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BENEFICIARY DATA SUPPORTING THE DOD MILITARY RETIREMENT
HEALTH BENEFITS LIABILITY ESTIMATE

Report No. D-2001-154

July 5, 2001

Office of the Inspector General
Department of Defense

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Acronyms

CAC	Common Access Card
DEERS	Defense Enrollment Eligibility Reporting System
DFAS	Defense Finance and Accounting Service
DMDC	Defense Manpower Data Center
DUSD(PI)	Deputy Under Secretary of Defense (Program Integration)
IAW	In Accordance With
ID	Identification
MRHB	Military Retirement Health Benefits
OIG	Office of the Inspector General
RAPIDS	Real-Time Automated Personnel Identification System
SOP	Standard Operating Procedures
SVO	Super Verifying Officials
USD(P&R)	Under Secretary of Defense (Personnel and Readiness)
VO	Verifying Officials



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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July 5, 2001

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
UNDER SECRETARY OF DEFENSE (PERSONNEL AND
READINESS)

SUBJECT: Audit Report on Beneficiary Data Supporting the DoD Military Retirement
Health Benefits Liability Estimate (Report No. D-2001-154)

We are providing this report for review and comment. We performed the audit in response to the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994. The Under Secretary of Defense (Personnel and Readiness) did not respond to the draft report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. All recommendations remain unresolved. Therefore, we request that the Under Secretary of Defense (Personnel and Readiness) provide comments on all recommendations by August 6, 2001.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. David F. Vincent at (703) 604-9109 (DSN 664-9109) (dvincent@dodig.osd.mil) or Mr. Walter R. Loder at (703) 604-9534 (DSN 664-9534) (wrloder@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, appearing to read "Thomas F. Gimble".

Thomas F. Gimble
Acting
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2001-154

July 5, 2001

(Project No. D2000FA-0042.001)

Beneficiary Data Supporting the DoD Military Retirement Health Benefits Liability Estimate

Executive Summary

Introduction. The audit was performed in support of Public Law 101-576, the “Chief Financial Officers Act of 1990,” and Public Law 103-356, the “Federal Financial Management Act of 1994.” The unfunded military retirement health benefits liability amount calculated by the Actuary, DoD, and reported on the FY 2000 DoD Agency-Wide Financial Statements was \$192.4 billion, which represents 19 percent of the approximately \$1 trillion of total liabilities reported by DoD for FY 2000. Military retirement health benefits are post-retirement benefits that DoD provides to military retirees and other eligible beneficiaries through the Tricare program. Tricare consists of medical care provided by DoD military treatment facilities and the purchased care obtained from civilian providers. The demographic extract from the Defense Enrollment Eligibility Reporting System (DEERS), dated September 30, 1998, (the most current extract available for estimating the liability) identified 8.4 million medically eligible beneficiaries out of 11.6 million eligible beneficiaries within DEERS.

DEERS is a centralized personnel data repository designed to provide timely and accurate information on those eligible for DoD benefits and entitlements. DEERS collects and maintains information to ensure and facilitate the effective and efficient administration of DoD missions to include the military health system and other benefit and entitlement programs that derive eligibility information from DEERS.

Objectives. The objective of the audit was to assess the reliability and completeness of the demographic data used to calculate the DoD military retirement health benefits liability. We also reviewed the management controls related to the objective.

Results. DEERS data provided to the Actuary, DoD were reliable only 85 percent of the time; and quality control improvements were needed. We statistically projected that 1.3 million beneficiaries (15 percent) of 8.4 million beneficiaries in the demographic data extract used to calculate the military retirement health benefit liability were either ineligible, unable to be verified, or had incorrect critical data in their DEERS records. Specifically, the DEERS data extract used to estimate the FY 2000 unfunded military retirement health benefits liability included an estimated:

- 189,000 ineligible beneficiaries,

- 841,000 beneficiaries whose existence or eligibility was unable to be verified, and
- 226,000 beneficiary records with incorrect critical data.

In addition, ineligible persons could have received DoD medical care, pharmaceuticals and exchange services, and could have access to commissary and other benefits. Some of the estimated 841,000 unverified beneficiaries may also be ineligible for benefits. Furthermore, the risk of unauthorized access to DoD facilities and services is increased because unauthorized beneficiaries may have been issued identification cards. The Actuary, DoD, was unsure of the extent of the effect on the liability estimate on the FY 2000 financial statements and future years but agreed there was an adverse effect. See Appendix A for details on the review of the management control program.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Personnel and Readiness) develop and implement a comprehensive data quality assurance program to verify the completeness, existence, and accuracy of both the new and existing data residing in the DEERS database. Additionally, we recommend the Director of Defense Manpower Data Center develop and maintain a complete list of DEERS data users, the responsible organization(s), the points of contact for data quality assurance for each use, and explanations of how the data are used.

Management Comments. The draft report was issued March 22, 2001. We did not receive management comments on the draft report. We request that the Under Secretary of Defense (Personnel and Readiness) provide comments on this final report by August 6, 2001.

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Background

Requirements for Financial Statements. Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994, requires DoD and other Government agencies to prepare financial statements. The Inspector General, DoD, is responsible for auditing the DoD Agency-Wide financial statements. The General Accounting Office is responsible for auditing the consolidated Federal Government financial statements.

Office of Management and Budget Guidance. Office of Management and Budget Bulletin No. 97-01, “Form and Content of Agency Financial Statements,” as amended on September 11, 2000, provides guidance to agencies on the preparation of financial statements. The Bulletin establishes guidance for reporting pensions, other retirement benefits, and other post-employment benefits. Other retirement benefits include all retirement benefits other than pension plan benefits. The Bulletin further states that the entities responsible for accounting for other retirement benefits should calculate and report the liabilities and related expenses in accordance with Statement of Federal Financial Accounting Standard No. 5, “Accounting for Liabilities of the Federal Government,” September 1995.

Defense Enrollment Eligibility Reporting System. DoD Directive 1341.1, “Defense Enrollment Eligibility Reporting System (DEERS),” May 21, 1999, and DoD Instruction 1341.2, “DEERS Procedures,” March 19, 1999, assign responsibility to the Under Secretary of Defense (Personnel and Readiness) (USD[P&R]) for establishing overall functional policies and procedures for the oversight, funding, personnel staffing, direction, and functional management of DEERS. These regulations also state that USD(P&R) assigns the Defense Manpower Data Center (DMDC) as the responsible agency for the technical, acquisition, and functional management of the DEERS program. DEERS is designed to provide timely and accurate information on those eligible for benefits and entitlements and to prevent and detect fraud and abuse in the distribution of benefits and entitlements. DMDC collects and maintains information in DEERS to ensure the effective and efficient administration of DoD missions to include the military health system and other benefit and entitlement programs that derive eligibility information from DEERS. DEERS serves as the centralized personnel data repository of information for approximately 23 million beneficiaries. DMDC categorizes the 23 million beneficiaries as approximately 11.6 million eligible beneficiaries and 11.4 million archived persons who are either deceased or otherwise no longer eligible for benefits.

DMDC Functions. The primary function of DMDC is to support the information management needs of the USD(P&R). The Actuary, DoD uses information from the DEERS division of DMDC West. DEERS is one of the eight DMDC West divisions. Military members are attached to DMDC West as liaisons of the active and reserve components of the Military Services personnel

centers. DMDC receives data from several significant systems for entry into DEERS. They include the military personnel centers for active duty and Reserve files, Defense Finance and Accounting Service (DFAS) Cleveland for the retired pay files, military enlistment processing centers for new enlistees, and the Real-Time Automated Personnel Identification System—the entry point for dependents and sponsor changes.

Real-Time Automated Personnel Identification System (RAPIDS). RAPIDS was established in 1981 to implement a more secure method for producing identification (ID) cards and to reduce potential fraud, waste, and abuse associated with obtaining benefits available to members of the Uniformed Services and their family members. RAPIDS is the software that is used by military ID card offices to create and modify personnel information stored in DEERS to provide ID cards and related personnel support to persons who are eligible for Uniformed Services benefits. The DEERS database and RAPIDS application are linked because RAPIDS is one of the primary means for updating information in DEERS on family members entitled to benefits. Currently, RAPIDS transactions account for over 90 percent of the on-line transactions that keep the DEERS database up to date.

Uniformed Services Member Identification Card. DoD Directive 1000.22, “Uniformed Services’ Identification (ID) Cards,” October 8, 1997, requires DoD to provide members of the Uniformed Services with a distinct ID card for use in identifying their status as active duty, Reserve, or retired. The ID card is used as an authorization for Uniformed Services’ benefits and privileges. The members’ eligible dependents and other eligible individuals will also be provided with a distinct ID card to be used as an authorization card for benefits and privileges administered by the Uniformed Services.

Military Retirement Health Benefits (MRHB). MRHB are post-retirement benefits that DoD provides to military retirees and other eligible beneficiaries through the Tricare program, consisting of DoD military treatment facilities and civilian providers, also known as purchased care. FY 1997 was the first year that DoD reported the unfunded liability for the MRHB on the DoD Agency-Wide financial statements. For FY 2000, the liability amount calculated by the Actuary, DoD, was \$192.4 billion. The liability is 19 percent of the approximately \$1 trillion of liabilities included on the DoD Agency-Wide financial statements.

Objectives

The objective of the audit was to assess the reliability and completeness of the demographic data used to calculate the DoD MRHB liability. Specifically, we reviewed data from the DEERS extract used for estimating the liability. Additionally, we reviewed the management controls related to the objective. We reviewed the management control program and selected input controls for DEERS to determine whether controls adequately help ensure the reliability of processed data and prevent the entry of information for ineligible individuals into DEERS. Also, we reviewed the retention of eligibility for beneficiaries no

longer eligible to receive DoD benefits. See Appendix A for a discussion of the audit scope and methodology, our review of the management control program, and prior audit coverage related to the audit objective.

Defense Enrollment Eligibility Reporting System Data Reliability

DEERS data provided to the Actuary, DoD were reliable only 85 percent of the time, and quality control, improvements were needed. We estimated 1.3 million beneficiaries (15 percent) of the 8.4 million beneficiaries in the data extract used to calculate the military retirement health benefit liability were either ineligible, unable to be verified, or had incorrect critical data in their DEERS records. Specifically, the DEERS data extract used to estimate the FY 2000 unfunded MRHB liability included an estimated:

- 189,000 ineligible beneficiaries,
- 841,000 beneficiaries whose existence or eligibility was unable to be verified, and
- 226,000 beneficiary records with incorrect critical data.

This occurred because the USD(P&R) had not established an overall quality assurance program for the data in the DEERS database. More specifically, management controls at RAPIDS data entry sites were inadequate. Also, DMDC and the Military Services did not conduct comprehensive data quality reviews of the DEERS data. In addition to the impact on the financial statements, ineligible persons could have received DoD medical care, pharmaceutical support and exchange services, and could be granted access to commissary and other benefits. Also, some of the estimated 841,000 unverified beneficiaries may be ineligible for benefits. Furthermore, the risk of unauthorized access to DoD facilities and services is increased because unauthorized beneficiaries could be issued ID cards. The Actuary, DoD, was unsure of the extent of the effect on the liability estimate on the FY 2000 financial statements and future years but agreed there was an adverse effect.

Uses of DEERS Information

During the audit, we requested from DMDC a comprehensive listing of the uses of DEERS data within DoD, but the list was not provided. The uses of the data are needed to design an effective quality assurance and oversight program, giving appropriate priority based on the use of the data.

DEERS was established to improve the management of the Uniformed Services resources and benefits, and improve the accuracy of personnel data files. The system was intended to be an accurate accounting of all who are eligible for Uniformed Services benefits. Those eligible include active duty, Reserve, and retired sponsors as well as their dependents and survivors. A sponsor is the military Service member whose service entitles his or her dependents to DoD

benefits. Sponsors are also considered beneficiaries and include both living military Service members and deceased members with survivors eligible for DoD benefits.

A primary purpose of the system was to improve the planning, programming, budgeting, and allocation for many benefits such as health care, education, housing, child care, commissaries, exchanges, and facilities planning and construction in DoD. Based on available documentation and comments from management officials in Health Affairs and the Military Services we identified some uses of DEERS information. DEERS information is used for determining beneficiary eligibility for DoD health care provided in the direct care system and civilian medical care networks. The Defense Health Program depends on population information from DEERS to develop the DoD medical program, determine the military health care system budget, and allocate resources to the Military Departments. DEERS is also used as a basis for contract negotiations for Tricare initiatives and management of Tricare or direct care alternatives. DEERS information is also used by the Actuary, DoD, for calculating the MRHB liability estimate.

DEERS Extract Preparation. The Actuary, DoD, requested an extract for use in calculating the MRHB liability estimate included in the DoD Agency-Wide financial statements. DMDC prepared a DoD beneficiary extract and a DoD sponsor extract from the DEERS database. The DEERS extract provided to the Actuary, DoD, contained demographic information on approximately 8.4 million DoD beneficiaries eligible for health care as of September 30, 1998. As of January 18, 2001, DMDC has not been able to provide a more current and reliable extract to the Actuary, DoD. Therefore, the FY 1998 DEERS demographic information was used to calculate the FY 2000 MRHB liability estimate. The extract included selected data fields critical to calculating the liability. The fields included the beneficiary's Social Security number, date of birth, sex, dependent data suffix, and relationship to the sponsor and the sponsor's status, service, paygrade, component, and disability status.

Systematic Sample

Prior to drawing a statistical sample, we analyzed a systematic sample of 50 sponsors and their 67 dependents from the DEERS extract provided to the Office of the Actuary, DoD by DMDC. The systematic sample showed that some beneficiaries in DEERS were no longer eligible or were never eligible for DoD benefits. For example, the sample included a sponsor who should have lost DEERS eligibility in 1970. This sponsor also had three dependents in DEERS as eligible who were never eligible for DoD benefits. The sponsor remained in DEERS for more than 30 years as eligible for DoD benefits. We believe the sponsor is still showing as eligible for DoD benefits in DEERS. In addition, the sample included a married sponsor who actually was an unmarried foreign national and should not have been included in DEERS. The sample also included some dependents of retirees, of which we were unable to verify existence or eligibility. DMDC was provided the detailed results in September

2000. The results of the systematic sample are consistent with the results of a statistical sample of the DEERS extract to measure data reliability.

Data Reliability

Based on our statistical sample results, DEERS data were reliable 85 percent of the time; however, improvements were needed. We estimated 1.3 million beneficiaries (15 percent) of 8.4 million beneficiaries in the DEERS extracts used to calculate the MRHB liability were either ineligible, unable to be verified, or had incorrect critical data in their DEERS records. Specifically, the DEERS database included an estimated 189,000 ineligible beneficiaries, 841,000 unverified beneficiaries, and 226,000 beneficiary records with incorrect critical data. The results of the statistical sample are projected as follows:

DEERS Beneficiary Problems			
<u>Problem Category</u>	<u>Mid-Point Estimate*</u>	<u>Upper Bound Estimate</u>	<u>Lower Bound Estimate</u>
Ineligible Beneficiaries	189,000	349,000	28,000
Unverified Beneficiaries	841,000	1,236,000	446,000
Records with Incorrect Data	226,000	361,000	92,000

* The mid-point estimate for all three problem categories combined is 1,256,000. See Appendix A for more details.

Ineligible Beneficiaries. The DEERS database included beneficiaries that were no longer eligible for DoD benefits. We statistically projected that 189,000 of 8.4 million beneficiaries in the DEERS extract were ineligible for DoD benefits. Sample beneficiaries classified as eligible in DEERS were ineligible because they lost their eligibility due to a change in status such as divorce, death, or military service discharge. For example, one individual was discharged after less than 1 month of active duty service and remained eligible for DoD benefits in DEERS 3.5 months after his discharge. Another beneficiary was the divorced spouse of an active duty sponsor who remained eligible in DEERS almost 2 years after losing eligibility as a result of the divorce. One sponsor was discharged over 20 years ago without benefits, but he was in DEERS as eligible for all benefits as an active duty retiree.

Unverified Beneficiaries. The DEERS database included people who were eligible for benefits whose existence and eligibility could not be verified. The majority of unverified beneficiaries were dependents of retired sponsors. We statistically projected that the existence of 841,000 of 8.4 million beneficiaries in the DEERS extract could not be verified using extensive research techniques.

The existence and eligibility of people coded as eligible for benefits could not be verified after efforts to obtain supporting documentation such as:

- birth and marriage certificates;
- signed DD Forms 1172, “Application for Uniformed Services Identification Card/DEERS Enrollment” from RAPIDS offices; or
- other information to substantiate the beneficiary existence and eligibility.

Data Errors. The DEERS database included 226,000 beneficiaries with errors in critical data fields used for determining benefit eligibility. The critical data fields we reviewed were sponsors’ Social Security number, service, component, paygrade, date of birth, and sex. The majority of data errors were related to sponsor date of birth.

RAPIDS Management Controls

Data errors and unverified beneficiaries in DEERS were caused by inadequate consideration for data quality assurance at the RAPIDS sites. Overall there were weak management controls and little consistency and standardization of policies and procedures to ensure accurate and reliable data entry into the RAPIDS among the 13 RAPIDS sites visited. We judgmentally selected 13 out of approximately 900 RAPIDS sites to visit. These 13 sites were representative of the different transaction volumes at RAPIDS sites. The problems that were reoccurring in most of the locations visited included the lack of documented quality reviews, no retention of source documents, no separation of duties for issuing and verifying officials, and no internal standard operating procedures in place. For a complete listing of RAPIDS sites visited and management control problems identified, see Appendixes A and B.

DEERS/RAPIDS Project Office. Each Military Service has a DEERS/RAPIDS Project Office that is responsible for its respective RAPIDS sites and implements DoD policy. The DEERS/RAPIDS Project Offices are members of the Joint Personnel Advisory Committee that developed the Joint Instruction, Air Force Instruction, 36-3026 “Identification Cards for Members of the Uniformed Services, Their Family Members, and Other Eligible Personnel,” July 29, 1999. The Joint Instruction implements DoD Instruction 1000.13, “Identification (ID) Cards for Members of the Uniformed Services, Their Dependents, and Other Eligible Individuals,” December 5, 1997, which was issued by the Defense Human Resources Activity Headquarters, and supports DEERS and RAPIDS for the Uniformed Services. Further, the Joint Instruction provides instructions to prepare, issue, use, account for, and dispose of ID cards the Services issue. The DEERS/RAPIDS Project Offices receive their direction from the Defense Human Resources Activity Headquarters which is part of the USD(P&R).

Issuing the Uniformed Services Member Identification Cards. RAPIDS produces ID cards for members of the Services and their family members and updates personnel information stored in DEERS. The Services employ administrative personnel to process information that is critical in the DEERS database. The RAPIDS administrators are termed Verifying Officials (VO) and Super Verifying Officials (SVO). A VO is the person that processes information from the Service member and issues the ID card. For Service members to receive ID cards for themselves or their dependent and to update personal information, a VO completes and the Service members sign the DD Form 1172, "Application for Uniformed Services Identification Card/DEERS Enrollment." The VO verifies the dependent status between the sponsor and family member. A VO may also have the role of a DEERS Issuing Official, which allows the issuance of military ID cards. The Issuing Official's name will appear, if selected, in the designated box on the DD Form 1172. The VO is supervised by an SVO, the person that is authorized to add and maintain site specific information to the database, and trains and supervises the VOs. The SVO may also perform DEERS site security manager functions to include activating all RAPIDS users and assigning roles for new and existing users.

Management Controls at RAPIDS Sites. The following table quantifies 4 of the management control weaknesses at 13 RAPIDS sites.

Management Controls at 13 RAPIDS Sites		
<u>Problem</u>	<u>Management Controls</u>	
	<u>In Place</u>	<u>Not in Place</u>
Documented quality reviews performed by Super Verifying Officials	0	13
Source documents retained	3	10
Separation of duties for Issuing and Verifying Officials	2	11
Internal Standard Operating Procedures in place	5	8

Documented Quality Reviews. Procedures for the SVOs to perform documented quality reviews did not exist at any of the RAPIDS sites visited. The information that goes into the DEERS database is important because it is used to support DoD management decisions and programming to include eligibility for benefits and access to military facilities. Quality reviews should include reviewing DD Forms 1172 to verify completeness. The DD Forms 1172 should also be reviewed for the validity and accuracy of the data elements that are often manually added, for example, the ID card expiration date. The reviewer should ensure that the DD Forms 1172 have supporting documentation to verify existence and eligibility of persons entered into DEERS. The reviews

need to be documented and should include the requirements in the Joint Instruction 36-3026.

Source Documents. Of the 13 RAPIDS sites visited, 10 did not have a local requirement to maintain DD Forms 1172 and source documents such as birth certificates, marriage certificates, and court orders. The Joint Instruction 36-3026 requires that the DD Form 1172 for dependent family members is to be mailed to the DMDC, Monterey, California, for scanning, thereby eliminating filing at each issuing activity. However, the DMDC did not verify that all DD Forms 1172 were received. If the RAPIDS sites maintained a copy of the source documents and DD Forms 1172, it would provide documentation for quality assurance reviews of ID cards issued.

Separation of Duties for Issuing and Verifying Officials. There was no separation of duties at 11 of the 13 RAPIDS sites visited. The receiving and verifying of information was not separated from the function of issuing ID cards. Separating the verifying function from the issuing function is a primary control in preventing fraudulent activity from occurring because more than one person will review the information before it is entered into DEERS or before an ID card is issued. If a VO reviews documentation and issues the ID card without an independent person checking the work, there is little control over the unauthorized issuance of ID cards.

Standard Operating Procedures. Standard operating procedures (SOPs) were not in place at 8 of the 13 RAPIDS sites we visited. SOPs provide guidance for daily situations and handling irregularities. Local SOPs are needed to supplement procedures covered by Joint Instruction 36-3026 such as reporting lost ID cards. Without adequate formal procedures for reporting and replacing lost ID cards, the risk that an individual can claim the loss of an ID card in order to obtain a duplicate card is increased. Because of the lack of management controls at RAPIDS sites, DoD should develop an overall SOP as part of the comprehensive data quality assurance program to supplement the Joint Instruction 36-3026. An overall SOP would give RAPIDS personnel more specific guidelines and provide VOs with a basis for instituting specific management controls for issuing ID cards.

Quality Assurance for DEERS Data

Responsibility and accountability for the quality assurance of data in DEERS were not effectively assigned within DoD. Specifically, the USD(P&R) did not provide guidance for developing and implementing a comprehensive data quality program. A comprehensive quality program includes statistical reviews of the database for continuing eligibility and followup on all errors. DMDC and the military personnel centers conducted limited reviews, primarily edit checks at DMDC, but did not conduct systematic or statistical reviews of data already in DEERS. Neither the personnel centers nor DMDC recognized a responsibility for verifying that beneficiaries in the DEERS database are eligible.

Quality Assurance Program. A data quality assurance program should consist of management's policies and procedures to provide reasonable assurance that DEERS data are being reliably recorded and reported. At a minimum, effective

data quality assurance controls to ensure the reliability of DEERS data should include:

- ongoing analysis and followup of errors;
- effective coordination between DMDC file managers and military personnel center liaisons located at DMDC to ensure data validity and accuracy in DEERS;
- systematic reviews of the eligibility of all beneficiaries in DEERS; and
- timely reporting of errors, corrections, and relevant quality data to all management levels and users of DEERS data.

Responsibility for Quality Assurance. DoD Directive 1341.1, "Defense Enrollment Eligibility Reporting System (DEERS)," May 21, 1999, states that the Assistant Secretary of Defense for Health Affairs under the USD(P&R), in coordination with the Assistant Secretary of Defense (Force Management Policy), Assistant Secretary of Defense (Reserve Affairs), and the Deputy Under Secretary of Defense (Program Integration) (DUSD[PI]) establishes guidance for the oversight, funding, personnel staffing, direction, and functional management of DEERS. The directive requires the DUSD (PI) to establish and chair an Overarching Integrated Product Team that is responsible for the oversight of DEERS and other management functions such as reviewing DEERS improvements. Twenty-one months after issuance of the directive, the Overarching Integrated Product Team had not been established. As part of a comprehensive data quality assurance program, the Overarching Integrated Product Team should be established.

Quality Reviews at DMDC. Edit checks are performed by DMDC File Managers using the appropriate DoD guidance for issuing ID cards to eligible beneficiaries. Although the guidance addresses the record format, it does not discuss the responsibility of developing a data quality assurance program to ensure the accuracy and validity of the data submitted for each pay file. The Military Liaisons at DMDC receive research requests from DMDC and the Services. In addition, some Military Liaisons receive error reports from the DMDC File Managers to correct. Generally, these data errors are corrected by the military personnel centers. However, DMDC does not have systematic followup procedures in place to ensure that errors are corrected.

Effect on Delivery of Services

Several of the ineligible beneficiaries identified in our sample received DoD medical care. However, because of a decentralized approach to maintaining DoD medical records and discrepancies among health care databases, the full extent of medical care received by ineligible persons was not determinable. The issuance of ID cards to ineligible persons may affect the delivery of health care benefits to eligible retirees and other beneficiaries. Ineligible persons will have access to DoD medical care services including costly prescription drugs, and other benefits, further burdening the systems and making access to benefits less available to legitimate eligible beneficiaries. Although providing DoD medical care to ineligible beneficiaries results in DoD expending health care funding that could be used to provide additional DoD medical care to eligible beneficiaries, we cannot quantify the amount.

Furthermore, there is an impact on the DoD commissary system, exchange system, and other benefits for which we were also unable to develop a cost estimate for delivery of these services. For example, we determined that an ineligible sponsor was inappropriately using the exchange system. In addition, some of the estimated 841,000 unverified beneficiaries may be ineligible for DoD medical care, commissary, exchange, and other benefits.

Access to Facilities

The risk of unauthorized access to DoD facilities and services is increased when ineligible beneficiaries are issued ID cards. In November 1999, the Deputy Secretary of Defense directed all DoD Components to implement the use of a standard DoD smart card as a common access card (CAC). DEERS will be a source of information for the CAC. The CAC will be the standard ID card for active duty military personnel, DoD civilian employees, and eligible contractor personnel. The CAC will also be the principal card used to enable physical access to buildings and controlled spaces and will be used to gain access to DoD computer networks and systems. This card will contain an integrated circuit chip and other relevant media such as magnetic stripe and bar code. To ensure full and consistent use of existing capabilities and to gain efficiencies, the CAC will be issued and maintained using the infrastructure provided by the DEERS database and RAPIDS. The initial implementation plan for the CAC program does not include retirees and family members, thereby limiting the exposure of DoD to the poor overall controls that we documented at the RAPIDS sites.

Effect on Program Costs and the MRHB Liability Estimate

Including ineligible beneficiaries in DEERS could result in DoD overestimating future costs. For example, unreliable information is introduced into the military health budget formulation process. Tricare and the Defense Health Program depend on population information from DEERS to determine the military health budget. Additionally, DoD could use inaccurate trend information in the

calculation of Tricare contract rates. The accuracy of the MRHB liability estimate is adversely affected. Ineligible beneficiaries, beneficiaries unable to be verified, and critical data errors in the beneficiary population adversely affected the accuracy of the MRHB liability estimate. The Actuary, DoD, was unsure of the extent of the adverse effect on the liability estimate on the FY 2000 financial statements and future years but agreed there was an adverse effect.

Recommendations

We recommend that the Under Secretary of Defense (Personnel and Readiness):

1. Require the Director, Defense Manpower Data Center, to develop and maintain a complete list of users of Defense Enrollment Eligibility Reporting System data, how the data are used and the responsible organization(s) and the points of contact for data quality assurance for each use.
2. Develop and implement a comprehensive data quality assurance program to verify the completeness, existence, and accuracy of the new data entered into Defense Enrollment Eligibility Reporting System at Real-Time Automated Personnel Identification System data entry sites and the existing data residing in the Defense Enrollment Eligibility Reporting System database. The program should include:
 - a. standard operating procedures at Real-Time Automated Personnel Identification System sites, requiring separation of duties and source document retention;
 - b. documented systematic quality reviews of information generated at Real-Time Automated Personnel Identification System sites to ensure that complete and accurate documentation was obtained and transmitted for all beneficiary enrollees;
 - c. statistical and detailed reviews of Defense Enrollment Eligibility Reporting System records to validate DoD beneficiaries documented proof of eligibility and removal of persons who are ineligible for benefits;
 - d. rigorous documented followup reviews of errors and omissions detected to include timely reporting of error, corrections, and relevant quality data to all management levels and users; and
 - e. establishment of the Overarching Integrated Product Team as required by DoD Directive 1341.1, "Defense Enrollment Eligibility Reporting System (DEERS)," dated May 21, 1999.

Management Comments Required

The Under Secretary of Defense (Personnel and Readiness) did not comment on a draft of this report. We request that the Under Secretary of Defense (Personnel and Readiness) provide comments on the final report.

Appendix A. Audit Process

Scope

Work Performed. This audit focused on the reliability and completeness of the DEERS demographic data used to calculate the \$192.4 billion DoD MRHB liability used in the FY 2000 DoD Agency-Wide Financial Statements. We reviewed the September 30, 1998, DEERS demographic data extract provided by DMDC to the Actuary, DoD. The DEERS database consists of more than 11 million beneficiaries who are currently eligible for various types of benefits. The DEERS extract consisted of approximately 8.4 million beneficiaries eligible for medical care at the expense of DoD.

We also reviewed the internal controls associated with the input points of DEERS data. In conjunction with the individual military service personnel centers, initial entries at RAPIDS sites determine a beneficiary's eligibility in DEERS. There were approximately 900 RAPIDS sites worldwide that served as input points for DEERS data. RAPIDS sites were also used to update sponsor information in DEERS and issue ID cards. We conducted our review at 13 RAPIDS sites and 3 military service personnel centers. The following table lists the sites visited.

Sites Visited	
<u>Location</u>	<u>Site Name</u>
Adjutant General Headquarters State	Adjutant General Washington D.C.
Bethesda Naval Hospital	Personnel Support Detachment Bethesda
Bolling Air Force Base	11 Mission Support Squadron
Fort Belvoir	U.S. Army Garrison Ft. Belvoir
Fort Eustis	Chief Headquarters U.S. Army Transportation Center and Fort Eustis
Fort Lee	Soldier One Stop Fort Lee
Fort Myer	Commander
Headquarters U.S. Marine Corps Henderson Hall	Headquarters U.S. Marine Corps
Langley Air Force Base	1 Mission Support Squadron
Naval Air Station Oceana	Personnel Support Detachment Oceana
Naval Base Norfolk	Regional ID Card Lab
Quantico	Military Personnel Branch
Walter Reed	Walter Reed Army Medical Center
Air Force Personnel Center	Randolph Air Force Base
Navy Personnel Center	Millington Tennessee
Army Personnel Center	Hoffman Building

Of approximately 900 RAPIDS sites we judgmentally selected 13 RAPIDS sites to visit that we felt were representative of the different Military Services and had different transaction volumes. We selected our RAPIDS sites, excluding deployable RAPIDS, based on locality and transaction volume. The 13 RAPIDS sites visited reported 17,783 transactions. We reviewed the procedures and controls over information entered into RAPIDS, and information uploaded into the DEERS database. In addition, we determined whether the RAPIDS sites complied with Joint Instruction 36-3026 and other relevant DoD guidance.

Review of DEERS Extract and Beneficiary Records. We selected and reviewed two samples of the DEERS extract: one sample was for statistical projection purposes, the other served as an initial indication for the need to select a statistical sample representative of the DEERS extract. The statistical random sample consisted of 100 sponsors and their 122 dependents and the non-statistical systematic sample consisted of 50 sponsors and their 67 dependents. We reviewed the demographic information of these sponsors and related dependents to verify sponsor and dependent existence and the reliability of critical data elements used in determining beneficiary eligibility for benefits and calculating the MRHB liability estimate.

We compared each of the selected sponsors and related dependents' demographic information from the DEERS extract with information from actual hardcopy personnel records or other corroborative information. This information included verbal confirmations from sponsors, or printouts from base personnel support detachments and military personnel center databases unrelated to the DEERS network. We also compared information from the DEERS extract to all available information contained in the sponsor personnel records at the National Personnel Records Center in St. Louis, Missouri; Military personnel centers; military base personnel support detachments; the Air Force Reserve Center in Denver, Colorado; and the Defense Finance and Accounting Service in Cleveland, Ohio, and Denver, Colorado to determine sponsor and dependent existence and eligibility, and demographic data reliability. We also obtained additional beneficiary information from the Office of the Assistant Secretary of Defense (Health Affairs); the Actuary, DoD; DMDC West; DMDC East; RAPIDS sites; and the U.S. Department of Veterans Affairs.

DoD-Wide Corporate-Level Government Performance and Results Act Coverage. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. Although the Secretary of Defense has not established any goals for Information Assurance, the General Accounting Office lists it as a high-risk area. This report pertains to Information Assurance as well as to achievement of the following goal and subordinate performance goal:

- **FY 2001 DoD Corporate-Level Goal 2:** Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities.

Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. **(01-DoD-2)**

- **FY 2001 Subordinate Performance Goal 2.5:** Improve DoD financial and information management. **(01-DoD-2.5)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

- **Financial Management Functional Area. Objective:** Reengineer DoD business practices. **Goal:** Improve data standardization of finance and accounting data items. **(FM-4.4)**
- **Financial Management Functional Area. Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act of 1982. **(FM-5.3)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Methodology

Use of Computer-Processed Data. We used computer-processed data that the Actuary, DoD, and contractor personnel used to calculate the military retirement health benefits liability estimate. We assessed the data as it pertained to reliability of beneficiary demographic information and beneficiary eligibility in the DEERS extract provided to the Actuary, DoD. Our review of controls and the results of data tests showed the data in DEERS needed improvement as discussed in the Finding section of this report.

Audit Type, Dates, and Standards. We performed this financial-related audit from October 1999 through February 2001 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did our work in accordance with generally accepted Government auditing standards except that we were unable to obtain an opinion on our system of quality control. The most recent external quality control review was withdrawn on March 15, 2001, and we will undergo a new review.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD, the U.S. Department of Veterans Affairs, and the Social Security Administration. Further details are available on request.

Statistical Sampling Methodology

Sampling Objectives. The purpose of the statistical sampling was to test the quality and reliability of the DEERS demographic data used as part of the calculation of the DoD MRHB liability estimate.

Population. The population tested comprises the 8,411,437 individuals reported as eligible for benefits in DEERS as of September 30, 1998, the end of FY 1998. Their eligibility is based on 4,121,996 sponsors reported by DEERS for the same end of fiscal year timeframe. The beneficiaries' data were evaluated from the perspective of the six data elements that the DEERS Program Office considers critical, and that are used in the calculation of the DoD MRHB liability valuation.

Sample Design. The project used a stratified cluster sample design to test quality and reliability of DEERS data on military sponsors and their dependents. The project tested both sponsor and dependent beneficiary data. The design selects sponsors at the first stage, within strata, and tests all beneficiaries associated with that sponsor. The sample design is as follows:

<u>Stratum</u>	<u>Sponsors</u>	<u>Associated Beneficiaries</u>	<u>Sample Sponsors</u>	<u>Associated Beneficiaries</u>
Retirees & Deceased ¹	2,264,257	4,243,735	70	160 ²
Active & Other	1,857,739	4,167,702	30	62
Total	4,121,996	8,411,437	100	222

The 4,121,996 sponsors are associated with 8,411,437 beneficiaries, which include living sponsors. The following analyses use the 100 sponsors sampled as “clusters” of beneficiaries. We used two files: one table of all sponsors as of the end of FY 1998 and another table of all beneficiaries as of the end of FY 1998. There is at least one living beneficiary for each sponsor sampled. DEERS maintains records for deceased sponsors in the sponsor file records so

¹ There were 4,121,996 records in the September 30, 1998, DEERS sponsor file. Among these are 1,911,889 retired sponsors, 352,368 deceased sponsors, 1,578,060 active sponsors and 279,679 of all other categories combined (these include DoD civilians, gray area retirees, and retired reservists). Retiree and deceased records are held at the National Personnel Records Center, St. Louis, Missouri; active and other personnel records are held in various organization personnel offices. The same source reports 8,411,437 beneficiaries, with 3,777,643 being active duty sponsor beneficiaries, 466,092 “other” sponsor beneficiaries, 3,781,926 retired sponsor beneficiaries, and 385,776 deceased sponsor beneficiaries. Among the 4,121,996 sponsors are 177,399 with no associated record in the beneficiary file. Although in the sampling frame, none of these sponsors were picked in the sample. Most (177,137) were retirees. Another 248 were deceased, and the remaining 14 were active duty sponsors.

² Associated beneficiaries include sponsors because sponsors are beneficiaries as well as dependents.

long as there are eligible beneficiaries related to the sponsors. These beneficiaries are most often surviving spouses.

Analysis Design. Overall, beneficiaries' data fell into one of four situations: (1) Office of the Inspector General (OIG), DoD, staff were able to find adequate audit evidence for all critical data elements and found no errors; (2) OIG staff were able to find adequate audit evidence to support critical data elements and found errors in one or more data elements; (3) OIG staff were not able to find adequate audit evidence for any critical data elements to prove beneficiary existence or identity and eligibility; and (4) OIG staff found adequate audit evidence which showed the beneficiary was not eligible, based on eligibility criteria. Those beneficiaries for whom there was no adequate audit evidence for critical elements to prove existence or identity and eligibility are categorized as "unverified."

Sample Results - Unverified Beneficiaries. Based on the sample data, we project that between 446,000 and 1,236,000 beneficiaries would be "unverified."³ This confidence interval is calculated using a 90 percent confidence level and has a mid-point of 841,000 beneficiaries, which we use to represent the projected range.

Sample Results - DEERS Data Errors and Ineligibles. We analyzed the sample data in terms of two complementary characteristics: (1) the number of beneficiaries for whom there was at least one error in the six data elements DEERS management considered to be critical, and (2) the number of beneficiaries who were not eligible to be in the DEERS database as eligible for benefits. The results should be compared to the 8.4 million beneficiaries of the 4.1 million living or deceased sponsors.

Based on the sample data, we project that between 92,000 and 361,000 beneficiaries would have data element errors. This confidence interval is based on the 90 percent confidence level and has a mid-point of 226,000 beneficiaries. In terms of ineligibles, based on the same sample data, we project that among the 8.4 million beneficiaries, between 28,000 and 349,000 are not eligible and should not be in the DEERS database as eligible for benefits. The mid-point of this 90 percent confidence interval is 189,000.

Combined Rate of Data Errors, Ineligibles and Unverified Beneficiaries. We also analyzed the sample data in terms of how many beneficiaries would have fallen into any of the four categories. Since the four are mutually exclusive, the results added up together. That is, a given beneficiary could either (1) be a known eligible beneficiary with no problems, (2) be a known ineligible, (3) be a known eligible with one or more data element errors, or (4) be someone for whom we could not verify any data elements. The combined problem rate statistics should be compared to the 8.4 million beneficiaries of the 4.1 million living or deceased sponsors.

³ The "unverified" beneficiaries were those for whom audit staff could not find documentary support or obtain sponsor verbal confirmation to conclusively validate beneficiary information and existence and reliability of data elements.

Based on the sample data, we project that between 826,000 and 1,686,000 beneficiaries have critical data errors, were ineligible, or were unverified. This confidence interval is based on the 90 percent confidence level and has a mid-point of 1,256,000 beneficiaries.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the input controls and the quality assurance at several RAPIDS sites representing the Military Services. In addition to the RAPIDS sites, we reviewed the adequacy of DMDC management controls over the reliability of beneficiary demographic data in the DEERS database. We analyzed by categorized file managers and military liaison officers representing the Military personnel centers. We also reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses at RAPIDS sites as well as at DMDC as defined by DoD Instruction 5010.40. Weak management controls at the RAPIDS sites visited were exhibited by the lack of consistency and standardization of policies and procedures. Without consistency in procedures and training of individuals providing the input, there is no assurance of accurate and reliable data being input into the RAPIDS and, subsequently, DEERS. At the RAPIDS sites, quality reviews were not documented, source documents were not adequately retained, duties were not separated between the issuing and verifying officials, and no internal standard operating procedures were in place. Also, DMDC management controls were not adequate to ensure that data in the DEERS database were accurate and reliable. Recommendations if implemented, will establish effective data quality reviews at the RAPIDS sites and improve DEERS beneficiary data reliability. A copy of the report will be provided to the senior official responsible for management controls in USD(P&R).

Adequacy of Management's Self-Evaluation. In DMDC's self-evaluation, the quality assurance program at the RAPIDS sites is not addressed for the Military Services, and DMDC did not identify the material management control weaknesses identified by the audit. DMDC used management vulnerability assessments to prepare the DMDC self-evaluation. Although the vulnerability assessments included a question about validating the accuracy of data input to computer systems, the DMDC official who prepared the DMDC self-assessment did not retain copies of the input used to prepare the DMDC self-assessment.

As a result, we were unable to assess the accuracy and completeness of the responses to the questions in the vulnerability assessments.

Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to financial statement issues. General Accounting Office reports can be accessed on the Internet at <http://www.gao.gov>. Inspector General, DoD, reports can be accessed on the Internet at <http://www.dodig.osd.mil/audits/reports>. The IG, DoD, has issued three reports on the military retirement health benefits liability estimate and one report on the DEERS database:

Inspector General, DoD

Inspector General, DoD, Report No. D-2000-194, “Demographic Data Supporting the DoD Military Retirement Health Benefits Liability Estimate,” September 29, 2000

Inspector General, DoD, Report No. D-2000-141, “Reporting of the FY 1999 Military Retirement Health Benefits Liability in the DoD Financial Statements,” June 9, 2000

Inspector General, DoD, Report No. D-2000-090, “Inpatient Data Supporting the DoD Military Retirement Health Benefits Liability Estimate,” March 1, 2000

Inspector General, DoD, Report No. CIPO2000S001, “Evaluation of the Criminal Investigative Environment in which the Defense Enrollment Eligibility Reporting System Operates,” January 7, 2000

Appendix B. Schedule of Management Control Problems

The lack of adequate management controls was a major factor that contributed to incomplete and inaccurate data being entered into DEERS through RAPIDS. The following table is a summary of the problem areas pertaining to management controls that were identified during the audit at the 13 RAPIDS sites:

	Controls	Yes	No
*1	Documented quality reviews done by SVOs	0	13
*2	Source documents retained	3	10
*3	Inventory of blank cards	7	6
4	Newborns are handled in accordance with (IAW) the Regulation	5	8
*5	Issuing and verifying officials are the same	11	2
*6	Internally developed SOP	5	8
*7	Procedures in place for lost ID card	6	7
*8	ID cards issued reconciled with ID card audit trail report	6	7
9	Source documents verified	13	0
10	Issue ID cards offline	4	9
11	System validation and edit checks	13	0
12	ID cards issued IAW the Regulation for students over 21 years old	12	1
13	VOs log on before each use	11	2
14	DD Forms 1172 signed IAW the Regulation	11	2
15	Personnel adequately trained	10	3
16	Adequate procedures used for logging on	10	3
17	SVOs or VOs met the grade requirement	10	3
18	DD Forms 1172 handled IAW the Regulation	8	5
*19	Log book kept	8	5
*20	Ability to delete an erroneous transaction that was printed off-line and was not yet transmitted to DEERS	0	13

* Specific management control procedures not specifically described in the joint regulation, Air Force Instruction 36-3026 "Identification Cards for Members of the Uniformed Services, Their Family Member, and Other Eligible Personnel," July 29, 1999.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Under Secretary of Defense for Personnel and Readiness
Assistant Secretary of Defense (Health Affairs)
Office of the Actuary, Department of Defense
Director, Defense Manpower Data Center

Department of the Army

Auditor General, Department of the Army
Surgeon General, Department of the Army
Commanding General, Fort Lee

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy
Surgeon General, Department of the Navy
Commander, Personnel Support Activity

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force
Surgeon General, Department of the Air Force
Commander, Air Force Personnel Center, Randolph Air Force Base

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Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

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