

# **Improper Payments Update**

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## **2016 CIGIE/GAO Financial Statement Audit Conference**

**Thursday, April 28, 2016**

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# Improper Payments Discussion Points

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## ○ **What is the problem?**

- Definition and Legislation
- Current Status
- Issues and Obstacles

## ○ **How do we fix it?**

- Potential Solutions
- Reducing Improper Payments in 3 Major Programs
- Future Focus

# Improper Payments Definition

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- An **improper payment** is any payment that should not have been made or was made in an incorrect amount (including overpayments and underpayments).
- For example, improper payments include:
  - Duplicate payments;
  - Payments to ineligible recipients;
  - Incorrect amounts paid; and
  - Payments for which insufficient or no documentation was found.

# Improper Payments Legislation

## Improper Payments Information Act of 2002 (IPIA)

- Requires agencies to annually review programs, estimate improper payments, and report on actions to reduce them

## Improper Payments Elimination and Recovery Act of 2010 (IPERA)

- Requires IGs to annually determine compliance with key criteria listed in IPERA

## Improper Payments Elimination & Recovery Improvement Act of 2012 (IPERIA)

- Gives statutory authority for the Do Not Pay Initiative
- Requires OMB to annually designate “high-priority programs” subject to additional reporting requirements and IG oversight

## Disaster Relief Appropriations Act of 2013

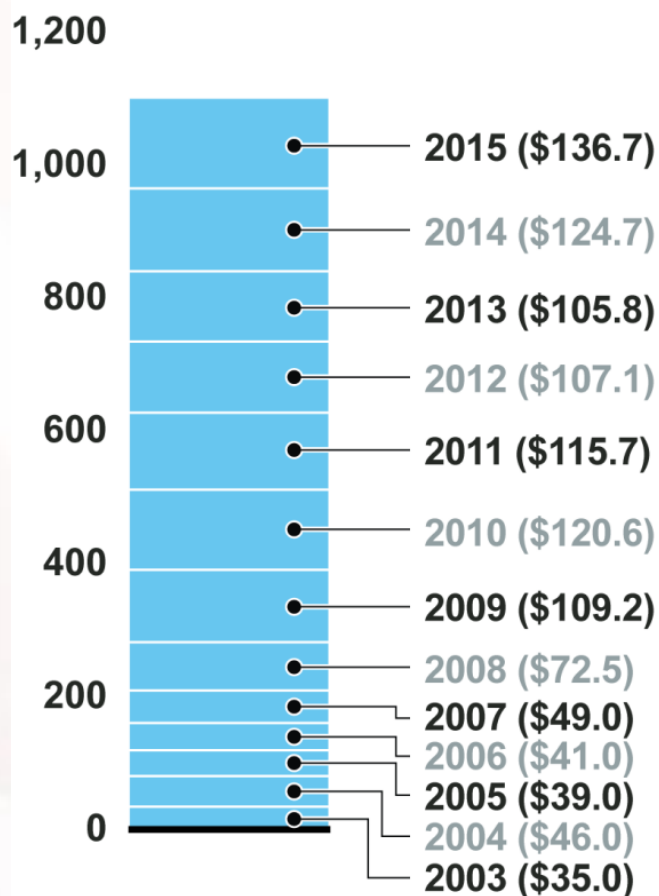
- Provided approximately \$50 billion to select federal agencies for expenses related to the consequences of Hurricane Sandy
- Requires that all funds provided through the act be deemed “susceptible to significant improper payments”

## Federal Improper Payments Coordination Act of 2015

- Expands Do Not Pay Initiative availability to the judicial and legislative branches and states
- Attempts to allow sharing of more complete death records

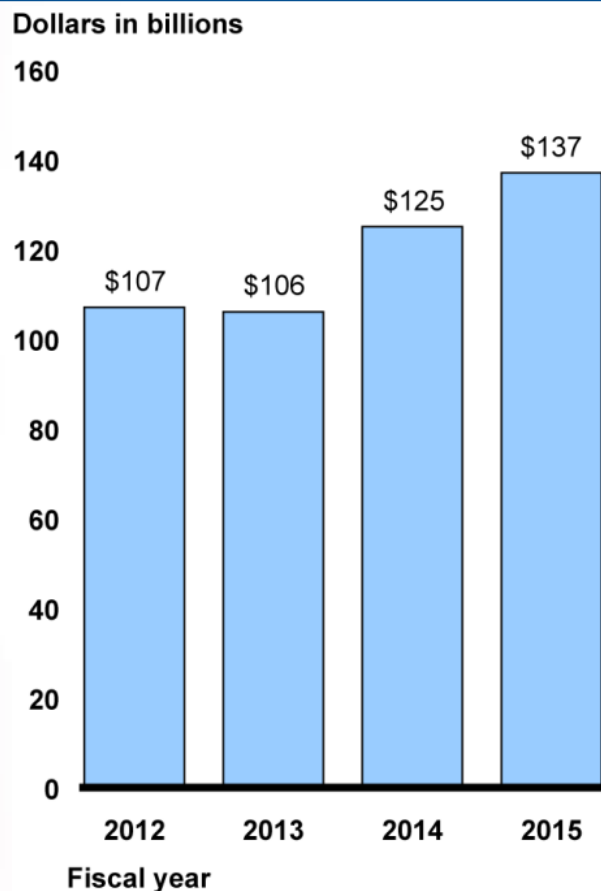
# Improper Payments – Current Status

Dollars in billions



- The FY 2015 government-wide improper payment estimate totaled \$136.7B, an increase of \$12B from the prior year
- **The cumulative amount of reported improper payments since FY 2003 now exceeds \$1 trillion**

# Government-wide Improper Payment Amounts by Fiscal Year

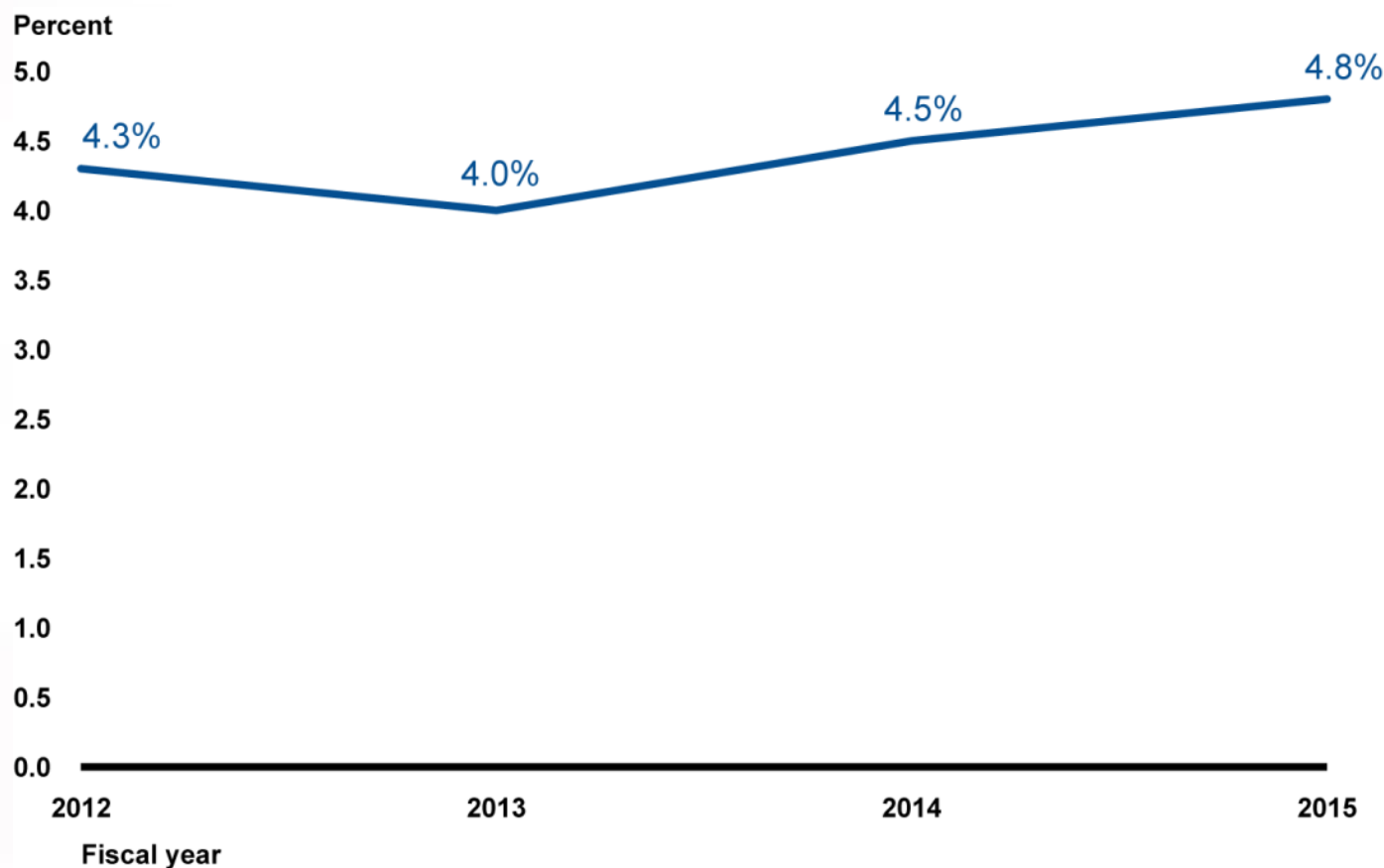


- The government-wide improper payment estimate has been increasing since FY 2013

Note: Improper payment amounts do not include Defense Finance and Accounting Service commercial pay because of issues related to its reliability.

Source: Fiscal Year 2013, 2014 and 2015 Consolidated Financial Statement Reports.

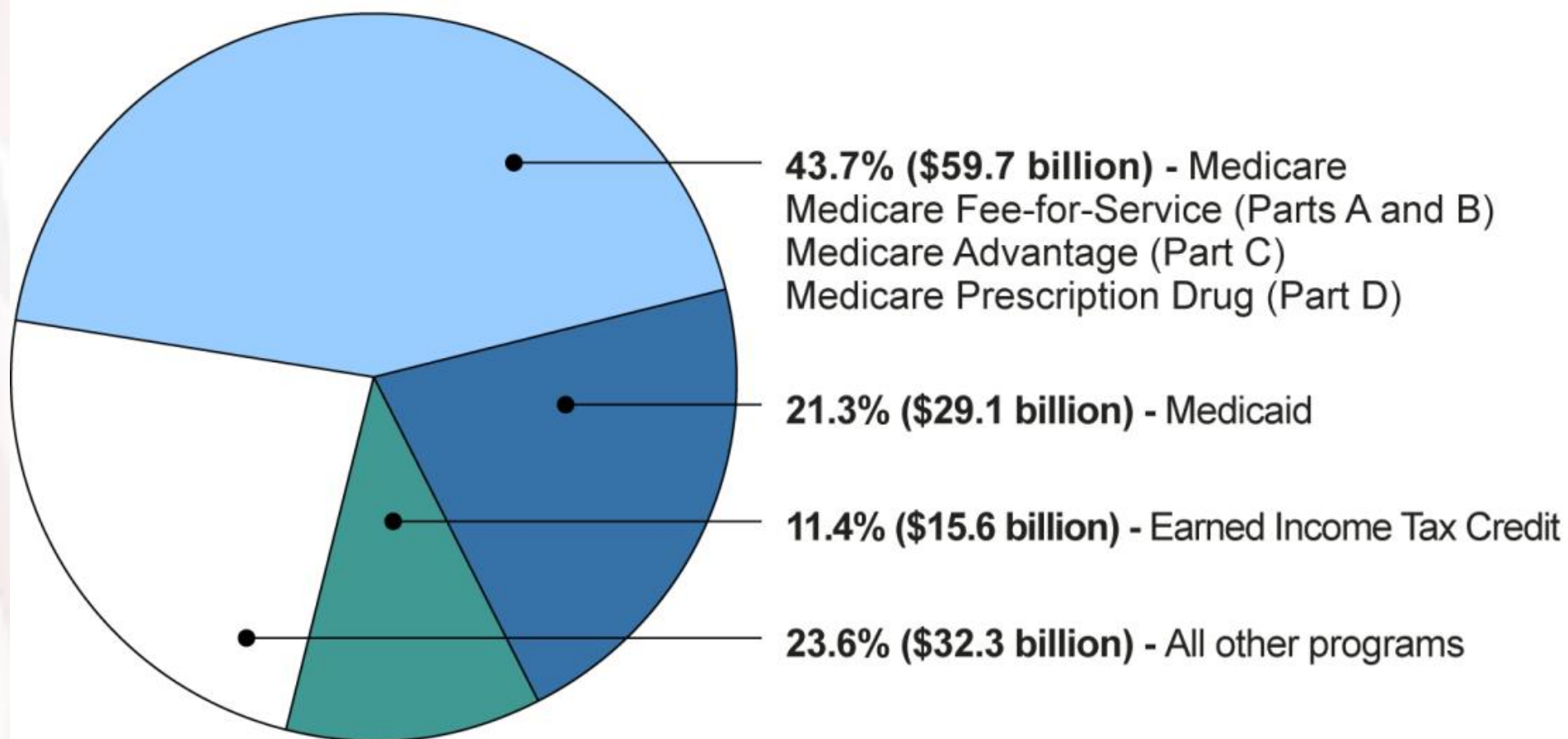
# Government-wide Improper Payment Error Rates by Fiscal Year



Note: Improper payment amounts do not include Defense Finance and Accounting Service commercial pay because of issues related to its reliability.

Source: Fiscal Year 2013, 2014 and 2015 Consolidated Financial Statement Reports.

# FY 2015 Government-wide Improper Payment Estimates by Program



Source: GAO analysis of agencies' data. | GAO-16-541T



# FY 2015 Improper Payment Estimates: Top 10 Programs by Dollar Amount

| Program  | Agency   | Reported Improper Payment Estimates |                                    |
|--|----------|-------------------------------------|------------------------------------|
|  |          | Dollars<br>(in billions)            | Error rate<br>(percent of outlays) |
| Medicare Fee-for-Service (Parts A and B)             | HHS      | \$43.3                              | 12.1%                              |
| Medicaid   | HHS      | \$29.1                              | 9.8%                               |
| Earned Income Tax Credit (EITC)                      | Treasury | \$15.6                              | 23.8%                              |
| Medicare Advantage (Part C)                          | HHS      | \$14.1                              | 9.5%                               |
| Old Age, Survivors, and Disability Insurance (OASDI) | SSA      | \$5.0                               | 0.6%                               |
| Supplemental Security Income (SSI)                   | SSA      | \$4.8                               | 8.4%                               |
| Unemployment Insurance (UI)                          | Labor    | \$3.5                               | 10.7%                              |
| Supplemental Nutrition Assistance Program (SNAP)     | USDA     | \$2.6                               | 3.7%                               |
| Medicare Prescription Drug Benefit (Part D)          | HHS      | \$2.2                               | 3.6%                               |
| VA Community Care                                    | VA       | \$2.1                               | 54.8%                              |

Source: GAO analysis of agencies' fiscal year 2015 agency financial reports.

# FY 2015 Programs with Error Rates in Excess of 10%

| Program   | Agency          | Reported Improper Payment Error Rate (percent of outlays) |
|---|-----------------|---|
| Purchased Long Term Services and Support        | VA              | 59.1%   |
| VA Community Care                               | VA              | 54.8%   |
| <b>Earned Income Tax Credit (EITC)</b>          | <b>Treasury</b> | <b>23.8%</b>  |
| School Breakfast Program (SBP)                  | USDA            | 23.0%   |
| Farm Security and Rural Investment Act Programs | USDA            | 22.0%   |
| National School Lunch Program (NSLP)            | USDA            | 15.7%   |
| Disbursements for Goods and Services            | SBA             | 13.5%   |
| <b>Medicare Fee-for-Service (Parts A and B)</b> | <b>HHS</b>      | <b>12.1%</b>  |
| Unemployment Insurance (UI)                     | Labor           | 10.7%   |

Source: GAO analysis of agencies' fiscal year 2015 agency financial reports.

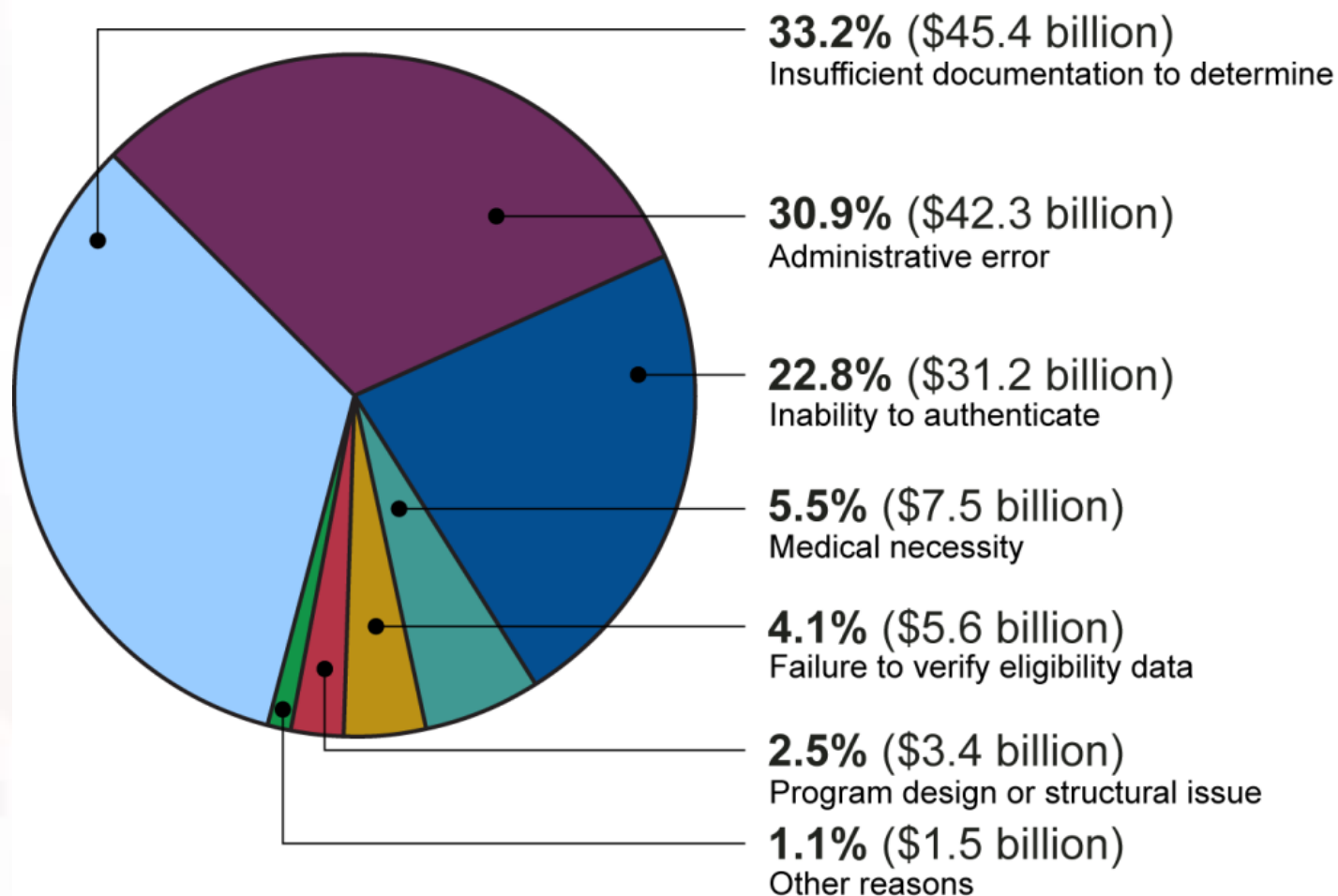
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# New Categories for Root Cause Reporting of Improper Payments in FY 2015

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|--|--|
| <ul style="list-style-type: none"><li>• <b>Program Design or Structure Issue</b></li><br/><li>• <b>Inability to Authenticate Eligibility</b></li><br/><li>• <b>Failure to Verify Eligibility Data:</b><ul style="list-style-type: none"><li>○ Death Data</li><li>○ Financial Data</li><li>○ Excluded Party Data</li><li>○ Prisoner Data</li><li>○ Other Eligibility Data</li></ul></li></ul> | <ul style="list-style-type: none"><li>• <b>Administrative or Process Errors Made by:</b><ul style="list-style-type: none"><li>○ Federal Agency</li><li>○ State or Local Agency</li><li>○ Other Party</li></ul></li><br/><li>• <b>Medical Necessity</b></li><br/><li>• <b>Insufficient Documentation to Determine</b></li></ul> |
|--|--|

# FY 2015 Agency Reported Root Causes of Improper Payments by OMB Category



Source: GAO analysis of agencies' fiscal year 2015 agency financial reports.

# **CFO Act Agencies That Did Not Report Improper Payments in FY 2015**

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- **CFO Act Agencies with No Programs Reported Susceptible to Significant Improper Payments**
  - U.S. Agency for International Development
  - Department of Energy
  - Department of State
  - National Science Foundation
  - Nuclear Regulatory Commission
  
- **CFO Act Agencies Reporting Only Sandy-related Estimates**
  - Department of Commerce
  - Department of the Interior
  - Department of Justice
  - NASA

## Issues/Obstacles – Internal Control Weakness

- GAO's report on the *Fiscal Year 2015 Financial Report of the United States Government* continued to report a material weakness in internal control related to improper payments
  - ***The federal government is unable to determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them***
- Challenges:
  - Risk assessments may not accurately assess risk
  - Certain risk-susceptible programs do not report improper payment estimates
  - Estimation methodologies may not produce reliable estimates
  - Noncompliance with legislative requirements
  - Root causes not identified

# Issues/Obstacles – Risk Assessments

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## Agencies conduct their own risk assessments to determine which programs are susceptible to significant improper payments

- Issues related to certain agencies' risk assessments call into question whether these agencies are identifying all programs susceptible to significant improper payments

### Example: Additional Child Tax Credit program

- IRS designated the Additional Child Tax Credit Program as low risk
- TIGTA estimated improper payments from 25.2 to 30.5 percent, or \$5.9 billion to \$7.1 billion
- TIGTA reported that IRS's risk assessment process did not provide a valid assessment of improper payments in certain IRS programs and did not adequately address specific risks commonly associated with verifying refundable credit claims

## Issues/Obstacles – Risk Assessments (continued)

### Example: Department of Energy (DOE) risk assessments

- Based on GAO's evaluation of DOE's FY 2011 risk assessment process:
  - DOE did not prepare risk assessment for all programs, and the quantitative information recorded was not reliable
  - DOE's risk assessments did not always include a clear basis for the risk determination
  - DOE's risk assessments did not fully evaluate other relevant risk factors
- Because DOE found its programs to be at low risk for significant improper payments in FY 2011, the department was not required to prepare risk assessments again until FY 2014



## Issues/Obstacles – Certain Risk Susceptible Programs Not Reporting Estimates

**Not all agencies have developed improper payment estimates for all programs and activities identified as susceptible to significant improper payments**

- Three agencies did not report estimated improper payment amounts for five risk-susceptible programs in FY 2015

### **Example: Temporary Assistance for Needy Families (TANF)**

- HHS reported statutory limitations prevent the agency from requiring states to estimate TANF improper payments
- TANF program outlays were \$16.2 billion in FY 2015; TANF is considered to be susceptible to significant improper payments by OMB
- HHS's OIG recommended that the agency develop an improper payment estimate for TANF and, if necessary, seek statutory authority to require state participation

# Issues/Obstacles – Potentially Unreliable or Understated Estimates

**Flexibility in how agencies implement improper payment estimation requirements can contribute to inconsistent or understated estimates**

## **Example: TRICARE vs. Medicare**

- Dept. of Defense (DOD) uses a less comprehensive methodology for estimating TRICARE improper payments, as compared to CMS and Medicare
- Unlike Medicare, TRICARE's methodology does not examine the underlying medical record documentation to discern whether a payment was supported or whether services provided were medically necessary
- Estimated error rates for TRICARE and Medicare are not comparable
- For FY 2015:
  - TRICARE – Outlays: \$19.7B, Error rate: 0.8%
  - Medicare FFS – Outlays: \$358.3B, Error rate: 12.1%
- TRICARE error rate is likely understated

## Issues/Obstacles – Noncompliance with Legislative Requirements

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**In FY 2014, IGs at CFO Act agencies reported 15 agencies were not compliant with IPERIA, up from 11 agencies in FY 2013**

- **The most prevalent reported reasons for noncompliance were:**
  - (1) agencies failing to publish or meet reduction targets, and**
  - (2) agencies failing to publish improper payment error rates less than 10%**
- Compliance criteria:
  - Published PAR/AFR
  - Conducted risk assessment
  - Published estimate
  - Published corrective action plan
  - Published and met reduction targets
  - Reported an estimate below 10%

## Issues/Obstacles – Root Causes Not Identified

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**Insufficient Documentation was the top root cause of improper payments identified by agencies in FY 2015 AFRs, accounting for 33.2%, or \$45.4B, of the government-wide improper payment estimate**

- A lack of sufficient supporting documentation may mask the true causes of improper payments, including fraud
- When payments lack the appropriate supporting documentation, their validity cannot be determined

## Potential Solutions – IG Compliance Reporting

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**IGs continue the reporting process under IPERA legislation; align this with other audit work to look at estimation methodologies and root causes**

### **Risk Assessments**

- Some IGs are considering a more detailed look into the quality of risk assessments and whether agencies have considered all factors in A-123, Appendix C

### **Corrective Actions & Recommendations**

- Some IGs are looking at evaluating published corrective actions and making determinations as to whether corrective actions address real root causes
    - If root cause not addressed, make recommendation for improving compliance and reducing improper payments
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# Potential Solutions – Data Analytics

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## Up-front eligibility validation through data sharing

- Data sharing allows entities that make payments to compare information from different sources to help ensure payments are appropriate
- Examples: Benefits-paying agencies' use of Social Security death data, and the Do Not Pay Initiative

## Predictive analytic technologies

- Predictive modeling and other analytic techniques to identify and prevent improper payments
- Example: CMS analysis of provider networks, billing patterns, and beneficiary utilization patterns to combat improper payments under Medicare Fee-for-Service

# Potential Solutions – Program Design or Legislative Solutions

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## Improved program design or potential legislative solutions

### **Example: Earned Income Tax Credit (EITC)**

- Taxpayer self-determination of eligibility is a program design related root cause of EITC improper payments.
- Treasury has proposed to Congress the acceleration of W-2 filing deadlines in order to facilitate IRS's use of earnings information in detecting EITC noncompliance (a potential legislative solution)

# Reducing Improper Payments in 3 Major Programs

| Program                                  | Agency   | Reported Improper Payment Estimates |                                    |
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- Three programs were responsible for \$88 billion of the \$136.7 billion FY 2015 government-wide improper payment estimate
- **With outlays for major programs, such as Medicare and Medicaid, expected to increase** over the next few years, it is critical that actions are taken to reduce improper payments



## **Reducing Improper Payments in Three Major Programs – Medicare Fee-for-Service**

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**GAO has issued recommendations related to the following that could help reduce Medicare improper payments:**

-  Improving Automated Edits
-  Monitoring post payment claims reviews
-  Removing Social Security numbers from Medicare cards
-  Implementing actions authorized by the Patient Protection and Affordable Care Act (PPACA)

# Reducing Improper Payments in Three Major Programs – Medicaid

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**GAO has issued recommendations related to the following that could help reduce Medicaid improper payments:**

-  Improving third-party liability efforts
-  Increasing oversight of managed care
-  Strengthening program integrity

## **Reducing Improper Payments in Three Major Programs – Earned Income Tax Credit**

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**GAO has recommended matters for congressional consideration or executive actions related to the following that could help reduce EITC improper payments:**

-  Regulating paid tax preparers
-  Accelerating W-2 filing deadlines
-  Broadening math error authority

## Future Focus

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A number of strategies across government could help reduce improper payments:

- ➡ Designing and implementing effective **preventive controls** can serve as a frontline defense against improper payments
- ➡ Implementing **detective controls** to identify improper payments, accompanied by **recovery audits** to recover overpayments
- ➡ Robust **root cause** analysis can help agencies target effective corrective actions