In calculating the agency's rate of improper payments, Medicare officials told outside auditors to ignore government policies that would have accurately measured fraud, according to the report. For example, auditors were instructed not to compare invoices submitted by salespeople against doctors' records, as required by law, to make sure that medical equipment went to actual patients.

As a result, Medicare did not detect that more than one-third of spending for wheelchairs, oxygen supplies and other medical equipment in its 2006 fiscal year was improper, according to the report. Based on data in other Medicare reports, that would be about $2.8 billion in improper spending.

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