

# Inspector General

United States  
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TRICARE Managed Care Support Contractor Program  
Integrity Units Met Contract Requirements

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December 5, 2012

**MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS)**

**SUBJECT: TRICARE Managed Care Support Contractor Program Integrity Units Met Contract Requirements (Report No. DODIG-2013-029)**

We are providing this report for your information and use. The DoD Office of Inspector General performed an audit of the TRICARE Managed Care Support Contractor (MCSC) Program Integrity (PI) Units. The objective of the audit was to determine whether the TRICARE Managed Care Support Contractor Program Integrity Units were developing and implementing fraud detection and prevention procedures. Specifically, we determined whether MCSC PI Units were meeting Government contractual requirements. We found that the MCSCs had dedicated PI functions that met the TRICARE Operations Manual (TOM) and Government contractual requirements for preventing and detecting fraud.

## **DoD's Managed Health Care Program**

TRICARE is DoD's managed health care program for active duty service members, service families, retirees and their families, and survivors. TRICARE uses a combination of the military's medical treatment facilities and clinics (referred to as direct care) and non-military network and non-network physicians, hospitals, pharmacies, and suppliers (referred to as purchased care). The TRICARE Management Activity (TMA) manages the TRICARE program and the MCSCs administer the purchased care programs. The MCSCs that administer purchased care medical services are:

- Health Net Federal Services, Inc. (North Region);
- Humana Military Healthcare Services, Inc. (South Region);
- TriWest Healthcare Alliance (West Region); and
- International SOS (Overseas).

The MCSCs for the North, South, and West regions administer purchased care medical services for beneficiaries located in the 50 United States and the District of Columbia, while the Overseas MCSC administers purchased care medical services for beneficiaries located outside the 50 United States and the District of Columbia.

## **TRICARE Management Activity's Program Integrity Office**

The TMA PI Office manages anti-fraud and abuse activities for TMA to protect benefit dollars and safeguard eligible beneficiaries. The Office's responsibilities include developing and executing anti-fraud/abuse policies and procedures, monitoring and providing oversight of contractor PI activities, and developing cases for criminal fraud/abuse prosecutions and civil lawsuits. According to TMA PI personnel, they are also responsible for performing site visits to the MCSCs. During these visits, the MCSC PI units are assessed against the contract requirements. The TMA reviewer may share their knowledge and lessons learned from visits to

other MCSCs. Additionally, TMA PI personnel monitor contractor performance throughout the year by evaluating the quality of case referrals, performing quarterly assessments, and monitoring delivery of required work products.

## **Program Integrity Contractual Requirements**

TMA incorporated the requirements of TOM 6010.56-M, Chapter 13, Section 1, “Program Integrity: General,” February 1, 2008 into the “T-3”<sup>1</sup> MCSC contract and TOM 6010.51-M, Chapter 14, Section 1, “Program Integrity: General,” August 1, 2002 into the “TNEX” MCSC contract. Both manuals require the MCSCs to have dedicated PI functions that are responsible for ensuring that authorized providers provide medically necessary services to eligible beneficiaries under existing law, regulation, and TMA instructions. The MCSCs are required to provide quarterly and annual reports to TMA; develop and maintain standard operating procedures (SOPs) for analyzing cases of potential fraud and abuse; use commercial anti-fraud software for identification of potential fraud and abuse; refer cases to TMA PI; perform prepayment reviews; and provide fraud awareness training to providers, beneficiaries and employees. In addition, the TOM requires the PI units to provide documents, reports, correspondence, and other applicable data or items as directed by TMA PI or TMA Office of General Counsel in support of investigations, compliance monitoring, anti-fraud activities, or other PI related issues.

## **MCSCs Met Program Integrity Contractual Requirements**

In accordance with the “T-3” and “TNEX” contracts, the MCSCs met the PI contractual requirements. Each of the MCSCs submitted the required quarterly and annual reports; implemented SOPs for case development; used anti-fraud software; submitted the minimum case referrals to TMA PI; performed prepayment reviews; and established mandatory fraud and abuse training.

### ***Reporting***

Each of the MCSC PI units properly submitted TOM-required reports to TMA Program Integrity for 2011. The TOM requires MCSC PI units to submit a Fraud and Abuse Summary Report, and Utilization Management Report to TMA PI on a quarterly basis. The Fraud and Abuse Summary Report may list items such as potential fraud and abuse cases, active investigations, beneficiaries and providers on prepayment review, problem providers, and unbundling activities. The Utilization Management Report identifies the MCSCs’ activities to prevent under-utilization or over-utilization of TRICARE services. In addition, the TOM requires the MCSCs to submit a Letter of Assurance and a Savings Report annually. In 2011, the four MCSCs reported a combined total of \$845 million<sup>2</sup> in savings as a result of disallowed payments to beneficiaries and providers on prepayment review, identification of other health insurance, software edits, recoupment, prevention of duplicate claims activities, and other activities that prevented

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<sup>1</sup>“T-3” refers to the support contracts that provide health, medical and administrative support services in accordance with the February 2008 TMA Manuals. “TNEX” refers to the support contracts that provide health, medical and administrative support services in accordance with the August 2002 TMA Manuals. TMA began transitioning from the “TNEX” contract to the “T-3” contract in 2009; however, for our review of contract deliverables for 2011, two MCSCs still fell under the “TNEX” requirements.

<sup>2</sup> We did not audit the quantities or dollar amounts listed in the reports and cannot attest to their accuracy.

erroneous payments. For example, the MCSCs reported a combined \$436 million in savings from the prevention of duplicate claim activities.

### ***Standard Operating Procedures***

Each of the MCSC PI units developed the necessary SOPs to meet the TOM requirements for identifying and developing potential cases of fraud and abuse. The TOM requires MCSC PI units to develop and maintain SOPs for identifying and developing potential cases of fraud and abuse. We requested and reviewed copies of the MCSCs' SOPs for case development. The MCSC case development SOPs provided instructions on how to identify and develop potential fraud or abuse cases from internal sources such as processing edits, post-payment and prepayment reviews, proactive research, and anti-fraud data mining. The case development SOPs also provided instructions on how to develop potential cases from external sources such as beneficiary complaints, provider complaints, hotlines, TMA PI requests, law enforcement referrals, and other sources outside the MCSCs. We did not identify any issues with the MCSC SOPs for developing potential cases of fraud and abuse.

### ***Use of Commercial Anti-Fraud Software***

The MCSC PI units we visited<sup>3</sup> all used commercial anti-fraud software packages as required by the TOM. The TOM requires that MCSC PI units acquire and make available to PI staff state-of-the-art commercial anti-fraud software designed to provide on-line manipulation and analysis of health care data using layered logic and artificial intelligence for fraud detection. By using the anti-fraud software, TMA expects the MCSCs to identify a minimum of 10 cases a year and, if warranted, refer them to TMA PI. We observed real-time demonstrations of the anti-fraud software used by the staff at the sites we visited. As required by the TOM, all the PI staff members had access to the software and used the software for proactive identification of potential fraud and abuse.

### ***Referred Cases and Prepayment Review***

The MCSC PI units met the TOM requirements for referring cases to TMA PI. The TOM requires MCSC PI units to refer cases to TMA PI that involve more than a \$25,000 loss to the Government for the "T-3" contract and more than \$10,000 for the "TNEX" contract. In addition, the 2008 TOM requires MCSC PI units to refer cases with any loss where patient harm has occurred. The "T-3" contract requires contractors to refer a minimum of 10 cases to TMA each year. There is no minimum requirement for the "TNEX" contract. For 2011, TMA PI reported that the MCSCs, collectively, submitted 79 cases.<sup>4</sup> When a MCSC develops a case that does not meet the \$25,000 and \$10,000 thresholds, they are required to handle the cases internally (administratively) and are responsible for the resolution of the case. The number of active administrative cases open at each MCSC can range from hundreds to thousands at any point in time.

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<sup>3</sup> We conducted on-site visits at three of the four MCSCs and two sub-contractors where we verified the use of anti-fraud software.

<sup>4</sup> We could not determine the total dollar value of the 79 cases because they were law enforcement sensitive.

The MCSCs have several administrative actions they can take. They can:

- attempt to educate the beneficiary or provider,
- place the beneficiary or provider on prepayment review, or
- initiate a recoupment/offset action.

All of the MCSCs were implementing these actions as required by the TOM.

### ***Fraud Awareness Training***

Each of the MCSCs had established a mandatory fraud and abuse training program for their PI units. The TOM requires the MCSCs to develop a formal training program for all contractor personnel in the detection of potential fraud or abuse situations. In addition to providing the required fraud and abuse training, the MCSCs also provided other methods of training for their employees. Some MCSCs used monthly or quarterly e-mails and/or newsletters to increase their employees' awareness, while others provided weekly quizzes with incentives for employees to participate.

The TOM also requires the MCSCs to implement public education programs. The TOM requires the programs to provide information to providers and beneficiaries about identified fraudulent or abusive practices and how individuals may identify and report such practices. Some MCSCs used education letters, customer service centers, informational e-mails, newsletters, handbooks, and Web sites to provide awareness of fraudulent or abusive practices and how to report such practices. While the methods of delivery varied, all of the MCSC PI units met the fraud and abuse education requirements for their employees, providers, and beneficiaries.

### **MCSC PI Units Met Contractual Requirements**

Based on the site visits, observations of MCSCs' PI processes, review of documents, and interviews of PI personnel, we concluded that the MCSCs had dedicated PI functions that met the requirements of the applicable TOMs. The PI units provided the required quarterly and annual reports and proactively used anti-fraud software to identify potential fraud and abuse. They also had SOPs for analyzing cases of potential fraud and abuse and met the minimum requirements for referring cases to TMA. Finally, the MCSCs had developed fraud awareness training programs and performed prepayment reviews.

### **Review of Internal Controls**

The TRICARE MCSC PI units' internal controls over meeting Government contractual requirements were generally effective as they applied to the audit objective.

### **Audit Scope and Methodology**

We conducted this performance audit from May 2012 through October 2012 in accordance with generally accepted government auditing standards. Those standards require that we 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We reviewed contract compliance for the four regional MCSC PI Units. Those MCSC PI units included Health Net Federal Services, Inc., PI unit in Rancho Cordova, California; TriWest Healthcare Alliance PI unit in Phoenix, Arizona; Humana Military Healthcare Services, Inc., PI unit in Louisville, Kentucky; and International SOS Assistance, Inc., PI unit in Madison, Wisconsin. In addition to the MCSC PI units, we visited the TMA PI office in Aurora, Colorado, and the following MCSC claims processors: PGBA PI unit in Myrtle Beach, South Carolina, and Wisconsin Physicians Service in Madison, Wisconsin. We selected these contractors because they represented 52 percent of purchased care claims paid in 2011 for TRICARE beneficiaries. We did not review the dental and pharmacy MCSCs.

We conducted site visits at Health Net Federal Services, Inc., TriWest Healthcare Alliance, International SOS' subcontractor, Wisconsin Physicians Service and PGBA. We conducted phone interviews with Humana Military Healthcare Services, Inc. personnel. We interviewed TMA and MCSC PI personnel, MCSC information technology personnel, and claims processing personnel. We reviewed PI roles and responsibilities as stated in the TOMs and contracts. We reviewed the MCSC PI processes and procedures used to prevent and detect fraud. We observed claims processing edit checks and override procedures. We observed and reviewed the procedures for implementing and testing edit checks of claims. We observed the use of the anti-fraud software used to prevent and detect fraud at the MCSC PI units. We reviewed the processes and procedures used for determining and collecting recoupment. We also reviewed the process to develop and refer cases and the number of cases referred. We obtained copies of fraud and abuse training attendance. We reviewed copies of fraud and abuse awareness newsletters, and screen shots of Web sites. We obtained and reviewed Fraud and Abuse Summary reports, Utilization Management reports, Letters of Assurance, and Savings reports. We obtained the previously listed reports; however, we did not audit the quantities or dollar amounts listed in the reports and cannot attest to their accuracy.

### **Use of Computer-Processed Data**

We did not rely on computer-processed data in developing our findings or conclusions.

### **Prior Audit Coverage**

No prior coverage has been conducted on the subject during the last 5 years.

We appreciate the courtesies extended to the staff. If you have any questions, please contact me at (703) 604-8866 (DSN 664-8866).



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