

**STATEMENT  
OF  
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***DOMESTIC POLICY SUBCOMMITTEE  
OVERSIGHT AND GOVERNMENT REFORM COMMITTEE***

***Wednesday, July 11, 2008***

***2154 Rayburn HOB***

***2:00 P.M.***

**REGARDING QUALITY CONTROL FOR RETIRED VETERANS' DISABILITY  
RETROACTIVE PAYMENTS**

I have reviewed the available statistical evidence supporting the decision to transfer quality control of retired disability retroactive payments (CRDP and CRSC) from the USG's Retired and Annuity Pay Continuing Government Activity (CGA) to an outside contractor, Lockheed Martin.

The only statistical evidence presented, as far as I can determine, is a tabulation by DFAS (the "Moxley team") summarizing the CGA-audited errors in four payment batches totaling 841 individual payments. That tabulation is inadequate and statistically invalid evidence: it fails to show that the payments processed under the Lockheed Martin contract meet the mandated thresholds of the Improper Payments Information Act (i.e. no more than 3% of payments may be in error and total dollar errors must be less than 2.5% for payments below \$2500; payments above \$2500 must be 100% reviewed and 100% corrected).

The DFAS/Moxley tabulation is statistically invalid evidence because:

1. The payment batches tabulated by DFAS sample the wrong payments: these payments are mostly or entirely over \$2500 (since the average payment in each batch of the tabulation calculates to more than \$2500). Thus, these payments are NOT subject to the 3%/2.5% error thresholds of the Improper Payments Information Act. Instead, these samples are the over-\$2500 payments for which 0% error and 100% review are required.

2. In addition to sampling the wrong payments, the DFAS/Moxley sample is not random and therefore no conclusions drawn from the sample have any statistical validity for the overall population of payments processed by Lockheed Martin. The DFAS/Moxley sample consists of the "easy-to-resolve" payment cases, exactly the ones that could be expected to seriously understate the overall error rates.

3. The DFAS-calculated total dollar percentage of 1.19% is invalid evidence because a) as above, the sample is non-random and is drawn from the wrong

population; b) the DFAS assumption that the CGA-audited erroneous payment amounts (used because DFAS did not insist on also getting from CGA the corrected payment amounts) represent a conservative estimate of the dollar errors per payment is simply wrong. Obviously, the dollar amount of the error in any given payment can be many times the erroneously calculated payment itself.

In view of the above, there is no statistical justification for transferring disability payment quality control from the USG to the contractor, Lockheed Martin.

There is, however, a much larger statistical/quality control problem that calls into question a very large number of retroactive payment decisions made by DFAS and Lockheed Martin--by my estimate, over 43,000 such decisions. These are the decisions notifying the disabled veteran that he/she will receive zero compensation for retroactive disability. Lockheed Martin has stated in writing that they do NO quality control review of these zero payment decisions; DFAS, as best I can determine, does no routine quality control of these decisions either. Obviously, those zero-payment cases are exactly the ones in which the largest monetary errors--and the largest injustices to our disabled veterans--are likely to be found. Given the complexity of the retroactive eligibility decisions themselves, not to mention the large diversity of forms of supporting evidence for eligibility, it would be astonishing if these DFAS/ Lockheed Martin zero-payment decisions didn't have a higher error rate than the processing calculations for non-zero payments. Yet these cases are excluded, as best I can tell, from the entire quality/control/audit effort. (My estimate of over 43,000 cases of zero-payment decisions is based on two factors: 1) 133, 057 "original inventory" disabled veteran backlog cases augmented by 84,237 "newly eligible and returning" cases that emerged since the original inventory, up through last May; and 2) based on my inquiries, a best estimate that 20% of these 217,294 cases resulted in a zero-payment decision.)

Aside from the major statistical and ethical problems discussed above, there remains an equally crucial financial management problem: the decision to transfer quality control from Government to contractor violates the most elementary sound financial management principles. No competent corporate CEO, suspecting shoddy accounting practices in his payroll department, would ever consider assigning the audit/quality control function to that same department. DoD and VA have made exactly that mistake by assigning disability payment quality control to the same organization that has a profit incentive for minimizing the detection of errors and, even worse, for minimizing the reporting of those errors to the public.

Based on these facts, it is my professional opinion that we are doing a grave disservice to our disabled veterans--and to our taxpayers--by leaving the quality control of their disability payments in the hands of the contractor who profits from processing those payments.

We are doing perhaps 43,000 of these disabled veterans an even graver injustice: we are telling them that they will receive zero retroactive disability without anyone routinely checking those decisions for errors.