\$ 54.2	\$ 44.5	0.12	\$ 52.3
Travel Pay	\$ 5.8	1.00	\$43.6	\$ 5.2	2.00	\$103.0	\$ 8.6	0.95	\$ 82.4	\$ 8.5	0.90	\$ 76.5	\$ 8.3	0.88	\$ 72.3

IP – Improper Payments, B – Billions, M – Millions

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the contractor regardless of the cost of health care services.

(2) Pharmacy claims (\$4.9 billion). The Department is developing an audit process.

(3) The Women, Infants, and Children (WIC) Overseas Program (\$10.3 million).

(4) The TRICARE Dental Program for Active Duty family members is a premium-based indemnity dental insurance coverage plan with patient cost-sharing (\$271 million). The Department is developing an audit process.

(5) Foreign claims not included in audit (\$193 million). The Department is developing an audit process.

Note 4 (Military Pay): The FY 2008 improper payments include \$118.7 million of select in-service military pay collections and \$66.9 million of select in-service civilian pay collections.

Note 5 (Civilian Pay): Civilian Pay data from Army Europe was not available at the time of reporting. Also, the Navy began reporting for their Spanish local foreign national payroll in FY 2008. The Navy is conducting research to verify completeness of all civilian pay data for FY 2009 and beyond.

Note 6 (Military Retirement): The percentages are rounded to two decimal places and do not show the conservative progress in Military Retirement reduction targets: 0.1244 for FY 2009; 0.1222 for FY 2010; and 0.1175 for FY 2011.

Note 7 (Travel Pay): The FY 2008 total Travel Pay universe for the Department was approximately \$5.2 billion. The Travel Pay population for DFAS was approximately \$2.59 billion. This includes the DTS data from October 2007 through April 2008; and WinIATS TDY and military PCS data through May 2008. Travel

pay data from Army Europe for fourth quarter was not available at the time of reporting. The Defense Security Service transferred travel functionality to DFAS effective July 1, 2008 and therefore, only reported travel data for first through third quarters.

Note 8: Military Pay, Civilian Pay, and Retirement Pay results are based on data through August 2008.

General Notes:

- Military retirement, military pay, and civilian pay outlays are reported as net amounts (e.g., net of Federal and state withholdings).
- Overpayment and underpayment estimates are broken out by program.

ADDITIONAL RECOVERY AUDIT ACTIVITY THAT INCLUDES VOLUNTARY REFUNDS

Combined totals for the U.S. Army Corps of Engineers and the Department of the Navy commercial payments and recovery audit activity for FY 2008:

Amount Subject to Review	\$26.7B
Actual Amount Reviewed	\$26.0B
Overpayment Amounts (voluntary and involuntary refunds)	\$2.1M
Amounts Recovered	\$2.1M

The Department is continuing its efforts in FY 2009 to separate voluntary from involuntary refunds until all DoD Components achieve this capability.

Additional recovery audit information from Army Korea and Europe was not available at the time of reporting.